SEYCHELLES

MODEL PETROLEUM AGREEMENT

1998

CLAUSE

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SCHEDULES

1. Description of Scheduled Lands
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THIS Agreement is made the ..... day of ..... in the year …….. **BETWEEN** the Government of the Republic of Seychelles (in this Agreement called "The Government") of the one part **AND** the Seychelles National Oil Company Ltd, a company incorporated under the

Companies Act of Seychelles and, being wholly owned by the Government, established to develop the petroleum potential of Seychelles and to act as the authority on behalf of the Government for the purposes of this Agreement (in this Agreement called "SNOC") of the second part respectively **AND** …….. ..... (in this Agreement called "the Company" which expression shall, where the context allows, include its assigns) of the third part;

WHEREAS -

(a) The Company has made an application under the Petroleum Mining Act, 1976, for a petroleum agreement in respect of certain lands referred to in the First Schedule to this Agreement; and

(b) The Company has agreed to enter into a petroleum agreement under the terms, and with the benefits, but subject to the provisions, of this Agreement:

NOW THIS AGREEMENT WITNESSETH AS FOLLOWS:

1. **Definitions**

(1) In this Agreement, unless the context otherwise requires -

"accummulated net cash position" means either the FANCP or the SANCP or both;

"affiliate" has the meaning specified in subclause 43(3);

"annual plan" means the Annual Plan referred to in subclause 7(5);

"appraisal well" means a well drilled after the discovery of hydrocarbons to delineate the limits of the field on the same geological entity within the same structural or stratigraphic level of closure as the discovery;

"associated natural gas" means Natural Gas produced from any well in the Scheduled Lands the predominant production of which is Crude Oil and which is separated from Crude Oil in accordance with normal oilfield practice, including the free gas cap, but shall exclude any liquid hydrocarbons extracted from such gas either in normal field of separation, dehydration or in a gas plant;

"condensate" means a naturally occurring mixture consisting chiefly of pentane and other heavier hydrocarbons, which may contain other substances, which is extracted or is extractable from a deposit through normal exploitation drilling and which, although even if found in the gaseous state in a deposit, is present in liquid state under normal conditions or pressure and temperature;

"contract year" means a period of 365 days (or 366 days in a leap year) commencing on the Effective Date or on any anniversary of that date;

"crude oil" or "crude" means hydrocarbons in liquid form as recovered at the well head before it has been refined or otherwise treated, but excluding water and foreign substances;

"development expenditures" means the expenditures so categorized in Section 2 of the Accounting Procedure;

"development phase" means the phase commencing and ending as provided in subclause 4(2)(b);

"development plan" means the plan referred to in Clause 11;

"development scheme" means the Development Scheme referred to in subclause 27(1)(c);

"development well" means a well drilled within the presently known or proved productive area of a Petroleum Field as is indicated by appropriate interpretation of sub-surface data, drilled to the depth of the stratigraphic horizon known to be productive reservoir with the objective of obtaining hydrocarbons from that reservoir;

"effective date" means the date on which this Agreement enters into force;

"exploration expenditures" means the expenditures so categorised in Section 2 of the Accounting Procedure;

"exploration period" means the periods agreed within the Exploration Phase pursuant to Clause 4(2)(a);

"exploration phase" means the phase commencing and ending as provided in Clause 4(2)(a);

"exploratory well" means a well drilled in an Exploration Phase with the object of exploring for undiscovered hydrocarbons on a geological entity (be it of structural, stratigraphic, facies or pressure nature) penetrating all prospective horizons at a particular location that are within the terms of the work programme;

"FANCP" has the meaning specified in subclause 16(1)(a);

"force majeure" means war, insurrection, riot, civil commotion or any exceptional, inevitable and irresistible natural phenomenon;

"Minister" means the Minister responsible for petroleum mining;

"month" or "calendar month" means any of the twelve (12) months of the Calendar Year;

"natural gas" means hydrocarbons in gaseous form as recovered at the well head but excluding water and foreign substances;

"net cash receipts" or "NCR" has the meaning specified in subclause 16(1)(a);

"non-associated natural gas" means free Natural Gas not produced in contact with or dissolved in Crude Oil and obtained from any well the predominant production of which is Natural Gas;

"operating expenditures" means the expenditures so categorised in Section 2 of the Accounting Procedure;

“operator” means the entity appointed by the Company, with the approval of the Government, to conduct the Petroleum Operations on behalf of the Company;

"other operators" has the meaning specified in subclause 27(1)(c);

"parties" means the signatories to this Agreement and any assignees and successors;

" petroleum additional profits tax" or "PAPT" has the meaning, and shall be calculated in the manner, specified in Clause 16*;*

"petroleum field" or "field" means all reservoir horizons above crystalline basement within any geological entity of structural, facies or stratigraphic closure within which petroleum is deposited and retained as determined by the Minister and the Company pursuant to subclause 10(1);

"petroleum operations" means all exploration, development and production operations in or in connection with the Scheduled Lands pursuant to this Agreement;

"petroleum operations information" has the meaning specified in Clause 37;
"quality" has the meaning specified in subclause 17(2)(a);

"quarter" means a period of three (3) Months ending on 31st March, 30th June, 30th September or 31st December in any Year;

"SANCP" has the meaning specified in subclause 16(1)(a);

"scheduled lands" means, subject to subclause (3), the lands specified in the First Schedule to this Agreement;

“tax act” means the Petroleum (Taxation) Act, 1998;

"third party sales" has the meaning specified in subclause 17(2)(b)(i);

"year" or "calendar year" means a period of twelve (12) consecutive Months starting with 1st January and ending with 31st December.

(2) Any expression which is defined in the Petroleum Mining Act, 1976, or in the Tax Act, shall, unless the context otherwise requires, have the same meaning when used in this Agreement.

(3) A reference in this Agreement to the Scheduled Lands:

(a) does not include a reference to any part of the Scheduled Lands that is from time to time relinquished under this Agreement; but

(b) includes any area added to or included in the Scheduled Lands pursuant to Clause 10.

(4) The following islands within the Scheduled Lands, including their foreshores and surrounding seas to a distance of .....kilometres from the low water line, are excluded from the Scheduled Lands: .....

2. **General Grant.**

In consideration of the covenants and agreements on the part of the Company hereinafter contained, the Government hereby grants to the Company the exclusive rights for exploring and mining for petroleum in the Scheduled Lands during the continuance of this Agreement, subject to the provisions hereof.

3. **Rights of the Company.**

Subject to the Petroleum Mining Act, 1976, the Company shall have and may exercise in accordance with and subject to this Agreement the rights referred to in Section 13(2) of that Act.

4. **Term of Agreement.**

(1) Subject to subclause (3), this Agreement, unless sooner determined, shall be and continue in force for the term of thirty-five (35) Contract Years from the date hereof.

(2) Subject to this Clause, this Agreement has two phases, namely:

(a) an Exploration Phase which commences on the date hereof and, unless this Agreement is sooner determined, expires at the end of ten (10) Contract Years; and

(b) a Development Phase in respect of a Petroleum Field which commences on the date on which commercial viability of the Field is decided pursuant to subclause 9(4) and, unless this Agreement is sooner determined, expires at the end of the term of thirty-five (35) Contract Years referred to in subclause (1).

(3) This Agreement shall determine automatically if, before the end of the tenth Contract Year, no commercial discovery is made pursuant to Clause 9.

5. **Relinquishment.**

(1) The Company shall, within thirty (30) days after the expiration of the fifth Contract Year, relinquish so much of the Scheduled Lands as, together with any part of the Scheduled Lands relinquished under subclause (5), amounts to forty (40) percent of the area of the Scheduled Lands at the date hereof.

(2) At the end of the eighth Contract Year, the Company shall, within 30 days thereafter, relinquish so much of the Scheduled Lands as, together with any part of the Scheduled Lands relinquished under subclause (5), amounts to a further thirty (30) percent of the Scheduled Lands as at the Effective Date.

(3) Nothing in subclauses (1) and (2) shall be taken as requiring the Company to relinquish any part of the Scheduled Lands within the boundaries of a Petroleum Field (if then determined) and accordingly the reference in those subclauses to the Scheduled Lands to be relinquished is a reference to Scheduled Lands outside the boundaries of the Petroleum Field, as determined under Clause 10.

(4) The Company shall, within thirty (30) days or such longer period as the Minister may allow, after the tenth Contract Year, relinquish any part of the Scheduled Lands that is not within the boundaries of a Petroleum Field, as determined under Clause 10.

(5) The Company may voluntarily relinquish any part of the Scheduled Lands if it gives sixty (60) days notice of its intention to do so to the Minister and complies with Clauses 6 and 7.

6. **Consultation on Area to be Relinquished.**

(1) Every part of the Scheduled Lands relinquished under this Agreement by the Company shall be bounded by lines of longitude and parallels of latitude

expressed in whole degrees, and whole minutes. Except with the approval of the Minister, no boundary line shall be drawn less than five (5) minutes of latitude and five (5) minutes of longitude.

(2) As far as practicable, each relinquished area shall form one continuous area and be contiguous with any previously relinquished area. Subject to subclause (3), no single relinquished area shall be less than nine hundred (900) square kilometres or twenty-five (25) percent of any continuous area within the Scheduled Lands, whichever is the lesser.

(3) The Minister may, where he considers it to be in the national interest, allow the relinquishment of a lesser portion of the Scheduled Lands than the area specified in subclause (2).

(4) No part of the Scheduled Lands shall be relinquished unless the obligations assumed in respect of that part have been met.

(5) Before relinquishing under this Agreement any part of the Scheduled Lands, the Company shall consult with the Minister in order to ensure that all the requirements of this Clause are complied with.

7. **Work Programme and Annual Plan.**

(1) Subject to the other provisions of this Agreement, the Company shall carry out with expedition and due diligence in the Scheduled Lands in any period referred to or identified in Part I of the Second Schedule to this Agreement the minimum programme of work specified in that Part in respect of that period.

(2) Where the Company fails to carry out any part of the minimum work programme specified in Part I of the Second Schedule to this Agreement, then without prejudice to any other right which the Government may have under this Agreement in respect of that failure, Part II of that Schedule shall apply for the purpose of determining the amount (if any) payable by the Company to the Government for that failure, it being agreed that the amount so payable

represents the loss to the Government by reason of the failure and is not a mere penalty.

(3) For so long as the Exploration Phase continues, the Company shall, within thirty (30) days after the end of each Contract Year of that phase, submit to the Minister a report giving particulars of the exploration carried out in that year and in the event that the minimum work programme specified in Part I of the Second Schedule to this Agreement in respect of that year was not carried out, the report shall refer to the failure and give the reasons therefor.

(4) Where, at the commencement of the Development Phase, any portion of the minimum work programme obligation relating to the Exploration Phase remains outstanding, such portion of the work programme shall pertain to acreage outside the defined boundaries of the Petroleum Field.

(5) The Company shall submit by the 30th October of each contract year an Annual Plan (referred to *in* Clause 11(4) and Section 11 of the Accounting Procedure) giving:-

(a) a detailed forecast of annual Exploration, Development and Operating Expenditures during the Exploration and Development Phases;

(b) a detailed plan relating to work to be completed in each period of expenditure forecasts during the Exploration and Development Phases, and;

(c) separate production profiles for Crude Oil, Natural Gas and Condensate during the Development Phase.

8. **Work Practices.**

(1) The Company shall maintain all apparatus, appliances, equipment, physical infrastructure and all wells in the Scheduled Lands which have not been abandoned under this Agreement in good repair and condition. The Company shall execute all Petroleum Operations in or in connection with the Scheduled Lands in proper and workmanlike manner in accordance with methods and practices customarily used in good international oilfield practice. The Company

shall effect and keep at all times during the term of this Agreement, insurance in relation to Petroleum Operations pursuant to Clause 22.

(2) Without prejudice to the generality of subclause (1), the Company shall take all steps practicable in order:

(a) to control the flow and to prevent the escape or waste of petroleum discovered in or obtained from the Scheduled Lands;

(b) to conserve the Scheduled Lands for productive operations;

(c) to prevent damage to producing or adjoining petroleum-bearing strata;

(d) to prevent the fortuitous entrance of water through wells to petroleum-bearing strata; and

(e) to prevent the escape of petroleum into any waters in or in the vicinity of the Scheduled Lands.

(3) The Company shall comply with any instructions from time to time given by the Minister in writing relating to any of the matters referred to in subclause (2)(a) to (e) but if the Company objects to any such instruction on the ground that it is unreasonable a dispute shall be deemed to exist between the Government and the Company for the purposes of Clause 51.

(4) Notwithstanding that a dispute so exists, the Company shall comply with any such instruction unless it is otherwise determined in arbitration or the Minister alters, withdraws or suspends the instruction pending arbitration or otherwise.

(5) Any event causing escape or waste of petroleum, damage to petroleum-bearing strata, or entrance of water through wells to petroleum-bearing strata (except for the purposes of secondary recovery) shall be reported to the Minister forthwith.

(6) The Company shall not:

(a) flare any gas from the Scheduled Lands; or

(b) use gas for the purpose of creating or increasing the pressure by means of which petroleum is obtained from those lands,

except with the consent in writing of the Minister and in accordance with the conditions, if any, of that consent.

(7) Before deciding to withhold consent or to grant it subject to conditions in pursuance of subclause (6) the Minister shall give the Company an opportunity of making representations in writing to the Minister about the technical and financial factors which the Company considers are relevant in connection with the cases and shall consider any such representation then made to him by the Company.

(8) Consent in pursuance of subclause (7) shall not be required for any flaring which, in consequence of an event which the Company did not foresee in time to deal with otherwise than by flaring, is necessary in order:

(a) to remove or reduce the risk of injury to persons in the vicinity of the well in question; or

(c) to maintain a flow of petroleum from that or any other well, but when the Company does any flaring which is necessary as aforesaid the Company shall forthwith inform the Minister that the Company has done it and shall, in the case of flaring to maintain a flow of petroleum, stop the flaring on being directed by the Minister to do so.

9. **Discovery of Petroleum.**

(1) The Company shall report to the Minister within twenty-four (24) hours in respect of any of the following circumstances:

(a) where a well shows the presence of hydrocarbons, or the wireline log or logs indicate the presence of hydrocarbons; or

(b) when a drill-stem test has been carried out on a well from which petroleum flows.

