

Dated as of 11 October, 2001

**THE GOVERNMENT OF  
THE UNITED REPUBLIC OF TANZANIA,**

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

- AND -

**PANAFRICAN ENERGY TANZANIA LIMITED**

---

---

**PRODUCTION SHARING AGREEMENT**

RELATING TO THE

SONGO SONGO GAS FIELD

DAR ES SALAAM, TANZANIA

---

---

## TABLE OF CONTENTS

### ARTICLE I DEFINITIONS; RULES OF INTERPRETATION

1.1	<u>Definitions</u> .....	3
1.2	<u>Rules of Interpretation</u> .....	11

### ARTICLE II AGREEMENT

2.1	<u>Agreement Under the Act</u> .....	13
-----	--------------------------------------	----

### ARTICLE III RESPONSIBILITIES AND GRANT OF RIGHTS

3.1	<u>Contract Area</u> .....	14
3.2	<u>Confirmation of Transfer and Assignment of Rights by TPDC to PanAfrican Tanzania</u> .....	14
3.3	<u>Term</u> .....	14
3.4	<u>Responsibilities of the Parties</u> .....	15
3.5	<u>Surrender</u> .....	17

### ARTICLE IV NATURAL GAS

4.1	<u>Protected Gas</u> .....	18
4.2	<u>Additional Gas</u> .....	18
4.3	<u>Marketing and Sales</u> .....	18

### ARTICLE V EXPLORATION PROGRAMME

5.1	<u>Work Requirements</u> .....	20
5.2	<u>Initial Period</u> .....	20
5.3	<u>Subsequent Period</u> .....	21
5.4	<u>Drilling Requirements</u> .....	21
5.4	<u>TPDC Obligations</u> .....	21
5.6	<u>Minimum Expenditure</u> .....	21

### ARTICLE VI WORK PROGRAMMES AND ADVISORY COMMITTEE

6.1	<u>Operatorship</u> .....	22
6.2	<u>Work Programme and Budget</u> .....	22
6.3	<u>Annual Submission of Work Programme and Budget</u> .....	22

6.4	<u>Advisory Committee</u> .....	22
6.5	<u>Revisions to Work Programme, Budget or Appraisal Programme</u> .....	23
6.6	<u>TPDC Non-Compliance</u> .....	23
6.7	<u>Contractors and Subcontractors</u> .....	23

**ARTICLE VII  
DISCOVERY, APPRAISAL AND DEVELOPMENT**

7.1	<u>Evaluation Report</u> .....	24
7.2	<u>Discoveries Not of Commercial Interest</u> .....	24
7.3	<u>Discoveries of Commercial Interest</u> .....	24
7.4	<u>Relinquishment</u> .....	25
7.5	<u>Extension</u> .....	25

**ARTICLE VIII  
JOINT OPERATIONS**

8.1	<u>TPDC’s Right to Participate in Development Programme</u> .....	26
8.2	<u>Joint Operations Agreement</u> .....	27

**ARTICLE IX  
ANNUAL CHARGES**

9.1	<u>Payment of Annual Charges by TPDC</u> .....	28
9.2	<u>Reimbursement of Annual Charges by PanAfrican Tanzania</u> .....	28

**ARTICLE X  
RECOVERY OF COSTS AND EXPENSES AND PRODUCTION SHARING FOR  
ADDITIONAL GAS**

10.1	<u>Establishment of Revenues</u> .....	29
10.2	<u>No Ring Fencing in Contract Area</u> .....	29
10.3	<u>Cost Gas Revenue Allocation and Method of Recovery</u> .....	29
10.4	<u>Profit Gas Revenue Allocation — Proven Section</u> .....	30
10.5	<u>Profit Gas Revenue Allocation — Remainder of Contract Area</u> .....	31
10.6	<u>Insufficiency</u> .....	31
10.7	<u>Effect of Income Taxes on Apportionment</u> .....	32

**ARTICLE XI  
CRUDE OIL**

11.1	<u>Discovery of Crude Oil</u> .....	33
11.2	<u>Cost Oil Revenue Allocation and Method of Recovery</u> .....	33
11.3	<u>Profit Oil Revenue Allocation</u> .....	34
11.4	<u>No Ring Fencing</u> .....	34
11.5	<u>Valuation of Crude Oil</u> .....	34
11.6	<u>Lifting, Marketing and Domestic Supply Obligation</u> .....	36

**ARTICLE XII  
TAXATION AND ROYALTY**

12.1	<u>Each Party Responsible for Own Taxes</u> .....	38
12.2	<u>Development Licence and Production of Additional Gas</u> .....	38
12.3	<u>Income Taxes</u> .....	38
12.4	<u>Royalty</u> .....	39
12.5	<u>Withholding Tax Exemption for Dividends</u> .....	39

**ARTICLE XIII  
ADDITIONAL PROFITS TAX**

13.1	<u>Basis and Calculation of Tax</u> .....	40
13.2	<u>Sample Calculation of Additional Profits Tax in Annex E</u> .....	42
13.3	<u>Records and Books of Account</u> .....	42
13.4	<u>Payment of Additional Profits Tax</u> .....	42

**ARTICLE XIV  
REPORTING, INSPECTION AND CONFIDENTIALITY**

14.1	<u>Reports</u> .....	43
14.2	<u>Data</u> .....	43
14.3	<u>Confidentiality</u> .....	44

**ARTICLE XV  
TANZANIAN RESOURCES**

15.1	<u>Tanzanian Goods</u> .....	46
15.2	<u>Tanzanian Contractors</u> .....	46
15.3	<u>Tender Procedures</u> .....	46

**ARTICLE XVI  
EMPLOYMENT, TRAINING AND TECHNOLOGY TRANSFER**

16.1	<u>Employment of Tanzanians</u> .....	47
16.2	<u>Training and Technology Transfer</u> .....	47
16.3	<u>Expatriate Employees</u> .....	48

**ARTICLE XVII  
TITLE TO ASSETS**

17.1	<u>Fixed and Movable Assets</u> .....	49
17.2	<u>Use of Assets</u> .....	49
17.3	<u>Purchase of Assets by TPDC</u> .....	50
17.4	<u>Assets of Third Parties</u> .....	50

**ARTICLE XVIII  
INSURANCE**

18.1	<u>Maintenance of Insurance Policies</u> .....	51
18.2	<u>Maintenance of "Occurrence" Form Policies</u> .....	51
18.3	<u>Policy Endorsements</u> .....	51
18.4	<u>Certificates of Insurance</u> .....	52
18.5	<u>Insurance Reports</u> .....	52
18.6	<u>Insurance Proceeds</u> .....	52

**ARTICLE XIX  
IMPORT DUTIES**

19.1	<u>Importation</u> .....	53
19.2	<u>Export and Sale</u> .....	53
19.3	<u>Expatriate Employees</u> .....	53

**ARTICLE XX  
FOREIGN EXCHANGE**

20.1	<u>Rights of PanAfrican Tanzania</u> .....	54
20.2	<u>Expatriate Employees of PanAfrican Tanzania and its Contractors</u> .....	54
20.3	<u>Expatriate Employee Income Tax Guarantee</u> .....	55

**ARTICLE XXI  
ACCOUNTING RECORDS**

21.1	<u>Accounting Records</u> .....	56
21.2	<u>Right of Audit</u> .....	56

**ARTICLE XXII  
ENVIRONMENT AND SAFETY**

22.1	<u>Protection of Environment</u> .....	57
22.2	<u>Failure to Comply</u> .....	57
22.3	<u>Notice to Ministry</u> .....	57
22.4	<u>TPDC Remedial Action</u> .....	57
22.5	<u>Environmental Impact Assessment</u> .....	57

**ARTICLE XXIII  
FORCE MAJEURE**

23.1	<u>Definition of Force Majeure</u> .....	58
23.2	<u>Notification Obligations</u> .....	59
23.3	<u>Duty to Mitigate</u> .....	60
23.4	<u>Delay Caused by Force Majeure</u> .....	60

**ARTICLE XXIV  
REPRESENTATIONS, WARRANTIES AND COVENANTS**

24.1	<u>PanAfrican Tanzania Representations and Warranties</u> .....	61
24.2	<u>TPDC Representations and Warranties</u> .....	62
24.3	<u>GOT Representations and Warranties</u> .....	64
24.4	<u>PanAfrican Tanzania Covenants</u> .....	65
24.5	<u>TPDC Covenants</u> .....	66
24.6	<u>GOT Covenants</u> .....	66

**ARTICLE XXV  
DEFICIENCY; DEFAULT; TERMINATION**

25.1	<u>TPDC Deficiency</u> .....	67
25.2	<u>PanAfrican Tanzania Events of Default</u> .....	68
25.3	<u>GOT Special Events</u> .....	69
25.4	<u>Termination</u> .....	70
25.5	<u>Obligations Upon Termination</u> .....	71
25.6	<u>Other Remedies</u> .....	71

**ARTICLE XXVI  
LIABILITY AND INDEMNIFICATION**

26.1	<u>Limitation of Liability</u> .....	72
26.2	<u>Indemnification</u> .....	72
26.3	<u>Assertion of Claims to Exceed Minimum Indemnification Amount</u> .....	73
26.4	<u>Indemnification for Fines and Penalties</u> .....	73
26.5	<u>Notice of Proceedings</u> .....	73
26.6	<u>Defence of Claims</u> .....	74
26.7	<u>Subrogation</u> .....	75

**ARTICLE XXVII  
RESOLUTION OF DISPUTES**

27.1	<u>Notice of Dispute</u> .....	76
27.2	<u>Resolution by Parties</u> .....	76
27.3	<u>Technical Disputes</u> .....	76
27.4	<u>Arbitration</u> .....	78

**ARTICLE XXVIII  
MISCELLANEOUS PROVISIONS**

28.1	<u>Expenses of the Parties</u> .....	81
28.2	<u>Right to Specific Performance; Waivers</u> .....	81
28.3	<u>Commercial Acts; Immunity</u> .....	81
28.4	<u>Further Assurances</u> .....	82
28.5	<u>Choice of Law</u> .....	82

28.6	<u>Entire Agreement</u> .....	82
28.7	<u>Amendments</u> .....	82
28.8	<u>Waiver</u> .....	82
28.9	<u>Counterparts</u> .....	83
28.10	<u>Severability</u> .....	83
28.11	<u>Assignment</u> .....	83
28.12	<u>Relationship of the Parties</u> .....	83
28.13	<u>No Third Parties</u> .....	83
28.14	<u>Language</u> .....	83
28.15	<u>No Liability for Review</u> .....	84
28.16	<u>Consents</u> .....	84
28.17	<u>Economic Benefits</u> .....	84
28.18	<u>Notices</u> .....	84

## ANNEXES

Annex A	Description of Contract Area
Annex B	Description of Proven Section
Annex C	Development Licence
Annex D	Accounting Procedures
Annex E	Sample Additional Profits Tax Calculation
Annex F	Insurance Requirements

**THIS PRODUCTION SHARING AGREEMENT** is made as of this \_\_\_\_ day of \_\_\_\_\_ 2001 by and among **THE GOVERNMENT OF THE UNITED REPUBLIC OF TANZANIA** (“GOT”), **TANZANIA PETROLEUM DEVELOPMENT CORPORATION**, a statutory corporation established under the laws of the United Republic of Tanzania, with its principal office located in Dar es Salaam, Tanzania (“TPDC”), and **PANAFRICAN ENERGY TANZANIA LIMITED**, a corporation organized under the laws of Jersey, with its principal office located in St. Helier, Jersey, Channel Islands (“PanAfrican Tanzania”).

**WHEREAS:**

A. The Government of the United Republic of Tanzania, as a matter of policy, intends to involve the private sector in the development, construction and operation of a unified gas and electric infrastructure programme known as the Songo Songo Gas-to-Electricity Project.

B. Songas Limited has been created as a limited liability company and TANESCO, TPDC, Ocelot International Tanzania Limited, AES Tanzania Limited, Tanzania Development Finance Company Limited and CDC Financial Services (Mauritius) Ltd. have agreed to make investments therein.

C. Songas intends to develop, own and operate the Project pursuant to the provisions of the Basic Agreements and the Financing Agreements.

D. The Project will include the transfer of certain of TPDC’s facilities on and around Songo Songo Island to Songas; the development, production and processing of natural gas on and around Songo Songo Island under a Development Licence, certain rights under which are assigned by TPDC to Songas; the construction of a gas processing facility and gas transportation pipeline from Songo Songo Island to the Complex and the Wazo Hill Cement Plant; the conversion of the turbines at the Complex to natural gas operation; the transfer of the Complex from TANESCO to Songas; the operation of the Complex by Songas and the sale to TANESCO of the capacity and the electrical output of the Complex; and the sale of natural gas by Songas to the Wazo Hill Cement Plant.

E. Title to Petroleum in or under any land in Tanzania, including land beneath territorial waters and the continental shelf, is and will continue to be vested in the United Republic of Tanzania.

F. TPDC has been established by law, among other things, to promote the development of the petroleum industry and the production of Petroleum in Tanzania.

G. The Petroleum (Exploration and Production) Act, 1980, makes provision with respect to exploring for, developing and producing Petroleum and authorizes the Ministry to grant development licences, subject to certain limitations and conditions.

H. TPDC has obtained the Development Licence from the GOT for Petroleum development and production in the Contract Area.

I. Pursuant to the Gas Agreement, TPDC, with the approval of the Ministry, transferred and assigned to Songas the exclusive right to explore, develop and sell Natural Gas produced from the Discovery Blocks for delivery and sale as Protected Gas.



J. The Parties intend that Songas shall have first priority with respect to the Natural Gas within the Contract Area to produce and deliver the Protected Gas pursuant to the terms of the Gas Agreement and this Agreement.

K. Pursuant to the Operatorship Agreement, PanAfrican Tanzania is the Operator of the Contract Area for and on behalf of Songas to conduct all operations required for the exploration, development and production of Protected Gas.

L. Pursuant to the Gas Agreement, TPDC, with the approval of the Ministry, has assigned to PanAfrican Tanzania the exclusive right to operate the Contract Area on behalf of TPDC and itself and to explore, develop and produce Additional Gas and other Petroleum from the Contract Area.

M. Pursuant to the Gas Agreement, TPDC has also assigned to PanAfrican Tanzania the right, jointly with TPDC, to market the Additional Gas produced from the Contract Area to third parties; provided, however, that such sales do not jeopardize the supply of Protected Gas.

N. For the first five years following the Transfer Date, PanAfrican Tanzania and TPDC have agreed to reserve a portion of the Additional Gas from the Discovery Blocks as Reserved Gas for the generation of electricity for sale or resale to the public from generating units not currently in existence and not from the Complex, which reservation shall be based upon the pricing, consumption and termination terms provided in the Gas Agreement.

O. Songas has agreed to construct the Processing Plant on Songo Songo Island to process Natural Gas produced from the Contract Area and to construct the pipeline from the Processing Plant to the Complex and the Wazo Hill Cement Plant.

P. Songas and PanAfrican Tanzania have entered into the Gas Processing and Transportation Agreement pursuant to which Songas shall process and transport Additional Gas for PanAfrican Tanzania and TPDC.

Q. PanAfrican Tanzania is willing to accept from TPDC the transfer and assignment of rights referred to above, subject to the terms and conditions hereinafter stated, and has the necessary financial resources, technical competence and professional skill to perform its obligations hereunder.

R. The rights transferred and assigned by TPDC to Songas and PanAfrican Tanzania under the Gas Agreement and to PanAfrican Tanzania under this Agreement and the Gas Agreement comprise all of TPDC's rights as holder of the Development Licence under Section 41 of the Act, and this Agreement is entered into by the Minister on behalf of the GOT pursuant to Section 14 of the Act.

**NOW, THEREFORE**, in consideration of the mutual benefits to be derived and the representations and warranties, conditions and promises herein contained, and intending to be legally bound, the Parties hereby agree as follows:

## ARTICLE I

### DEFINITIONS; RULES OF INTERPRETATION

#### 1.1 Definitions.

Unless the context otherwise requires, the following terms shall have the meanings set forth herein:

“Act” means The Petroleum (Exploration and Production) Act, 1980, of the United Republic of Tanzania.

“Additional Gas” means all Natural Gas that is produced from the Contract Area that is in excess of Protected Gas.

“Additional Gas Plan” means any plan for the development of Additional Gas, as described in the Gas Agreement.

“Additional Profits Tax” has the meaning established in Article XIII.

“Adjoining Blocks” means those seven blocks of the Contract Area designated as “Adjoining Blocks” in Annex A.

“Adjustment Factor” means the amount necessary to fully pay and discharge PanAfrican Tanzania’s liability for taxes on income derived from Petroleum Operations, including tax liability under the Income Tax Act 1973, as amended from time to time.

“Advisory Committee” has the meaning established in Section 6.4.

“Affiliated Company” or “Affiliate” means any Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, another Person.

“Agreement” means this Production Sharing Agreement, together with all Annexes attached hereto, as the same may be amended from time to time.

“Appraisal Programme” means a written plan that establishes a programme for determining the extent and commercial value of a discovery of Petroleum in the Contract Area.

“Barrel” means a quantity consisting of 42 United States gallons, liquid measure, corrected to a temperature of 60° Fahrenheit under one atmosphere of pressure.

“Basic Agreements” means this Agreement, the Implementation Agreement, Gas Agreement, Gas Processing and Transportation Agreement, Power Purchase Agreement, Wazo Hill Gas Sales Agreement, Shareholders’ Agreement, Ubungo Complex Transfer Agreement, Operatorship Agreement, Songo Songo Facilities Transfer Agreement and any other agreement,

other than the Financing Agreements, that is required to be executed at the Financial Closing in connection with the design, construction, operation or maintenance of the Project, as the same may be amended from time to time.

“BCF” means billion standard cubic feet.

“Business Day” means any day of the week other than a Saturday or Sunday that is not a Tanzanian national holiday or a day on which banks are authorized by law or executive order to be closed in Tanzania.

“Change in Law” means

(a) the adoption, promulgation, bringing into effect, commencement, repeal, amendment, reinterpretation, change in application, change in interpretation or modification, as provided in (d) below or after the date that is one day prior to the date of this Agreement, of any Law of Tanzania, by the GOT, any court or tribunal or any Government Entity; or

(b) the requirement for any Consent not required as of the date that is one day prior to the date of this Agreement, or the imposition of any material condition not required as of the date that is one day prior to the date of this Agreement in connection with the issuance, renewal or modification of any Consent, in either case by the GOT, any court or tribunal or any Government Entity; or

(c) the implementation of an FTPA Order, or

(d) the enactment, bringing into operation or commencement of the Energy and Water Utilities Regulatory Authority Act, 2001,

which in the case of (a), (b), (c) or (d) above (i) establishes requirements for the conduct of Petroleum Operations that are materially more restrictive than the most restrictive requirements (A) in effect as of the date that is one day prior to the date of this Agreement, (B) specified in any applications, or other documents filed in connection with such applications, for any Consent filed by PanAfrican Tanzania on or before the date of this Agreement or (C) agreed to by PanAfrican Tanzania in any Basic Agreement or Financing Agreement or (ii) has a Material Adverse Effect.

“Complex” has the meaning established in the Power Purchase Agreement.

“Consents” means all consents, approvals, authorizations, notifications, concessions, acknowledgments, licences, permits or similar items required to be obtained from the GOT or any Government Entity for the design, construction, financing, ownership, operation and maintenance of Petroleum Operations.

“Contract Area” means, initially, the “Development Licence Area” as described in Annex A. The initial Contract Area is coterminous with the Songo Songo Gas Field, as used in the Gas Agreement.

“Contract Expenses” means Exploration Expenses, Development Expenses, Operating Expenses, Service Costs, Market and Market Research Costs and General and Administrative Costs.

“Cost Gas Revenues” has the meaning established in Section 10.3.

“Cost Oil Revenues” has the meaning established in Section 11.2.

“Court Action” has the meaning established in the Implementation Agreement.

“Crude Oil” means any hydrocarbon that is in a liquid state at the wellhead or gas/oil separator.

“Development Expenses” means those expenses so categorized in Annex D.

“Development Licence” means the licence issued by GOT to TPDC, pursuant to the Act, for the development, further exploration and right of sale or other disposition of Natural Gas and other Petroleum from the “Development Licence Area” as defined in Annex A. A copy of the Development Licence is attached as Annex C.

“Development Operations” means operations for or in connection with the development and production of Petroleum.

“Development Programme” means the Development Operations carried out pursuant to Section 8.1.

“Delivery Point” means the point of the Tanzania loading facility at which Crude Oil reaches the inlet flange of the lifting tankship’s intake pipe or such other point which may be agreed between TPDC and PanAfrican Tanzania.

“Discovery Blocks” means the two blocks of the Contract Area so designated in Annex A.

“Discovery Well” means a well drilled that shows the presence of hydrocarbons in an area or a stratum not previously known to contain them.

“Expatriate Employee” means any employee not normally resident in Tanzania, as more particularly defined in the Income Tax (Exemption) Expatriate Staff Engaged in the Petroleum and Mining Industry Order, Government Notice No. 411, published in the Government Gazette on August 15, 1986.

“Exploration Expenses” means those expenses so categorized in Annex D.

“Exploration Operations” means operations for or in connection with the exploration for Petroleum.

“Exploration Well” means a well drilled in the course of Exploration Operations conducted hereunder.

“FANCP” means the first accumulated net cash position as calculated in accordance with Article XIII.

“Financial Closing” has the meaning established in the Shareholders’ Agreement.