(2) Following the report pursuant to subclause (1), the Company shall submit a detailed report within forty-five (45) days thereafter to the Minister. The report shall contain a statement indicating whether or not in the opinion of the Company the presence of hydrocarbons is of potential commercial interest.

Where appropriate, this report shall also contain:

(a) all the relevant geological information including the log evaluation;

(b) basic reservoir data, including drill-stem tests data;

(c) the Company's estimate as to the potential of the reservoir; and

(d) chemical and physical analyses.

(3) (a) Where the Company states in the report referred to in subclause (2) that the presence of hydrocarbons is not of potential commercial interest, the Minister may, by notice served on the Company, direct that the discovery area comprising the geological structure be relinquished.

(b) The Minister shall not give a direction under subclause 3(a) unless:

(i) he has given to the Company notice of his intention to do so;

(ii) he has specified in that notice a date before which the Company may make in writing representations with respect to that intention; and

(iii) on evidence available to him, and after taking into account any representations so made, he is of the opinion that the discovery is of potential commercial interest.

(c) A direction under subclause (3)(a) may be given only within the period of twelve (12) months after the date on which the report referred to in subclause (2) is submitted to the Minister stating that the presence of hydrocarbons is not of potential commercial interest.

(4) (a) The Company shall, where it is of the opinion that the presence of hydrocarbons is of potential commercial interest, submit for the Minister's approval within ninety (90) days of the discovery an appraisal programme, including drilling of Appraisal Wells, or a reasonable explanation for any delay in submission of such programme.

(b) The Company shall, within two (2) years after the receipt of approval of the appraisal programme by the Minister, or such longer period as the Minister may allow, submit a full report of the results of the appraisal programme, including the location, depth, estimated daily production, estimated development costs, commercial capacity of the Field discovered, estimated recoverable reserves and such other supporting data which the Company may consider relevant to the report. The

Minister may require the Company to supply such further information with respect to the report as he sees fit.

(c) Within three (3) months of the submission of the report referred to in subclause (4)(b), or such longer period as the Minister may allow, the Company shall discuss the report with the Minister with a view to arriving at a decision on the commercial viability, or otherwise , of the Field.

(5) (a) If the Company and the Minister cannot agree on whether or not the

Field is commercially viable, the Minister may cause an independent evaluation of the Field to be carried out. If the result of such an evaluation is positive and the Minister is satisfied that the Field could be developed on a viable basis, he may require the Company to relinquish the area of the Field within six (6) months of service of a notice to that effect on the Company.

(b) Before the Minister serves such a notice on the Company, he shall submit the result of the evaluation to the Company for consideration and review of its position. Where the Company, within a period of three (3) months of receipt of the results of the evaluation, reviews its position and notifies the Minister of its intention to develop the Field, the Minister may allow the Company to do so on such additional consideration as he deems fit.

(c) For the purposes of subclauses (3)(a) and (5)(a), the determination of the area to be relinquished shall be made pursuant to Clause 10 in the same manner as though the Company had considered the discovery to be of commercial interest.

(6) For the purpose of this Clause a discovery of petroleum shall be treated as a discovery of petroleum which is commercially viable, if:

(a) the commencement of production of petroleum in the area occupied by the petroleum would be technically possible; and

(b) having regard to relevant commercial considerations including, but not limited to, the quantity, Quality and gravity of the petroleum present, the

place and depth of its location, the potential development and production costs and potential market, such production would be economic.

10. **Determination of Petroleum Field.**

(1) The Minister and the Company shall, as soon as possible, and in any event not later than ninety (90) days after the decision in respect of commercial viability of the Field has been taken pursuant to Clause 9, meet to determine the boundaries of the area occupied by the Petroleum Field.

(2) Following the determination of a Petroleum Field pursuant to subclause (1), any subsequent discovery of petroleum in the Scheduled Lands but outside the boundaries of the area of the Petroleum Field shall be treated as a separate Petroleum Field or Fields and the provisions of Clauses 9, 10 and 11 hereof shall be applied *mutatis mutandis*.

11. **Development Plan.**

(1) Following the determination of a Petroleum Field and as soon as practicable, and in any event not later than six (6) months thereafter pursuant to this Clause, the Company shall submit to the Minister for his approval a Development Plan for the development of the Petroleum Field prior to the commencement of the development of the said Petroleum Field.

(2) The Development Plan referred to in subclause (1) shall contain *inter alia* the following provisions:

(a) a technical and economic appraisal of the alternatives for developing the Field and transporting the petroleum, with a justification for the methods proposed;

(b) details of the proposed drilling programme, including the type of wells, number, location, and completion methods;

(c) details of the proposed production facilities, including production platforms, if any, and production, separation and storage facilities;

(d) details of the proposed transport system;

(e) details of onshore installations such as terminal and office facilities;

(f) a detailed scheme for the protection of the environment pursuant to Clause 23 of this Agreement;

(g) the amount of annual licence rentals to be paid by the Company during the Development Phase in respect of the area containing the Petroleum Field;

(h) details of any proposed injection and/or flaring of Natural Gas or Associated Natural Gas; and

(i) an Annual Plan pursuant to subclause 7(5).

(3) The Development Plan shall not be altered in any material way by the Company subsequent to its approval by the Minister without his prior approval. Nothing in this subclause shall be construed as preventing the Company from making adjustments relating to any Year covered by the Plan as originally approved within limits of five (5) percent with respect to matters in the Development Plan covered by subclause (2) without the prior approval of the Minister. All such modification shall be reported to the Minister promptly.

(4) The Company shall submit to the Minister an Annual Plan giving the information described in subclause 7(5) in detail for the following Year and in outline for the three (3) Years thereafter. If the first Annual Plan submitted hereunder is outwith limits of plus or minus five (5) percent of items included in the Development Plan, or a subsequent Annual Plan is outwith as aforesaid the immediately preceding Annual Plan, the approval of the Minister shall be required. The Minister shall give his approval, or withhold his approval giving the reasons therefor, by 15th December of the Year in which the Annual Plan is submitted.

12. **Technical Advisory Committee.**

(1) SNOC and the Company shall as soon as possible after the Effective Date establish a committee to be known as the Technical Advisory Committee which shall consist of:

(a) a chairman and one (1) other person appointed by SNOC; and

(b) two (2) other persons appointed by the Company.

(2) SNOC and the Company may, with due regard to the terms of subclause (1), appoint by notice in writing, any person to act in the place of any member of the Technical Advisory Committee during his absence or incapacity to act as a member of the Committee.

(3) When an alternate member acts in the place of any member he shall have the powers and perform the duties of such member.

(4) Without prejudice to the rights and obligations of the Company in relation to the management of its operations, the functions of the Technical Advisory Committee shall be:

(a) to monitor all Petroleum Operations carried out by the Company;

(b) to review any proposed exploration work programme and budgets submitted by the Company to the Minister in terms of Clause 7 and to propose any modifications for the Company's consideration;

(c) to review any appraisal programmes submitted by the Company to the Minister in terms of Clause 9, to propose any modifications to it for the Company's consideration and to monitor the implementation of such appraisal programme;

(d) to review any Development Plan which the Company submits for approval by the Minister pursuant to Clause 11 and to propose any modifications to it for the Minister's consideration;

(e) to review Annual Plans; and

(f) to ensure that the accounting of expenditure and the maintenance of operating records and reports kept in connection with the Petroleum Operations are made in accordance with this Agreement and the accounting principles and procedures generally accepted in the international petroleum industry.

(5) All meetings of the Technical Advisory Committee shall be held in Seychelles, unless the Committee decides otherwise. The Technical Advisory Committee shall meet at least twice in every Contract Year during the Exploration Phase and at least four (4) times in every Contract Year during the Development Phase.

(6) Three (3) members of the Technical Advisory Committee shall form a quorum for a meeting of the Committee.

(7) SNOC and the Company shall have the right to call any expert to any meeting of the Technical Advisory Committee to advise the Committee on any matter of a technical nature requiring expert advice.

(8) The Technical Advisory Committee may, by unanimous vote, make recommendations to the Government and SNOC or the Company, as the case may be. Such recommendations shall be given full and proper consideration by all parties to this Agreement.

13. **Annual Rentals.**

(1) The Company shall pay to the Government in respect of each Contract Year of the term of this Agreement an annual rental determined as provided in subclauses (2) and (3) below.

(2) (i) The rental to be paid by the Company in respect of each Contract Year of the Exploration Phase of the Agreement shall be an amount of ten United States Dollars (US$10) for each square kilometre of the Scheduled Lands held by the Company on the Effective Date, multiplied by a factor of A divided by B, where:

"A" is the value of the World Consumer Price Index ("WCPI") as reported for the first time in the monthly publication "International Financial Statistics" of the International Monetary Fund (IMF) for the Month during which the anniversary of the Effective Date of the Agreement on which the rental is payable occurs; and

"B" is the value of the WCPI as reported for the first time in the said publication for the Month of the Effective Date.

(ii) If during the Contract Year since the previous anniversary the Company has surrendered any part of the Scheduled Lands held under the Agreement, the rental payable on each square kilometre of Scheduled Lands shall be the amount calculated according to sub-paragraph (i) multiplied by a percentage equal to the proportion of the Scheduled Lands awarded on the Effective Date that are still held by the Company on the anniversary date.

(iii) Payment of the annual rental during the Exploration Phase shall be made by the Company annually in advance, the first such payment being made on the Effective Date and subsequent payments being made on each anniversary of the Effective Date.

(3) The rental to be paid by the Company in respect of the area occupied by a Petroleum Field in each Contract Year of the Development Phase shall be such amount as shall be agreed by the Government and the Company in the Development Plan for the Field.

(4) Where an amount of rental under this Agreement is not paid on the due date, there shall be payable to the Government by the Company an additional amount calculated at the compound rate of two (2) percent per Month or part thereof upon the amount of rental from time to time remaining unpaid, to be computed from the time when the rental became payable until it is paid.

14. **Royalty.**

1) **Liability for Royalty.**

(a) Subject to this Agreement, the Company shall pay to the Government in respect of each Month during which petroleum is produced under this Agreement a royalty as provided in this Clause in respect of all petroleum won and saved in the Scheduled Lands in that period.

(b) The royalty payable on Crude Oil shall be calculated as set out in subclause (4) and shall be based on the total Crude Oil won and saved, valued in accordance with Clause 17.

(c) The royalty payable on Natural Gas shall be as determined pursuant to Clause 26.

(d) The Minister may, at his sole discretion during the Development Phase and in respect of a particular Field and after consultation with the Minister responsible for Finance, reduce the royalty rates set out in this Clause, for such period as he may specify, if he deems it to be in the national interest so to do.

(2) **Statement with Respect to Royalty.**

The Company shall, within thirty (30) days after the end of each Month in which royalty is due, deliver to the Minister a Royalty Statement containing the particulars stipulated in Section 7 of the Accounting Procedure.

(3) **Payment of Royalty.**

(a) Royalty under this Agreement in respect of a Month is payable by the Company not later than thirty (30) days after the end of the Month. Subject to subclause (5), the royalty shall be paid to the Government in United States Dollars.

(b) Where an amount of royalty is not paid promptly, as provided by sub-paragraph (a), there shall be payable to the Government by the Company an additional amount calculated at the compound rate of two (2) percent per Month, or part thereof, upon the amount of royalty from time to time remaining unpaid, to be computed with effect from the time when the royalty became payable until it is paid.

(4) **Determination of Royalty Payable on Crude Oil**

(a) In respect of Crude Oil won and saved from each Petroleum Field in the Scheduled Lands, royalty shall be payable at the rate of five (5) percent of the market value, determined pursuant to Clause 17, of such Crude Oil won and saved from each Field in the relevant Month.

(b) If for any Month the market value of the Crude Oil won and saved has not been determined by the time the payment of royalty is due, the market price for the last Month for which the price has been determined

shall be used in the interim in valuing the quantity of Crude Oil won and saved in the Month, and any adjustment to the amount of royalty ultimately due for that Month shall be made as soon as the market value for the Month has been established.

(5) **Royalty in Kind.**

The Government shall have the right to direct the Company to discharge its obligation to pay royalty to the Government in accordance with this Clause by requiring it to deliver in kind to the Government a proportion of the Crude Oil, Natural Gas or Condensate won and saved equivalent to the amount of royalty due under this Clause. In the event that the Government exercises this option it shall do so, on each occasion, for a period of at least one (1) year and shall notify the Company of its intention to require payments of royalty in kind giving at least six (6) months notice and stating the Field or Fields to which the option will relate. Promptly after receipt of the Government's notification the Company and the Government shall agree on the specific lifting or off-take arrangements to enable the Government to give effect to its option.

(6) **Royalty not Payable in Certain Cases.**

Royalty under this Agreement is not payable in respect of petroleum that:

(a) the Minister is satisfied was unavoidably lost before the quantity of that petroleum was ascertained;

(b) is used by the Company for the purpose of its Petroleum Operations, including any testing operations or operations for the recovery of petroleum; or

(c) with the approval of the Minister, is flared or vented in connection with operations for the recovery of petroleum.

(7) **Dispute as to Amount of Royalty Payable**.

In the event that the Minister and the Company cannot agree on the fair market value and the dispute is referred to a sole expert under the provisions of Clause 17(4) the Company is nevertheless liable to pay in accordance with subclause (3) royalty calculated on the basis of the market value of the Crude Oil which the

Minister considers to be the correct market value, but in the event that a lesser market value is determined by the sole expert so appointed, the amount of any excess royalty paid by the Company shall be set off against the liability of the Company to make future payments of royalty under this Agreement or, if no such liability can arise or arises, shall be paid to the Company.

15. **Taxation**

(1) The Company shall pay Petroleum Income Tax and Petroleum Additional Profits Tax in accordance with the provisions of the Tax Act and Clause 16 of this Agreement. It is hereby declared and understood that, where the Company consists of more than one company, the liability of the companies to pay Petroleum Income Tax shall be several.

(2) Subject to sub-clause (1) and Clauses 13, 14 and 18, no other tax, duty, fee or levy shall be imposed on the Company and its non-resident sub-contractors and any expatriate personnel engaged by the Company or its non-resident sub-contractors on Petroleum Operations in respect of income derived from Petroleum Operations in terms of this Agreement or in respect of any property held, money received, or thing done for purpose authorised or contemplated in terms of this Agreement other than:

(a) non-discriminatory stamp duties, transfer fees, licence fees and any other tax or other impost of a minor nature of general application in the Seychelles payable to the Government or any body established by or under any law;

(b) taxes, duties, fees, levies or other imposts for specific services provided by the Government of Seychelles or any agency of the Government which are rendered on request;

(c) rent due to the Government in respect of any land rights granted or assigned to the Company.

16. **Petroleum Additional Profits Tax**

(1) In each Calendar Year the Company shall, pursuant to section 25 of the Tax Act, be liable for payment to the Government of Petroleum Additional Profits Tax ("PAPT"), in respect of each separate Petroleum Field, determined on the basis of the rate of return that the Company has achieved with respect to such Field as of the end of that Year. The Company's rate of return shall be calculated on its Net Cash Receipts ("NCR"). The Company's rate of return, NCR and its liability for PAPT shall be determined separately for each Field at the end of each Calendar Year in accordance with the following computations:

(a) **Definitions**

"NCR" means the Company's net cash receipts (which may be a positive or negative amount) from the Field during the Calendar Year for which the calculation is being made, and shall be computed in accordance with the following formula:

$$NCR = w - x - y - z$$

where:

"w" represents all income received by or attributed to the Company during such Calendar Year from the Field. This shall be taken to be the Company's assessable income from the disposal of petroleum produced from the Field during the Year, as defined in subsections 7 (1) (a), (b), (c) and (e) of the Tax Act, as well as miscellaneous assessable income accruing to the Company during such Year from Petroleum Operations in respect of, or apportioned by the Controller of Taxes to, the Field as defined in Section 8 of the Tax Act and Section 3.4 of the Accounting Procedure to this Agreement;

"x" represents payments of royalty and Petroleum Income Tax made by the Company to the Government in the Calendar Year in respect of the

Field. If Petroleum Income Tax is paid by the Company on taxable income accruing to the Company in a Year when the Controller of Taxes determines that the taxable income so accrued from two or more Petroleum Fields (whether relating to this Agreement or another agreement in the Seychelles in which the Company has an interest), the Controller of Taxes shall, for the purposes of calculating "x", determine, in consultation with the Company, the amount of the total Petroleum Income Tax paid by the Company in the Year that is attributable to each such Field, and the amount so determined for a particular Field shall be allowed as the relevant Petroleum Income Tax component of "x" for the Field; provided that, when first determining such an apportionment, the Controller shall, as far as is practicable, adopt a principled, fair and consistent method that can be replicated, if necessary, in subsequent Years;

"y" represents the total of Exploration Expenditures, Development Expenditures and Operating Expenditures incurred by the Company during such Calendar Year on or with respect to the Field, as defined and categorised in, and allowed in accordance with the provisions of, sections 2 and 3 of the Accounting Procedure; provided that any such Expenditures not directly attributable to a specific Field shall, for the purposes of this calculation, be apportioned by the Controller of Taxes, in consultation with the Company, between all Fields then in production or being developed in which the Company has an interest, in a principled, fair and consistent manner; and provided further that, for the purpose of determining the amount of PAPT due, such total Expenditures shall not include any amounts in respect of interest, charges or fees on loans or other financing obtained, whether from affiliated companies or from banks or other third party sources, for the purpose of carrying out Petroleum Operations; and

"z" represents any amounts that the Controller of Taxes may determine are allowable, as attributable deductions in the Year in the computation

of PAPT from the Field, in respect of bad debts or certain assignments and sales, and, for this purpose, the provisions of Sections 17 and 19 of the Tax Act shall be applied for PAPT as they are for Petroleum Income Tax;

"FANCP", being the first accumulated net cash position of the Company in respect of a particular Field, means the amounts determined by the formula in subclause (1)(b) below; and

"SANCP", being the second accumulated net cash position of the Company in respect of a particular Field, means the amounts determined by the formula in subclause (1)(b) below.

(b) **Formulae**

(i) FANCP in respect of any Petroleum Field for any Calendar Year shall be calculated according to the following formula:

FANCP = A(100% + B) + NCR

where:

"A" equals the FANCP at the end of the Calendar Year preceding the Calendar Year for which the calculation is being made. If for any Calendar Year the FANCP is a positive amount, the FANCP at the end of that Calendar Year shall be deemed to be zero for the purpose of calculating the FANCP for the subsequent Calendar Year; and

"B" equals [X] percent plus the simple arithmetic average for the Calendar Year for which the calculation is being made of the percentage yield on United States Long Term Government Bonds in each Month of that Calendar Year as reported for the first time in the monthly publication "International Financial Statistics" of

the International Monetary Fund. *[NB: the percentage X is biddable by the Company and negotiable with the Government prior to the execution of the Agreement]*.

(ii) SANCP in respect of any Petroleum Field for any Calendar Year shall be calculated according to the same formula given under subclause (1)(b)(i) above, except that:

"A" equals the SANCP at the end of the Calendar Year preceding the Calendar Year for which the calculation is being made. If for any Calendar Year the SANCP is a positive amount, the SANCP at the end of that Calendar Year shall be deemed to be zero for the purpose of calculating the SANCP for the subsequent Calendar Year;

"B" equals [Y] percent plus the simple arithmetic average for the Year for which the calculation is being made of the percentage yield on United States Long Term Government Bonds in each Month of that Calendar Year as reported for the first time in the monthly publication "International Financial Statistics" of the International Monetary Fund; *[NB: the percentage Y is biddable by the Company and negotiable with the Government prior to the execution of the Agreement];* and

In the calculation of the SANCP an amount shall be subtracted from the NCR in each Year identical to the value of any PAPT which would be due to the Government in that Year if reference were made hereunder only to the FANCP.

(iii) In the calculation of the FANCP and SANCP for the first Calendar Year of Petroleum Operations for each Field, "A" in the formula for FANCP and SANCP shall be deemed to be zero.

(c) **Prospective Application**:

The amounts of PAPT to which the Government is entitled from each Field in any Calendar Year, and which the Company shall pay, shall be determined as follows:

(i) If the FANCP and SANCP are both negative, the PAPT for the Calendar Year in question shall be zero.

(ii) If the FANCP is positive but the SANCP is negative, the PAPT for the Calendar Year in question shall equal F percent of the FANCP for that Year, where:

$$F = \frac{[N] - P}{100 - P} \times 100$$

and where:

"[N]" represents the combined marginal rate at which Petroleum Income Tax and the first tier rate of PAPT intended, on the Effective Date of this Agreement, to be yielded by this formula is charged. (For the avoidance of doubt, the intended first tier PAPT rate on the Effective Date was *[state rate]*%); and

"P" represents the rate of Petroleum Income Tax (which, for the avoidance of doubt, is 35% on the Effective Date).

[NB: In each actual Agreement, the numerical value of "N" will be inserted in the above formula, once the first tier rate of PAPT (to be bid by the Company) has been negotiated and agreed with the Government prior to the execution of the Agreement. For example, if a first tier PAPT rate of 25% is

intended on the Effective Date, the value of N would be 51.25%, calculated as: 35% + 25%(100 - 35)].

(iii) If the FANCP and SANCP are both positive, the PAPT for the Calendar Year in question shall be equal to the aggregate of F percent of the FANCP for that year (where "F" is as determined by the formula in subclause (1)(c)(ii) above) plus [S] percent of the SANCP for that year. *[NB: the percentage incremental second tier tax rate S is biddable by the Company and negotiable with the Government prior to the execution of the Agreement]*.

(d) **Calculations, Returns and Payment**

(i) Calculations of the NCR, FANCP and SANCP shall be made in United States dollars, with all non-dollar expenditures converted to dollars on the basis of the exchange rates specified in Section 1.4 of the Accounting Procedure.

(ii) Provisional estimates of the FANCP, SANCP and amounts of PAPT due for each Calendar Year shall be made by the Company and submitted to the Government no later than 31st January of the succeeding Year.

(iii) In accordance with Section 28 of the Tax Act, the Company shall prepare a final calculation of the PAPT due from each field for each Year. This calculation, which shall constitute the return required under Section 28, subsection 29(1)(b) and Schedule 2 of the Tax Act, shall be submitted to the Government within six (6) Months after the end of each Year.

(iv) The provisional estimates and final return of the FANCP, SANCP and amounts of PAPT due from each Field for each

Year shall be prepared by the Company in accordance with the provisions of section 9 of the Accounting Procedure.

(2) Unless the Government otherwise determines, payment of ninety (90) percent of the estimated amount of PAPT due for a Year in accordance with the provisional estimates prepared no later than 31st January of the succeeding Year shall be made by the Company to the Government no later than 31st January of that succeeding Year. Payment by the Company of the balance of the total amount of PAPT due for the Year shall be made at such time specified in the notice of assessment served on the Company pursuant to Section 34(4) of the Tax Act. Pursuant to Section 40(9) of the Tax Act, payments of PAPT shall be made in United States dollars.

(3) Pursuant to Section 26 of the Tax Act, where the Company consists of more than one individual company the obligation to pay PAPT shall be joint and several.

(4) If the Government so determines, the Company's obligation to pay PAPT in any Year in accordance with this Clause and Section 40(10) of the Tax Act shall be discharged by the Company making available to the Government an amount of petroleum equivalent to the monetary value of the PAPT due, valued in accordance with Clauses 17 and 26, as the case may be. In the event that the Government wishes to exercise this option, it shall so notify the Company, giving at least six (6) months notice of its intention to do so and stating the period and Field(s) to which the option will relate. Promptly thereafter, the Government and the Company shall agree on the specific lifting or off-take arrangements to enable the Government to give effect to its option.

17. **Valuation of Seychelles Crude Oil.**

(1) The Parties hereby agree that Crude Oil produced and saved from the Scheduled Lands shall be sold or otherwise disposed of at competitive international market prices.

(2) The market value of Seychelles Crude Oil sold or otherwise disposed of in any Month shall, for the purposes of this Agreement and, pursuant to subsection 7(5) of the Tax Act, for the purposes of the Company's liability to Petroleum Income Tax and PAPT, be determined as follows:

(a) As soon as possible after the end of each Month in which Crude Oil has been produced and saved from any Petroleum Field, an average price (expressed in United States Dollars per barrel), adjusted to the Company's actual loading points for export from Seychelles, for each separate volume of Crude Oil of the same specific gravity, sulphur and metal content, pour point, product yield and other relevant characteristics, (hereinafter referred to as "Quality") shall be determined in respect of production during that Month. It is understood that production from different Fields may be of differing Quality and that separate average prices may accordingly be appropriate for any Month in respect of production from each Field, in which event the overall price applicable to production from the Scheduled Lands shall be determined by taking the arithmetic weighted average (weighted by volume) of all such prices separately determined.

(b) The prices aforesaid shall be determined on the basis of international fair market value as follows:

(i) In the event of fifty (50) percent or more of the total volume of sales made by the Company during the Month of Seychelles Crude Oil of a given Quality produced and saved being by third party arm's length sales transacted in foreign exchange (hereinafter referred to as "third party sales"), the fair market value for all Crude Oil of that Quality shall be taken to be the simple arithmetic average price, calculated by dividing the total receipts from all such Third Party Sales by the total number of barrels of Crude Oil sold in such sales, actually realised in such Third Party Sales.

(ii) Subject to subclause (2)(c), in the event of less than fifty (50) percent of the total volume of sales made by the Company during the Month of Seychelles Crude Oil of a given Quality produced

and saved being by Third Party Sales, the fair market value for all Crude Oil of that Quality shall be determined by the arithmetic weighted average of:

(aa) the simple arithmetic average price actually realised in such third Party Sales during the Month of such Crude Oil produced and saved, if any, calculated by dividing the total receipts from all such sales by the total number of barrels of Crude Oil in the such sales; and

(bb) the simple arithmetic average price, adjusted for differences in Quality, quantity, transportation costs, delivery time, payment and other contract terms, at which a selection, determined in accordance with the terms of subclause (3) by mutual agreement between the Parties, of major competitive crude oils of generally similar quality to that of Seychelles Crude Oil produced and saved were sold in international markets during the same period.

The arithmetic weighted average aforesaid shall be determined by the percentage volume of sales of Seychelles Crude Oil by the Company referred to in subclause (2)(b)(ii)(aa) above which are Third Party Sales during the Month in question and such sales referred to in subclause (2)(b)(ii)(bb) above which are not Third Party Sales during the Month in question.

(iii) All prices aforesaid shall be adjusted to the Company's actual loading points for export from Seychelles.

(iv) For purposes of this Clause, Third Party Sales of Seychelles Crude Oil made by the Company shall exclude:

(aa) sales, whether direct or indirect through brokers or otherwise, by any seller to any affiliate of such seller; and

(bb) crude oil exchanges, barter deals, or restricted or distress transactions and generally any Crude Oil transaction which is motivated in whole or part by considerations

other than the usual economic incentives for commercial arm's length crude oil sales.

(c) In the event of:

(i) less than fifty (50) percent of the total volume of sales by the Company during the Month of Seychelles Crude Oil of a given Quality produced and saved being Third Party Sales, the Government may elect to accept determination of the fair market valuation of all Crude Oil of that Quality based on actual Third Party Sales during that Month calculated in accordance with the terms of subclause (2)(b)(i);

(ii) the percentage volume of sales being less than fifty (50) percent as aforesaid, the Company shall promptly notify the Government; but if the Government does not notify the Company of its election pursuant to subclause (2)(c)(i) within seven (7) days of receipt of such notification from the Company, the fair market valuation of the aforesaid Crude Oil shall be determined in accordance with the terms of subclause (2)(b)(ii).

(3) The selection of crude oils referred to in subclause (2)(b)(ii)(bb) shall be determined by mutual agreement between the Company and the Government in advance for each Calendar Year and, in making the selection, preference will be given to those crude oils of similar quality to Seychelles Crude Oil which are produced in other countries and which are sold regularly in the same markets as Seychelles Crude Oil is normally sold.

(4) The Company shall:

(a) be responsible for establishing the relevant average prices for Seychelles Crude Oil in accordance with this Clause and such prices shall be subject to agreement by the Government before they shall be deemed to have been finally determined; and

(b) provide the Government with all relevant information in order that it can satisfy itself that the average price determined by the Company is fair.