“Financing Agreements” means the Escrow Agreement, Hard Currency Agreement, IDA Songo Songo Development Credit Agreement, EIB Finance Contract, Loan Assumption Agreement, the Liquidity Facility Agreement, Sinking Fund Agreement, Subsidiary Loan Agreements, Debenture, Songas Project Agreement and any other agreement, other than the Basic Agreements, that is required to be executed at the Financial Closing in connection with the financing of the Project, as the same may be amended from time to time.

“Force Majeure Event” has the meaning established in Section 23.1.

“FTPA” means the Fair Trade Practices Act, 1994, as amended, or any successor or analogous legislation.

“FTPA Order” means an order issued by the applicable Government Entity pursuant to Sections 42 or 43 of the FTPA or any analogous provision therein, that sets a ceiling on or otherwise limits the price at which Additional Gas can be sold to third-party Natural Gas customers under Section 4.3.

“Gas Agreement” means the agreement of that name by and among GOT, Songas, TPDC and PanAfrican Tanzania, dated as of the date hereof, as the same may be amended from time to time.

“Gas Facilities” means the Gas Production Facilities, the Processing Plant, the Pipeline and the Wazo Hill Lateral, all as more particularly described in the Gas Agreement.

“Gas Processing and Transportation Agreement” means the agreement of that name by and between Songas and PanAfrican Tanzania, dated as of the date hereof, as the same may be amended from time to time.

“Gas Production Facilities” means onshore and offshore production wells (including stepout wells, infill wells, delineation wells and exploratory wells), onshore and offshore flow lines and such other Natural Gas production facilities as may be necessary to supply the Protected Gas to the Processing Plant, as more particularly described in Annex C to the Gas Agreement.

“General and Administrative Costs” means those costs so categorized in Annex D.

“Good Oilfield Practices” has the meaning established in the Gas Agreement.

“GOT” means the Government of the United Republic of Tanzania.

“GOT Action or Inaction” means the action or inaction of GOT or any Government Entity, other than a Change in Law, which action or inaction is inconsistent with the Basic Agreements or the Financing Agreements and which action or inaction has a Material Adverse Effect.

“GOT Special Event” has the meaning established in Section 25.3.

“Government Entity” means any central, or local or other governmental authority (including regulatory authorities and administrative bodies) with jurisdiction over PanAfrican Tanzania or the Petroleum Operations, and any department, authority, ministry, commission,

instrumentality or agency of GOT or any central, local or other governmental authority and any subdivision of any such governmental authority.

“Implementation Agreement” means the agreement of that name by and among GOT, Songas, The AES Corporation and PAE PanAfrican Energy Corporation, dated as of the date hereof, as the same may be amended from time to time.

“Initial Period” means the period commencing at Financial Closing and ending on the fourth anniversary thereof.

“Initial Term” has the meaning established in the Power Purchase Agreement.

“Initial Shareholders” has the meaning established in the Shareholders’ Agreement.

“Joint Development Area” means that portion of the Contract Area covered by a Joint Operations Agreement.

“Joint Operations” has the meaning established in Section 8.2(a).

“Joint Operations Agreement” means an agreement between TPDC and PanAfrican Tanzania, pursuant to Section 8.2.

“Lapse of Consent” means any Consent (i) ceasing to remain in full force and effect or (ii) not being issued or renewed upon application having been properly and timely made and diligently pursued or (iii) being made subject, subsequent to its grant, upon renewal or otherwise, to any terms or conditions that, in any case, has a Material Adverse Effect, through no fault of PanAfrican Tanzania.

“Laws of Tanzania” means the laws of Tanzania, and all orders, rules, regulations and decrees thereunder, published written policies of any Government Entity, judgments and notifications made pursuant thereto, as such laws, orders, rules, regulations, decrees, policies, judgments and notifications may be modified, vacated or amended from time to time.

“Liquid Hydrocarbons” means the liquid hydrocarbons at normal atmospheric conditions which are extracted from Natural Gas at the Processing Plant.

“Loss” means any and all loss, damage, liability, payment or obligation (excluding any indirect or consequential loss, damage, liability, payment or obligation), and all expenses (including reasonable legal fees).

“Market and Market Research Costs” means those expenses so categorized in Annex D.

“Master Plan” means the plan governing the overall development of the Contract Area, as described in the Gas Agreement.

“Material Adverse Effect” means a material and adverse effect on (a) PanAfrican Tanzania, or on its ability to perform its obligations or exercise its rights under the Development Licence, any Basic Agreement or Financing Agreement, or (b) PanAfrican Tanzania’s ability to conduct Petroleum Operations under this Agreement.

“Minister” means the Minister for the Ministry.

“Ministry” means the Ministry of Energy and Minerals of the GOT or, in the event the name or responsibility of such Ministry should be changed, whichever ministry (or regulatory body, as the context may require) of GOT is charged with the responsibility for petroleum resources or electricity, as the case may be.

“MMcfd” means million standard cubic feet per day.

“Natural Gas” means gaseous hydrocarbons, both associated and non-associated, and all of its constituent elements produced from any well and all non-hydrocarbon gaseous substances therein.

“Net Sales Revenues” means gross revenues from the sale of Additional Gas to third-party customers, less processing and transportation costs paid to Songas pursuant to the Gas Processing and Transportation Agreement on account thereof and less other applicable gathering, processing or transportation expenses.

“Notice of Contract Event” means the notice one Party may deliver to another pursuant to Section 25.4(a).

“Notice of Intent to Terminate” means the notice one Party may deliver to another pursuant to Section 25.4(b).

“Notice of Termination” means the notice one Party may deliver to another pursuant to Section 25.4(d).

“Operating Expenses” means those expenses so categorized in Annex D.

“Operator” means the Party appointed as operator of the Contract Area under Section 6.1 and under a Joint Operations Agreement.

“Operatorship Agreement” means the agreement of that name by and between Songas and PanAfrican Tanzania, dated as of the date hereof, as it may be amended from time to time.

“Overdraft Rate” means the average rate per annum charged by Citibank Tanzania Limited, National Bank of Commerce and Standard Chartered Bank Tanzanian Limited (or any other banks selected by the Parties) to cover overdrafts payable in Tanzania Shillings for its corporate clients, determined on the date that any payment was due hereunder.

“PanAfrican Tanzania” means PanAfrican Energy Tanzania Limited, a corporation organized under the laws of Jersey, with its principal office located in St. Helier, Jersey, Channel Islands and any permitted assignee of its rights under this Agreement.

“PanAfrican Tanzania Event of Default” has the meaning established in Section 25.2.

“Parastatal Action or Inaction” means the action or inaction of any Parastatal Entity other than TPDC, which action or inaction is inconsistent with the Basic Agreements or the Financing Agreements and which action or inaction has a Material Adverse Effect; provided, however, that no such action or inaction shall be considered a Parastatal Action or Inaction if such Parastatal

Entity, other than TPDC, is acting pursuant to a transaction with PanAfrican Tanzania where PanAfrican Tanzania has chosen to enter into such transaction with the Parastatal Entity notwithstanding the existence of commercially reasonable alternatives.

“Parastatal Entity” means any Person owned or controlled by the GOT or any Government Entity.

“Party” means any of the signatories to this Agreement.

“Person” means an individual, corporation, partnership, joint venture, trust, unincorporated organization, Government Entity, or any other legal entity.

“Petroleum” means:

- (i) any naturally occurring hydrocarbon, whether in gaseous, liquid or solid state;
- (ii) any naturally occurring mixture of hydrocarbons, whether in a gaseous, liquid or solid state, or
- (iii) any naturally occurring mixture of one or more hydrocarbons (whether in a gaseous, liquid or solid state) and any other substance,

and includes Crude Oil and Natural Gas and any substance defined in clauses (i), (ii) or (iii) that has been returned to a natural reservoir, but does not include coal, or any substance that may be extracted from coal, or other rock.

“Petroleum Operations” means Exploration Operations and Development Operations under this Agreement.

“Pipeline” means the Natural Gas transportation pipeline to be constructed by Songas from the Processing Plant to the Complex, as more particularly described in Annex C to the Gas Agreement.

“Plan” means any of the Master Plan, Protected Gas Plan or Additional Gas Plan.

“Power Purchase Agreement” means the agreement of that name by and between TANESCO and Songas, dated as of the date hereof, as the same may be amended from time to time.

“Processing Plant” means the Natural Gas processing plant to be constructed by Songas on Songo Songo Island, as more particularly described in Annex C to the Gas Agreement, or any replacement facility.

“Profit Gas Revenues” means Net Sales Revenues that are in excess of Cost Gas Revenues.

“Profit Oil Revenues” means gross revenues from the sale of Crude Oil that are in excess of Cost Oil Revenues.



“Project” means the development, design, construction, financing, ownership, operation and maintenance of a unified gas and electric infrastructure programme, known as the Songo Songo Gas-to-Electricity Project, including the transfer to Songas of certain of TPDC’s facilities on and around Songo Songo Island; the development, production and processing of natural gas on and around Songo Songo Island under the Development Licence, certain rights under which are assigned by TPDC to Songas; the construction of a gas processing facility and a gas transportation pipeline from Songo Songo Island to the Complex and the Wazo Hill Cement Plant; the conversion of the turbines at the Complex to natural gas operation; the transfer of the Complex from TANESCO to Songas; the operation of the Complex by Songas and the sale to TANESCO of the capacity and the electrical output of the Complex; and the sale of natural gas by Songas to the Wazo Hill Cement Plant.

“Protected Assets” means the Grid System (as such term is defined in the Power Purchase Agreement), electric distribution assets, any other assets necessary for TANESCO to fulfil its duties under the Electricity Ordinance, 1957, and assets protected by diplomatic and consular privileges under the 1978 Immunity Act of the United Kingdom or the 1976 Sovereign Immunities Act of the United States, or any successor or analogous legislation.

“Protected Gas” has the meaning established in the Gas Agreement.

“Protected Gas Plan” means the development and production plan for Protected Gas, as described in the Gas Agreement.

“Proven Section” means that portion of the Discovery Blocks that is so designated in Annex B.

“Quarter” means a period of three consecutive months starting with the first day of January, April, July or October.

“Recoverable Contract Expenses” means those Contract Expenses incurred pursuant to exercising rights and meeting obligations under this Agreement that are recoverable from Cost Gas Revenues pursuant to Article X and from Cost Oil Revenues pursuant to Article XI.

“Reserved Gas” means the 100 BCF of Additional Gas from the Discovery Blocks reserved by the GOT pursuant to Article III of the Gas Agreement.

“Ring Fencing” means the disallowance, for purposes of cost recovery in any part of the Contract Area, of any Contract Expenses incurred in any other part of the Contract Area.

“SANCP” means the second accumulated net cash position as calculated in accordance with Article XIII.

“Service Costs” means those costs so categorized in Annex D.

“Shareholders’ Agreement” means the agreement of that name by and among GOT, Songas and the Initial Shareholders, dated as of the date hereof, as the same may be amended from time to time.

“Songas” means Songas Limited, a limited liability company organized under the Laws of Tanzania, with its principal office located in Dar es Salaam, Tanzania.

“Specified Proportion” has the meaning established in Section 8.1(b)(iii).

“TANESCO” means the Tanzania Electric Supply Company Limited, a limited liability company incorporated under the Laws of Tanzania, with its principal office located in Dar es Salaam, Tanzania, and its permitted successors and assigns in accordance with Section 8.7 of the Implementation Agreement.

“Tanzania Shillings” or “TSh” means the currency that is legal tender of the United Republic of Tanzania.

“Technical Dispute” means a dispute that relates to a technical, engineering, operational or accounting matter relative to Petroleum Operations that, in any case, is of the type readily subject to resolution by an expert in the relevant field.

“TPDC” means the Tanzania Petroleum Development Corporation, a statutory corporation established under the Laws of Tanzania, with its principal office located in Dar es Salaam, Tanzania, and its permitted successors and assigns in accordance with Section 8.7 of the Implementation Agreement.

“TPDC Deficiency” has the meaning established in Section 25.1.

“Transfer Date” has the meaning established in the Power Purchase Agreement.

“Unproven Section” means the portion of the Discovery Blocks outside of the Proven Section.

“U.S. Dollars” or “US\$” means the currency that is legal tender of United States of America.

“Wazo Hill Cement Plant” means the Tanzania Portland Cement Company Ltd.’s plant at Wazo Hill, Dar es Salaam, Tanzania.

“Wazo Hill Gas Sales Agreement” means the agreement of that name to be entered into by and between Songas and the Tanzania Portland Cement Company Ltd., as the same may be amended from time to time, and any successor or replacement agreement providing for the sale of Natural Gas to the Wazo Hill Cement Plant, but excluding any requirement in any such agreement to sell Natural Gas after the Initial Term of the Power Purchase Agreement.

“Wazo Hill Lateral” means the Natural Gas transportation pipeline to be constructed from the Pipeline to the Wazo Hill Cement Plant, as more particularly described in Annex C to the Gas Agreement.

“Work Programme” means an annual detailed description of and commitment to the Petroleum Operations and related expenditures proposed to be undertaken in the Contract Area during the following year.

## 1.2 Rules of Interpretation.

In this Agreement, unless the context requires otherwise:

- (a) The headings are for convenience only, and shall not be considered in construing this Agreement;
- (b) The singular includes the plural and vice versa;
- (c) References to Articles, Sections and Annexes are references to Articles and Sections of, and Annexes to, this Agreement;
- (d) In the event of any conflict between the provisions of this Agreement and any Annex, the provisions of this Agreement shall prevail;
- (e) The terms “include” and “including” mean “without limitation”; and
- (f) References to amounts over one million are to the American system of denomination.

**ARTICLE II**  
**AGREEMENT**

2.1 Agreement Under the Act.

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

## ARTICLE III

### RESPONSIBILITIES AND GRANT OF RIGHTS

#### 3.1 Contract Area.

Subject to the provisions of Section 3.5, the areas that at any particular time are subject to the Development Licence constitute the Contract Area for the purposes of this Agreement. The Parties agree that Exploration Operations within the Contract Area will comply with provisions for Exploration Operations pursuant to the Act.

#### 3.2 Confirmation of Transfer and Assignment of Rights by TPDC to PanAfrican Tanzania.

- (a) TPDC has assigned to PanAfrican Tanzania certain rights as set forth in Section 2.2 of the Gas Agreement, pursuant to which PanAfrican Tanzania has the right to conduct Petroleum Operations for Additional Gas and other Petroleum as provided in Section 41 of the Act.
- (b) Subject to the provisions of the Gas Agreement, and in connection with the transfer and assignment of rights pursuant to Section 2.2 thereof, TPDC hereby confirms:
  - (i) the grant to PanAfrican Tanzania of the right, jointly with TPDC, to market all Additional Gas produced from the Contract Area within or outside Tanzania and to share in the Net Sales Revenues derived therefrom in the manner provided in Article X; and
  - (ii) the grant to PanAfrican Tanzania of the right to market other Petroleum produced from the Contract Area within or outside Tanzania and to share in the net sales revenues derived therefrom in the manner provided in Article XI.
- (c) The rights transferred and assigned by TPDC to Songas and PanAfrican Tanzania under the Gas Agreement and to PanAfrican Tanzania under this Agreement comprise all of TPDC's rights as holder of the Development Licence under Section 41 of the Act, and this Agreement is entered into by the Ministry on behalf of the GOT pursuant to Section 14 of the Act.

#### 3.3 Term.

Unless earlier terminated as provided herein, the term of this Agreement shall be for the term of the Development Licence as it may be extended pursuant to Section 44 of the Act.

### 3.4 Responsibilities of the Parties.

- (a) In addition to any other obligations stated herein, PanAfrican Tanzania shall:
- (i) carry out Petroleum Operations in the Contract Area diligently, in accordance with Good Oilfield Practices and in such manner as to ensure that in respect of matters which are the responsibility of PanAfrican Tanzania hereunder, TPDC is not in default;
  - (ii) in a timely manner, furnish TPDC with such information, reports, records and accounts relating to Petroleum Operations in the Contract Area and sales of Additional Gas or other Petroleum from the Contract Area as may be necessary to enable TPDC to meet its obligations under the Act and in particular, but without prejudice to the generality of the foregoing, to meet the requirements of the First Schedule thereto;
  - (iii) furnish TPDC with duplicate fluid and rock samples and other field data collected in the Contract Area;
  - (iv) provide TPDC with all particulars required under the Act for an extension of the Development Licence if PanAfrican Tanzania requests TPDC to apply for such an extension;
  - (v) subject to Article IX, reimburse TPDC within 30 days from the date of payment thereof, for the annual charges paid by TPDC pursuant to Section 84 of the Act in respect of the Development Licence; and
  - (vi) notify TPDC promptly of any change in PanAfrican Tanzania's circumstances, or those of any Affiliate upon whom it is dependent for efficient execution of the Petroleum Operations, that has or is likely to have an adverse impact upon PanAfrican Tanzania's ability to meet its obligations under this Agreement.
- (b) In addition to any other obligations stated herein, TPDC shall:
- (i) take such steps as may be necessary to ensure that in respect of the Contract Area, TPDC is not in default under the Act and will not, without the prior written consent of PanAfrican Tanzania, surrender any block or blocks in the Contract Area;
  - (ii) if PanAfrican Tanzania so requests, (A) apply for an extension of the Development Licence as the Act may permit, and (B) make such other applications, requests or representations in respect of the Contract Area that the Act may permit to be made by the holder of the Development Licence;

(iii) make available to PanAfrican Tanzania all geological, geophysical, engineering and other technical data in its possession relating to the Contract Area; and

(iv) take such steps as may be necessary to ensure that the Development Licence remains in full force and effect, including payment to the GOT of (A) all royalties payable in respect of Petroleum produced from the Contract Area, and (B) all annual charges and other fees, levies and taxes payable under the Act or otherwise in respect of Petroleum produced from the Contract Area.

(c) In addition to any other obligations stated herein, the GOT shall:

(i) take such actions as may be necessary to ensure that TPDC carries out its obligations under this Agreement, the Gas Agreement and any other agreement relating to the Contract Area to which TPDC is a party, and shall not without the consent of PanAfrican Tanzania seek or acquiesce in any waiver by TPDC in respect of the Contract Area in respect of its rights as holder of the Development Licence under the Act;

(ii) make or cause to be made available to PanAfrican Tanzania all geological and geophysical data relating to the Contract Area in the possession or under the control of the GOT resulting from Petroleum Operations by any other company in the Contract Area;

(iii) subject to any requirement of the Laws of Tanzania and subject to respect by PanAfrican Tanzania of the rights of the others, permit PanAfrican Tanzania, its employees, agents and contractors to have access to the Contract Area at all times for the purpose of carrying on Petroleum Operations hereunder and for such purpose to move freely therein;

(iv) upon proper submission of tax exemption applications, afford each Expatriate Employee of PanAfrican Tanzania, including any Expatriate Employee of any contractor of PanAfrican Tanzania, who is engaged in Petroleum Operations hereunder, such tax concessions as will ensure that, during the period in which Petroleum Operations are carried on hereunder, the amount of income tax payable by or on behalf of such Expatriate Employee shall not exceed the net salary received by such Expatriate Employee; and

(v) upon proper submission of applications for tax exemption, consider in good faith granting to PanAfrican Tanzania, its agents, contractors and their Expatriate Employees any tax exemptions or other investment incentives generally available to similar companies in similar businesses in Tanzania; provided, however, that it shall not be considered bad faith for the GOT to decline to extend to PanAfrican Tanzania or its Expatriate Employees not directly involved in the operation of the Contract Area for the production and delivery of any Natural Gas, any tax

exemption extended to Songas and its Expatriate Employees under any agreement relating to the Contract Area.

### 3.5 Surrender.

- (a) PanAfrican Tanzania may, upon not less than 90 days notice to TPDC, at any time surrender its rights and be relieved of its obligations in respect of any block or blocks forming part of the Contract Area; provided, however, that no surrender by PanAfrican Tanzania of its rights over any part of the Contract Area shall relieve PanAfrican Tanzania of its obligations to spend the sums and carry out the work described in Article V hereof.
- (b) Where pursuant to Section 3.5(a), PanAfrican Tanzania has surrendered its rights and been relieved of its obligations in respect of any block or blocks forming part of the Contract Area then notwithstanding that such block or blocks continue to be subject to the Development Licence the blocks shall not for the purpose of this Agreement constitute part of the Contract Area.



**ARTICLE IV**  
**NATURAL GAS**

4.1 Protected Gas.

- (a) The Parties hereby agree that the Protected Gas shall be supplied pursuant to the terms and conditions contained in Section 3.1 of the Gas Agreement.
- (b) A copy of the Master Plan is attached as Annex E to the Gas Agreement.

4.2 Additional Gas.

- (a) Subject to the provisions of this Agreement and the Gas Agreement, including, without limitation, Songas's exclusive rights established pursuant to Section 2.1(a) of the Gas Agreement and the provisions relating to Reserved Gas, PanAfrican Tanzania shall have the exclusive right to conduct Petroleum Operations in the Contract Area for the production of Additional Gas and the right, with TPDC in accordance with Section 4.3, to market and sell all Additional Gas produced from the Contract Area and to share in the Net Sales Revenues derived therefrom.
- (b) Subject to the provisions of Article VIII, all costs incurred in conducting Petroleum Operations in the Contract Area for the production of Additional Gas in accordance with an Additional Gas Plan shall be borne by PanAfrican Tanzania unless otherwise stated herein.

4.3 Marketing and Sales.

PanAfrican Tanzania and TPDC shall have the right to market and sell Additional Gas together or independently on terms and conditions (including prices) negotiated with third-party Natural Gas customers either inside or outside Tanzania; provided, however, that no contracts for the sale of Additional Gas shall be executed and no sales of Additional Gas shall be made by either PanAfrican Tanzania or TPDC, as the case may be, without the consent of the other Party as to the terms and conditions of any such sales.