If the Parties fail to agree on the average price for any Month within thirty (30) days following the end of such Month the calculation of the relevant average price shall be referred to a sole expert appointed in accordance with the terms of subclause (6) for determination in accordance with this Clause. The determination of the sole expert shall be final and binding on the Parties.

(5) During the first Calendar Year in which Crude Oil or Natural Gas, or Crude Oil as well as Natural Gas, are produced from the Scheduled Lands, the Parties shall meet in order to establish a provisional selection of the major competitive crude oils and an appropriate mechanism for the purposes of giving effect to subclause (3)(b)(ii). The selection of crude oils shall be reviewed annually and modified if necessary.

(6) In the event of any differences of view between the Company and the Government concerning the selection of the reference crude oils or more generally about the manner in which the prices are determined according to the terms of this Clause, any matter in dispute shall finally be resolved by a sole expert appointed by agreement between the Government and the Company or, in the absence of such agreement, in accordance with the provisions of Clause 51.

18. **Exemption from Import Taxes.**

(1) The Company and its contractors engaged in Petroleum Operations shall be permitted to import, free of duty or other taxes on imports, machinery, equipment, vehicles, materials, supplies, consumable items (other than foodstuffs or alcoholic beverages) and moveable property where imports in any of the said categories have been certified by SNOC to be for use solely in carrying out Petroleum Operations.

(2) Subject to Clause 22, any of the items imported into Seychelles may, if no longer required for the Petroleum Operations hereunder, be freely exported at any time by the importing party without payment of any export duty, or impost, provided, however, that on the sale or transfer by the importer of any such items to any person in Seychelles, import duty shall be payable by the importer on the value

thereof as determined by the Seychelles Tax Authorities, at the date of such sale or transfer.

(3) Each expatriate employee of the Company, and of its contractors, shall be permitted to import into Seychelles free of import duty and other taxes on first arrival their personal and household effects including one automobile provided, however, that no property imported by the employees shall be resold by him in Seychelles except in accordance with Government regulations.

19. **Foreign Exchange.**

(1) The Company shall, during the term of this Agreement, have the right:

(a) to open and maintain bank accounts in Seychelles;

(b) to open and keep bank accounts in any foreign currency outside Seychelles which may be credited with the proceeds of the sale of petroleum from the Scheduled Lands, and with any other proceeds arising from Petroleum Operations, provided that all such proceeds are fully declared and brought into account for the purposes of Clauses 14, 15 and 16 of this Agreement; and

(c) to purchase Seychelles rupees, through the commercial banks in Seychelles, without discrimination, at the rate of exchange generally available.

(2) For the purposes of making conversions between foreign and Seychelles currencies in order to determine the Company's liability to royalty, Petroleum Income Tax and PAPT, and for preparing the various Statements required pursuant to the Accounting Procedure attached hereto as the Third Schedule, income accruing or expenditure incurred in a currency other than Seychelles rupees shall be converted into Seychelles rupees, or vice versa, at the exchange rates specified in Section 1.4 of the Accounting Procedure.

20. **Employment, Training and Local Purchases.**

(1) The Company shall, to the maximum extent practicable, employ nationals of Seychelles for all types of work in each phase of its Petroleum Operations.

Subject to the law in force from time to time relating to entry into Seychelles, to the extent that the local supply of manpower with the necessary experience and qualifications may be inadequate, the Company shall be permitted to bring the skilled workers and experts (including their spouses and dependent children) into Seychelles for the purpose of Petroleum Operations.

(2) The Company shall use reasonable efforts to train nationals of Seychelles for all types of work with respect to and in each Year of its Petroleum Operations, including technical, administrative, executive and management positions. Towards this end, the Company shall undertake a full programme of on-the-job training for nationals of Seychelles in the Company's Petroleum Operations in Seychelles and at its offices overseas. The Company shall make available to SNOC details of any training programmes which it runs in-house. SNOC and the Company shall agree annually in advance on the particular on-the-job training to be conducted by the Company.

(3) At the commencement of each Contract Year of its Petroleum Operations the Company shall make available to SNOC a sum which is not less than [*amount to be paid*] United States Dollars for the purposes of:

(a) sending suitable nationals of Seychelles selected by SNOC on petroleum and energy-related courses at universities, colleges or other training institutions;

(b) attending petroleum and energy-related conferences and workshops; and/or

(c) purchasing for SNOC and the Government technical books, professional publications, scientific instruments or other equipment required by SNOC and the Government.

The amount referred to in this subclause shall be adjusted annually by multiplying such amount by the factor A/B as defined in subclause 13(2).

(4) The Company shall, to the greatest extent possible, engage local firms in Seychelles (including companies incorporated in Seychelles) to carry out any works for, or supply materials to, or provide services for, the Company but

nothing in this sub-clause shall be taken as requiring the Company to engage local firms at an uneconomic rate or to engage local firms which are not competitive with non-local firms in terms of costs and standards of workmanship.

21. **Accounts and Audit.**

(1) The Company shall, at all times during the term of this Agreement, keep in Seychelles full and correct accounts, in a form which is in accordance with the provisions of the Accounting Procedure, attached as the Third Schedule to this Agreement. The accounts shall contain accurate entries relating to the Company's Petroleum Operations and shall include information covering production, receipts, credits and expenditures with entries shown separately, where necessary, for each Petroleum Field.

(2) The various Statements required to be submitted by the Company to the Government pursuant to Sections 1.3.2 and 5 to 11 of the Accounting Procedure shall, unless the Parties later agree otherwise, be prepared in the format, submitted at the times, as therein indicated.

(3) The Government shall have the right from time to time to appoint any independent and qualified auditors to inspect and audit, for the purposes of Government revenue, the books, records and accounts of the Company with respect to its Petroleum Operations in accordance with the following provisions of this Clause and Section 1.6 of the Accounting Procedure.

(4) The Government shall exercise its rights under subclause (3) within forty-eight (48) Months from the end of a Calendar Year, or within such longer period as the Company may agree with the Government, provided that in exceptional circumstances, details of which shall be given to the Company, the Government shall have the right to audit the books, records and accounts of the Company for a period of five (5) Calendar Years prior to the Year in which, in the opinion of the Government, the event or events giving rise to the exceptional circumstances first occurred.

(5) The costs of the Government's audits pursuant to subclauses (3) and (4) shall be borne by the Company and shall be an expenditure allowable in the computation of Petroleum Income Tax and PAPT.

22. **Assets and Insurance.**

(1) Subject to subclause (3), at the end of the term of this Agreement or any earlier determination of this Agreement the Company shall, if requested so to do by the Government, deliver up to the Government, free of charge, any plant, pipelines, pumps, machinery and other assets of a fixed or permanent nature constructed, put-up or built and used by the Company in connection with its Petroleum Operations.

(2) Subject to subclause (3), the Company shall, if so requested by the Government, sell to the Government (at a price to be agreed which then reflects their market value) any moveable assets owned and used by the Company in Seychelles in connection with its Petroleum Operations.

(3) The provisions of subclauses (1) and (2) shall not apply to assets which are still required by the Company for use in respect of its Petroleum Operations under this Agreement or any other petroleum agreement in Seychelles.

(4) The Government shall give notice of any permanent asset it wishes to acquire under subclause (1) at least six (6) months before the end of the term of this Agreement or, if this Agreement is determined by voluntary relinquishment by the Company before the end of that term, at any time within three (3) months prior to such determination.

(5) In the event that this Agreement is determined pursuant to Clause 46 the Government shall have the right to acquire free of charge all assets in Seychelles of the Company.

(6) The Company shall not within five (5) years before the end of the term of this Agreement remove from the Scheduled Lands or sell any assets of a fixed or permanent nature which might be deliverable to the Government under this Clause, without the consent of the Minister.

(7) Subject to subclauses (1) to (6), the Company may from time to time remove and sell or otherwise dispose of any assets in Seychelles which are no longer required by the Company for the purpose of its Petroleum Operations.

(8) The Company shall effect and, at all times during the term of this Agreement, obtain and maintain for and in relation to Petroleum Operations insurance to indemnify the Company against:

(a) loss or damage to any or all of its assets being used in connection with Petroleum Operations;

(b) loss or damage caused by pollution 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 for which the Company may be liable;

(d) any claims for which the State may be liable relating to the loss of property or damage suffered or bodily injury suffered by any third party in the course of, or as a result of, Petroleum Operations, in so far as the Company is liable to indemnify the State; and

(e) any other risk as is customary to insure against in the international petroleum industry in accordance with good oilfield practices.

(9) The Company shall require its contractors to obtain and maintain insurance against the risks referred to in subclause (8)(a) to (e) relating mutatis mutandis to such contractors.

(10) The amount insured against, the type of insurance referred to in subclauses (8) and (9) and the terms of such insurance shall be determined in accordance with good oilfield practices.

23. **Protection of the Environment.**

(1) In accordance with the statutory regulations or as the Government may otherwise require from time to time, the Company shall take such steps as are necessary and adequate in accordance with good international oil industry practice to:

(a) undertake Environment Impact Assessments as detailed in subclause (2);

(b) prevent pollution and protect the environment and the living resources of the sea; and

(c) ensure adequate compensation for injury to persons or damage to property proved to have been caused by the carrying out of the activities under this Agreement by the Company.

(2) The Company shall cause three Environmental Impact Assessments to be carried out by persons with special knowledge of environmental conditions similar to those in Seychelles. The first, relating to exploration drilling, shall be conducted and submitted to the Minister as part of the Company's drilling programme. The second, covering Field development and production activities, shall be submitted by the Company as part of its Development Plan. Both assessments shall be carried out in order to determine the prevailing situation relating to the environment, including marine life and bird life, in the Scheduled Lands and in the neighbouring areas and the effect of the respective Petroleum Operation on the environment in the Scheduled Lands. The studies shall include proposals to minimize environmental damage as well as plans for waste management and oil spill contingency, and a programme for monitoring environmental changes and the implementation of the aforesaid plans during Petroleum Operations. A third Environmental Impact Assessment shall be undertaken at the end of field production in order to determine the effect which Petroleum Operations have had on the environment in the Scheduled Lands.

(3) If the Company's failure to comply with regulations referred to in subclause (1), and particularly those dealing with the provision of subclause (1)(b), results in pollution or damage to the environment or marine life or otherwise, the Company shall take all necessary measures in accordance with good

international oil industry practice to effect immediate remedy of the failure and the effects thereof. If such pollution or damage is the result of gross negligence or wilful misconduct of the Company, the cost of the remedy shall not be an allowable deduction in the computation of Petroleum Income Tax and PAPT.

(4) The Company shall notify the Minister forthwith in the event of any emergency or accident affecting the environment and shall take such action as may be prudent and necessary in accordance with good international oil industry practice in such circumstances.

(5) If the Company does not act promptly so as to control or clean up any pollution or make good any damage caused, the Minister may, after giving the Company reasonable notice in the circumstances, take any actions which are necessary in accordance with good international oil industry practice and the costs and expenses of such actions, with interest charged in accordance with Section 1.5 of the Accounting Procedure, shall be recoverable from the Company.

24. **Fishing and Navigation.**

The Company shall carry out operations under this Agreement in such manner as to ensure that there will be no unjustifiable interference with navigation, fishing or the conservation of the living resources of the sea and shall take such steps in regard to the state of the Scheduled Lands as the Minister may reasonably direct to ensure that after vacation thereof or any part thereof by the Company there will be no such interference.

25. **Health and Safety.**

The Company shall comply with any instructions given from time to time by the Minister for securing the safety, health and welfare of persons employed by the Company in or about the Scheduled Lands.

26. **Natural Gas.**

(1) The Company shall have the right to use Natural Gas associated with Crude Oil produced for oilfield operations, including pressure maintenance in the oil Fields covered by the Scheduled Lands.

(2) Subject to subclauses (1) and (4), the Government shall be entitled to take at the downstream flange of the separator on the production platform or, failing the existence of such a separator, at a point of delivery mutually agreed upon at the collecting and inlet system, and utilize without any payment therefor to the Company, any Associated Natural Gas which is in excess of the quantity of Natural Gas required for Petroleum Operations. The costs and risks of taking and utilizing such Associated Natural Gas by the Government hereunder will be borne solely by the Government.

(3) Natural Gas produced from the Scheduled Lands, except in the case of short-term flaring necessary for testing or other operational reasons, may be flared only upon the prior approval of the Minister. Any plans for the long term flaring of Natural Gas shall be in accordance with the provisions of a Development Plan pursuant to Clause 11.

(4) If Natural Gas, Associated or Non-Associated, is discovered in commercial quantities, the Company may, within a period of three (3) years or such longer period as the Minister allows, undertake an appraisal programme to establish the commercial viability and then elect whether or not to develop and exploit such Natural Gas discovery. If the Company decides to develop and exploit the Natural Gas deposit, the Government and the Company shall endeavour in good faith to reach agreement on the terms and conditions governing the development and exploitation, including the valuation of the gas for royalty and tax purposes, the royalty rate to be applied to gas and the PAPT thresholds and tax rates to be levied pursuant to Clause 16.

27. **Unit Development.**

(1) Where during the term of this Agreement, the Minister:

(a) is satisfied that this Agreement and any other petroleum agreement are in force in respect of a common petroleum reservoir; and

(b) considers that it is in the interest of Seychelles, in order to secure the maximum ultimate recovery of petroleum, that the common petroleum

reservoir should be worked and developed as a unit on a co-operative basis,

then the Minister may, by notice, require the Company to co-operate with such persons as are specified in the notice (being all or any of the persons whose petroleum agreements are in force in respect of the common petroleum reservoir and hereinafter called the "Other Operators") in the preparation of a development scheme (hereinafter called the “Development Scheme”) for the working and development of the common petroleum reservoir as a unit by the Company and the Other Operators on a co-operative basis.

(2) A notice under subclause (1) shall contain or refer to a description of the area or areas in respect of which the Minister requires a Development Scheme to be submitted and shall state the period within which the Scheme is required to be submitted for approval by the Minister.

(3) If a Development Scheme is not so submitted, or if the Development Scheme so submitted is not approved by the Minister, the Minister may cause a Development Scheme to be prepared and given to the Company (which Scheme shall be fair and equitable to the Company and the Other Operators) and the Company shall perform and observe the terms and conditions of the Development Scheme.

(4) If the Company notifies the Minister that it objects to a Development Scheme which the Minister causes under subclause (3) to be prepared, a dispute shall be deemed to exist between the Government and the Company for the purpose of Clause 51.

(5) Notwithstanding that a dispute so exists, the Company shall perform and observe the terms of the Development Scheme unless it is otherwise determined by arbitration or the Minister alters, withdraws or suspends the Development Scheme or part thereof pending arbitration or otherwise.

28. **Measurement of Petroleum and Power of SNOC to Inspect.**

(1) SNOC may, at all reasonable times, enter into and upon any installations erected by the Company on or over any part of the Scheduled Lands for the following purposes, namely:

(a) to examine the wells, plant, equipment, buildings and other things made or done by the Company under this Agreement and the state of repair and conditions of such things;

(b) to inspect and check the accuracy of the weighing or measuring appliances, weights, measurements, records, maps and plans which the Company is required to keep or make under this Agreement; and

(c) to inspect the samples of strata, petroleum or water which the Company is required to keep under this Agreement.

(2) SNOC may at all reasonable times inspect and make abstracts or copies of any records, maps, plans, or accounts which the Company is required to keep in Seychelles or make under this Agreement. The Company shall extend the same facilities enjoyed by its employees to SNOC when examining or inspecting plant and installations pursuant to subclause (1).

(3) (a) Before commencement of production, the Parties shall mutually agree as the point or points at which all petroleum won and saved from the Scheduled Lands shall be measured or weighed. The Company shall measure or weigh by a method or methods customarily used in good international oilfield practice and from time to time approved by the Minister.

(b) The Company shall not make any alteration in the method or methods of measurement or weighing used by it or any appliances used for that purpose without the consent in writing of the Minister and the Minister may in any case require that no alteration shall be made save in the presence of a person authorised by the Minister.

(c) The Minister may from time to time direct that any weighing or measuring appliance shall be tested or examined in such manner upon such occasions or at such intervals and by such means as may be specified in the direction.

(d) If any measuring or weighing appliance shall upon any such test or examination as is mentioned in subclause (3) be found to be false or unjust the same shall, if SNOC so determines after considering any representations in writing made by the Company, be deemed to have existed in that condition during the period since the last occasion upon which the same was tested or examined pursuant to subclause (3) and royalty payable under this Agreement for that period shall be adjusted accordingly.

(e) For the purpose of measuring Natural Gas won and saved from the Scheduled Lands the value of the Natural Gas shall be calculated at an absolute pressure of one (1) atmosphere and at a temperature of sixty (60) degrees fahrenheit.

29. **Rights of Access.**

Any person or persons authorised by the Minister shall be entitled at all reasonable times to enter into and upon any of the Company's installations or equipment used or to be used in connection with exploring for or getting petroleum in the Scheduled Lands, to execute any works or to provide and install any equipment which the Minister may be entitled to execute or provide and install in accordance with the provisions hereof.

30. **Installations.**

The Company shall not commence to construct or place any installations in the Scheduled Lands until plans and specifications of such installations and such other particulars thereof as may be required by the Minister have been submitted to him and the Minister has given his approval thereof in writing, which approval may be given on such terms and conditions as the Minister thinks fit, including a direction that permanent means for giving warning of their presence must be maintained and that any installation which is abandoned or disused may be entirely removed.

31. **Drilling of Wells.**

The drilling of wells is governed by the Petroleum Drilling Regulations, 1980.

32. **Abandonment of Wells.**

(1) The Company shall not abandon any well without the approval of the Minister, which approval may be given subject to such terms and conditions as the Minister thinks fit.

(2) The Minister shall not withhold his approval under subclause (1) in the case of a well which is or has become unproductive.

(3) Every well which the Company intends to abandon shall be securely plugged by the Company in order to prevent entry and exit of water into and from any portion of the strata bored through, unless the Minister otherwise determines.

(4) The Minister may on any occasion require that no well shall be plugged except in the presence of a person authorised by him.

33. **Provision of Storage Tanks.**

The Company shall use generally accepted standards of good international oilfield practices for confining petroleum obtained from the Scheduled Lands in tanks, gas holders, pipes, pipelines or other receptacles constructed for the purpose.

34. **Company to Keep Samples.**

The Company shall, as far as is reasonably practicable, correctly label and keep for reference for a period of one (1) year characteristic samples of any fluids and of any gas encountered in any well and samples of any petroleum found in the Scheduled Lands, and for a period of three (3) years characteristic samples of the strata found in any well. The Minister or his representative shall have access to such samples at all reasonable times and shall be entitled to require that representative specimens of any such samples be delivered to the Minister or his representative who may retain any specimens so delivered. Before disposing of samples subject to this Clause, the Company shall give the Minister six (6) months notice of its intention to dispose of the samples.

35. **Company to Keep and Give Records.**

(1) The Company shall keep in Seychelles full and accurate records in a form from time to time approved by the Minister, containing particulars of the following matters, namely:

(a) the drilling, deepening, plugging or abandonment of wells;

(b) the strata and subsoil through which wells are drilled;

(c) the casing inserted in wells and any alteration to such casing;

(d) any petroleum, water and other economic minerals encountered;

(e) the areas in which any geological and geophysical work has been carried out including the nature of work and the details thereof; and

(f) such other matters related to the above as the Minister may from time to time reasonably require,

and shall also keep in Seychelles accurate geological maps and plans, geophysical records, and interpretations relating to the Scheduled Lands. Such maps, plans, records and interpretations and all geological and geophysical reports made by or for the Company shall be available for inspection by the Minister or his duly authorised representatives, and the Company shall deliver at Company cost copies of such maps, plans, records, interpretations and reports to the Minister whenever required.

(2) The Company shall give the Minister:

(a) daily progress reports during operations such as seismic acquisition, drilling, development and production operations;

(b) within fifteen (15) days after the end of each Month:

(i) a summary of all geological and geophysical work carried out by or for the Company, including lists of maps and reports;

(ii) summary of all drilling activity and results obtained; and

(iii) notification of future exploration plans;

(c) within two (2) Months after the first day of January and the first day of July in each Year, estimates of Crude Oil and Natural Gas production, and exports for each of the two (2) half year periods immediately following each of the said dates;

(d) within four (4) Months after the end of each Calendar Year:

(i) estimates of economically recoverable reserves of Crude Oil and Natural Gas at the end of each Calendar Year;

(ii) a record, in a form approved by the Minister, which describes the results of all exploration, development and other works carried out by the Company during that Year in connection with searching for, boring for and obtaining petroleum, and details of reports and documents to be provided as prescribed;

(e) detailed reports of exploration and other wells, including litho-, chrono- and bio-stratigraphy, petrophysical data, hydrocarbon zones and any other such information shall be submitted within six (6) months of completing the well;

(f) from time to time, such other plans and information as to the progress and results of the Company's Petroleum Operations as the Minister may reasonably require; and

(g) on relinquishment of any part of the Scheduled Lands, such maps, plans, reports, records, interpretation and data, made or obtained by or for the Company, relating to exploration, development, production and any operations in the relinquished lands as the Minister may require.

36. **Company to Furnish Copies of Agreements.**

(1) The Company shall within two (2) months of the date of execution give to the Minister copies of all conveyances, leases, assignments, agreements and deeds relating to the Scheduled Lands or any interest therein and to which the

Company is a party or under which the Company either directly or indirectly obtains any benefit or incurs any liability.

(2) At any time at which the Company is more than one company, the reference in subclause (1) to "the Company" is a reference to each one of those companies and accordingly the obligation under that subclause is a several obligation.

37. **Treatment of Information Supplied by Company.**

(1) The Company shall keep the Minister currently advised of all major developments regarding the Petroleum Operations, including, but not limited to, information in respect of the drilling, deepening, workover, repair, plugging, abandonment or completion of wells.

(2) All data, including well logs, maps and plans, magnetic tapes, cores and cuttings samples, and other geological and geophysical information and interpretations obtained by the Company as a result of its activities under this Agreement and all geological, technical, financial and economic reports, studies and analyses prepared by or for the Company relating to the Scheduled Lands, and hereinafter referred to as "Petroleum Operations Information" shall be the property of the Government. The Company shall deliver, at the Company's own cost, to the Minister within a reasonable time after they have become available copies of the Petroleum Operations Information. Copies shall be supplied by the Company using the most up to date technology and should be compatible with SNOC's facilities. The Company shall be entitled to retain copies of the Petroleum Operations Information for its own use.

(3) Subject to subclauses (4) and (5), Petroleum Operations Information shall be treated as confidential by the Company and the Government, except as otherwise agreed.

(4) The Government shall be entitled:

(i) at any time, to make use of any Petroleum Operations Information for the purpose of preparing and publishing aggregated returns and general reports on the extent of Petroleum Operations;

(ii) at any time, to make use of appropriate summaries of the Petroleum Operations Information for use in connection with the promotion of unlicensed areas, including significant information on the presence of hydrocarbons encountered in any well in the Scheduled Lands;

(iii) at any time, to make use of Petroleum Operations Information for the purpose of any arbitration or litigation between the Parties;

(iv) to release Petroleum Operations Information after three (3) years from the date when the Petroleum Operations Information was acquired by the Company or upon relinquishing any part of the Scheduled Lands to which the Petroleum Operations Information refers, whichever date is the earlier;

(v) to disclose Petroleum Operations Information to its advisers and consultants, and those of SNOC;

(vi) at any time, to make use of topographical survey information, including submarine topography, for any purpose whatever; and

(vii) at any time, to make use of information regarding economic minerals other than petroleum.

(5) The Company shall have the right to use the Petroleum Operations Information for any legitimate purpose in connection with the Company's Petroleum Operations and to disclose such information, provided an undertaking of confidentiality is obtained from the disclosee, to:

(a) outside consultants engaged in connection with the Company's operations hereunder;

(b) a bank or financial institution from whom the Company may be seeking to obtain financing; or

(c) any third party who has a bona fide interest in acquiring by purchase, exchange or otherwise all or a portion of the Company's rights and interest in this Agreement.

38. **Local Resident Manager.**

The Company shall, before commencing any Petroleum Operations in the Scheduled Lands, furnish to the Minister the name and address of the manager resident in Seychelles under whose supervision such operations are to be carried on.

39. **Right of Pre-emption in Emergency.**

Section 3 or 4 of the Preservation of Public Security Act (Cap. 36), shall apply in emergency situations.

40. **Indemnity.**

(1) The Company shall at all times keep the Government effectively indemnified against all proceedings, costs, charges, claims and demands whatsoever which may be or brought against the Government by any third person in relation to or in connection with this Agreement or any matter or thing done or purporting to be done in pursuance thereof.

(2) The Company shall take out and maintain such form of contract of insurance as is required pursuant to subclause 22(8)(d).

41. **Statements, Prospectuses, etc..**

(1) No statement shall be made by or with the consent of the Company claiming or suggesting, whether expressly or by implication, that any Government division or any person or body acting on behalf of the Government has or have formed or expressed an opinion that the Scheduled Lands are from their geological formation or otherwise likely to contain petroleum.

(2) Subclause (1) or a statement to the effect of that subclause shall be included in or endorsed on any prospectus, statement in lieu of prospectus, notice, circular advertisement or other invitation issued by or with the consent of the Company offering to the public for subscription or purchase any shares or debentures of a company proposed to be brought into existence.

42. **Notice of Change of Company's Standing.**

The Company shall report to the Minister promptly particulars of any material changes in its own, its Affiliates' on which it closely depends or its parent company's financial, technical or legal standing which may materially affect the Company's ability to perform its obligations hereunder.

43. **Assignments, etc.**

(1) The Company shall not assign, transfer or otherwise part with the rights or privileges hereby granted or any part thereof without the consent of the Minister first having been obtained, which consent may be given on such terms and conditions as the Minister thinks fit.

(2) The Minister shall not withhold his consent under subclause (1) or impose any terms or conditions of his consent where:

(a) the assignment, transfer or parting concerned is to a second company associated with the Company or to another party to this Agreement; and

(b) the Minister is satisfied that the assignment, transfer or parting will not adversely affect the performance of this Agreement.

(3) For the purposes of this Clause a second company is associated with the Company if that second company is an Affiliate of the Company, or the Company is an "Affiliate" of that second company, and for the purpose of determining whether or not in any case there is such an association:

Affiliate means, as to the Company:

(a) a corporation of which the share capital conferring a majority of votes at shareholders' meetings of such corporation is owned directly or indirectly by the Company;

(b) a corporation which owns directly or indirectly share capital of the Company conferring a majority of votes at shareholders' meetings of the Company; or

(c) a corporation of which the share capital conferring a majority of votes at shareholders' meetings of such corporation is owned directly or indirectly by a corporation which also owns share capital conferring a majority of votes at shareholders' meetings of the Company.

(4) Where a disagreement arises between the Minister and the Company as to whether or not a second company is associated with the Company, a dispute shall be deemed to exist between the Government and the Company for purposes of Clause 51.

(5) At any time at which the Company is more than one company a reference in the other provisions of this Clause to "the Company" is a reference to each one of the companies.

44. **Power of Government to Perform Company's Obligation.**

If the Company at any time fails to comply with any of the obligations which must be complied with by the Company under Clauses 8, 23, 24, 30, 31, 32, 33, 48 or 49 the Government may, after giving to the Company reasonable notice, do any of the things which in the opinion of the Government may be necessary to ensure compliance with such obligations and to recover the costs and expenses of so doing from the Company.

45. **Right of the Company to Determine.**

(1) The Company may, during any Exploration Period, determine this Agreement by not less than two (2) months notice given in writing to the Minister provided that all its obligations for that Period have been met.

(2) The Company may, during the Development Phase, determine this Agreement on not less than twelve (12) months notice given in writing to the Minister.

46. **Right of the Minister to Determine.**

(1) Where the Company:

(a) has failed to use the Scheduled Lands bona fide for the purposes of this Agreement;

(b) has failed to comply with a term or condition of this Agreement or with a direction or instruction given under this Agreement with which it is required to comply;

(c) has failed to pay any amount payable by the Company within a period of one (1) month after the day on which the amount became payable;

(d) has failed to comply with any unit development scheme prepared in accordance with Clause 27;

(e) has failed to commence commercial production within five (5) years of the commencement of the Development Phase; or

(f) has failed to comply with any of the terms or conditions subject to which the Minister gave his consent under Clause 43;

the Minister may determine this Agreement.