- (a) *TPDC Approval.* PanAfrican Tanzania shall submit the terms and conditions of a proposed specific sale to TPDC for its approval. TPDC shall provide notice to PanAfrican Tanzania of its approval or disapproval of the terms and conditions of the proposed specific sale within five Business Days of TPDC's receipt of such notice. Failure by TPDC to respond to PanAfrican Tanzania within such five-Business Day period will be deemed an approval of the sale by TPDC, and PanAfrican Tanzania shall be free to proceed on the proposed terms and conditions.

- (b) *TPDC Disapproval.* If TPDC disapproves of the terms and conditions of a specific sale, the disagreement shall be referred to the Ministry for resolution. In the case where the specific sale requires a new Additional Gas Plan, PanAfrican Tanzania shall be allowed to submit the Additional Gas Plan to the Ministry and the Ministry shall approve or decline to approve the Additional Gas Plan. In the case where the specific sale would be made under an already approved Additional Gas Plan, the Ministry will review the terms and conditions of the proposed sale and attempt to respond to PanAfrican Tanzania and TPDC within 30 days from the receipt of the application with its approval or disapproval of the proposed sale.
- (c) *PanAfrican Tanzania Approval and Disapproval.* TPDC may from time to time submit the terms of a proposed specific sale to PanAfrican Tanzania for its consideration, and in such event, PanAfrican Tanzania shall review and approve or disapprove such proposal on the basis of reasonable economic criteria within five Business Days of its receipt. Failure by PanAfrican Tanzania to respond to TPDC within such five Business Day-period will be deemed an approval of the sale by PanAfrican Tanzania for such cases where the sale would be made under an already approved Additional Gas Plan.
- (i) If the specific sale would be made under an already approved Additional Gas Plan and PanAfrican Tanzania disapproves of such sale, TPDC may refer the disagreement to the Ministry for resolution. If the Ministry approves of the specific sale under the terms and conditions proposed by TPDC, then the sale shall be allowed and PanAfrican Tanzania shall be compensated for such gas at the weighted average price, on a Quarterly basis, received for other sales of Additional Gas made under the same approved Additional Gas Plan. If the Ministry disapproves of the sale, it shall not occur.
- (ii) If TPDC's proposed specific sale would need to take place under a new Additional Gas Plan, the sale would not occur in the absence of an Additional Gas Plan approved by PanAfrican Tanzania and the Ministry that reflects such proposed sale.

## ARTICLE V

### EXPLORATION PROGRAMME

#### 5.1 Work Requirements.

PanAfrican Tanzania's rights to produce, market and sell Additional Gas or other Petroleum from the Adjoining Blocks under the Development Licence shall be for the periods described in Section 5.2 and Section 5.3, and PanAfrican Tanzania shall, during such periods, carry out the work specified in Sections 5.2 and 5.3.

#### 5.2 Initial Period.

- (a) PanAfrican Tanzania's rights under the Development Licence with regard to the Adjoining Blocks shall be for the Initial Period; provided, however, that such rights shall continue for an additional one-year period if the Ministry, in its reasonable judgment, finds that PanAfrican Tanzania has, within the Initial Period:
  - (i) conducted such marketing surveys as are reasonably necessary to assess the market for Additional Gas within and outside Tanzania;
  - (ii) undertaken a seismic acquisition programme or other field-related expenditures in the Adjoining Blocks or Unproven Section acceptable to TPDC, in either case in an amount at least equal to US\$2,000,000 (adjusted in accordance with Section 5.6);
  - (iii) committed to drill at least one Exploration Well in the Adjoining Blocks by the end of the fifth year after the Financial Closing;
  - (iv) submitted a detailed report to the Ministry that describes with specificity PanAfrican Tanzania's compliance with all Additional Gas Plans; and
  - (v) by the end of the Initial Period, made reasonable and diligent attempts to create a market for and develop Additional Gas, including the expenditure of reasonable sums of money.
- (b) If the Ministry, in its reasonable judgment, has determined that PanAfrican Tanzania has failed to comply with the requirements set forth in Section 5.2(a), PanAfrican Tanzania's rights with regard to the Adjoining Blocks shall cease at the end of the Initial Period, without prejudice, however, to its rights with respect to the Discovery Blocks. Any dispute hereunder shall be resolved in accordance with Article XXVII.

### 5.3 Subsequent Period.

- (a) If PanAfrican Tanzania shall have completed the drilling of at least one Exploration Well in the Adjoining Blocks prior to the fifth anniversary of Financial Closing, then PanAfrican Tanzania's rights under the Development Licence shall extend for the full term of the Development Licence, and any extension thereof.
- (b) If PanAfrican Tanzania shall not have drilled at least one Exploration Well in the Adjoining Blocks prior to the fifth anniversary of Financial Closing, then PanAfrican Tanzania's rights with regard to the Adjoining Blocks shall cease on the fifth anniversary, without prejudice, however, to its rights with respect to the Discovery Blocks.

### 5.4 Drilling Requirements.

No Exploration Well drilled by PanAfrican Tanzania shall be treated as discharging any obligation of PanAfrican Tanzania to drill Exploration Wells hereunder unless it has been drilled to fully penetrate the Neocomian sands.

### 5.5 TPDC Obligations.

The Development Licence issued to TPDC and any extension thereof shall be on terms and conditions relating to Work Programmes and minimum expenditures that correspond to the obligations of PanAfrican Tanzania under this Article V or Article VI, and it is accordingly understood and agreed that discharge by PanAfrican Tanzania of its obligations under this Article V will discharge for that period the obligations of TPDC relating to such Work Programme and minimum expenditure in respect of the Development Licence and the terms and conditions of the Development Licence aforesaid, and any extension thereof shall be drawn up accordingly.

### 5.6 Minimum Expenditure.

The minimum expenditure specified in Section 5.2 shall be adjusted, commencing from the Financial Closing, by dividing it by the following factor I, where:

$$I = A / B$$

and where:

- A is the United States Industrial Goods Producer Price Index (USIGPPI) as reported for the first time in the monthly publication "International Financial Statistics" of the International Monetary Fund (IMF) in the section "Prices Production, Employment" for the month during which Financial Closing occurs.
- B is the USIGPPI as reported for the first time in the aforesaid IMF publication for the month of the expenditure in question.

## ARTICLE VI

### WORK PROGRAMMES AND ADVISORY COMMITTEE

#### 6.1 Operatorship.

The Parties acknowledge that pursuant to the terms and conditions of the Operatorship Agreement, PanAfrican Tanzania is acting as the Operator, for and on behalf of Songas, to conduct Petroleum Operations within the Discovery Blocks for the production and sale of Protected Gas. TPDC, with the approval of the Ministry, hereby appoints PanAfrican Tanzania as the Operator of the Contract Area pursuant to the same operating requirements as are contained in the Operatorship Agreement, and to conduct Petroleum Operations in the Contract Area relating to the production and sale of Additional Gas and other Petroleum. PanAfrican Tanzania accepts such appointment as Operator and covenants to develop and operate the Contract Area in accordance with the Laws of Tanzania, Good Oilfield Practices and in a manner consistent with the optimization principles of the Master Plan and any Additional Gas Plans.

#### 6.2 Work Programme and Budget.

Within 30 days of the Financial Closing, PanAfrican Tanzania shall prepare and submit to TPDC a detailed Work Programme, including a budget, setting forth the Petroleum Operations that PanAfrican Tanzania proposes to carry out in the year following Financial Closing and the estimated cost thereof. The Work Programme shall also address the requirements of Article V.

#### 6.3 Annual Submission of Work Programme and Budget.

The Parties recognize that the Work Programmes required under this Article VI will be prepared with due regard to prevailing market conditions. So long as the Development Licence issued to TPDC hereunder remains in force, at least three months prior to the beginning of each subsequent year, PanAfrican Tanzania shall prepare and submit to TPDC a detailed Work Programme, including a budget, setting forth the Petroleum Operations that PanAfrican Tanzania proposes to carry out in that year and the estimated cost thereof.

#### 6.4 Advisory Committee.

- (a) PanAfrican Tanzania and TPDC shall participate on an advisory committee that shall be charged with advising PanAfrican Tanzania on Appraisal Programmes, Work Programmes and budgets for the development and marketing of Additional Gas and on other issues appropriate for discussion outside the presence of Songas, including resolution of disputes pursuant to Article XXVII (the "Advisory Committee"). The Advisory Committee shall consist of four members, two appointed by TPDC and two appointed by PanAfrican Tanzania. Each Party shall bear the costs of its participation in the Advisory Committee. TPDC and PanAfrican Tanzania shall each have one vote on the Advisory Committee. TPDC shall designate one of its appointed

members as the chairman of the Advisory Committee, but the chairman shall not have any voting rights different from other members. The Advisory Committee shall meet at the request of its chairman or of any member but in any event no less frequently than quarterly during the first three years following the Financial Closing and no less frequently than annually thereafter.

- (b) Every Work Programme and budget and, as required, each Appraisal Programme submitted pursuant to Sections 7.2 or 7.3 submitted by PanAfrican Tanzania to TPDC shall be reviewed by the Advisory Committee, which shall, within three weeks after receipt thereof, notify PanAfrican Tanzania of its comments in reasonable detail with regard to the proposed Work Programme and budget or Appraisal Programme, as the case may be. Promptly thereafter, the Parties will meet to review the Advisory Committee's comments. Following this review, Tanzania shall make such revisions as it deems appropriate and submit the Work Programme and budget or Appraisal Programme, as appropriate, to TPDC.

#### 6.5 Revisions to Work Programme, Budget or Appraisal Programme.

Upon notice to TPDC, PanAfrican Tanzania may amend any Work Programme or budget or any revised Work Programme or budget submitted to TPDC; provided, however, that subject to any such amendment, PanAfrican Tanzania shall carry out the Exploration Operations or Development Operations, as the case may be, set forth in the Work Programme or revised Work Programme, and spend not less than the sum provided for in the budget or revised budget. No amendment to an Appraisal Programme shall be made without prior review thereof by the Advisory Committee. PanAfrican Tanzania shall identify for the Advisory Committee the reasons for any amendment to an Appraisal Programme.

#### 6.6 TPDC Non-Compliance.

Where PanAfrican Tanzania has discharged its obligations under this Article VI, the Ministry will not suspend or cancel any Development Licence granted to TPDC hereunder by reason only that TPDC has failed to comply with the requirements of paragraph (a) of subsection (1) of Section 30 of the Act or has failed to meet the requirements deemed to be included in a Development Licence by reason of that provision.

#### 6.7 Contractors and Subcontractors.

The Parties shall be free to enter into contracts with one another and with third parties for the performance of their respective obligations hereunder, but such contracts shall not absolve the respective Parties of those obligations. The Parties specifically anticipate that PanAfrican Tanzania shall enter into (a) an Operatorship Agreement with Songas whereby PanAfrican Tanzania shall operate the Discovery Blocks within the Contract Area for and on behalf of Songas with respect to the production of Protected Gas and (b) a Joint Operations Agreement with TPDC in the event that TPDC elects to participate in Joint Operations under a Development Programme pursuant to the provisions of Section 8.1.

## ARTICLE VII

### DISCOVERY, APPRAISAL AND DEVELOPMENT

#### 7.1 Evaluation Report.

If a Discovery Well is drilled in the Contract Area, PanAfrican Tanzania will within six months from the date on which evaluated test results relating to the discovery are submitted to TPDC, notify TPDC whether or not the discovery is, in the opinion of PanAfrican Tanzania, of potential commercial interest.

#### 7.2 Discoveries Not of Commercial Interest.

- (a) If PanAfrican Tanzania informs TPDC that in its opinion the discovery is not of potential commercial interest, and TPDC agrees with PanAfrican Tanzania, PanAfrican Tanzania shall have seven years within which to submit an appraisal report. If PanAfrican Tanzania fails to submit such appraisal report within such period of time, the Ministry may, upon written notice to PanAfrican Tanzania, require PanAfrican Tanzania to surrender all rights to the prospect in question.
- (b) If PanAfrican Tanzania declares that a discovery is not of potential commercial interest but TPDC believes that the discovery is of commercial interest, the Ministry may upon written notice to PanAfrican Tanzania require PanAfrican Tanzania to surrender its rights to the prospect. If this has occurred, TPDC shall have two years to submit an appraisal report and one year thereafter to submit a development plan and proceed with development at its sole risk and expense. PanAfrican Tanzania's exploration costs for the prospect in question will be recoverable from any production in accordance with the cost recovery terms hereof. If there has been no production within five years after approval of the development plan, the Ministry shall have the option to relieve TPDC of its rights with respect to that prospect. If after appraisal TPDC determines that development is uneconomic, rights to the prospect shall revert to PanAfrican Tanzania; provided, however, that PanAfrican Tanzania will be required to submit a development plan within five years of the re-acquisition of its rights, and that TPDC's cost of appraisal will be recoverable from any production in accordance with the cost recovery terms hereof.

#### 7.3 Discoveries of Commercial Interest.

Where PanAfrican Tanzania, pursuant to Section 7.1, has informed TPDC that in its opinion a discovery of Petroleum is of potential commercial interest, PanAfrican Tanzania will be required to appraise and submit an appraisal report within two years (with respect to any oil discovery) or three years (with respect to any gas discovery).

- (a) If after appraisal, PanAfrican Tanzania determines that development is uneconomic, PanAfrican Tanzania shall have five years within which to submit a development plan. If PanAfrican Tanzania fails to submit such development plan within such period of time, the Ministry may, upon written notice to PanAfrican Tanzania, require PanAfrican Tanzania to surrender all rights to the prospect in question.
- (b) If after appraisal, PanAfrican Tanzania determines that development is economic, PanAfrican Tanzania shall have one year within which to submit a development plan. If there has been no production within five years after approval of the development plan, the Ministry may, upon notice to PanAfrican Tanzania, require PanAfrican Tanzania to surrender all rights to the prospect in question.

#### 7.4 Relinquishment.

If in any given block, PanAfrican Tanzania does not carry out seismic acquisition activities, other geophysical activities or drilling activities within a period of ten years following expiration of the Initial Period, the Ministry may, upon written notice to PanAfrican Tanzania, require PanAfrican Tanzania to surrender all rights to the block in question.

#### 7.5 Extension.

Prior to the time that the Ministry gives notice to PanAfrican Tanzania to surrender rights to any prospect or block under this Article, PanAfrican Tanzania may submit a request for extension of the period granted to PanAfrican Tanzania before surrender, and the Ministry will consider such request on its own merit and respond accordingly.



## ARTICLE VIII

### JOINT OPERATIONS

#### 8.1 TPDC's Right to Participate in Development Programme.

- (a) Except as otherwise provided in this Article VIII, PanAfrican Tanzania shall bear and pay all Contract Expenses, and PanAfrican Tanzania shall recover all such Contract Expenses in the manner provided in Article X and Article XI.
- (b) TPDC shall have the right to participate in Development Operations in the Contract Area or any portion thereof for which an Additional Gas Plan is required and which requires the drilling of at least one well for Additional Gas (a "Development Programme"), subject to the following provisions:
  - (i) TPDC shall have only one election to participate in any single Development Programme and such election shall be irrevocable;
  - (ii) TPDC shall elect to participate in a Development Programme by notice to PanAfrican Tanzania within 90 days of its receipt of notification from PanAfrican Tanzania that the Ministry has approved the Additional Gas Plan to which such Development Programme relates; and
  - (iii) TPDC may elect to participate in a Development Programme by committing to pay a portion of the costs of such Development Programme (including capital costs) ranging in amount from 5% to 20% of the total costs of such Development Programme, the exact portion (within such range) to be determined by TPDC and specified in its written notice to PanAfrican Tanzania (the "Specified Proportion").

If TPDC does not notify PanAfrican Tanzania within 90 days of its election to participate, TPDC shall be deemed to have elected not to participate.

- (c) If TPDC elects to participate in a Development Programme it (i) shall furnish to PanAfrican Tanzania such security as is reasonably acceptable to PanAfrican Tanzania for TPDC's obligations under the Development Programme, including its obligation to pay the Specified Proportion and (ii) shall be entitled to a ratable portion of PanAfrican Tanzania's Cost Gas Revenues and a ratable share of PanAfrican Tanzania's Profit Gas Revenues as such Cost Gas Revenues and Profit Gas Revenues are provided in Article X. The election by TPDC to participate in a Development Programme and contribute the Specified Proportion relating thereto shall not affect the obligations of PanAfrican Tanzania to operate the Contract Area pursuant to the terms of this Agreement and the Gas Agreement.

## 8.2 Joint Operations Agreement.

- (a) Development Operations in respect of which TPDC has elected to participate in a Development Programme and contribute its Specified Proportion as provided in Section 8.1 (“Joint Operations”), shall be conducted hereunder in accordance with the terms and conditions of a Joint Operations Agreement to be entered into between TPDC and PanAfrican Tanzania immediately following the notice of election to participate in a Development Programme given by TPDC to PanAfrican Tanzania.
- (b) The Joint Operations Agreement shall cover the Contract Area or the portion or portions thereof to which the Joint Operations relate (each a “Joint Development Area”) and shall include provisions to give effect to the following principles:
  - (i) A Joint Operations Committee shall be established on which each of TPDC and PanAfrican Tanzania shall be represented. The representatives shall have voting rights on the Joint Operations Committee corresponding to the proportions in which they are obligated to contribute to the expenses of the Joint Operations in the Joint Development Area(s);
  - (ii) PanAfrican Tanzania shall be the sole Operator of the Joint Operations in the Joint Development Area under properly defined rights and obligations and shall carry out all operations pursuant to Work Programmes and budgets approved by the Joint Operations Committee;
  - (iii) From and after the date upon which TPDC gives its notice of election to participate in a Development Programme as provided in Section 8.1(b), TPDC shall be liable to contribute on an ongoing basis its Specified Proportion of all expenses of Joint Operations in the Joint Development Area in respect of which TPDC has elected to participate. The balance of such expenses shall be contributed by PanAfrican Tanzania. If requested by TPDC, PanAfrican Tanzania shall request that contractor invoices for operations related to a Joint Operation be divided to reflect the amounts due from PanAfrican Tanzania and TPDC in the Specified Proportion. The contributions shall be in such currencies as may be required from time to time by the Operator for the Joint Operations and approved by the Joint Operations Committee; and
  - (iv) Failure by PanAfrican Tanzania or TPDC to meet calls for funds within the time limits agreed in the Joint Operations Agreement shall result in, among other things, liability for interest compounded monthly on the unpaid amounts for the period that such amounts remain unpaid at the rate specified in Section 1.5(c) of Annex D, loss of voting rights on the Joint Operations Committee, and a lien on its share of Profit Gas Revenues or Profit Oil Revenues from such Development Programme.

**ARTICLE IX**  
**ANNUAL CHARGES**

9.1 Payment of Annual Charges by TPDC.

All annual charges payable to the GOT by the holder of the Development Licence under the Act or otherwise shall be paid by TPDC within the time and in the manner prescribed in the Act or other regulation.

9.2 Reimbursement of Annual Charges by PanAfrican Tanzania.

- (a) PanAfrican Tanzania shall reimburse TPDC for the amount of all annual charges paid by TPDC under Section 9.1 up to the sum of US\$32 per square kilometre in respect of the Contract Area, which reimbursement shall be made within 30 days following payment by TPDC to the GOT and invoicing by TPDC to PanAfrican Tanzania.
- (b) The sum in United States dollars referred to in Section 9.2(a) shall be adjusted annually by dividing the sum by the following factor I, where:

$$I = C / D$$

and where:

- C is the United States Industrial Goods Producer Price Index (USIGPPI) as reported for the first time in the monthly publication “International Financial Statistics” of the International Monetary Fund (IMF) in the section “Prices, Production, Employment” for the month during which Financial Closing occurs.
- D is the USIGPPI as reported for the first time in the aforesaid IMF publication for the month in which occurs the first and any subsequent anniversary of the date of Financial Closing.

For the purpose of this Article IX, in the event that the USIGPPI ceases to be published, the Parties shall agree on an appropriate replacement index.

## ARTICLE X

### RECOVERY OF COSTS AND EXPENSES AND PRODUCTION SHARING FOR ADDITIONAL GAS

#### 10.1 Establishment of Revenues.

- (a) The accrued Quarterly revenues of PanAfrican Tanzania from sales of Additional Gas shall be used to establish Cost Gas Revenues and Profit Gas Revenues for such Quarter; provided, however, that PanAfrican Tanzania shall have acted in good faith and sales have been on an arm's length basis. Where sales have not been at arm's length, GOT may, in its reasonable discretion, impute revenues based on market prices, on behalf of TPDC and for purposes of calculating the Additional Profits Tax. Any dispute relating hereto shall be resolved pursuant to Article XXVII.
- (b) Calculations of Cost Gas Revenues and Profit Gas Revenues shall be done for each Quarter and the revenues shared accordingly. To the extent that actual quantities, expenses and prices are not known, provisional estimates of such data based upon the approved Work Programme, budget and any other relevant documentation or information shall be used. Within 60 days of the end of each calendar year a final calculation of such actual quantities, expenses and prices shall be prepared and any necessary adjustments to the sharing shall be agreed upon between PanAfrican Tanzania and TPDC and made as soon as possible.
- (c) For purposes of this Article X, costs and revenues attributable to Liquid Hydrocarbons extracted from Additional Gas produced from wells outside the Proven Section shall be treated as if they were costs and revenues attributable to Natural Gas.

#### 10.2 No Ring Fencing in Contract Area.

There shall be no Ring Fencing of any Contract Expenses incurred by PanAfrican Tanzania under this Agreement to prove or produce Additional Gas from the Contract Area.

#### 10.3 Cost Gas Revenue Allocation and Method of Recovery.

- (a) Subject to Section 13.2(b) of the Gas Agreement, all Contract Expenses incurred by PanAfrican Tanzania (and, in the case of Market and Market Research Costs, incurred by PanAfrican Tanzania and TPDC as provided in Annex D and, where Joint Operations have been established, all Contract Expenses incurred by TPDC) associated with the production of Additional Gas shall be recoverable from the Net Sales Revenues of a volume of Additional Gas ("Cost Gas Revenues") produced and sold from

the Contract Area (after deduction of Additional Gas necessary for the conduct of Petroleum Operations) and limited in any calendar year to an amount not exceeding 75% of Net Sales Revenues from total Additional Gas production from the Contract Area.

- (b) Contract Expenses associated with Additional Gas production which pursuant to the provisions of Annex D are recoverable from Cost Gas Revenues (“Recoverable Contract Expenses”) may be recovered from the date they are incurred. To the extent that in any year such Recoverable Contract Expenses exceed the Cost Gas Revenues available hereunder, the unrecovered excess shall be carried forward for recovery in the next succeeding year and, to the extent not then recovered, in the subsequent year or years.
- (c) The available Cost Gas Revenues shall be applied first to recover Operating Expenses associated with Additional Gas production, and PanAfrican Tanzania and TPDC (in the event of Joint Operations) shall be entitled to recover such expenses in proportion to their individual cumulative unrecovered Operating Expenses. After recovery of such Operating Expenses, any excess Cost Gas Revenues available for distribution shall be applied to recover Exploration Expenses associated with Additional Gas production. After recovery of such Operating Expenses and Exploration Expenses, any excess Cost Gas Revenues available for distribution shall be applied to recover Development Expenses associated with Additional Gas production, and PanAfrican Tanzania and TPDC (in the event of Joint Operations) shall be entitled to recover such expenses in proportion to their individual cumulative unrecovered Development Expenses. After recovery of such Operating Expenses, Exploration Expenses and Development Expenses, any excess Cost Gas Revenues available for distribution shall be applied to recover Market and Market Research Costs associated with Additional Gas production, and PanAfrican Tanzania and TPDC shall be entitled to recover such expenses in proportion to their individual cumulative unrecovered Market and Market Research Costs. Any unrecovered Recoverable Contract Expenses shall be recovered out of the Cost Gas Revenues available in the next succeeding year or years in the same manner as set out herein.
- (d) In the event of Joint Operations, no Recoverable Contract Expenses incurred by TPDC shall be recoverable from Cost Gas Revenues unless there is Additional Gas production from a Joint Development Area.

#### 10.4 Profit Gas Revenue Allocation — Proven Section.

The apportionment of Profit Gas Revenues from sales of Additional Gas from the Proven Section of the Contract Area for each Quarter shall be based on either (a) cumulative sales of Additional Gas from Financial Closing, measured in BCF at the end of each Quarter; or (b) average daily sales, measured in MMcfd and averaged quarterly (calculated by dividing the total

volume of Additional Gas produced and sold from the Proven Section of the Contract Area during each Quarter by the total numbers of days during which Additional Gas was produced in such Quarter), whichever measurement produces the higher percentage apportionment for PanAfrican Tanzania for that Quarter. The respective apportionments of Profit Gas Revenues are as follows:

<u>Average Daily Sales</u>		OR	<u>Cumulative Sales of Additional Gas</u>		<u>Share of Proven Section Profit Gas Revenues (%)</u>	
<u>(MMcfd)</u>			<u>(BCF)</u>	<u>TPDC</u>	<u>PanAfrican Tanzania</u>	
0 to 20			0 to 125	75	25	
over 20 but less than or equal to 30			over 125 but less than or equal to 250	70	30	
over 30 but less than or equal to 40			over 250 but less than or equal to 375	65	35	
over 40 but less than or equal to 50			over 375 but less than or equal to 500	60	40	
over 50			over 500	45	55	

In connection with any Joint Development Area within the Proven Section, TPDC's share of Profit Gas Revenues indicated above relative to each increment of production from such Joint Development Area shall be increased by the number of percentage points obtained by multiplying the percentage of the Specified Proportion determined in accordance with Article VIII by TPDC's share of Profit Gas Revenues indicated above relative to such increment of Profit Gas Revenues, and PanAfrican Tanzania's share shall be reduced accordingly.

#### 10.5 Profit Gas Revenue Allocation — Remainder of Contract Area.

Subject to the provisions of Section 13.2(b) of the Gas Agreement, the apportionment of Profit Gas Revenues from sales of Additional Gas from the Unproven Section and/or the Adjoining Blocks in any Quarter shall be shared between TPDC and PanAfrican Tanzania in the following proportions, subject to the Joint Operations provisions contained in Section 8.1(c), regardless of average daily sales or cumulative sales of such Additional Gas:

TPDC	45%
PanAfrican Tanzania	55%

In connection with any Joint Development Area in the Unproven Section and/or the Adjoining Blocks, TPDC's share of Profit Gas Revenues indicated above shall be increased by the number of percentage points obtained by multiplying the percentage of the Specified Proportion determined in accordance with Article VIII by TPDC's share of Profit Gas Revenues indicated above, and PanAfrican Tanzania's share shall be reduced accordingly.

#### 10.6 Insufficiency.

Notwithstanding the foregoing provisions of this Article X, if there occurs an Insufficiency as provided in Section 13.2 of the Gas Agreement and Replacement Gas (as provided in the Gas Agreement) is provided to Songas from the Adjoining Blocks, then:

- (a) If production facilities are already in place, then with respect to such Replacement Gas, (i) there will be 100% cost recovery (rather than 75%); (ii) TPDC's share of Profit Gas Revenues shall be decreased to 22.5%; and (iii) PanAfrican Tanzania's share of Profit Gas Revenues shall be increased to 77.5%.
- (b) If production facilities are not in place, and a decision is made to produce Replacement Gas from the Adjoining Blocks, (i) there shall be no capital cost recovery (as such costs would have been paid by Songas or from the Sinking Fund); (ii) TPDC's share of Profit Gas Revenues shall be decreased to 22.5%; (ii) PanAfrican Tanzania's share of Profit Gas Revenues shall be increased to 77.5%; and (iv) if such gas is sold both as Replacement Gas and Additional Gas, the cost recovery percentage and Profit Gas Revenues allocation will be apportioned based on the volumes sold for each purpose.

#### 10.7 Effect of Income Taxes on Apportionment.

The apportionment of revenues set forth in this Article X shall be subject to adjustment to increase the apportionment to PanAfrican Tanzania and to decrease the apportionment to TPDC by the Adjustment Factor.

## **ARTICLE XI**

### **CRUDE OIL**

#### **11.1 Discovery of Crude Oil.**

If Crude Oil is discovered in the Contract Area and is developed by PanAfrican Tanzania as provided in Article VII, the provisions of this Article XI shall apply.

#### **11.2 Cost Oil Revenue Allocation and Method of Recovery.**

- (a) All Contract Expenses incurred by PanAfrican Tanzania (and, where Joint Operations have been established, all Contract Expenses incurred by TPDC) associated with the production of Crude Oil shall be recoverable from the proceeds of sale of a volume of Crude Oil (“Cost Oil Revenues”) produced and saved from the Contract Area and limited in any calendar year to an amount not exceeding 65% of total Crude Oil production from the Contract Area.
- (b) Recoverable Contract Expenses associated with Crude Oil production which pursuant to the provisions of Annex D are recoverable from Cost Oil Revenues may be recovered from the date they are incurred. To the extent that in any year such Recoverable Contract Expenses exceed the Cost Oil Revenues available hereunder, the unrecovered excess may be applied against Cost Gas Revenues for such year (after allocation of all Recoverable Contract Expenses associated with Natural Gas production for such year), and the balance shall be carried forward for recovery from Cost Oil Revenues in the next succeeding year and, to the extent not then recovered, in the subsequent year or years.
- (c) The available Cost Oil Revenues shall be applied first to recover Operating Expenses associated with Crude Oil production, and PanAfrican Tanzania and TPDC (in the event of Joint Operations) shall be entitled to recover such expenses in proportion to their individual cumulative unrecovered Operating Expenses. After recovery of such Operating Expenses, any excess Cost Oil Revenues available for distribution shall be applied to recover Exploration Expenses associated with Crude Oil production. After recovery of such Operating Expenses and Exploration Expenses, any excess Cost Oil Revenues available for distribution shall be applied to recover Development Expenses associated with Crude Oil production, and PanAfrican Tanzania and TPDC (in the event of Joint Operations) shall be entitled to recover such expenses in proportion to their individual cumulative unrecovered Development Expenses. Any unrecovered Recoverable Contract Expenses shall be recovered as provided in the last sentence of Section 11.2(b).



- (d) In the event of Joint Operations, no Recoverable Contract Expenses incurred by TPDC shall be recoverable from Cost Oil Revenues unless there is Crude Oil production from a Joint Development Area.

### 11.3 Profit Oil Revenue Allocation.

The apportionment of Profit Oil Revenues from the Contract Area shall be 75% to TPDC and 25% to PanAfrican Tanzania if production is derived from the Discovery Blocks, and 70% to TPDC and 30% to PanAfrican Tanzania if production is derived from the Adjoining Blocks. In connection with any Joint Development Area within the Contract Area, TPDC's share of Profit Oil Revenues indicated above from such Joint Development Area shall be increased by the number of percentage points obtained by multiplying the percentage of the Specified Proportion determined in accordance with Article VIII by TPDC's share of Profit Oil Revenues indicated above, and PanAfrican Tanzania's share shall be reduced accordingly.

### 11.4 No Ring Fencing.

There shall be no Ring Fencing between Crude Oil and Additional Gas of any Contract Expenses incurred by PanAfrican Tanzania under this Agreement.

### 11.5 Valuation of Crude Oil.

- (a) The Parties agree that Tanzanian Crude Oil produced and saved from the Contract Area shall be sold or otherwise disposed of at competitive international market prices. The average fair market price of Crude Oil marketed in any Quarter shall, for the purpose of giving effect to this Agreement, be determined as follows:

- (i) as soon as possible after the end of each Quarter in which Crude Oil has been produced from the Contract Area an average price (in terms of US\$ per barrel, FOB PanAfrican Tanzania's Delivery Point for export from Tanzania) for each separate volume of Crude Oil of the same gravity, sulphur and metal content, pour point, product yield and other relevant characteristics ("quality") shall be determined in respect of production during that Quarter. It is understood that production from different areas may be of differing quality and that separate average prices may accordingly be appropriate for any Quarter in respect of production from each area, in which event the overall price applicable to production from the Contract Area shall be determined by taking the arithmetic weighted average (weighted by volume) of all such prices separately determined.

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

- (A) in the event that 50% or more of the total volume of sales made by PanAfrican Tanzania during the Quarter of Crude Oil of a given quality produced and saved hereunder have been third party arms' length sales transacted in foreign exchange (hereinafter referred to as "Third Party Oil Sales"), the fair market

valuation for all Crude Oil of that quality will be taken to be the simple arithmetic average price actually realized in such Third Party Oil Sales. This will be calculated by dividing the total receipts from all Third Party Oil Sales by the total number of Barrels of Crude Oil sold in such sales;

(B) Subject to Section 11.5(a)(iii) below, in the event that less than 50% of the total volume of sales made by PanAfrican Tanzania during the Quarter of Crude Oil of a given quality produced and saved hereunder have been Third Party Oil Sales, the fair market valuation for all Crude Oil of that quality will be determined by the arithmetic weighted average of:

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

(y) the simple arithmetic average price per Barrel at which a selection of major competitive crude oils of generally similar quality to that of Tanzanian Crude Oil produced hereunder were sold in international markets during the same period; the prices of the crude oils used for reference will be adjusted for differences in quality, quantity, transportation costs, delivery time, payment and other contract terms. The selected crude oils will be agreed between PanAfrican Tanzania and GOT, in consultation with TPDC, in advance for each year and in making the selection preference will be given to those crude oils of similar quality to Tanzanian Crude Oil which are produced in Africa or the Middle East and are regularly sold in the same markets as Tanzanian Crude Oil is normally sold. The arithmetic weighted average aforesaid will be determined by the percentage volume of sales of Tanzanian Crude Oil by PanAfrican Tanzania that are, (x), and that are not, (y), as the case may be, Third Party Oil Sales during the Quarter in question.

(C) All such prices will be adjusted to FOB PanAfrican Tanzania's Delivery Point for export from Tanzania.

(D) For the purposes of this Section 11.5(a)(ii), Third Party Oil Sales of Crude Oil made by PanAfrican Tanzania shall include all third-party arms length sales made by PanAfrican Tanzania, but shall exclude:

(x) Sales, whether direct or indirect through brokers or otherwise, of any seller to any Affiliate of such seller;

(y) Crude Oil exchanges, barter deals or restricted or distress transactions, and more generally any Crude Oil transaction which is motivated in whole or in part by considerations other than

the usual economic incentives for commercial arms' length crude oil sales;

(iii) In the event that less than 50% of the total volume of sales by PanAfrican Tanzania during the Quarter of Crude Oil of a given quality produced and saved hereunder have been Third Party Oil Sales, PanAfrican Tanzania shall promptly notify the GOT and TPDC of the applicable percentage and respective volumes and prices realized. The GOT and TPDC shall have the right to elect for the fair market valuation for all Crude Oil of that quality to be determined for that Quarter in accordance with Section 11.5(a)(ii)(A) above. If the GOT and TPDC so elect they will notify PanAfrican Tanzania within 14 days of receipt of the original notification from PanAfrican Tanzania and the fair market valuation of the aforesaid Crude Oil shall be determined accordingly. If GOT and TPDC do not so elect then the fair market valuation shall be determined in accordance with Section 11.5(a)(ii)(B) above.

- (b) PanAfrican Tanzania shall be responsible for establishing the relevant average prices for Crude Oil in accordance with this Section and such prices shall be subject to agreement by TPDC before they shall be accepted as having been finally determined. PanAfrican Tanzania shall provide TPDC with all relevant material in order that it can satisfy itself that the average price determined by PanAfrican Tanzania is fair. If the Parties fail to agree on the average price for any Quarter within 30 days following the end of such Quarter then the calculation of the relevant average price shall be referred to a sole expert appointed pursuant to Article XXVII.
- (c) During the calendar year in which production of Crude Oil from the Contract Area commences the Parties will meet in order to establish a provisional selection of the major competitive crude oils and an appropriate mechanism for the purposes of giving effect to Section 11.5(a)(ii)(B)(y) above. The selection of crude oils will be reviewed annually and modified if necessary.

#### 11.6 Lifting, Marketing and Domestic Supply Obligation.

- (a) The quantity of production to which TPDC is entitled pursuant to this Article XI herein shall be delivered to TPDC or its nominee at the Delivery Point, at which point title in production will pass to TPDC or its nominee subject to the terms of the agreement referred to in Section 11.6(b) below. TPDC shall be responsible for costs associated with its lifting entitlement after the Delivery Point. PanAfrican Tanzania, and in the event of Joint Operations TPDC and PanAfrican Tanzania jointly shall be responsible for all costs prior to the Delivery Point.
- (b) Within six months after the Ministry's approval of a development plan, PanAfrican Tanzania shall propose to TPDC an offtake procedure to

govern the method whereby the parties will nominate and lift their respective shares of Crude Oil. The details of such procedure shall be discussed and agreed upon between TPDC and PanAfrican Tanzania for the Ministry's approval. The major principles of such procedure shall include the following:

- (i) Lifting by the parties shall be carried out so as to avoid interference with Petroleum Operations.
  - (ii) Lifting rights and schedules will be subject to operational tolerances and constraints so that each party shall be entitled to lift full cargo loads.
  - (iii) Within reasonable limits and subject to future correction of imbalances, each party may lift more or less than its lifting entitlement so as to allow the lifting of full cargo loads.
  - (iv) In general, priority for lifting shall be given to the party having the greatest unlifted lifting entitlement.
- (c) PanAfrican Tanzania shall, if requested by the Ministry with at least three months advance notice, market abroad on competitive terms all or part of TPDC'S lifting entitlement subject to payment by TPDC of direct costs normally borne by a seller in such transactions as may be agreed by TPDC but excluding any additional commission or marketing fee imposed by PanAfrican Tanzania in respect of such service.
  - (d) TPDC shall use its share of production from all Crude Oil production in Tanzania to meet the requirements of the domestic market of Tanzania. If there is domestic demand in excess of TPDC's total entitlement, then PanAfrican Tanzania may be required to sell Crude Oil in Tanzania on a pro rata basis with other producers in Tanzania (except TPDC) according to the quantity of Crude Oil of each producer. TPDC shall give PanAfrican Tanzania at least six months notice in advance of said requirements and the term of the supply will be on an annual basis. The volume of Crude Oil which TPDC may require PanAfrican Tanzania to sell to meet the requirements of the domestic market shall not exceed PanAfrican Tanzania's share of Profit Oil.
  - (e) Crude Oil sold pursuant to Section 11.6(d) above shall be paid in U.S. Dollars at a price determined in accordance with Section 11.5(a)(ii)(B)(y) of this Agreement.

**ARTICLE XII**  
**TAXATION AND ROYALTY**

12.1 Each Party Responsible for Own Taxes.

Subject to Section 12.3, except as otherwise provided in this Agreement or the Gas Agreement, no tax, duty, rent, fee, levy, impost or other charge shall be imposed on PanAfrican Tanzania or its shareholders in respect of income derived from Petroleum Operations hereunder or in respect of any property held or thing done for any purpose authorized or contemplated hereunder **other than** (a) Additional Profits Tax as provided in Article XIII; (b) subject to the provisions of Article XIX of this Agreement and Article X of the Implementation Agreement, import duties at the rates specified from time to time in the Customs Tariff Act; (c) taxes, duties, fees or other imposts for specific services rendered on request or to the public or commercial enterprises generally and rent due to the GOT in respect of any land rights granted or assigned to PanAfrican Tanzania; (d) local GOT rates or taxes not in excess of those generally applicable in Tanzania, and (e) stamp duties, registration fees, licence fees and any other tax, duty, fee or other impost of a minor nature.

12.2 Development Licence and Production of Additional Gas.

Subject to Section 12.3, except as otherwise provided in this Agreement, TPDC shall pay (a) all taxes, duties, rents, fees, levies, imposts and other charges relating, directly or indirectly, to the maintenance of the Development Licence; and (b) all taxes, duties, rents, fees, levies, imposts and other charges relating, directly or indirectly, to the production of Additional Gas and other Petroleum from the Contract Area.

12.3 Income Taxes.

- (a) In addition to the taxes, duties, fees and imposts listed in Section 12.1, PanAfrican Tanzania shall be subject to Tanzanian taxes on income derived from Petroleum Operations hereunder and shall pay all such taxes in accordance with the provisions of the Income Tax Act 1973 as amended from time to time. PanAfrican Tanzania hereby assigns to TPDC an amount of PanAfrican Tanzania's apportionment of revenues hereunder equal to the Adjustment Factor (the "Security Revenue"), such assignment to constitute security for payment to the GOT on a timely basis of PanAfrican Tanzania's liability for taxes on income derived from Petroleum Operations hereunder. In the event that PanAfrican Tanzania does not pay to the GOT such tax liability when due, TPDC shall apply the Security Revenue to pay to the GOT, and thereby discharge PanAfrican Tanzania's liability for such taxes. PanAfrican Tanzania shall be responsible for submitting returns to the Income Tax Department, and the Commissioner of Income Tax shall issue PanAfrican Tanzania a receipt evidencing payment of the income tax determined in accordance with this Section 12.3. Such receipt shall detail the tax year in respect of

which the tax is paid, the amount of tax paid and the effective tax rate applied as a result of the exemption, if any, granted by the GOT pursuant to Section 15 of the Income Tax Act 1973, as amended from time to time.

- (b) For greater certainty, for the purpose of the Income Tax Act 1973, as amended from time to time, PanAfrican Tanzania's income derived from Petroleum Operations shall be calculated by deducting the recoverable costs from its gross income. For the purpose hereof:
  - (i) the term "gross income" means PanAfrican Tanzania's share of Cost Gas Revenues, Profit Gas Revenues, Cost Oil Revenues and Profit Oil Revenues as determined in accordance with Articles X and XI, any other income related to the Petroleum Operations and a sum equal to Tanzanian income tax paid for the preceding tax year; and
  - (ii) the term "recoverable costs" means PanAfrican Tanzania's share of all costs deductible under the Income Tax Act 1973, as amended from time to time, including royalty payments pursuant to Section 12.4 as well as any Additional Profits Tax paid pursuant to Article XIII.

#### 12.4 Royalty.

TPDC shall discharge its obligation to pay royalties under the Act and the Development Licence in respect of Additional Gas and other Petroleum produced and sold from the Contract Area by payment of royalties as established by GOT.

#### 12.5 Withholding Tax Exemption for Dividends.

Upon timely application in the prescribed form and with any prescribed fee, PanAfrican Tanzania shall be exempt from all withholding taxes payable with respect to the repatriation of dividends declared and paid by PanAfrican Tanzania.

## ARTICLE XIII

### ADDITIONAL PROFITS TAX

#### 13.1 Basis and Calculation of Tax.

- (a) PanAfrican Tanzania shall be subject to an Additional Profits Tax that shall be calculated on a Contract Area basis in accordance with the provisions of this Section 13.1. Additional Profits Tax shall be calculated for each year and shall vary with the real rate of return earned by PanAfrican Tanzania on the net cash flow from the Contract Area. If either:
- (i) the “first accumulated net cash position” (as calculated in the manner set out hereafter and hereinafter referred to as the “FANCP”); or
  - (ii) each of the FANCP and the “second accumulated net cash position” (as calculated in the manner set out hereafter and hereinafter referred to as the “SANCP”)

is a positive amount, then the Additional Profits Tax from the Contract Area for any year shall either be:

- (A) in the case of (i): 25% of the FANCP for that year, or
- (B) in the case of (ii): the aggregate of 25% of the FANCP for that year and 40% of the SANCP for that year.