(2) The Minister shall not, under subclause (1), determine this Agreement on the ground of any failure referred to in that subclause if the Company claims that there has not been such a failure, unless:

(a) the Company withdraws its claim; or

(b) on arbitration it is determined that there has been such a failure.

(3) The Minister shall not, under subclause (1), determine this Agreement on the ground of any failure referred to in that subclause unless:

(a) the Minister has, by notice to the Company, given not less than one (1) month's notice of the intention to determine this Agreement on that ground;

(b) the Minister has, in the notice, specified a date on or before which the Company may, by notice to the Minister, submit any matter which it wishes the Minister to consider; and

(c) the Minister has taken into account:

(i) any action taken by the Company to remove that ground or to prevent the occurrence of similar grounds; and

(ii) any matters so submitted by the Company before the specified date.

(4) Where the Minister gives a notice under subclause (1) to the Company and the Company then claims that there has not been such a failure as is referred to in that notice, the Minister may, if either of the requirements of subclause (2)(a) or

(b) have effect, determine this Agreement without giving a further notice under subclause (3).

(5) The Minister may by order determine this Agreement if an order is made or a resolution is passed winding up the affairs of the Company unless:

(a) the winding up is for the purpose of amalgamation or re-construction; and

(b) the Minister has been notified of the amalgamation or re-construction.

(6) The Minister may by order determine this Agreement if a receiver is appointed of the assets of the Company.

(7) At any time where the Company is more than one company, the Minister shall not under subclause (5) or (6) determine this Agreement because of the passing by one of those companies of a winding-up resolution or, as the case may be, because of the appointment of a receiver of the assets of one of those companies unless satisfied that the remaining companies are unable to perform the obligations of the Company under this Agreement.

(8) At any time when the Company is more than one company, the reference in subclauses (1) to (4) to the Company is a reference to those companies jointly.

47. **Effect of Determination.**

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

(2) Where any part of the Scheduled Lands is relinquished under this Agreement, subclause (1) shall apply in relation to that part as if this Agreement had been determined.

48. **Delivery up of Productive Wells.**

Within two (2) months after the end of the term of this Agreement or any earlier determination of this Agreement, the Company shall deliver up to the Government all productive wells operated by the Company in good repair and condition and fit for further working (unless ordered by the Minister to plug them as provided in Clause 49 and except such wells as shall have been previously abandoned with the consent of the Minister).

49. **Plugging of Wells at End of Agreement.**

Within two (2) months after the end of the term of this Agreement or at any earlier determination of this Agreement, the Company shall plug all wells as provided in Clause 32 if required so to do by the Minister.

50. **Force Majeure.**

Failure on the part of the Company to fulfil any of the terms and conditions of this Agreement shall not be treated as breach of this Agreement in so far as the failure arises from *Force Majeure* and if, as a result of *Force Majeure*, the fulfilment by the Company of any of the terms or conditions of this Agreement is delayed beyond the period fixed or allowed for its fulfilment the period of the delay shall be added to the period so fixed or allowed.

51. **Arbitration.**

(1) Where the Government or any authority of the Government and the Company fail to settle a dispute touching on or concerning the interpretation or performance of this Agreement or the rights or liabilities of any of the Parties under this Agreement, the Government and the Company hereby consent to submit the dispute for arbitration in accordance with the rules of the [International Chamber of Commerce] [International Centre for Settlement of Investment Dispute {ICSID}] before a board of one, or more than one (but not being an even number) arbitrator appointed in accordance with the said rules.

(2) Any reference in this Agreement to the effect that a matter constitutes a dispute under this Clause shall not be construed as in any way derogating from the generality of subclause (1).

(3) Any award rendered pursuant to subclause (1) shall be binding upon the Parties submitting the dispute to such arbitration.

52. **Applicable Law.**

This Agreement shall be governed by the laws of Seychelles.

53. **Compliance with Law.**

Nothing in this Agreement shall entitle the Company to exercise the rights, privileges and powers conferred upon it by this Agreement in a manner which would contravene any law of Seychelles.

54. **Delegation.**

The Minister may in writing authorise any person to exercise and perform any of his functions under this Agreement and anything done by the delegate in pursuance of the delegation shall have the same validity and effect as it would have if done by the Minister.

55. **Acquisition of Land.**

The Government shall use its best endeavours to assist the Company to acquire rights over land in Seychelles where those rights are required by the Company for the purposes of, or for purposes incidental to the purposes of, this Agreement.

56. **Modifications etc.**

The Agreement shall not be amended, or modified in any respect except by the mutual consent, expressed in writing, of the Government, SNOC and the Company.

57. **Notices.**

(1) All notices and other communications to be given under this Agreement shall be given in writing, and:

(a) where the notice is to be given to the Minister or the Government, may be sent by, facsimile, courier, registered mail, or cable to the Minister .....;

(b) where the notice is to be given to the Company, may be delivered or sent by, facsimile, courier, registered mail, or cable:

(i) to the registered office of the Company in Seychelles; or

(ii) at any time where the Company is more than one Company to the registered office of any such Company in Seychelles.

(2) Any notice sent pursuant to this Clause by registered mail shall be deemed to have been given on the date that is three (3) days after the date of the mailing of the notice.

59. **Schedules and Titles.**

(1) The Schedules to this Agreement form an integral part thereof.

(2) The titles are for convenience only and do not form part of this Agreement.

SECOND SCHEDULE

Minimum Work Programme

PART I

Subject to the other Provisions of the Agreement, the following work shall be performed in the Scheduled Lands during the periods indicated:

PERIOD	DURATION OF PERIOD	DESCRIPTION OF WORK TO BE PERFORMED
1.	From the effective ……date of the Agreement ……until the fifth ……anniversary of the ……said date. ……	
2.	From the fifth …….. ……. ……. ……. of the said date. …….	anniversary to the eighth anniversary
3.	From the eighth ……. …….	anniversary to the

tenth anniversary

…….

of the said date.

…….

PART II

Subject to the other provisions of the Agreement, in the event of failure by the Company to carry out the work obligations, in part or at all in any of the corresponding periods of Part I of this Schedule, the Company shall be liable to either:

(i) pay immediately to the Minister such sum, based on the general prevailing oil industry rates, which would enable the Minister to undertake and complete the work obligations or any part thereof; or

(ii) at the direction of the Minister, pay to a third party after competitive tender such sums which would enable the Minister to undertake the completion of the work obligations or any part thereof.

In pursuance of the provisions of this Part, the Minister may require the Company to provide a parent company performance guarantee in the form set out in the Fourth Schedule.

Subject to the fulfilment by the Company of its obligations incurred in accordance with the provisions of the Agreement, both at the end of the first and at the end of second periods, the Company may at its sole discretion elect to perform the work to be performed for the next ensuing period, or to surrender the entire remaining Scheduled Lands without obligation to perform any further work specified in Part I of this Schedule or to pay any sum specified in Part II of this Schedule giving the notice as per Clause 45.

THIRD SCHEDULE

ACCOUNTING PROCEDURE

SECTION 1
GENERAL PROVISIONS

1.1 **Definitions**

The terms used in this Accounting Procedure which are defined in the Agreement or in the Tax Act shall have the same meaning when used herein.

1.2 **Purpose of the Accounting Procedure**

The purpose of this Accounting Procedure is to establish principles and procedures of accounting which will enable the Government to monitor the Company's expenditures, production, income and receipts so that the Government's entitlement to royalty, Petroleum Income Tax and PAPT pursuant to Clauses 14, 15 and 16 respectively of this Agreement can be accurately determined. The classification of expenditures and the determination of whether the costs and expenses set forth herein are allowable or non-allowable as provided in this Schedule shall guide the Parties in the preparation and approval of accounts and shall apply in respect of the calculation of PAPT pursuant to Clause 16; moreover, to the extent specified herein, the provisions of this Accounting Procedure shall guide the Controller of Taxes in determining the amount of Petroleum Income Tax to be paid by the Company under the Tax Act.

1.3 **Statements and Reports Required to be Submitted by the Company**

1.3.1 Within sixty (60) days of the Effective Date, the Company shall submit to and discuss with the Minister a proposed outline of charts of accounts, operating records, reports and Statements (as further specified in subsection 1.3.2 below), which outline shall reflect each of the categories and sub-categories of expenditures specified in Sections 2 and 3 and shall be in accordance with generally accepted and recognised accounting systems and consistent with normal practice of the international petroleum industry. Within sixty (60) days of receiving the above submission the Minister shall either indicate approval of

the proposal or request revisions to the proposal. Within one hundred and eighty (180) days after the Effective Date of the Agreement, the Company and the Minister shall agree on the outline of charts of accounts, operating records and reports which shall describe the basis of the accounting system and procedures to be developed and used under the Agreement. Following such agreement, the Company shall expeditiously prepare and provide the Minister with formal copies of the comprehensive charts of accounts (including the Statements) related to the accounting, recording and reporting functions, and allow the Minister reasonable access upon prior notice to examine the Company's manuals and to review procedures which are, and shall be, observed under the Agreement.

1.3.2 Notwithstanding the generality of the foregoing, the Company shall prepare and submit regular Statements to the Minister relating to its activities under the Agreement, as follows:

(i) Production Statements (see Section 5 of this Schedule);

(ii) Value of Production Statements (see Section 6 of this Schedule);

(iii) Royalty Statement (see Section 7 of this Schedule);

(iv) Statement of Expenditure and Receipts (see Section 8 of this Schedule);

(v) Petroleum Additional Profits Tax Statement (see Section 9 of this Schedule);

(vi) End-of-Year Statement (see Section 10 of this Schedule); and

(vii) Annual Budget Statement (see Section 11 of this Schedule).

1.3.3 All reports and any other Statements which the Company may be required to submit to the Government during the course of the period covered by the Agreement shall be prepared in accordance with the Agreement, the laws of Seychelles and, where there are no relevant provisions in either of these, in accordance with normal practices of the international petroleum industry.

1.3.4 The Statements referred to in subsection 1.3.2 shall be prepared on a cash basis, with subsidiary schedules attached, where appropriate, to enable costs, expenses and receipts to be computed on an accruals basis.

1.3.5 The Operator, for and on behalf of all entities constituting the Company, shall maintain the accounts of the Petroleum Operations under the Agreement, prepare and submit to the Minister the various Statements required under subsection 1.3.2. above, and shall do so in such a manner as to permit each such entity to fulfil its obligations under this Agreement.

1.3.6 However, each of the entities constituting the Company shall be responsible for maintaining its own accounting records in order to comply fully with all legal requirements and to support all fiscal returns or any other accounting reports required by any Governmental authority in relation to the Petroleum Operations.

1.4 **Units of Account, Language and Exchange Rates**

1.4.1 Pursuant to Part IV of the Tax Act, accounts shall be maintained in Seychelles rupees and United States dollars. A consistent set of units (including barrels for oil production) shall be employed for measurements required under this Schedule. The language employed shall be English.

1.4.2 It is the intent of the Parties that neither the Government nor the Company should experience an exchange gain or loss at the expense of, or to the benefit of, the other. However, should there be any gain or loss from exchange of currency, it will be credited or charged to the accounts under the Agreement.

1.4.3 (i) Amounts received and expenditures made in Seychelles rupees or in United States dollars shall be converted from Seychelles rupees into United States dollars or from United States dollars into Seychelles rupees at the mean of the buying and selling exchange rates as published or offered by the commercial banks operating in Seychelles for the day on which the relevant transaction occurred.

(ii) Amounts received and expenditures made in currencies other than United States dollars and Seychelles rupees shall be converted into United States dollars and Seychelles rupees at the mean of the buying and selling exchange rates between the currencies in question as published by the commercial banks operating in Seychelles or, failing such publication, as

published in the Financial Times (London edition) for the day on which the relevant transaction occurred.

(iii) The average daily exchange rates used in accordance with subsections 1.4.3(i) and (ii) above shall be identified in the relevant Statements required under subsection 1.3.2 of this Schedule.

1.5 **Payments**

Except as is otherwise specified in the Tax Act, any payment which the Company is required to make to the Government, or which the Government is required to make to the Company, as the case may be, pursuant to the Agreement, shall be made within the time specified in the Agreement for the payment, or, where no time is specified, within thirty (30) days following the date on which the obligation to make such payment occurs. Except as is otherwise specified in the Tax Act, all sums due by one Party to the other under the Agreement during any Month shall, for each day such sums are overdue during such Month, bear interest compounded daily at a rate equivalent to an annual rate equal to the average London Interbank Offered Rate (LIBOR) for six (6) months US dollars as quoted at 11.00 a.m. London time on the first business day of such Month by the London office of National Westminster Bank PLC, or such other bank as the Parties may agree, plus two (2) percentage points.

1.6 **Audit and Inspection Rights of Government**

1.6.1 Government shall have the right, upon giving reasonable notice to the Company, to audit the Company's books, records and accounts pertaining to its Petroleum Operations in accordance with Clause 21 of the Agreement. At any time at which the Company is more than one company the reference in this subsection and in Clause 21 of the Agreement to "the Company" is a reference to each one of those companies and accordingly the obligation liability is a several obligation.

1.6.2 For purposes of auditing, the Government may examine and verify, at reasonable times, all charges and credits relating to the Company's activities under the Agreement and all books of account, accounting entries, material records and inventories, vouchers, payrolls, invoices and any other documents,

correspondence and records necessary to audit and verify the charges and credits. Furthermore, the Government and its auditors shall have the right in connection with such audit to visit and inspect at reasonable times all sites, plants, facilities, warehouses and offices of the Company serving its activities under the Agreement and to visit personnel associated with those activities.

1.6.3 Notice of any exception to the Company's accounts for any Calendar Year shall be given in writing by the Government to the Company within ninety (90) days of receipt by the Government of the report of its auditors.

1.6.4 The Company shall answer any notice of exception under subsection 1.6.3 within sixty (60) days of receipt of such notice by the Company.

1.6.5 Where the Company has, after the sixty (60) days period referred to in subsection 1.6.4, failed to answer a notice of exception made by the Government, the Government's exception shall prevail until such time as the Government's exception is resolved.

1.6.6 Without prejudice to the finality of matters as described in Clause 21 of the Agreement and in this subsection 1.6, all relevant documents shall be maintained and, where pursuant to the Tax Act the Controller of Taxes is required to make an additional assessment or determination, made available for inspection by Government for at least five (5) years following their date of issue.

SECTION 2

CLASSIFICATION, DEFINITION AND ALLOCATION OF EXPENDITURES

All expenditures relating to the Company's activities under the Agreement which qualify as allowable deductions in the computation of PAPT in accordance with Section 3 of this Schedule shall be classified, defined and allocated as follows:

2.1 **Exploration Expenditures** shall consist of all allowable direct and allocated indirect expenditures incurred in the search for petroleum in an area which is or was, at the time when such costs were incurred, part of the Scheduled

Lands, including:

(a) aerial, geophysical, geochemical, palaeontological, geological, topographical and seismic surveys and studies and their interpretation;

(b) bore hole drilling and water well drilling;

(c) labour, materials and services used in drilling wells, with the object of finding hydrocarbons, or Appraisal Wells;

(d) facilities used solely in support of the purposes described in (a), (b) and (c) above including access roads, fixed assets and purchased geological and geophysical information;

(e) that portion of all Service Expenditures and that portion of all General and Administrative Expenditures allocated to Exploration Expenditures according to standard oil industry accounting practice or as otherwise agreed between the Parties; and

(f) any other expenditures incurred in the search for petroleum after the Effective Date but prior to the agreed date of commencement of commercial production of the relevant Petroleum Field and not covered under subsections 2.2, 2.3, 2.4 and 2.5.

2.2 **Development Expenditures** shall consist of all allowable direct and allocated indirect expenditures incurred in the development of a Petroleum Field, including:

(a) expenditure on drilling wells, other than Exploratory Wells and Appraisal Wells, which are completed as producing wells and drilling wells for purposes of producing from a Petroleum Field, whether these wells are dry or producing, and drilling wells for the injection of water or gas to enhance recovery of petroleum;

(b) expenditure on completing wells by way of installation of casing or equipment or otherwise after a well has been drilled for the purpose of bringing the well into use as a producing well, or as a well for the injection of water or gas to enhance recovery of petroleum;

(c) intangible drilling costs such as labour, consumable materials and services having no salvage value which are incurred in drilling and deepening of wells for the purposes set out in subsections 2.2(a) and (b) above;

(d) the costs of petroleum production, storage and transport facilities such as pipelines, flow lines, production and treatment units, wellhead equipment,

subsurface equipment, enhanced recovery systems, offshore platforms, export terminals, harbours, piers, and related facilities, and access roads for production activities;

(e) the cost of engineering and design studies for Field facilities referred to in subsection 2.2 (d); and

(f) that portion of all Service Expenditures and that portion of all General and Administrative Expenditures allocated to Development Expenditures according to standard oil industry accounting practice or as otherwise agreed between the Parties.

2.3 **Operating Expenditures** shall consist of all allowable direct and allocated indirect expenditures of an operational nature specifically incurred on or in connection with production activities under the Agreement, and transparently identifiable as such, after the agreed date of commencement of commercial production from each Field. Such expenditures shall be other than Exploration Expenditures, Development Expenditures, General and Administrative Expenditures and Service Expenditures, but shall include the balance of General and Administrative Expenditures and Service Expenditures not allocated to Exploration Expenditures or Development Expenditures.

2.4 **Service Expenditures** shall consist of allowable direct and indirect expenditures on services in support of the exploration, development or production activities under the Agreement, including warehouses, vehicles, motorised rolling equipment, aircraft, marine vessels, fire and security stations, workshops, water and sewage plants, power plants, housing community and recreational facilities and furniture, tools and equipment used in these activities under the Agreement. Service Expenditures in any Calendar Year shall include the total costs incurred in such Calendar Year to purchase and/or construct said facilities as well as the annual costs to maintain and operate the same. All Service Expenditures will be regularly allocated as specified in subsections 2.1(e), 2.2(f) and 2.3 to Exploration Expenditures, Development Expenditures and Operating Expenditures.

2.5 **General and Administrative Expenditures**

2.5.1 General and Administrative Expenditures shall comprise and be limited to expenditure incurred on general administration and management primarily and principally related to Petroleum Operations in the Scheduled Lands, as follows:

(a) main office, field office and general administrative expenditures in Seychelles, including supervisory, accounting and employee relations services (excluding commissions paid to intermediaries by the Company);

(b) an annual overhead charge for services rendered outside Seychelles, and not otherwise charged under this Accounting Procedure, for managing the Company's activities under the Agreement and for staff advice and assistance including financial, legal, accounting, secretarial and employee relations services (including rent and rates). Pursuant to Section 12(2) of the Tax Act, which shall also apply in the determination of the Company's PAPT liability for the period from the Effective Date until the date on which the first Development Plan submitted pursuant to subclause 11(1) is approved by the Minister, this annual charge shall be the Company's verifiable costs but shall in no event be greater than one (1) percent of the expenditures relating to the Company's activities under the Agreement incurred during the Calendar Year and allowable under Section 3 of this Schedule. From the date of approval by the Minister of such Development Plan the charge shall be at an amount or rates to be agreed between the Parties and stated in the Development Plan. The annual overhead charge shall be separately identified in all Statements to the Minister.

2.5.2 All General and Administrative Expenditures shall be regularly allocated as specified in subsections 2.1(e), 2.2(f) and 2.3 to Exploration Expenditures, Development Expenditures and Operating Expenditures, and shall be shown separately under each of these expenditure categories in all Statements to the Minister.

SECTION 3

COSTS, EXPENSES, EXPENDITURES AND CREDITS OF THE COMPANY

3.1 **Costs Allowable Without Further Approval of Government**

Subject to the provisions of the Agreement, the Company shall bear and pay the following costs and expenses in respect of its activities under the Agreement. These costs and expenses will be classified under the expenditure headings set out in Section 2 of this Schedule. Subject to the Sections 12, 13 and 15 of the Tax Act, which shall apply equally to the computation of PAPT under this Agreement, the costs described in this subsection 3.1 shall be allowable deductions in the computation of Petroleum Additional Profits Tax.

3.1.1 **Surface Rights**

This covers any direct costs attributable to the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the purposes of this Agreement, including any rent for land but excluding the Annual Rentals (which are covered in subsection 3.1.7).

3.1.2 **Labour and Associated Labour Costs**

(i) Gross salaries and wages including bonuses of the Company's employee directly engaged in the Company's activities under the Agreement, irrespective of the location of such employees, it being understood that in the case of those personnel only a portion of whose time is wholly dedicated to activities under the Agreement, only that pro-rata portion of applicable wages and salaries will be charged;

(ii) costs to the Company of established plans of employee's group life insurance, hospitalization, company pension, retirement and other benefits of a like nature customarily granted to the Company's employees and the Company's costs regarding holiday, vacation, sickness and disability payments applicable to the salaries and wages chargeable under sub-paragraph (i) above shall be allowed at actual cost, provided, however, that such total costs shall not exceed twenty five (25) percent of the Company's total labour costs under sub-paragraph (i) above;

(iii) any expenditures or contributions made pursuant to assessments or obligations imposed under the laws of Seychelles which are applicable to the Company's cost of salaries and wages chargeable under (i) above; and

(iv) reasonable travel and reasonable personal expenses of expatriate employees (and their immediate dependants) of the Company including those made for travel and relocation of expatriate employees assigned to Seychelles, all of which shall be in accordance with the Company's normal practice.

3.1.3 **Transportation**

The cost of transportation of employees, equipment, materials and supplies necessary for the conduct of the Company's activities under the Agreement.

3.1.4 **Charges for Services**

(i) **Third Party Contracts**

The actual costs of contracts, for technical and other services entered into by the Company for its activities under the Agreement, made with third parties other than an Affiliate are allowable; provided that the prices paid by the Company are no higher than those generally charged by other international or domestic suppliers for comparable work and services.

(ii) **Affiliates of the Company**

In the case of services rendered to undertake the activities under the Agreement by an Affiliate of the Company, the charges shall be based on actual costs without profits and shall be competitive. The charges shall be no higher than the most favourable prices charged by the Affiliate to third parties for comparable services under similar terms and conditions elsewhere and shall be fair and reasonable in the light of prevailing international oil industry practice and conditions. Where such services, or a succession of such services, devoted to a single defined task, are expected to cost in excess of five hundred thousand US dollars (US$500,000) the services shall not be provided by an Affiliate unless that Affiliate has been selected by competitive tender. The Company shall, if requested by Government, specify the amount of the charge

which constitutes an allocated proportion of the general material, management, technical and other costs of the Affiliate and the amount which is the direct cost of providing the services concerned. If necessary, certified evidence regarding the basis of prices charged may be obtained from the auditors of the Affiliate.

3.1.5 **Property and Equipment**

(i) The rental cost of any buildings or other facilities occupied for the purpose of conducting Petroleum Operations.

(ii) The rental cost of any machinery and equipment etc. hired or leased for the purpose of conducting Petroleum Operations.

(iii) For services rendered to the activities under the Agreement through the use of property and equipment exclusively owned by the Company, the Accounts shall be charged at rates, not exceeding those prevailing in the region, which reflect the cost of ownership and operation of such property, or at rates to be agreed.

3.1.6 **Material**

(i) **General**

So far as is practicable and consistent with efficient and economical operation, only such material shall be purchased or furnished by the Company for use in activities under the Agreement as may be required for use in the reasonably foreseeable future and the accumulation of surplus stocks shall be avoided. Material and equipment held in inventory shall only be charged to the accounts when it is removed from inventory and used in Petroleum Operations.

(ii) **Warranty of Material**

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

(iii) **Value of Material Charged to the Accounts Under the Agreement**

(a) Except as otherwise provided in (b) below, material purchased by the Company in arm's length transactions on the open market for use in the activities under the Agreement shall be valued to include invoice price less trade and cash discounts (if any), purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, custom duties, consular fees, other items chargeable against imported material and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site. The cost of such material shall not exceed that currently prevailing in normal arm's length transactions on the open market.

(b) Material purchased from or sold to an Affiliate, or transferred to or from activities of the Company other than activities under the Agreement, shall be priced and charged or credited at the prices specified in (1) and (2) below:

(1) **New Material (Condition "A")** shall be valued at the current international price which shall not exceed the price prevailing in normal arm's length transactions on the open market.

(2) **Used Material (Conditions "B" and "C")**

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

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

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

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

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

(iii) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.

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

(v) When the use of material is temporary and its service to the activities under the Agreement does not justify the reduction in price, in relation to materials referred to as Conditions "B" and "C", such material shall be priced on a basis that will result in a net charge to the accounts under the Agreement consistent with the value of the service rendered.

3.1.7 **Annual Rentals, Levies, Bonuses etc**

Annual rentals, taxes, levies, charges, fees, contributions and any other assessments and charges levied by the Government in connection with the

Company's activities under the Agreement and paid-by the Company, [*including any bonuses paid to the Government under the Agreement and (subject to the limitations set out in Section 18 of the Tax Act) any trades tax paid on imported articles, essential for the Company's Petroleum Operations,*] but excluding Petroleum Additional Profits Tax.

3.1.8 **Insurance and Losses**

Insurance premia and costs incurred for insurance of such type and in such amount as is customary in the international petroleum industry in accordance with good oilfield practice, provided that if such insurance is wholly or partly placed with an Affiliate of the Company, such premia and costs shall be allowable only to the extent generally charged by competitive insurance companies other than an Affiliate. Costs and losses incurred as a consequence of events which are, and in so far as, not made good by insurance are allowable under the Agreement unless such costs have resulted solely from an act of wilful misconduct or gross negligence of the Company.

3.1.9 **Legal Expenses**

All costs and expenses reasonably incurred of litigation and legal or related services necessary or expedient for the procuring, perfecting, retention and protection of the Scheduled Lands, and in defending or prosecuting lawsuits involving the Scheduled Lands or any third party claim arising out of activities under the Agreement, or sums paid in respect of legal services necessary or expedient for the protection of the joint interest of Government and the Company are allowable. Where legal services are rendered in such matters by salaried or regularly retained lawyers of the Company or an Affiliate, such compensation shall be included instead under subsections 3.1.2 or 3.1.4 above as applicable.

3.1.10 **Training Costs**

All costs and expenses incurred by the Company in training of its Seychelles employees engaged in activities under this Agreement and such other training as is required under Clause 20.

3.1.11. **General and Administrative Costs**

The costs described in subsection 2.5 (a) and the charge described in subsection 2.5(b).

3.2 **Costs Allowable only with Prior Approval of Government**

Any costs and expenditures incurred by the Company for the necessary and proper conduct of its Petroleum Operations which are not covered by Section 3.1, and are not disallowed under Section 3.3, shall be allowable as deductions in the computation of Petroleum Income Tax and Petroleum Additional Profits Tax only to the extent that they were approved by the Government, in writing and prior to such costs being incurred, on a case by case basis. Interest and other charges incurred on loans and other financing raised by the Company shall be allowable in the determination of Petroleum Income Tax subject to the limitations specified in Division 4 of the Tax Act, but shall not, in any event, be allowable in the computation of FANCP and SANCP pursuant to Clause 16 of the Agreement.

3.3 **Costs not Allowable under the Agreement**

Pursuant to Sections 9(3) and 25 of the Tax Act, the following costs and expenditures shall not be allowable in the computation of Petroleum Income Tax and Petroleum Additional Profits Tax:

(a) costs incurred before the Effective Date;

(b) petroleum marketing or transportation costs of petroleum beyond the Company's actual loading point for f.o.b. export from Seychelles;

(c) costs of arbitration and the sole expert in respect of any dispute under the Agreement;

(d) fines and penalties imposed by Courts of Law of Seychelles;

(e) costs incurred as a result of wilful misconduct or negligence of the Company, including those arising pursuant to subclause 23(3) of the Agreement;

(f) any costs associated with a parent company guarantee, if any, effected by the Parties with respect to this Agreement and any other amounts spent on indemnities with regard to non-fulfilment of contractual obligations;

(g) donations and charitable contributions;

(h) expenditure on research into and development of new equipment, materials and techniques for use in searching for developing and producing petroleum; and

(i) any costs which by reference to standard oil industry practices are excessive.