If in any year the FANCP or SANCP is a negative amount, then no Additional Profits Tax shall be due with reference to that FANCP or SANCP.

- (b) The FANCP for any year shall be calculated according to the following formula:

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

where

“A” equals the FANCP denominated in U.S. Dollars at the end of the year preceding the year for which the calculation is being made;

“B” equals 25% plus the percentage change, for the year for which the calculation is being made, in the annual average level of the United States Industrial Goods Producer Price Index (USIGPPI) as reported for the first time in the monthly publication “International Financial Statistics” of the International Monetary Fund (IMF) in the section “Prices, Production, Employment”; and

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

- (i) PanAfrican Tanzania’s share of Cost Gas Revenues and Profit Gas Revenues from the Contract Area for that year; plus
- (ii) PanAfrican Tanzania’s share of Cost Oil Revenues and Profit Oil Revenues from the Contract Area for that year; plus
- (iii) PanAfrican Tanzania’s share of all credits to the accounts under this Agreement in respect of the Contract Area for that year, calculated and allocated to the Contract Area in question in accordance with the provisions of Annex D; minus
- (iv) PanAfrican Tanzania’s share of all charges to the accounts under this Agreement in respect of the Contract Area for that year, calculated and allocated to the Contract Area in question in accordance with the provisions of Annex D, except that for this purpose, PanAfrican Tanzania’s share of charges shall not include any amounts in respect of interest on loans obtained for the purpose of carrying out Petroleum Operations,

provided, however, that for the purpose of calculating “C”, only prudently incurred Contract Expenses shall be considered. The prudence of Contract Expenses shall be determined by an international petroleum expert (jointly selected by the GOT and PanAfrican Tanzania, or if they cannot agree, each shall select one expert who shall jointly select the expert), who shall review such Contract Expenses for prudence, based upon the information known at the time the Contract Expenses were incurred and in accordance with the standards of Good Oilfield Practices and the Laws of Tanzania at such time. The decision of the expert shall be final and binding on the Parties and shall not be subject to arbitration or other dispute resolution. GOT may elect to review the prudence of Contract Expenses for any year within three years of the filing by PanAfrican Tanzania of the Additional Profits Tax return for such year. The costs of the expert shall be payable 50% by the GOT and 50% by PanAfrican Tanzania. The amount payable by PanAfrican Tanzania shall be a Recoverable Contract Expense for the purposes of Articles X and XI and Annex D.

- (c) The SANCP for any year shall be calculated according to the formula set forth in Section 13.1(b), except that: “A” equals the SANCP denominated in U.S. Dollars at the end of the year preceding the year for which the calculation is being made; and “B” equals 35% plus the percentage change, for the year for which the calculation is being made, in the annual average level of the USIGPPI as reported for the first time in the monthly publication “International Financial Statistics” of the IMF in the section “Prices, Production, Employment.” To the amount calculated under clause (iv) in the definition of “C” set forth in Section 13.1(b) above shall be added any Additional Profits Tax which would be payable from the Contract Area if reference were made hereunder only to the FANCP.



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

### 13.2 Sample Calculation of Additional Profits Tax in Annex E.

A sample calculation of the Additional Profits Tax, calculated as provided in Section 13.1, is attached as Annex E, and PanAfrican Tanzania's Additional Profits Tax shall be calculated in the same manner as Annex E.

### 13.3 Records and Books of Account.

PanAfrican Tanzania shall maintain proper records and books of accounts in accordance with the provisions of Annex D enabling the calculations described in this Article XIII to be performed. From and after the Transfer Date, PanAfrican Tanzania shall prepare and submit to the GOT annually, or quarterly if so requested, a statement of the FANCP and SANCP. All calculations of Additional Profits Tax shall be subject to independent audit in accordance with the provisions of Annex D.

### 13.4 Payment of Additional Profits Tax.

The Additional Profits Tax due, if any, shall be paid by PanAfrican Tanzania in cash at such time and in such manner as the Commissioner of Income Tax may reasonably require; provided, however, that such payments shall not be made more frequently than quarterly.

## ARTICLE XIV

### REPORTING, INSPECTION AND CONFIDENTIALITY

#### 14.1 Reports.

- (a) PanAfrican Tanzania shall promptly report to TPDC any material changes in production from the Contract Area. Such reports shall be made orally within 24 hours after PanAfrican Tanzania learns of such material change and shall be made in writing within three days thereafter. TPDC shall notify the Ministry and TANESCO orally within 24 hours after it has received such oral report and shall provide the Ministry and TANESCO with a copy of any such written report within three days of its receipt from PanAfrican Tanzania.
- (b) PanAfrican Tanzania shall keep TPDC and the Ministry informed on a semi-annual basis as to progress on the development of the Contract Area, including progress toward completion of any seismic or other field-related programme and completion of any wells drilled thereon.
- (c) PanAfrican Tanzania shall keep complete and accurate records and all other data required for the proper administration of this Agreement. All such records and data shall be maintained for a minimum of seven years after the creation of such record or data.

#### 14.2 Data.

- (a) PanAfrican Tanzania shall save and keep for a reasonable period of time a representative portion of each sample of cores and cuttings taken from drilling wells, to be disposed of or forwarded to the GOT or its representative in a manner directed by TPDC. All samples acquired by PanAfrican Tanzania shall be considered available for inspection at any reasonable time by TPDC, GOT or their representatives. Samples that PanAfrican Tanzania has kept for a period of seven years may be disposed of by PanAfrican Tanzania at its discretion, provided TPDC has been given not less than 30 days prior notice of PanAfrican Tanzania's intention to do so and given the opportunity to take such samples.
- (b) Notwithstanding the foregoing, PanAfrican Tanzania shall be freely permitted to export portions of cores and samples for purposes of investigation in laboratories abroad. Originals of records may be exported provided at least one copy has been retained in Tanzania.
- (c) TPDC and the Ministry, through their duly appointed representatives, shall be entitled to observe the Petroleum Operations conducted by PanAfrican Tanzania hereunder and at all reasonable times to inspect all

assets, records and data kept by PanAfrican Tanzania relating to Petroleum Operations. In the exercise of their rights hereunder, neither TPDC nor the Ministry shall unreasonably interfere with PanAfrican Tanzania's operations.

- (d) PanAfrican Tanzania shall provide TPDC promptly with copies of any and all data (including, but not limited to, geological and geophysical reports, samples, logs and well surveys), information and final interpretations of such data and information obtained by PanAfrican Tanzania in the course of carrying out Petroleum Operations hereunder. All such data, information and interpretations, as well as cores and cuttings taken from drilling wells, shall be the property of the GOT and, except as provided in this Article XIV, the same may not be published, reproduced or otherwise dealt with by any of the Parties without the prior written consent of the other Parties.

#### 14.3 Confidentiality.

- (a) All data and information and every interpretation thereof provided by PanAfrican Tanzania to TPDC or GOT shall, so long as it relates to an area which is a part of the Contract Area, be treated as confidential and each of the Parties hereto undertakes not to disclose the same to any other Person without the consent of the other Parties, except that PanAfrican Tanzania or TPDC, as the case may be, may disclose such information as is required by law or appropriate regulatory authorities, or to prospective lenders or shareholders. In addition, such data, information and interpretations may be disclosed to Affiliates or contractors carrying out any part of the Petroleum Operations and to advisers of the Parties who will treat as confidential all that is disclosed to them and undertake not to disclose the same to any other Person without the consent of PanAfrican Tanzania, TPDC and GOT.

Notwithstanding the foregoing, GOT may, using such data, information and reports supplied by PanAfrican Tanzania, publish summaries of data, information and reports from geophysical surveys and Exploration Wells, including lithological groups, stratigraphic boundaries and hydrocarbon zones:

- (i) In the case of Discovery Wells, five years after completion of drilling; and
  - (ii) In any other case, at any time.
- (b) Each of the Parties undertakes not to disclose to third parties any data, information or any interpretation thereof that relates to an area that has ceased to be part of the Contract Area for a period of one year from the date on which the area to which such data, information or any interpretation thereof relates ceased to be part of the Contract Area or from the date on which this Agreement expires or is terminated,

whichever occurs first. However, where during the aforesaid period PanAfrican Tanzania carries on Petroleum Operations in the Contract Area, such data, information and interpretations may be disclosed to Affiliates or contractors carrying out any part of the Petroleum Operations.

- (c) Any public disclosure regarding the interpretation of information acquired in Petroleum Exploration shall not be made without the GOT's consent.
- (d) The provisions of subsection (a) shall not apply to: (i) any information in the public domain otherwise than by breach of this Agreement; (ii) information in the possession of the receiving Party thereof before divulgence, and which was not obtained under any obligation of confidentiality; and (iii) information obtained from a third party who is free to divulge the same, and which is not obtained under any obligation of confidentiality.
- (e) The provisions of this Section 14.3 shall survive the termination or expiration of this Agreement for a period of five years from the date of such termination or expiration.

## **ARTICLE XV**

### **TANZANIAN RESOURCES**

#### 15.1 Tanzanian Goods.

PanAfrican Tanzania shall give preference to the purchase of Tanzanian goods and materials; provided, however, that such goods and materials are of an acceptable quality and are available on a timely basis in the quantity required, on competitive terms.

#### 15.2 Tanzanian Contractors.

PanAfrican Tanzania shall also give preference to the employment of Tanzanian service contractors as far as they are financially and technically competent and possess the necessary skills to perform the work required by PanAfrican Tanzania, and such contractors are available on a timely basis and on competitive terms.

#### 15.3 Tender Procedures.

Subject to Sections 15.1 and 15.2, PanAfrican Tanzania shall establish appropriate tender procedures for Tanzanian goods, materials and services, taking into account Tanzanian local market conditions and enabling Tanzanian contractors to bid to supply such goods and materials and to provide such services.

## ARTICLE XVI

### EMPLOYMENT, TRAINING AND TECHNOLOGY TRANSFER

#### 16.1 Employment of Tanzanians.

- (a) In the conduct of the Petroleum Operations, PanAfrican Tanzania shall endeavor to employ Tanzanian citizens having appropriate qualifications to the maximum reasonable extent.
- (b) Subject to the requirement of any law relating to immigration, the GOT shall provide the necessary work permits and other approvals required for the employment of expatriate personnel by PanAfrican Tanzania and its contractors in Tanzania for the purposes of this Agreement. TPDC shall assist PanAfrican Tanzania in that regard.

#### 16.2 Training and Technology Transfer.

- (a) PanAfrican Tanzania shall conduct its business in ways that will maximize, to the greatest reasonable degree, training and technology transfer opportunities for Tanzanian nationals at all levels of such business, including management. Without limiting the generality of the foregoing, PanAfrican Tanzania shall include manpower development programmes and employee training programmes, as necessary in its normal conduct of business, which programmes from time to time shall include training for its Tanzanian employees in the technical skills used in the Petroleum Operations conducted pursuant to this Agreement and training in management for those Tanzanian employees qualified for management training.
- (b) During each year from the Financial Closing, PanAfrican Tanzania shall spend a minimum of US\$75,000 for the following purposes:
  - (i) to provide a mutually agreed number of GOT and TPDC personnel with on-the-job training in PanAfrican Tanzania's operations in Tanzania and overseas, and/or practical training at institutions abroad, particularly in the areas of logistical planning for undertaking Petroleum Operations, economic analysis, petroleum accounting and contract administration;
  - (ii) to send suitable Tanzanian personnel selected by the GOT and by TPDC to courses at universities, colleges or other training institutions mutually selected by PanAfrican Tanzania, the GOT and TPDC;
  - (iii) to send Tanzanian personnel selected by the GOT and by TPDC to conferences and seminars related to the petroleum industry; and

(iv) to purchase for the GOT and TPDC advanced technical books, professional publications, scientific instruments or other equipment required by the GOT and TPDC.

The GOT, TPDC and PanAfrican Tanzania shall meet annually in advance in order to formulate the programmes of activities to be undertaken by PanAfrican Tanzania specified in (i) to (iv) above for the next year and beginning with the second year after the Financial Closing, to review the programmes and expenditures spent on such activities in the preceding year.

(c) The minimum expenditure for each period specified in Section 16.2(b) shall be adjusted commencing from the Financial Closing, by dividing each of them by the following factor I, where:

$$I = A / B$$

and where:

A is the United States Industrial Goods Producer Price Index (USIGPPI) as reported for the first time in the monthly publication “International Financial Statistics” of the International Monetary Fund (IMF) in the section “Prices Production, Employment” for the month of the Financial Closing.

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

(d) The costs of the training programmes conducted pursuant to Section 16.2 shall be recoverable from Cost Gas Revenues.

### 16.3 Expatriate Employees.

The provisions of the Training Levy (Imposition) Act, 1972 as amended (or any successor thereto), shall not apply to the employment of any Expatriate Employee of PanAfrican Tanzania, including any Expatriate Employee of any non-resident contractor.

## ARTICLE XVII

### TITLE TO ASSETS

#### 17.1 Fixed and Movable Assets.

- (a) Subject to the provisions of Section 17.1(c), all fixed assets owned by PanAfrican Tanzania in connection with the Petroleum Operations carried out by PanAfrican Tanzania shall become the property of TPDC at its request after this Agreement expires or is terminated by an PanAfrican Tanzania Event of Default. Such fixed assets shall include but not be limited to buildings, piers, harbours, pipelines, wellheads, separators, compressors, pumps, power lines and telephone lines.
- (b) All movable assets owned by PanAfrican Tanzania in connection with the Petroleum Operations carried out by PanAfrican Tanzania shall remain the property of PanAfrican Tanzania on expiration or termination of this Agreement. TPDC shall have the right of first refusal in the event that PanAfrican Tanzania wishes to sell such assets.
- (c) PanAfrican Tanzania shall retain ownership of all fixed assets referred to in Section 17.1(a) if it either renews an expired agreement to a particular licence or acquires another licence in Tanzania; provided, however, that such renewal or acquisition takes place not more than 90 days following the date of expiration of the previous agreement or the date of expiration or termination of this Agreement.
- (d) If TPDC elects to participate in Joint Operations, then title to any asset acquired pursuant to a Development Programme in a Joint Development Area shall be held jointly by PanAfrican Tanzania and TPDC according to their respective interests in the Joint Operations. Any such asset shall become the sole property of TPDC upon the earlier of the date this Agreement expires or is terminated due to an PanAfrican Tanzania Event of Default.

#### 17.2 Use of Assets.

So long as this Agreement remains in force, PanAfrican Tanzania shall have the exclusive use of assets which will become the property of TPDC pursuant to this Article XVII, free of any charge, for the purpose of carrying on Petroleum Operations hereunder. PanAfrican Tanzania shall keep such assets in good repair and working order, ordinary wear and tear excepted, so long as the same are used in Petroleum Operations hereunder, and any maintenance expenses shall be cost recovered in accordance with the terms of this Agreement.



17.3 Purchase of Assets by TPDC.

Subject to the provisions of Sections 17.1(a) and 17.1(b), PanAfrican Tanzania shall give TPDC the opportunity to buy, upon such commercially reasonable terms as may be agreed, any item imported duty free under Section 19.1 which PanAfrican Tanzania intends to dispose of or sell. TPDC shall be responsible for the payment of any duty required as a result of any such sale by PanAfrican Tanzania to TPDC; provided, however, that in the event TPDC does not desire to purchase the fixed assets used by PanAfrican Tanzania in its Petroleum Operations, PanAfrican Tanzania shall remove such fixed assets in a manner that will conform with Good Oilfield Practices and will leave the environment of the Contract Area in a condition that complies with the Laws of Tanzania.

17.4 Assets of Third Parties.

Nothing in this Article XVII shall apply or be deemed to apply to any assets used in Petroleum Operations which are owned by third parties, including Songas.

## ARTICLE XVIII

### INSURANCE

#### 18.1 Maintenance of Insurance Policies.

PanAfrican Tanzania, at its sole cost and expense, shall obtain and maintain, or cause to be obtained and maintained, during the term of this Agreement the policies of insurance set forth on Annex F in the amounts set forth therein and for the periods required thereby; provided, however, that such amounts may be changed from time to time to reflect the economic value of each Party's assets and potential risks of liability or loss (but the amounts and types of coverage shall not be decreased without the prior written consent of the other Parties); provided, further, that PanAfrican Tanzania shall not be in breach of its obligations hereunder if and to the extent that any particular insurance is unavailable to it for reasons other than any negligence or default by, or condition (financial or otherwise) of, PanAfrican Tanzania; and provided, further, that property which is owned by Songas and operated by PanAfrican Tanzania, or property jointly owned by Songas and PanAfrican Tanzania need not be covered by separate policies purchased by each such company if either a jointly owned policy or a policy owned by either company is sufficient in amount and endorsements to satisfy the requirements of this Article XVIII.

#### 18.2 Maintenance of "Occurrence" Form Policies.

The coverage required pursuant to Section 18.1 and any "umbrella" or excess coverage shall be "occurrence" form policies. In the event PanAfrican Tanzania has "claims-made" form coverage, it must obtain prior written approval of all "claims-made" policies from the other Parties.

#### 18.3 Policy Endorsements.

PanAfrican Tanzania shall cause its insurers to provide the following endorsements in the comprehensive or commercial general liability and, if applicable, umbrella or excess liability policies relating, respectively, to the ownership, construction, operation and maintenance of the Gas Production Facilities and any facilities owned or installed by PanAfrican Tanzania and required by Section 18.1:

- (a) TPDC and the Ministry, their directors, officers, and employees shall be additional insureds under such policies.
- (b) The insurance provided shall be primary with respect to the interests of the Ministry and TPDC, their directors, officers, and employees, and any other insurance maintained by them is excess and not contributory with such policies with respect to this Agreement;
- (c) The following cross liability clause shall be made a part of each policy:

“In the event of claims being made by reason of (i) personal and/or bodily injuries suffered by any employee or employees of one insured hereunder for which another insured hereunder is or may be liable, or (ii) damage to property belonging to any insured hereunder for which another insured is or may be liable, then this policy shall cover such insured against whom a claim is made or may be made in the same manner as if separate policies have been issued to each insured hereunder, except with respect to the limits of insurance.”;

- (d) The insurer shall waive all rights of subrogation against the Ministry and TPDC, their officers, directors and employees; and
- (e) Notwithstanding any provision of the policy, the policy may not be canceled, non-renewed or materially changed by the insurer without giving 30 days prior written notice to the Ministry and TPDC.

#### 18.4 Certificates of Insurance.

PanAfrican Tanzania shall cause its insurers or agents to provide TPDC and the Ministry with certificates of insurance evidencing the policies and endorsements required by Section 18.1 and 18.2. Failure by PanAfrican Tanzania to obtain the insurance coverage or certificates of insurance required by this Article XVIII shall not in any way relieve or limit their obligations and liabilities under any provision of this Agreement. If PanAfrican Tanzania shall fail to procure or maintain any insurance required pursuant to this Article XVIII, then TPDC or the Ministry, as the case may be, shall have the right to procure such insurance in accordance with the requirements of Annex F at the expense of PanAfrican Tanzania, as the case may be.

#### 18.5 Insurance Reports.

PanAfrican Tanzania shall provide the Ministry and TPDC with copies of any underwriters' reports or other reports received by it from any insurer; provided, however, that the Ministry and TPDC shall not disclose such reports to any other Person except as necessary in connection with administration and enforcement of this Agreement or as may be required by law or lawful regulation, and shall use and internally distribute such reports only as necessary in connection with administration and enforcement of this Agreement.

#### 18.6 Insurance Proceeds.

All proceeds from insurance claims for damage to property used in Petroleum Operations shall be used to repair or rebuild the damaged property, unless otherwise agreed, provided, however, that if such insurance relates to property jointly used and insured with Songas, such proceeds shall be dealt with as provided in the Gas Agreement.

**ARTICLE XIX**  
**IMPORT DUTIES**

19.1 Importation.

Upon timely application in the prescribed form and with the prescribed fee to the appropriate Government Entity, PanAfrican Tanzania and its contractors engaged in Petroleum Operations hereunder and TPDC in respect of Joint Operations established pursuant to Article VIII shall be permitted, subject to applicable law, to import free of duty or other taxes on imports, machinery, equipment, vehicles, materials, supplies, consumable items (other than food stuffs and alcoholic beverages) and moveable property where imports in any of the said categories have been certified by a responsible representative of TPDC to be used solely in carrying out operations under this Agreement.

19.2 Export and Sale.

Subject to Article XX and applicable law, any of the items imported into Tanzania may, if no longer required for the operations hereunder, be freely exported at any time by the importing Party without the payment of any export duty or impost; provided, however, that on the sale or transfer by the importer of any such items to any Person in Tanzania, import duty shall be payable by the importer on the value thereof at the date of such sale or transfer.

19.3 Expatriate Employees.

Subject to applicable law, each Expatriate Employee of PanAfrican Tanzania and of its contractors shall be permitted to import into Tanzania free of import duty and other taxes on first arrival their personal and household effects, including one automobile, subject to the limitations and conditions set out in the Customs Tariff Act, 1976; provided, however, that no property imported by such Expatriate Employee shall be exempt from duty if it is resold by such Person in Tanzania other than in accordance with GOT regulations.