3.4 **Miscellaneous Income and Credits under the Agreement**

Pursuant to subclause 8(1)(f) of the Tax Act, and in addition to the amounts specified in subclauses 8(1)(a) to (e) of that Act, the Company's miscellaneous income shall include, but not be limited to, the following amounts received by the Company, and this miscellaneous income shall be treated as income chargeable to Petroleum Income Tax and, when apportioned as necessary by the Government to Petroleum Fields, to PAPT:

(a) the net proceeds of any insurance or claim in connection with activities under the Agreement or any assets charged to the accounts under the Agreement;

(b) revenue received from third parties for the use of property or assets charged to the accounts under the Agreement;

(c) any adjustment received by the Company from the suppliers/manufacturers or their agents in connection with defective material the cost of which was previously charged by the Company to the accounts under the Agreement;

(d) rentals, refunds or other credits received by the Company which apply to any charge which has been made to the accounts under the Agreement, but excluding any award granted to the Company under arbitration or sole expert proceedings;

(e) the net proceeds from the sale or exchange by the Company of materials, equipment, plant or facilities from the Petroleum Field or plant or facilities, the acquisition costs of which have been charged to the accounts under the Agreement;

(f) the proceeds derived from the sale or licence of any intellectual property, the development costs of which were incurred under the Agreement; and

(g) legal expenses charged to the accounts under the provisions of subsection 3.1.9 and subsequently recovered by the Company.

3.5 **Duplication of Charges and Credits**

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

Agreement, and no duplication of deductions or income for Petroleum Income Tax and PAPT.

SECTION 4

RECORDS AND VALUATION OF ASSETS

4.1 The Company shall maintain detailed records of property in use for its activities under the Agreement in accordance with normal practice in exploration, development and production activities of the international petroleum industry. At six (6) monthly intervals the Company shall notify the Government in writing of all assets acquired by the Company for use in connection with its Petroleum Operations during the preceding six (6) months, indicating the quantities, costs and location of each asset as well as of all assets sold or otherwise disposed of.

4.2 At reasonable intervals, but at least once a year with respect to movable assets and once every two (2) years with respect to immovable assets, the Company shall take inventories of the property and assets under the Agreement and deliver copies of such inventories to the Government. The Company will clearly state the principles upon which valuation of the inventory has been based. The Company shall give the Government at least thirty (30) days written notice of its intention to take such inventory and Government shall have the right to be represented when such inventory is taken. When an assignment of rights under the Agreement takes place a special inventory may be taken by the Company at the request of the assignee.

4.3 In order to give effect to Clause 22 of the Agreement, the Company shall provide the Government with a comprehensive list of all relevant assets when requested by the Minister to do so.

SECTION 5
PRODUCTION STATEMENT

5.1 From the date of first production from each Petroleum Field the Company shall prepare and submit to the Minister Monthly and Quarterly Production Statements containing the following particulars in respect of each Field in the Scheduled Lands and for the totals from the Scheduled Lands:

(a) the quantity, grades and gravity of Crude Oil produced and saved;

(b) the quantity and composition of Natural Gas produced and saved;

(c) the quantities of Crude Oil and Natural Gas used for purposes of carrying on drilling and production operations and pumping to field storage, as well as of quantities injected into the formations (each such use to be separately identified);

(d) the quantity of petroleum unavoidably lost;

(e) the quantity of Natural Gas flared;

(f) the size of petroleum stocks held at the beginning of the Calendar Month or Quarter in question;

(g) the size of petroleum stocks held at the end of the Calendar Month or Quarter in question; and

(h) the number of days in the Month and in the Quarter during which Crude Oil and Natural Gas was produced from each Field in the Scheduled Lands.

5.2 The Minister may by notice in writing addressed and delivered to the Company direct that any other particulars relating to Petroleum Operations be included in the Production Statements, and the Company shall comply with such request.

5.3 The Production Statements for each Month or Quarter shall be submitted to the Minister not later than seven (7) days after the end of such Month or Quarter.

SECTION 6

VALUE OF PRODUCTION STATEMENT

6.1 The Company shall for the purposes of Clause 17 of the Agreement, prepare a Statement providing calculations of the value of Crude Oil and Natural Gas produced and saved during each Calendar Month. With respect to Crude Oil, this Statement shall contain the following information:

(a) the quantities, prices and receipts realised therefor by the Company in third party sales of Seychelles Crude Oil during the Month in question, together with the names of the purchasers;

(b) the quantities, prices and receipts realised therefor by the Company in sales of Seychelles Crude Oil during the Month in question, other than in third party sales, together with a statement of the purchaser and/or destination of the Crude Oil;

(c) the value of stocks of Crude Oil held at the beginning of the Month in question, valued in accordance with normal oil industry practices;

(d) the value of stocks of Crude Oil held at the end of the Month in question, valued in accordance with normal oil industry practices;

(e) the percentage volume of total sales of Seychelles Crude Oil made by the Company during the Month that are third party arm's length sales;

(f) the Company's estimate, pursuant to Clause 17 of the Agreement, of the market value of Seychelles Crude Oil for the Month; and

(g) all information available to the Company, if relevant for the purposes of Clause 17 of the Agreement, concerning the prices of the selection of major competitive Crude Oils, including contract prices, discounts and premia, and prices obtained on the spot markets.

6.2 In the case of Natural Gas, the Minister and the Company shall agree on the format and content of the Value of Production Statement at the time the first Natural Gas discovery in the Scheduled Lands is developed.

6.3 The Value of Production Statement for each Month shall be submitted to the Minister not later than thirty (30) days after the end of such Month. If desired, the Minister may request the Company to submit an aggregated statement for a Quarter.

SECTION 7
ROYALTY STATEMENT

7.1 The Company shall prepare and submit to the Minister a Monthly Royalty Statement in respect of each Petroleum Field.

7.2 Each Royalty Statement shall be compatible with the provisions of Clause 14 of the Agreement, and with the Production Statement and Value of Production Statement to be prepared in respect of the Month in question pursuant to Sections 5 and 6 of this Accounting Procedure.

7.3 In particular, the Royalty Statement shall give the Company's estimate of the amount of Royalty due for the Month in question, separately for each field and separately for Crude Oil and Natural Gas.

7.4. The Statement shall also show, pursuant to subclause 14(4)(b) of the Agreement, any adjustments to the amount of royalty due for any previous months resulting from a redetermination of the market value.

7.5 The Royalty Statement for each Month shall be prepared by the Company and submitted to the Minister within thirty (30) days of the end of each Month.

SECTION 8

STATEMENT OF EXPENDITURE AND RECEIPTS

8.1 The Company shall prepare with respect to each Quarter a Statement of Expenditure and Receipts under the Agreement. The Statement shall distinguish between Exploration Expenditures, Development Expenditures and Operating Expenditures and shall identify all significant items of expenditures (including those sub-categories of costs listed in Section 3 of this Accounting Procedure) within these categories. That part of the Statement covering receipts shall distinguish between income from the sale of petroleum and miscellaneous income of the sort specified in subsection 8(1) of the Tax Act and itemised in subsection 3.4 of this Schedule. If the Minister is not satisfied with the degree of disaggregation within the said categories, he may request a more detailed breakdown and the Company shall comply with such request.

8.2 The Statement of Expenditure and Receipts will cover the following:

(a) actual Expenditures and Receipts for the Quarter in question;

(b) cumulative Expenditures and Receipts for the budget year in question;

(c) latest forecast of cumulative Expenditures at the Year end; and

(d) variations between budget forecast and latest forecast with explanations thereof.

8.3 The Statement of Expenditure and Receipts shall also record, in appropriate detail, any amounts spent in the Quarter by the Company during its Petroleum Operations but which are, or are to be, disallowed as deductions in the compensation of tax pursuant to subsection 3.3 of the Accounting Procedure.

8.4 The Statement of Expenditure and Receipts for each Quarter shall be submitted to the Minister no later than thirty (30) days after the end of such Quarter.

SECTION 9

PETROLEUM ADDITIONAL PROFITS TAX STATEMENT

9.1 The Company shall prepare in respect of each Petroleum Field and for each Calendar Year a Petroleum Additional Profits Tax Statement containing the following information:

(a) the value of Net Cash Receipts from the field for the Year, identifying separately each of the revenues and allowable deductions provided for in subclause 16(1)(a) of the Agreement;

(b) the appropriate average value for the Year of the percentage Yield on United States Long Term Government Bonds;

(c) the value of the FANCP and SANCP for the Year;

(d) the value of the FANCP and SANCP at the end of the preceding Year;

(e) the Company's estimate of the amount of Petroleum Additional Profits Tax payable with respect to each of the FANCP and SANCP for the Year;

(f) the Company's estimate of the total amount of Petroleum Additional Profits Tax payable for the Year; and

(g) the amount of Petroleum Additional Profits Tax paid by the Company.

9.2 The information required in terms of subsection 9.1 shall be presented in sufficient detail so as to enable the Minister and the Controller of Taxes to verify the timing and amount of Petroleum Additional Profits Tax payments.

9.3 A provisional Petroleum Additional Profits Tax Statement for each Year shall be submitted by the Company to the Government no later than 31st January of the succeeding Year. A final Petroleum Additional Profits Tax Statement for the year, which shall constitute the Return required under Section 28, and subsection 29(1)(b) of Schedule 2 of the Tax Acts, shall be submitted by the Company to the Government within six (6) Months after the end of the year.

SECTION 10

END-OF-YEAR STATEMENT

The Company shall prepare a definitive End-of-Year Statement. The Statement will contain aggregated information for the Calendar Year in the same format as required in the Production Statement, Value of Production Statement, Royalty Statement and Statement of Expenditures and Receipts but will be based on the actual quantities of petroleum produced, income received and the costs and expenditures incurred. The End-of-Year Statement for each Calendar Year shall be submitted to the Minister within sixty (60) days of the end of such Calendar Year.

SECTION 11

ANNUAL BUDGET STATEMENT

11.1. The Company shall prepare an Annual Budget Statement in respect of each Calendar year. This Statement shall distinguish between Exploration Expenditures, Development Expenditures, and Operating Expenditures and shall show the following:

(a) forecast expenditures and receipts for the budget Year under the Agreement;

(b) cumulative expenditures and receipts to the end of the said budget Year; and

(c) a schedule showing the most important and individual items of expenditures for the said budget Year.

11.2 The Budget Statement shall be submitted to the Minister with respect to each budget Year not less than sixty (60) days before the start of the Year except in the case of the Year in which the Effective Date falls, when the Budget Statement shall be submitted within thirty (30) days of the Effective Date.

SECTION 12
REVISION OF ACCOUNTING PROCEDURE

12.1 The provisions of this Accounting Procedure may be amended by agreement between the Company and Government. The amendments shall be made in writing and shall state the date upon which the amendments shall become effective.

12.2 Following any second discovery in the Scheduled Lands, the Parties shall meet in order to establish specific principles and procedures for identifying all costs, expenditures and credits on a Petroleum Field basis, it being understood that costs, expenditures and credits which do not uniquely arise in respect of any one Petroleum Field shall be apportioned between Petroleum Fields in a principled, fair and consistent manner.

SECTION 13

CONFLICT WITH THE AGREEMENT

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

FOURTH SCHEDULE
PARENT COMPANY PERFORMANCE GUARANTEE

WHEREAS the [DEF COMPANY], a company duly incorporated and registered in ..... having its registered office at ....., (hereinafter referred to as "the Guarantor") is the owner of 100% of the share capital of the [ABC COMPANY Ltd] (hereinafter referred to as "the Company") and its parent company; and

WHEREAS the Company is a party to the Petroleum Agreement dated the ..... day of ..... in the year ……..(hereinafter referred to as "the Agreement") entered into with the Government of Seychelles (hereinafter referred to as "the Government" and the Seychelles National Oil Company (hereinafter referred to as "SNOC"), and

WHEREAS the [DEF COMPANY] wishes to guarantee the performance of the Company or its affiliated assignee under the Agreement;

NOW, THEREFORE, the Guarantor hereby -

(a) unconditionally and irrevocably guarantees to the Government that it will make available or cause to be made available to the Company or any other directly or indirectly owned subsidiary or affiliate of the Guarantor to which any part or all of the Company's rights or interest under the Agreement may subsequently be assigned ("affiliated assignee"), resources required to ensure that Company or an Affiliated Assignee can carry out its obligations as set forth in the Agreement;

(b) unconditionally and irrevocably guarantees to the Government the due and punctual compliance by the Company (or Affiliated Assignee) with any obligations of the Company (or Affiliated Assignee) under the Agreement;

(c) undertakes to the Government that if the Company (or any Affiliated Assignee) defaults on any of its obligations under the Agreement, then the Guarantor will fulfil or cause to be fulfilled the said obligations in place of the Company (or any Afiliated Assignee);

(d) declares that this guarantee shall expire on termination of the Agreement and any claims arising out of events during the period of validity of this guarantee must be submitted to the undersigned not later than 30 months subsequent to the date the claim arose.

SIGNED at ..... on this ..... day of ..... in the year .....……..

.....
[DEF COMPANY]

IDENTIFICATION OF AREAS DESIGNATED FOR THE PURPOSE OF PETROLEUM EXPLORATION

There are two legal agreements which pertain the licence areas offshore Seychelles, namely:

1) Exploration Licence - non-exclusive, granted for geophysical data gathering only (no drilling), for a term of 2 years; and

2) Petroleum Agreement - exclusive, granted for all exploration activities including drilling, for 28 years (first 8 years being on exploration phase).

Licence areas defined according to these agreements will be defined as:

1) Exploration Licence (EL) for areas defined under an exploration licence;

2) Petroleum Exploration Concession (PEC) for areas defined under the exploration phase of a petroleum agreement; and

3) Production Licence (PL) for areas enclosing a discovered field for the purposes of producing hydrocarbons under the terms of a Petroleum Agreement.

Areas within each category will be numbered using Arabic numerals, sequentially, in chronological order of the signing of the relevant agreements. Areas defined within any single agreement that do not have any point in common shall be identified by capital letters. For example, if, in the third Petroleum Agreement signed, two areas with no common point are defined, they shall be designated PEC 3A and PEC 3B.