## **ARTICLE XX**

### **FOREIGN EXCHANGE**

#### **20.1 Rights of PanAfrican Tanzania.**

Subject to the Foreign Exchange Act, 1992, PanAfrican Tanzania shall, during the term of this Agreement, have the right:

- (a) to enter into loan agreements outside Tanzania for the purpose of financing Petroleum Operations hereunder;
- (b) to open and keep bank accounts in Tanzania and to freely dispose of the sums deposited therein without any restriction;
- (c) subject to any conditions or requirements imposed by the Bank of Tanzania, to open and keep bank accounts in Tanzania denominated in Tanzanian currency and to freely dispose of the sums deposited therein within Tanzania;
- (d) to open and keep bank accounts in any foreign currency outside Tanzania which may be credited without restriction and to freely dispose of any sums deposited therein without restriction and without any obligation to convert into Tanzanian currency any part of the said amounts; and
- (e) to purchase Tanzanian currency through the authorized dealers, without discrimination, at the rate of exchange generally applicable.

#### **20.2 Expatriate Employees of PanAfrican Tanzania and its Contractors.**

Subject to the Foreign Exchange Act, 1992, Expatriate Employees of PanAfrican Tanzania and its contractors engaged in Petroleum Operations hereunder shall be entitled:

- (a) In respect of such portion of their salaries as may be paid in Tanzania, to export freely from Tanzania, during each year of their employment their savings on salaries paid in Tanzania and export freely from Tanzania upon termination of their contract in Tanzania any balance of such savings in Tanzania as well as any sums paid to them from any provident or like fund on termination of their employment in Tanzania; and
- (b) To export freely from Tanzania, upon termination of their employment in Tanzania, their personal property previously imported into Tanzania or purchased with their savings on salaries in Tanzania.

### 20.3 Expatriate Employee Income Tax Guarantee.

Where PanAfrican Tanzania by notice in writing to the Tanzanian Revenue Authority has guaranteed the full and proper discharge by an Expatriate Employee engaged in Petroleum Operations of his liability for income tax under the Laws of Tanzania, including the provisions of Income Tax (Exemption), Expatriate Staff Engaged in the Petroleum and Mining Industry, Order, Government Notice No. 411, published in the Government Gazette on August 15, 1986, such Expatriate Employee shall be entitled to receive freely the whole or any part of his remuneration in the country in which he is normally resident.

## ARTICLE XXI

### ACCOUNTING RECORDS

#### 21.1 Accounting Records.

PanAfrican Tanzania shall prepare and, at all times while this Agreement is in force, maintain accurate and current records of its operations in the Contract Area in accordance with generally accepted accounting procedures in Tanzania. PanAfrican Tanzania shall maintain at its business office in Tanzania accounting records relating to Petroleum Operations under this Agreement in accordance with the accounting procedures set forth in Annex D.

#### 21.2 Right of Audit.

TPDC shall have the right, at its expense, to audit PanAfrican Tanzania's accounting records in accordance with Annex D; provided, however, that nothing in this Section 21.2 shall be construed as limiting the right of the GOT or any official of the GOT to audit or cause to be audited the books of account of PanAfrican Tanzania pursuant to any statutory power.

## ARTICLE XXII

### ENVIRONMENT AND SAFETY

#### 22.1 Protection of Environment.

PanAfrican Tanzania shall comply with all applicable Laws of Tanzania and Good Oilfield Practices to protect the natural environment and to prevent pollution of the land, sea and lakes in the Contract Area. In addition, PanAfrican Tanzania shall conduct its Petroleum Operations so as to comply with the environmental management standards of the ISO 14000 series, as amended.

#### 22.2 Failure to Comply.

If PanAfrican Tanzania's failure to comply with the provisions of Section 22.1 results in pollution or damage to the environment or marine life or otherwise, PanAfrican Tanzania shall take all necessary measures to remedy the failure and the effects thereof. If such pollution or damage is the result of gross negligence or wilful misconduct by PanAfrican Tanzania, the cost of the remedy shall not be a Recoverable Contract Expense for the purposes of Articles X and XI and Annex D.

#### 22.3 Notice to Ministry.

PanAfrican Tanzania shall notify the Ministry and TPDC immediately 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 Oilfield Practices in such circumstances.

#### 22.4 TPDC Remedial Action.

If PanAfrican Tanzania does not act promptly so as to control or clean up any pollution or make good any damage caused, TPDC may, after giving PanAfrican Tanzania reasonable notice in the circumstances, take any actions which are necessary in accordance with Good Oilfield Practices and applicable Laws of Tanzania, and the reasonable costs and expenses of such actions shall be borne by PanAfrican Tanzania.

#### 22.5 Environmental Impact Assessment.

PanAfrican Tanzania shall undertake an environmental impact assessment study prior to each major operation in the Contract Area, including the drilling of the first well thereon, the costs of which shall be Recoverable Contract Expenses for the purposes of Articles X and XI and Annex D.



## ARTICLE XXIII

### FORCE MAJEURE

#### 23.1 Definition of Force Majeure.

- (a) A “Force Majeure Event” shall mean any event or circumstance or combination of events or circumstances beyond the reasonable control of a Party occurring on or after the Financial Closing that materially and adversely affects the performance by such affected Party of its obligations under or pursuant to this Agreement; provided, however, that such material and adverse effect could not have been prevented, overcome or remedied by the affected Party through the exercise of diligence and reasonable care. Subject to the exclusions in Section 23.1(b), “Force Majeure Events” shall include the following events and circumstances, but only to the extent that they satisfy the above requirements:
- (i) a GOT Action or Inaction that is the proximate cause of non-performance or delay in performance of any obligation or the exercise of any right under this Agreement by any Party other than GOT;
  - (ii) a Parastatal Action or Inaction that is the proximate cause of non-performance or delay in performance of any obligation or the exercise of any right under this Agreement by any Party other than GOT;
  - (iii) Changes in Law, Court Action or Lapses of Consent that are the proximate cause of non-performance or delay in performance of any obligation or the exercise of any right under this Agreement by any Party other than GOT;
  - (iv) any act of war (whether declared or undeclared), invasion, armed conflict or act of foreign enemy, blockade, embargo, revolution, riot, insurrection, civil commotion, or act of terrorism;
  - (v) lightning, earthquake, tsunami, flood, storm, cyclone, typhoon, or tornado; epidemic or plague;
  - (vi) explosion, fire, blowout or chemical contamination; mechanical failure; downhole blockage; and
  - (vii) strikes, works-to-rule, go-slows or other labour disputes, unless such strikes, works-to-rule, go-slows or labour disputes were provoked by the unreasonable action of the management of the affected Party or were, in the reasonable judgment of the affected Party, capable of being resolved in a manner not contrary to such Party’s commercial interests.

- (b) Force Majeure Events shall expressly not include the following conditions, except and to the extent that they result directly from force majeure:
  - (i) a delay in the performance of any contractor, including late delivery of machinery or materials; and
  - (ii) normal wear and tear.

### 23.2 Notification Obligations.

- (a) If by reason of a Force Majeure Event a Party is wholly or partially unable to carry out its obligations under this Agreement, then the affected Party shall: (i) give the other Parties notice of the Force Majeure Event(s) as soon as practicable, but in any event, not later than the later of 48 hours after the affected Party becomes aware of the Force Majeure Event(s) or six hours after the resumption of any means of providing notice; and (ii) give the other Parties a second notice, describing the Force Majeure Event(s) in reasonable detail and, to the extent that such information can reasonably be determined at the time of the second notice, providing a preliminary evaluation of the obligations affected and a preliminary estimate of the period of time that the affected Party will be unable to perform such obligations and other relevant matters as soon as practicable, but in any event, not later than seven days after the initial notice of the occurrence of the Force Majeure Event(s) is given by the affected Party. When appropriate or when reasonably requested to do so by another Party, the affected Party shall provide further notices to such other Party more fully describing the Force Majeure Event(s) and the cause(s) therefor and providing or updating information relating to the efforts of the affected Party to avoid and/or to mitigate the effect(s) thereof and estimates, to the extent practicable, of the time that the affected Party reasonably expects it will be unable to carry out any of its affected obligations due to the Force Majeure Event(s).
- (b) The affected Party shall provide notice to the other Parties as soon as possible, but not later than seven days following: (i) the cessation of the Force Majeure Event; or (ii) its ability to recommence performance of its obligations under this Agreement by reason of the cessation of the Force Majeure Event.
- (c) Failure by the affected Party to give written notice of a Force Majeure Event to the other Parties within the 48-hour or six-hour period required by Section 23.2(a) shall not prevent the affected Party from giving such notice at a later time; provided, however, that in such case the affected Party shall not be excused pursuant to this Article XXIII for any failure or delay in complying with its obligations under or pursuant to this Agreement until such notice has been given. If such notice is given within the 48-hour or six-hour period required by Section 23.2(a), the affected

Party shall be excused for such failure or delay pursuant to this Article XXIII from the date of commencement of the relevant Force Majeure Event.

### 23.3 Duty to Mitigate.

The affected Party shall use all reasonable efforts to mitigate the effects of a Force Majeure Event, including the payment of reasonable sums of money, in light of the likely efficacy of the mitigation measures; provided, however, that the affected Party shall not be required to settle any labour dispute or litigation on terms that, in the reasonable judgment of the affected Party, are contrary to its commercial interests.

### 23.4 Delay Caused by Force Majeure.

So long as the affected Party has at all times since the occurrence of the Force Majeure Event complied with the obligations of Section 23.3 and continues to so comply then: (i) the affected Party shall not be liable for any failure or delay in performing its obligations (other than the obligation to make any payment otherwise due hereunder) under or pursuant to this Agreement for so long as and to the extent that the performance of such obligations are affected by the Force Majeure Event; and (ii) any performance deadline that the affected Party is obligated to meet under this Agreement shall be extended; provided, however, that no relief, including the extension of performance deadlines, shall be granted to the affected Party pursuant to this Section 23.4 to the extent that such failure or delay would have nevertheless been experienced by the affected Party had the Force Majeure Event not occurred. Other than for breaches of this Agreement by another Party, and without prejudice to the affected Party's right to indemnification pursuant to Article XXVI or for payments pursuant to Articles X or XI, the other Party shall not bear any liability for any Loss suffered by the affected Party as a result of a Force Majeure Event.

## ARTICLE XXIV

### REPRESENTATIONS, WARRANTIES AND COVENANTS

#### 24.1 PanAfrican Tanzania Representations and Warranties.

PanAfrican Tanzania hereby represents and warrants to the other Parties that:

- (a) PanAfrican Tanzania is a corporation duly organized, validly existing under the laws of Jersey, Channel Islands, is registered to do business as a foreign corporation in Tanzania, and has all requisite corporate power and authority to own or lease and operate its properties and carry on its business as it is now being conducted and as proposed to be conducted.
- (b) PanAfrican Tanzania has full corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution, delivery and performance of this Agreement by PanAfrican Tanzania (i) has been duly authorized by all requisite corporate action on the part of PanAfrican Tanzania, and no other proceedings on the part of PanAfrican Tanzania or any other Person are necessary to such authorization, and (ii) will not (A) violate (1) the Laws of Tanzania, or any applicable order of GOT, any Government Entity or court or (2) any provision of the Memorandum and Articles of Association of PanAfrican Tanzania, or (B) violate, be in conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any indenture, agreement for borrowed money, bond, note, instrument or other agreement to which PanAfrican Tanzania is a party or by which PanAfrican Tanzania or its property is bound, excluding those defaults or violations that would not, individually or in the aggregate, have a material adverse effect on the business, properties, financial condition or results of operation of PanAfrican Tanzania or on its ability to perform its obligations hereunder. This Agreement has been duly executed and delivered by PanAfrican Tanzania.
- (c) Assuming it constitutes a legal, valid and binding obligation of each of the other Parties, this Agreement constitutes a legal, valid and binding obligation of PanAfrican Tanzania, enforceable against it in accordance with its terms, subject to (i) bankruptcy, insolvency, reorganization, moratorium, or other similar laws now or hereafter in effect relating to creditors' rights and (ii) to general principles of equity.
- (d) To the best of its knowledge after reasonable inquiry, no filing or registration with, no notice to and no permit, authorization, consent or approval of any Person is required for the execution, delivery or performance of this Agreement by PanAfrican Tanzania, except for (i) the Consents that have been obtained and are in full force and effect; (ii) such

Consents as may be required in the future, which will be applied for in due course and diligently pursued; and (iii) such Consents not listed on Annex A to the Implementation Agreement that after the date of this Agreement are determined to have been required, which Consents PanAfrican Tanzania will apply for as soon as practicable after learning of such requirement and diligently pursue.

- (e) PanAfrican Tanzania is not in default under any agreement or instrument of any nature whatsoever to which it is a party or by which it is bound in any manner that would have a material adverse effect on its ability to perform its obligations hereunder or the validity or enforceability of this Agreement.
- (f) Except as otherwise disclosed in writing on or prior to the date hereof to the other Parties, there is no action, suit, proceeding or investigation pending or, to PanAfrican Tanzania's knowledge, threatened, (i) for the dissolution of PanAfrican Tanzania, or (ii) against PanAfrican Tanzania, which, if adversely determined, would have a material adverse effect on its ability to perform its obligations hereunder or the validity or enforceability of this Agreement.

#### 24.2 TPDC Representations and Warranties.

TPDC hereby represents and warrants to the other Parties that:

- (a) TPDC is a statutory corporation duly organized by the Tanzania Petroleum Development Corporation (Establishment) Order, 1969, as amended, validly existing under the Laws of Tanzania, and has all requisite corporate power and authority to own or lease and operate its properties and to carry on its business as now being conducted and as proposed to be conducted.
- (b) TPDC has full corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution, delivery and performance of this Agreement by TPDC (i) has been duly authorized by all requisite corporate action on the part of TPDC, and no other proceedings on the part of TPDC or any other Person are necessary to such authorization, and (ii) will not (A) violate (1) the Laws of Tanzania or any applicable order of GOT, any Government Entity or court or (2) any provision of the Establishment Order, 1969, as amended, of TPDC, or (B) violate, be in conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any indenture, agreement for borrowed money, bond, note, instrument or other agreement to which TPDC is a party or by which TPDC or its property is bound, excluding those defaults or violations that would not, individually or in the aggregate, have a material adverse effect on the business, properties, financial condition or results of operation of TPDC or its ability to

perform its obligations hereunder. This Agreement has been duly executed and delivered by TPDC.

- (c) Assuming it constitutes a legal, valid and binding obligation of the other Parties, this Agreement constitutes a legal, valid and binding obligation of TPDC, enforceable against it in accordance with its terms, subject to (i) bankruptcy, insolvency, reorganization, moratorium, or other similar laws now or hereafter in effect relating to creditors' rights and (ii) to general principles of equity.
- (d) To the best of its knowledge, after reasonable inquiry, no filing or registration with, no notice to and no permit, authorization, consent or approval of any Person is required for the execution, delivery or performance of this Agreement by TPDC, except for (i) such permits, authorizations, consents or approvals that have been obtained and are in full force and effect; (ii) such permits, authorizations, consents or approvals as may be required in the future, which will be applied for in due course and diligently pursued; and (iii) such permits, authorizations, consents or approvals that after the date of this Agreement are determined to have been required, which permits, authorizations, consents or approvals TPDC shall apply for as soon as practicable after learning of such requirement and diligently pursue.
- (e) TPDC is not in default under any agreement or instrument of any nature whatsoever to which it is a party or by which it is bound in any manner that would have a material adverse effect on its ability to perform its obligations hereunder or the validity or enforceability of this Agreement.
- (f) Except as otherwise disclosed in writing on or prior to the date hereof to the other Parties, there is no action, suit, proceeding or investigation pending or, to TPDC's knowledge, threatened, (i) for the dissolution of TPDC, or (ii) against TPDC which, if adversely determined, would have a material adverse effect on its ability to perform its obligations hereunder or the validity or enforceability of this Agreement.
- (g) The Development Licence is valid and enforceable, and the rights to Additional Gas and other Petroleum are validly assignable to PanAfrican Tanzania under this Agreement and the Gas Agreement.
- (h) TPDC has no right of immunity from court process, attachment or execution against its assets under the Government Proceedings Act of 1967, as amended.

### 24.3 GOT Representations and Warranties.

GOT hereby represents and warrants to the other Parties that:

- (a) The Minister has the full power and authority to execute and deliver this Agreement on behalf of GOT. GOT has full power and authority to perform its obligations hereunder. The execution, delivery and performance of this Agreement by GOT (i) has been duly authorized by all requisite action on the part of GOT and any applicable Government Entity and (ii) will not (A) violate the Laws of Tanzania or any applicable order of any Government Entity or court or (B) violate, be in conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any indenture, agreement for borrowed money, bond, note, instrument or other agreement to which GOT is a party or by which GOT or its property is bound, excluding defaults or violations that would not, individually or in the aggregate, have a material adverse effect on the properties or financial condition of GOT or on its ability to perform its obligations hereunder. This Agreement has been duly executed and delivered by the Minister on behalf of GOT.
- (b) Assuming it constitutes a legal, valid and binding obligation of each of the other Parties, this Agreement constitutes a legal, valid and binding obligation of GOT enforceable against it in accordance with its terms, subject to general principles of equity.
- (c) No filing or registration with, no notice to and no permit, authorization, consent or approval of any Person is required for the execution, delivery or performance of this Agreement by GOT, except for such permits, authorizations, consents or approvals as have been obtained and are in full force and effect.
- (d) GOT is not in default under any agreement or instrument of any nature whatsoever to which it is a party or by which it is bound in any manner that would have a material adverse effect on its ability to perform its obligations hereunder or the validity or enforceability of this Agreement.
- (e) Except as otherwise disclosed in writing on or prior to the date hereof to the other Parties, there is no action, suit, proceeding or investigation pending or, to the GOT's knowledge, threatened, against GOT, which, if adversely determined, would have a material adverse effect on its ability to perform its obligations hereunder or the validity or enforceability of this Agreement.
- (f) The Development Licence is valid and enforceable, and the rights to Additional Gas and other Petroleum are validly assignable to PanAfrican Tanzania under this Agreement and the Gas Agreement.

#### 24.4 PanAfrican Tanzania Covenants.

- (a) PanAfrican Tanzania will exercise its rights under the Development Licence at all times in compliance with the Master Plan, the Protected Gas Plan, and the Additional Gas Plan in effect.
- (b) PanAfrican Tanzania will procure and maintain all Consents necessary for its performance under this Agreement, give all required notices and allow all required inspections under all Consents obtained or applied for by it in connection with its facilities used in the Exploration Operations and Development Operations in the Contract Area and pay all prescribed fees in connection with such Consents.
- (c) PanAfrican Tanzania will obtain any additional Consents as may become required to continue to meet its obligations under this Agreement.
- (d) PanAfrican Tanzania shall work together with Songas and TPDC to operate and manage the Contract Area in a manner that will optimize the available gas reserves.
- (e) Regardless of whether it is operating on its own behalf or on behalf of Songas, PanAfrican Tanzania will design, engineer, construct, complete, operate and maintain all facilities used in the production of Protected Gas and Additional Gas in a good and workmanlike manner, using materials and equipment that are appropriate for their intended use and will, in connection with Gas Facilities operated on behalf of Songas and any facilities used to produce Additional Gas, (i) comply with the Master Plan, the Protected Gas Plan and Additional Gas Plans; (ii) comply with all applicable Laws of Tanzania and the Consents; and (iii) comply with sound engineering practices and Good Oilfield Practices.
- (f) PanAfrican Tanzania shall maintain its corporate existence in compliance with the laws of Jersey and shall comply with all Laws of Tanzania.
- (g) PanAfrican Tanzania will permit any Party or such Party's accountants to examine all relevant books, records, reports and other papers of PanAfrican Tanzania for the purpose of verifying compliance with this Agreement. PanAfrican Tanzania shall keep such books, records, reports and other papers in sufficient detail to permit the Parties to calculate and evaluate such matters. Any such examination by a Party shall be made during regular business hours and upon reasonable advance notice to PanAfrican Tanzania. In connection with such examination, PanAfrican Tanzania will permit any Party and such Party's accountants to make copies and extracts of such books, records, reports and other papers and to discuss such matters with PanAfrican Tanzania's officers and employees. If, after discussion of such matters with PanAfrican Tanzania's officers and employees, a Party wishes to review such matters with PanAfrican Tanzania's external accountants, PanAfrican Tanzania shall direct its



external accountants to communicate directly with such Party concerning such matters. The costs and expenses of PanAfrican Tanzania's external accountants shall be for the account of the Party undertaking such examination, unless such examination reveals material discrepancies, in which event such reasonable costs and expenses of PanAfrican Tanzania's external accountants and those reasonable third-party expenses of the Party undertaking such examination shall be borne by PanAfrican Tanzania.

#### 24.5 TPDC Covenants.

TPDC hereby covenants that it will:

- (a) Keep the Development Licence in effect as provided herein;
- (b) Act in good faith and in a commercially reasonable manner in all aspects related to (i) its approval rights over PanAfrican Tanzania's activities under the Master Plan and the Additional Gas Plans and (ii) PanAfrican Tanzania's proposals for further development of the Contract Area;
- (c) Not amend or seek to amend, terminate or seek to terminate, or waive its rights under, the Development Licence without the consent of each of Songas and PanAfrican Tanzania, so long as each remains the transferee and assignee of exclusive rights thereunder, which consents shall not be unreasonably withheld, and shall not, without the consent of PanAfrican Tanzania, seek or acquiesce in any waiver in respect of the Contract Area of its rights as holder of the Development Licence under the Act; and
- (d) Promptly make such applications to the Ministry as are reasonably requested by PanAfrican Tanzania.

#### 24.6 GOT Covenants.

The GOT, through the Ministry, covenants that in the event TPDC, for whatever reason, no longer holds the Development Licence during the term of the Development Licence as provided in Section 42 of the Act, the GOT will ensure that the Development Licence is issued to another Person obligated and able to honor TPDC's obligations hereunder and under the Gas Agreement. Solely for the purpose of this Section 24.6, GOT agrees that in any proceeding for the revocation, suspension or cancellation of the Development Licence under Section 51 of the Act, GOT will deem Songas and PanAfrican Tanzania registered holders of the Development Licence until such time as it issues the Development Licence to another Person.

## ARTICLE XXV

### DEFICIENCY; DEFAULT; TERMINATION

#### 25.1 TPDC Deficiency.

Each of the following events, upon expiration of any consultation or other cure period provided in Section 25.4, shall be a TPDC Deficiency; provided, however, that no such event shall be a TPDC Deficiency if it results substantially from a breach by any other Party of any of the Basic Agreements or Financing Agreements, or if it occurs substantially as a result of a Force Majeure Event or Political Event, both as provided under the Implementation Agreement:

- (a) the failure by TPDC to maintain in effect the Development Licence;
- (b) the failure by TPDC to make timely payment to all applicable Persons of all royalties, annual charges or other taxes or fees related to the Contract Area;
- (c) assignment by TPDC of this Agreement, except as provided in Section 28.11;
- (d) any statement, representation or warranty made by TPDC in this Agreement proving to have been incorrect, in any material respect, when made or deemed to have been made, and such failure or incorrect statement, representation or warranty materially, adversely affects TPDC's ability to perform its obligations under this Agreement;
- (e) any breach by TPDC of any other material covenant or agreement in this Agreement that is not remedied within 60 days after receipt by TPDC of notice identifying the material breach in question in reasonable detail, and demanding remedy thereof; provided, however, that for material breaches that can be cured only in more than 60 days, TPDC may have such additional time to cure any material breach under this Agreement as it estimates may be necessary to cure such breach if, prior to the end of such 60-day period, TPDC provides satisfactory evidence to the other Parties that (i) it has commenced and is diligently pursuing a cure and (ii) more than 60 days will be required in order to effectuate such cure, and providing a good faith estimate of the amount of time needed to effectuate such cure;
- (f) except for the purpose of amalgamation, reorganization or reconstruction that does not materially affect the ability of the amalgamated, reorganized or reconstructed entity, as the case may be, to perform its obligations under this Agreement, the passing of a resolution by the shareholders of TPDC for the winding up of TPDC; or

- (g) (i) the voluntary filing by TPDC of a petition of bankruptcy, moratorium or other similar relief; (ii) the appointment of a liquidator in a proceeding for the winding up of TPDC after notice to TPDC and due hearing, which appointment has not been set aside or stayed within 90 days of such appointment, or (iii) the making by a court with jurisdiction over TPDC of an order winding up TPDC which is not stayed or reversed by a court of competent authority within 30 days; or
- (h) any TPDC Deficiency under the Gas Agreement that has a material adverse affect on its ability to perform its obligations under this Agreement, except for any TPDC Deficiency under the Gas Agreement pursuant to a cross-default provision in the Gas Agreement unless such TPDC Deficiency is otherwise a TPDC Deficiency under the Gas Agreement.

## 25.2 PanAfrican Tanzania Events of Default.

Each of the following events, upon expiration of any consultation or other cure period provided in Section 25.4, shall be an PanAfrican Tanzania Event of Default; provided, however, that no such event shall be an PanAfrican Tanzania default if it results substantially from a breach by any other Party under any of the Basic Agreements or Financing Agreements or if it occurs substantially as a result of a Force Majeure Event or Political Event, both as provided under the Implementation Agreement:

- (a) assignment by PanAfrican Tanzania of this Agreement, except as provided in Section 28.11;
- (b) any statement, representation or warranty made by PanAfrican Tanzania in this Agreement proving to have been incorrect, in any material respect, when made or deemed to have been made, and such failure or incorrect statement, representation or warranty materially, adversely affects PanAfrican Tanzania's ability to perform its obligations under this Agreement;
- (c) the failure by PanAfrican Tanzania to make timely payment to all applicable Persons of all reimbursements, annual charges or other taxes or fees related to the Contract Area;
- (d) any breach by PanAfrican Tanzania of any other material covenant or agreement in this Agreement that is not remedied within 60 days after receipt by PanAfrican Tanzania of notice identifying the material breach in question in reasonable detail, and demanding remedy thereof; provided, however, that for material breaches that can be cured only in more than 60 days PanAfrican Tanzania may have such additional time to cure any material breach under this Agreement as it estimates may be necessary to cure such breach if, prior to the end of such 60-day period, PanAfrican Tanzania provides satisfactory evidence to the other Parties that (i) it has commenced and is diligently pursuing a cure and (ii) more than 60 days

will be required in order to effectuate such cure, and providing a good faith estimate of the amount of time needed to effectuate such cure;

- (e) except for the purpose of amalgamation, reorganization or reconstruction that does not materially affect the ability of the amalgamated, reorganized or reconstructed entity, as the case may be, to perform its obligations under this Agreement, the passing of a resolution by the shareholders of PanAfrican Tanzania for the winding up of PanAfrican Tanzania;
- (f) (i) the voluntary filing by PanAfrican Tanzania of a petition of bankruptcy, moratorium or other similar relief; (ii) the appointment of a liquidator in a proceeding for the winding up of PanAfrican Tanzania after notice to PanAfrican Tanzania and due hearing, which appointment has not been set aside or stayed within 90 days of such appointment; or (iii) the making by a court with jurisdiction over PanAfrican Tanzania of an order winding up PanAfrican Tanzania which is not stayed or reversed by a court of competent authority within 30 days; or
- (g) any PanAfrican Tanzania Event of Default under the Gas Agreement or Gas Processing and Transportation Agreement that in any such case has a material adverse affect on its ability to perform its obligations under this Agreement, except for any PanAfrican Tanzania Event of Default under such agreements pursuant to a cross-default provision in such agreements unless such PanAfrican Tanzania Event of Default is otherwise an PanAfrican Tanzania Event of Default under such agreements.

### 25.3 GOT Special Events.

Each of the following events, upon the expiration of any consultation periods or other cure periods provided in Section 25.4, shall be a GOT Special Event; provided, however, that no such event shall be a GOT Special Event if it results substantially from a breach by PanAfrican Tanzania under the Basic Agreements or Financing Agreements or if it occurs substantially as a result of a Force Majeure Event:

- (a) assignment by the Ministry of this Agreement, except as provided in Section 28.11;
- (b) any statement, representation or warranty made by the Ministry or GOT in this Agreement proving to have been incorrect, in any material respect, when made or deemed to have been made, and such failure or incorrect statement, representation or warranty materially, adversely affects GOT's ability to perform its obligations under this Agreement; or
- (c) any breach by GOT of any other material covenant or agreement in this Agreement that is not remedied within 60 days after receipt by the Ministry of notice identifying the material breach in question in reasonable detail, and demanding remedy thereof; provided, however, that for material breaches that can be cured only in more than 60 days, GOT

may have such additional time to cure any material breach under this Agreement as it estimates may be necessary to cure such breach if, prior to the end of such 60-day period, GOT provides satisfactory evidence to the other Parties that (i) it has commenced and is diligently pursuing a cure and (ii) more than 60 days will be required in order to effectuate such cure, and providing a good faith estimate of the amount of time needed to effectuate such cure; or

- (d) any GOT Special Event under the Gas Agreement that has a material adverse affect on its ability to perform its obligations under this Agreement, except for any GOT Special Event under the Gas Agreement pursuant to a cross-default provision in the Gas Agreement unless such GOT Special Event is otherwise a GOT Special Event under the Gas Agreement.

#### 25.4 Termination.

- (a) Upon the occurrence of a default or deficiency specified in Section 25.1 through 25.3, a non-defaulting or non-deficient Party may deliver a notice to the other Parties and Songas that an event has occurred or is occurring that could result in a TPDC Deficiency, PanAfrican Tanzania Event of Default or GOT Special Event, as appropriate. The Notice of Contract Event shall specify in reasonable detail the default or deficiency giving rise to the Notice of Contract Event. The Notice of Contract Event shall initiate a consultation period of 90 days, except that the consultation period shall be stayed for the duration of any dispute resolution process as provided in Article XXVII.
- (b) If the event is not remedied by the end of the consultation period or such longer period as the Parties may agree to in writing, or is not cured within the applicable period, any other Party may, at its option, initiate termination of this Agreement by delivering a Notice of Intent to Terminate to all other Parties and Songas. In the event that PanAfrican Tanzania is not in default, it may suspend Petroleum Operations in the Contract Area upon issuance of the Notice of Intent to Terminate.
- (c) Following the giving of a Notice of Intent to Terminate, the Parties shall consult for a period of up to 30 days (or such longer period as the Parties may mutually agree) as to what steps shall be taken with a view to mitigating the consequences of the relevant event, taking into account all prevailing circumstances. During the period following delivery of the Notice of Intent to Terminate, the Party in deficiency or default or subject to a special event, as the case may be, may continue to undertake efforts to cure the deficiency, default or special event, and if cured at any time prior to the delivery of a Notice of Termination in accordance with Section 25.4(d), then the Parties shall have no right to terminate this Agreement in respect of such cured deficiency, default or special event, as the case may be.

- (d) Upon expiration of the consultation period described in Section 25.4(c), unless the Parties shall have otherwise agreed or unless the deficiency, default or special event giving rise to the Notice of Intent to Terminate shall have been remedied, the Party having given the Notice of Intent to Terminate may terminate this Agreement by delivering a Notice of Termination to the other Parties and Songas, upon which this Agreement shall terminate immediately; provided, however, that upon the termination of TPDC following a TPDC Deficiency, the GOT agrees, at its option, (i) to recognize the assignment of the Development Licence to Songas and PanAfrican Tanzania, or (ii) to assign the Development Licence to a successor to TPDC, which shall thereupon assign the Development Licence to Songas and PanAfrican Tanzania.

#### 25.5 Obligations Upon Termination.

Upon expiration or termination of this Agreement, the Parties shall have no further obligations hereunder except for obligations that arose prior to such expiration or termination and obligations that are expressly stated to survive such expiration or termination pursuant to this Agreement, including the obligation to pay indemnified Losses under Article XXVI and the obligation to maintain confidentiality under Section 14.3.

#### 25.6 Other Remedies.

The exercise of the right of any Party to terminate this Agreement as provided herein does not preclude such Party from exercising other remedies that are provided herein or are available at law. Remedies are cumulative, and the exercise of, or failure to exercise, one or more of them by a Party shall not limit or preclude the exercise of, or constitute a waiver of, other remedies by such Party.

## ARTICLE XXVI

### LIABILITY AND INDEMNIFICATION

#### 26.1 Limitation of Liability.

No Party shall be liable to any other Party in contract, tort, warranty, strict liability or any other legal theory for any indirect, consequential, incidental, punitive or exemplary damages. No Party shall have any liability to any other Party except pursuant to, or for breach of, this Agreement; provided, however, that this provision is not intended to constitute a waiver of any rights of any one Party against one or both of the others with regard to matters unrelated to this Agreement or any activity not contemplated by the Basic Agreements or Financing Agreements.

#### 26.2 Indemnification.

- (a) Except as specifically provided elsewhere in this Agreement, the GOT shall indemnify each of the other Parties against, and hold each of the other Parties harmless from, at all times after the date hereof, any and all Losses incurred, suffered, sustained or required to be paid, directly or indirectly, by, or sought to be imposed upon, any such Party, for personal injury or death to persons or damage to property arising out of any negligent or intentional act or omission by the GOT in connection with this Agreement. Notwithstanding anything to the contrary contained in the preceding sentence, nothing in this Section 26.2(a) shall apply to any Loss to the extent that the Party claiming indemnification (i) receives indemnification pursuant to the terms of any of the Basic Agreements or Financing Agreements or (ii) is reimbursed pursuant to any insurance policy.
- (b) Except as specifically provided elsewhere in this Agreement and except as may be otherwise provided in any Joint Operations Agreement, TPDC shall indemnify each of the other Parties against, and hold each of the other Parties harmless from, at all times after the date hereof, any and all Losses incurred, suffered, sustained or required to be paid, directly or indirectly, by, or sought to be imposed upon, any such Party, for personal injury or death to Persons or damage to property arising out of any negligent or intentional act or omission by TPDC in connection with this Agreement. Notwithstanding anything to the contrary contained in the preceding sentence, nothing in this Section 26.2(b) shall apply to any Loss to the extent that the Party claiming indemnification (i) receives indemnification pursuant to the terms of any of the Basic Agreements or Financing Agreements or (ii) is reimbursed pursuant to any insurance policy.
- (c) Except as specifically provided elsewhere in this Agreement and except as may be otherwise provided in any Joint Operations Agreement,

PanAfrican Tanzania shall indemnify each of the other Parties against, and hold each of the other Parties harmless from, any and all Losses incurred, suffered, sustained or required to be paid, directly or indirectly, by, or sought to be imposed upon, any such Party, for personal injury or death to Persons or damage to property arising out of any negligent or intentional act or omission by PanAfrican Tanzania in connection with this Agreement. Notwithstanding anything to the contrary contained in the preceding sentence, nothing in this Section 26.2(c) shall apply to any Loss to the extent that the Party claiming indemnification (i) receives indemnification pursuant to the terms of any of the Basic Agreements or Financing Agreements or (ii) is reimbursed pursuant to any insurance policy.

- (d) In the event injury or damage results from the joint or concurrent negligent or intentional acts or omissions of any of the Parties, each such Party shall be liable under this indemnification in proportion to its relative degree of fault.
- (e) The provisions of this Section 26.2 shall survive for a period of five years following any termination of this Agreement with respect to any acts or omissions or claims for indemnification which occurred or arose prior to such termination.

### 26.3 Assertion of Claims to Exceed Minimum Indemnification Amount.

Each Party shall be solely liable, and shall not be entitled to assert any claim for indemnification under this Agreement, for any Loss that would otherwise be the subject of indemnification under this Agreement until all Losses of such Party, in the aggregate, during the then-current year exceed the US\$10,000, in which event such Party shall be able to recover for all its Losses for such year. For the purposes of this Section 26.3, a Loss (or claim for indemnification) shall be deemed to arise in the year the event giving rise to such Loss (or claim for indemnification) occurred, or if the event is continuing in more than one year, in the year such event ends.

### 26.4 Indemnification for Fines and Penalties.

Any fines or other penalties incurred by a Party (other than fines or penalties due in whole or in part to the negligence or intentional acts or omissions of another Party) for non-compliance with Laws of Tanzania or any applicable Consents shall not be reimbursed by any or all of the other Parties but shall be the sole responsibility of the non-complying Party.

### 26.5 Notice of Proceedings.



Each Party shall promptly notify the other Party of any Loss or proceeding in respect of which such notifying Party is or may be entitled to indemnification pursuant to Section 26.2. Such notice shall be given as soon as reasonably practicable after the relevant Party becomes aware of the Loss or proceeding and that such Loss or proceeding may give rise to an indemnification, but in any event no later than 14 days after the receipt by the Party seeking indemnification of notice of the commencement of any action for which indemnity may be sought. The delay or failure of such indemnified Party to provide the notice required pursuant to this Section 26.5 to the other Party shall not release the other Party from any indemnification obligation which it may have to such indemnified Party except (i) to the extent that such failure or delay materially and adversely affected the indemnifying Party's ability to defend such action or increased the amount of the Loss, and (ii) that the indemnifying Party shall not be liable for any costs or expenses of the indemnified Party in the defence of the claims, suit, action or proceeding during such period of failure or delay.

#### 26.6 Defence of Claims.

- (a) Upon acknowledging in writing its obligation to indemnify an indemnified Party to the extent required pursuant to this Article XXVI, the indemnifying Party shall be entitled, at its option (subject to Section 26.6(e)), to assume and control the defence of such claim, action, suit or proceeding at its expense with counsel of its selection, subject to the prior reasonable approval of the indemnified Party.
- (b) Unless and until the indemnifying Party acknowledges in writing its obligation to indemnify the indemnified Party to the extent required pursuant to this Article XXVI, and assumes control of the defence of a claim, suit, action or proceeding in accordance with Section 26.6(a), the indemnified Party or Parties shall have the right, but not the obligation, to contest, defend and litigate, with counsel of their own selection, any claim, action, suit or proceeding by any third party alleged or asserted against such Party in respect of, resulting from, related to or arising out of any matter for which it is entitled to be indemnified hereunder, and the reasonable costs and expenses thereof shall be subject to the indemnification obligations of the indemnifying Party hereunder.
- (c) Upon assumption by the indemnifying Party of the control of the defence of a claim, suit, action or proceeding pursuant to Section 26.6(a), the indemnifying Party shall reimburse the indemnified Party or Parties for the reasonable costs and expenses of the indemnified Party or Parties in the defence of the claim, suit, action or proceeding prior to the indemnifying Party's acknowledgment of the indemnification and assumption of the defence.
- (d) Neither the indemnifying Party nor the indemnified Party shall be entitled to settle or compromise any such claim, action, suit or proceeding without the prior written consent of the other; provided, however, that after agreeing in writing to indemnify the indemnified Party, the indemnifying Party may, subject to Section 26.6(e), settle or compromise any claim

without the approval of the indemnified Party. Except where such consent is unreasonably withheld, if a Party settles or compromises any claim, action, suit or proceeding in respect of which it would otherwise be entitled to be indemnified by the other Party, without the prior written consent of the other Party, the other Party shall be excused from any obligation to indemnify the Party making such settlement or compromise in respect of such settlement or compromise.

- (e) Following the acknowledgment of the indemnification and the assumption of the defence by the indemnifying Party pursuant to Section 26.6(a), the indemnified Party shall have the right to employ its own counsel and such counsel may participate in such action, but the fees and expenses of such counsel shall be at the expense of such indemnified Party, when and as incurred, unless (i) the employment of counsel by such indemnified Party has been authorized in writing by the indemnifying Party; (ii) the indemnified Party shall have reasonably concluded and specifically notified the indemnifying Party that there may be a conflict of interest between the indemnifying Party and the indemnified Party in the conduct of the defence of such action; (iii) the indemnifying Party shall not in fact have employed independent counsel reasonably satisfactory to the indemnified Party to assume the defence of such action and shall have been so notified by the indemnified Party; or (iv) the indemnified Party shall have reasonably concluded and specifically notified the indemnifying Party either that there may be specific defences available to it which are different from or additional to those available to the indemnifying Party or that such claim, action, suit or proceeding involves or could have a material, adverse effect upon the indemnified Party beyond the scope of this Agreement. If clause (ii), (iii) or (iv) of the preceding sentence shall be applicable, then counsel for the indemnified Party shall have the right to direct the defence of such claim, action, suit or proceeding on behalf of the indemnified Party and the reasonable fees and disbursements of such counsel shall constitute legal or other expenses hereunder.

#### 26.7 Subrogation.

Upon payment of any indemnification by a Party pursuant to Section 26.2, the indemnifying Party, without any further action, shall be subrogated to any and all claims that the indemnified Party may have relating thereto, and such indemnified Party shall at the request and expense of the indemnifying Party cooperate with the indemnifying Party and give at the request and expense of the indemnifying Party such further assurances as are necessary or advisable to enable the indemnifying Party vigorously to pursue such claims.

## ARTICLE XXVII

### RESOLUTION OF DISPUTES

#### 27.1 Notice of Dispute.

In the event that there arises between or among the Parties any dispute, controversy or claim arising out of or relating to this Agreement or the breach, termination or validity thereof, the Party wishing to declare a dispute shall deliver to the other Parties a written notice identifying the disputed issue.

#### 27.2 Resolution by Parties.

- (a) Within 30 days of delivery of notice of a dispute, the Parties shall attempt in good faith to settle such dispute by mutual discussions, which may include referring the dispute to the Advisory Committee.
- (b) In the event that the dispute is not resolved by discussion in accordance with Section 27.2(a) or if the Parties do not agree with the recommendation of or resolution proposed by the Advisory Committee or the Advisory Committee has not made a recommendation or proposed a resolution within 30 days of the dispute being referred to it, any Party may refer the dispute to the chief executive officers of the Parties for further consideration. In the event that such individuals are unable to reach agreement within 15 days, or such longer period as they may agree, then any Party may refer the matter to an expert in accordance with Section 27.3 hereof or, if the dispute is not a Technical Dispute, commence arbitration of the dispute in accordance with Section 27.4.

#### 27.3 Technical Disputes.

- (a) In the event that the Parties are unable to resolve a Technical Dispute in accordance with Section 27.2, then any Party, in accordance with this Section 27.3, may refer the Technical Dispute to an expert for consideration of the Technical Dispute and to obtain a recommendation from the expert as to the resolution of the Technical Dispute. The expert shall have demonstrated expertise in the area to which such Technical Dispute relates and shall not be an agent, employee, or contractor or a former agent, employee or contractor of any Party involved in the Technical Dispute. In the event that the Parties cannot agree within 15 days as to whether a dispute falls within the definition of a Technical Dispute, then Section 27.3 shall not be used to resolve this dispute and the Parties shall proceed directly to arbitration under Section 27.4 to resolve the dispute.

- (b) The Party initiating submission of the Technical Dispute to the expert shall provide the other Parties with a notice stating that it is submitting the Technical Dispute to an expert and nominating the Person it proposes to be the expert. The other Parties shall, within 15 days of receiving such notice, notify the initiating Party whether such Person is acceptable. If any Party receiving such notice fails to respond or notifies the initiating Party that the Person is not acceptable, the Parties shall meet and discuss in good faith for a period of 10 days to agree upon a Person to be the expert. If the Parties are unable to agree, each of the responding Parties shall by the end of such 10-day period nominate a Person to be an expert, whereupon the nominated experts shall meet and agree upon a Person who shall be the expert. If the experts fail to agree upon an expert within 10 days, any Party may request the International Chamber of Commerce (“ICC”) Centre for Expertise to suggest a Person, who shall be the expert.
- (c) Consideration of the Technical Dispute by an expert shall be initiated by the Party seeking consideration of the Technical Dispute by the expert submitting within 10 days of the appointment of the expert to both the expert and the other Parties written materials setting forth (i) a description of the Technical Dispute, (ii) a statement of the initiating Party’s position, and (iii) copies of records supporting the initiating Party’s position. Within 10 days of the date that a Party has submitted the materials described in the preceding sentence, any responding Party may submit to the expert (A) a description of the Technical Dispute, (B) a statement of the responding Party’s position, and (C) copies of any records supporting the responding Party’s position. In addition to the material provided to the expert by the initiating Party, the expert shall consider any such information submitted by the responding Parties within such 10-day period and, in the expert’s discretion, any additional information submitted by any Party at a later date. Any materials submitted by a Party to the expert shall be simultaneously submitted by such Party to the other Parties..
- (d) Each Party shall designate one Person knowledgeable about the issues in dispute who shall be available to the expert to answer questions and provide any additional information requested by the expert. Except for such Person, a Party shall not be required to, but may, provide oral statements or presentations to the expert or make any particular individuals available to the expert.
- (e) Except as provided in Section 27.3(h) with respect to the payment of costs, the proceedings shall be without prejudice to any Party and any evidence given or statements made in the course of this process may not be used against a Party in any other proceedings. The process shall not be regarded as an arbitration, and the laws relating to commercial arbitration shall not apply.

- (f) When consideration of the Technical Dispute by an expert is initiated, the expert shall be requested to provide a recommendation within 15 days after the 10-day response period provided in Section 27.3(c) above has run. If the expert's recommendation is given within such 15-day period, or if the expert's recommendation is given at a later time and no Party has at such time initiated any other proceeding concerning the Technical Dispute, the Parties shall review and discuss the recommendation with each other in good faith for a period of 10 days following delivery of the recommendation before proceeding with any other actions.
- (g) If a Party does not accept the recommendation of the expert with respect to the Technical Dispute, it may initiate arbitration proceedings in accordance with Section 27.4. Similarly, if the expert has not submitted such recommendation within the time period provided in Section 27.3(f), a Party may initiate arbitration proceedings in accordance with Section 27.4.
- (h) The costs of engaging an expert shall be borne equally by the Parties and each Party shall bear its own costs in preparing materials for, and making presentations to, the expert.

#### 27.4 Arbitration.

- (a) Any dispute, controversy or claim arising out of or relating to this Agreement or the breach, termination or validity thereof that is not resolved pursuant to Section 27.2 or Section 27.3 or not within the purview of Section 27.3 shall be finally settled by arbitration in accordance with the Rules of Procedure for Arbitration Proceedings ("ICSID Rules") of the International Centre for Settlement of Investment Disputes ("Centre") established by the Convention on the Settlement of Investment Disputes between States and Nationals of other States ("ICSID Convention"), and the Parties hereby consent to the jurisdiction of the Centre and to arbitration thereunder. It is hereby stipulated that TPDC is an agency of the GOT, and pursuant to the Implementation Agreement, TPDC shall be designated to the Centre by the GOT in accordance with Article 25(1) of the ICSID Convention. In accordance with Article 25(3) of the ICSID Convention, and pursuant to the Implementation Agreement, the GOT has given its approval to TPDC's consent in this Agreement to arbitration under the ICSID Convention. Each Party to the Agreement stipulates that the transaction to which this Agreement relates is an investment within the meaning of the ICSID Convention.
- (b) If the jurisdictional requirements of Article 25 of the ICSID Convention are not met, or if for any other reason the dispute cannot be settled in accordance with the ICSID Rules, such dispute shall be finally settled by arbitration under the Rules of Conciliation and Arbitration of the International Chamber of Commerce (the "ICC Rules").

- (c) The arbitration shall be conducted in Dar es Salaam, Tanzania and, unless otherwise agreed by the Parties, the number of arbitrators shall be one, with such arbitrator to be appointed by agreement of the Parties or failing such agreement, in the case of an arbitration under the ICSID Convention, within 30 days after notice of registration of the request has been dispatched in accordance with the ICSID Convention, or in the case of an arbitration under the ICC Rules, within 30 days from the date when the claimant's request for arbitration has been communicated to the other party, such arbitrator to be appointed in accordance with Article 38 of the ICSID Convention or in accordance with the ICC Rules, as applicable. Notwithstanding the provisions of Section 28.5, the arbitration agreement contained in this Section 27.4 shall be governed by and construed in accordance with English law. Any affected Party may require the arbitration to be conducted outside Tanzania, in which event the arbitration shall be conducted in London, England and the Party requiring arbitration outside Tanzania shall pay the travel and related costs of all Parties. In the event the arbitration is conducted in London, England pursuant to this subsection, the Parties agree that such arbitration shall be deemed to have been initiated and the arbitration award made in London, England.
- (d) No arbitrator appointed pursuant to this Section 27.4 shall be a national of (i) the jurisdiction of any Party to this Agreement; (ii) the jurisdiction of any shareholder or group of shareholders holding more than 10 percent of the aggregate equity interest in Songas; or (iii) the jurisdiction of the ultimate parent company of any such shareholder in Songas; nor shall any such arbitrator be an employee, agent or contractor or former employee, agent or contractor of any Person listed in (i), (ii) or (iii).
- (e) The decision of the arbitrator shall be final and binding upon the Parties, and shall not be subject to appeal. Any Party may petition any court having jurisdiction to enter judgment upon the arbitration award. At the request of any of the Parties, the arbitrator shall cause such arbitration award to be filed with the High Court of Tanzania. Any monetary award shall include interest from the date of any breach or other violation of this Agreement to the date on which the award is paid, at a rate determined by the arbitrator.
- (f) The language at any arbitration under this Agreement shall be English.
- (g) The Parties hereby irrevocably waive and agree to exclude any rights of application or appeal to the courts or rights to state a special case for the opinion of the court to the fullest extent permitted by law in connection with any question of law arising in the course of the arbitration or with respect to any award made. Without limiting the foregoing, the Parties expressly agree that, in the event the arbitration is conducted in London, England, application to the courts for leave to appeal under Section 45 or

Section 69 of the English Arbitration Act 1996 may not be sought with respect to any question of law arising in the course of the arbitration or with respect to any award made. The Parties hereby, to the fullest extent permitted by law, irrevocably waive any right to challenge or contest the validity or enforceability of this arbitration agreement or any arbitration proceeding or award brought in conformity with this Section 27.4, including any objection based on venue or inconvenient forum.

- (h) The arbitral tribunal may consolidate an arbitration arising out of or relating to this Agreement with any arbitration arising out or relating to one or more of the Basic Agreements or Financing Agreements that provides for ICSID arbitration if the subject matter of the disputes arises out of or relates to essentially the same facts or transactions. Such consolidated arbitration shall be determined by the arbitral tribunal appointed for the arbitration proceeding that was commenced first in time. Except as otherwise provided in this subsection (h), the rights of the Parties to proceed with dispute resolution under this Section 27.4 shall be independent of their rights or the rights of related entities to proceed with dispute resolution under any of the other Basic Agreements or Financing Agreements.

## ARTICLE XXVIII

### MISCELLANEOUS PROVISIONS

#### 28.1 Expenses of the Parties.

All expenses incurred by or on behalf of each of the Parties hereto, including all fees and expenses of agents, representatives, counsel and accountants employed by each of the Parties hereto in connection with the preparation of this Agreement and the consummation of the transactions contemplated by this Agreement, shall be borne solely by the Party who shall have incurred such expenses and the other Parties shall have no liability in respect thereof.

#### 28.2 Right to Specific Performance; Waivers.

In the event that any Party fails to perform its obligations hereunder after the satisfaction of all conditions precedent thereto, the other Parties shall have the right to require specific performance of the obligation not performed. Any Party has the right to waive another Party's compliance with a condition to the waiving Party's obligations hereunder and, if all the conditions precedent to the other Party's obligations hereunder have been satisfied, to require specific performance of this Agreement.

#### 28.3 Commercial Acts; Immunity.

Each of GOT and TPDC unconditionally and irrevocably agrees that the execution, delivery and performance by it of this Agreement constitute private and commercial acts.

- (a) In addition to the foregoing, GOT unconditionally and irrevocably agrees that: (i) should any proceeding (including any arbitration proceeding) be brought against it or its assets in relation to this Agreement or any transaction contemplated by this Agreement, no immunity from such proceedings shall be claimed by or on behalf of itself or with respect to its assets (other than the Protected Assets); (ii) it waives any right of immunity that it or any of its assets (other than the Protected Assets) now has or may acquire in the future in any jurisdiction in connection with any such proceedings; and (iii) it consents generally in respect of the enforcement of any judgment against it in any such proceedings (including any arbitration proceedings) in any jurisdiction to the giving of any relief or the issue of any process in connection with such proceedings (including the making, enforcement or execution against or in respect of any of its assets whatsoever (other than the Protected Assets) irrespective of its use or intended use). PanAfrican Tanzania hereby irrevocably waives any and all rights it may have to enforce any judgment or claim against the Protected Assets with respect to any claim against GOT under this Agreement. To the fullest extent permitted by law, and without limiting the generality of the foregoing, GOT waives any right of immunity from



court process, attachment or execution against its assets under the Government Proceedings Act of 1967, as amended.

- (b) In addition to the foregoing, TPDC hereby unconditionally and irrevocably agrees that: (i) should any proceeding (including any arbitration proceeding) be brought against it or its assets in relation to this Agreement or any transaction contemplated by this Agreement, no immunity from such proceedings shall be claimed by or on behalf of itself or with respect to its assets; and (ii) it consents generally in respect of the enforcement of any judgment against it in any such proceedings (including any arbitration proceedings) in any jurisdiction to the giving of any relief or the issue of any process in connection with such proceedings (including the making, enforcement or execution against or in respect of any of its assets whatsoever irrespective of its use or intended use).

#### 28.4 Further Assurances.

If it shall be necessary and proper after the execution hereof to execute any additional documents or take further action to effectuate the intent of this Agreement, the Parties agree to take such action.

#### 28.5 Choice of Law.

This Agreement shall be governed by and construed in accordance with Tanzanian law.

#### 28.6 Entire Agreement.

This Agreement, together with the other Basic Agreements and Financing Agreements, is intended by the Parties as the final expression of their agreement and is intended also as a complete and exhaustive statement of their agreement with respect to the subject matter contained herein.

#### 28.7 Amendments.

This Agreement can be amended only by written agreement among the Parties.

#### 28.8 Waiver.

- (a) No waiver by any Party of any default or deficiency by another Party in the performance of any of the provisions of this Agreement:
  - (i) shall operate or be construed as a waiver of any other or further default or defaults whether of a like or different character; or
  - (ii) shall be effective unless in writing duly executed by a duly authorized representative of such Party.
- (b) Neither the failure by any Party to insist on any occasion upon the performance of the terms, conditions and provisions of this Agreement nor

time or other indulgence granted by one Party to another shall act as a waiver of any breach nor as an acceptance of any variation, or as the relinquishment of any right hereunder.

#### 28.9 Counterparts.

This Agreement may be executed in two or more counterparts, all of which will be considered one and the same Agreement and each of which will be deemed an original.

#### 28.10 Severability.

If any term or provision of this Agreement is held by a court or other authority of competent jurisdiction to be invalid, void, unenforceable or against the public policy, the rest of the Agreement will remain in full force and effect and will in no way be adversely affected; provided, however, that the severance of such term or provision does not render the performance of a Party's material obligations impracticable or impossible.

#### 28.11 Assignment.

This Agreement binds and inures to the benefit of the Parties and their respective successors and permitted assigns, but this Agreement may not be assigned by any Party without the prior written consent of the other Parties, except that TPDC may assign this Agreement to any Person assuming all or part of TPDC's rights and obligations in connection with the subject matter of this Agreement; provided, however, that the GOT without interruption in each case retains its obligations under this Agreement, the Implementation Agreement and the Financing Agreements, or such other commercial security is provided for the obligations of such successor entity that in the reasonable commercial judgment of the other Parties provides an adequate alternative.

#### 28.12 Relationship of the Parties.

This Agreement shall not be interpreted or construed to create an association, joint venture, or partnership among the Parties or to impose any partnership obligation or liability upon any Party. No Party shall have any right, power, or authority to enter into any agreement or undertaking for, to act on behalf of, to act as or be an agent or representative of, or to otherwise bind, another Party.

#### 28.13 No Third Parties.

This Agreement is intended solely for the benefit of the Parties and nothing in this Agreement shall be construed to create any duty to, standard of care with reference to, or any liability to, or confer any right of suit or action on any Person not a Party to this Agreement except for Songas to the extent it has been granted benefits and specific rights under this Agreement.

#### 28.14 Language.

The language for the purpose of administering and interpreting this Agreement shall be English.

28.15 No Liability for Review.

No review and approval by any Party of any agreement, document, instrument, drawing, production plan, specifications or design proposed by another Party shall relieve such Party from any liability that it would otherwise have had for its negligence in the preparation of such agreement, document, instrument, drawing, production plan, specification or design or failure to comply with the applicable Laws of Tanzania with respect thereto, or to satisfy such Party's obligations under this Agreement or any other Basic Agreement or Financing Agreement, nor shall GOT or TPDC be liable to PanAfrican Tanzania or any other Person by reason of its review, acquiescence or approval of an agreement, document, instrument, drawing, production plan, specification, or design.

28.16 Consents.

Unless otherwise provided herein, wherever a consent or approval is required by any Party from another Party, such consent or approval shall not be unreasonably withheld or delayed.

28.17 Economic Benefits.

If after the date of this Agreement there occurs a GOT Action or Inaction, Parastatal Action or Inaction, Lapse of Consent, Court Action or Change in Law that either adversely affects or enhances PanAfrican Tanzania's economic benefits under this Agreement, the Parties shall promptly meet for the purpose of making all necessary adjustments to the relevant provisions of this Agreement so as to maintain the economic benefits to PanAfrican Tanzania specified under this Agreement. In the event that the Parties are unable to agree upon such adjustments within 30 days from the date that any Party gives notice to the other Parties requesting such meeting, then any Party shall have the right to refer the matter to the dispute resolution provisions of Article XXVII.

28.18 Notices.

All notices or other communications to be given or made hereunder shall be in English and in writing, shall be addressed for the attention of the Persons indicated below and shall either be delivered personally or sent by courier or facsimile. The addresses of the Parties and their respective facsimile numbers shall be:

If to GOT:

The Permanent Secretary  
Ministry of Energy and Minerals  
Mkwepu Street/Sokoine Drive Corner  
P.O. Box 2000  
Dar es Salaam, Tanzania  
Attn: Commissioner for Energy and Petroleum Affairs  
Facsimile: 255-22-2111749 or 2120799 or 2116719  
Telephone: 255-22-2112793 or 2139455

with copies to:

The Attorney General  
Attorney General's Chambers  
Kivukoni Front  
P.O. Box 9050  
Dar es Salaam, Tanzania  
Facsimile: 255-22-2113236  
Telephone: 255-22-2111895

If to TPDC:

The Managing Director  
Tanzania Petroleum Development Corporation  
P. O. Box 2774  
Ali Hassani Mwinyi Road  
Dar es Salaam, Tanzania  
Facsimile: 255-22-2129663  
Telephone: 255-22-2136086 or 2118535

If to PanAfrican Tanzania:

PanAfrican Energy Tanzania Limited  
PO Box 332, Sir Walter Raleigh House  
48-50 The Esplanade  
St. Helier, Jersey  
Channel Islands  
JE4 8NX  
Facsimile: 44-1534-700901  
Telephone: 44-1534-700900

with a copy to:

PanAfrican Energy U.K. Ltd.  
Sheridan House  
40-43 Jewry Street  
Winchester  
SO23 8RY  
Facsimile: 44 1534 700951  
Telephone: 44 1534 700950

Except as otherwise expressly provided in this Agreement, all notices shall be deemed to be delivered (i) when delivered by hand or by overnight courier, or (ii) if received during business hours on a business day for the receiving Party, when transmitted by facsimile to the receiving Party's facsimile number and, if received after business hours or on a day that is not a business day for the receiving Party, on the receiving Party's first business day following the date transmitted by facsimile to the receiving Party's facsimile number. Any notice given by facsimile shall be confirmed in writing, delivered personally or sent by courier, but the failure to so confirm shall not void or invalidate the original notice if it is in fact received by the Party to which it is addressed.

- (a) Any Party may by notice to the other Party change the addresses and/or facsimile number to which such notices and communications to it are to be delivered or mailed, and the effective date of such change.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed and delivered by their respective duly authorized officers or representatives as of the date first above written.

THE GOVERNMENT OF THE UNITED  
REPUBLIC OF TANZANIA

WITNESS:

\_\_\_\_\_  
"Signature"

By: "E.D. Maokola-Majogo"  
Name: E.D. Maokola-Majogo (MP)  
Title: Minister For Energy And Minerals

TANZANIA PETROLEUM  
DEVELOPMENT CORPORATION

WITNESS:

\_\_\_\_\_  
"Signature"

By: "Y.S.M. Killagane"  
Name: Y.S.M. Killagane  
Title: Managing Director

PANAFRICAN ENERGY TANZANIA LIMITED

By: "Donald MacPhail"  
Name: Donald MacPhail  
Title: President

## **ACCOUNTING PROCEDURES**

### **ARTICLE I**

#### **GENERAL PROVISIONS**

##### **1.1 Definitions.**

For the purpose of these Accounting Procedures the terms used herein which are defined in the Agreement shall have the same meaning when used in this Annex D. Unless otherwise specified, all references to Articles and Sections in this Annex refer to the Articles and Section of this Annex.

##### **1.2 Purpose.**

The purpose of these Accounting Procedures is to set out principles and procedures of accounting which will enable the GOT to monitor the costs, expenditures, production and receipts so that both TPDC's share of Profit Gas Revenues and Profit Oil Revenues and the GOT's revenues from the Additional Profits Tax and income tax can be accurately determined on the basis of the Agreement.

##### **1.3 Documentation Required to be Submitted by PanAfrican Tanzania.**

- (a) Within 30 days following Financial Closing, PanAfrican Tanzania shall submit to and discuss with the Ministry and TPDC a proposed outline of charts of accounts, operating records and reports, which outline shall reflect each of the categories and subcategories of costs and expenditures specified in Articles II and III below and shall be in accordance with generally accepted and recognized accounting systems and consistent with normal practice for joint venture operations of the international petroleum industry. Within 90 days of receiving the above submission, the Ministry in consultation with TPDC shall either indicate approval of the proposal or request revisions to the proposal. Within 180 days after the Financial Closing, PanAfrican Tanzania and the Ministry, in consultation with TPDC, 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, PanAfrican Tanzania shall expeditiously prepare and provide the Ministry and TPDC with formal copies of the comprehensive charts of accounts related to the accounting, recording and reporting

functions, and allow the Ministry and TPDC to examine the manuals and to review procedures which are, and shall be, observed under the Agreement.

- (b) Notwithstanding the generality of the foregoing, PanAfrican Tanzania shall make regular statements to the Ministry and TPDC relating to the Petroleum Operations. These statements are:
  - (i) Production Statement (see Article V of this Annex);
  - (ii) Cost Allocation Statement (see Article VI of this Annex);
  - (iii) Value of Production and Pricing Statement (see Article VII of this Annex);
  - (iv) Statement of Expenditures and Receipts (see Article VIII of this Annex);
  - (v) Cost Recovery Statement (see Article IX of this Annex);
  - (vi) End-of-Year Statement (see Article X of this Annex); and
  - (vii) Budget Statement (see Article XI of this Annex).
- (c) All reports and statements shall be prepared in accordance with the Agreement, the Laws of Tanzania and, where there are no relevant provisions in either of these, in accordance with the normal practice of the international petroleum industry.

#### 1.4 Language, Units of Account and Exchange Rules.

- (a) PanAfrican Tanzania shall maintain accounts in United States dollars, however, supplementary accounts may be kept in Tanzanian Shillings. American measurements shall be employed in the Agreement and this Annex. The language employed shall be English. Where necessary for clarification PanAfrican Tanzania may also maintain accounts and records in other units of measurement and currencies.
- (b) It is the intent of this Accounting Procedure that neither the GOT, TPDC nor PanAfrican Tanzania should experience an exchange gain or loss at the expense of, or to the benefit of, any of the other Parties. However, should there be any gain or loss from exchange of currency, it will be credited or charged to the accounts under the Agreement.



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

#### 1.5 Payments.

- (a) All payments between the Parties shall, unless otherwise agreed, be in the currency in which PanAfrican Tanzania has received payment for the Additional Gas.
- (b) Discharge of PanAfrican Tanzania's obligation with respect to TPDC's share of Profit Gas Revenues and Profit Oil Revenues shall be made in accordance with the Agreement.
- (c) All sums due to one Party by the other under the Agreement during any Quarter shall, for each day such sums are overdue during such Quarter, bear interest compounded daily at an annual rate equal to (i) if payment is to be made in U.S. Dollars, the average London Interbank Offered Rate (LIBOR) for one-month deposits of Euro Dollars displayed on page "LIBOR01" of the Reuters Money Rates Service (or any other page that replaces page "LIBOR01" for the purposes of displaying the British

Bankers Association (BBA) interest settlement rates for deposits of Euro Dollars in the London Interbank market) on the date of determination or in the event the Reuters Money Rates Service, or a successor thereto, no longer provides such information, such other service as may be agreed by the Parties that provides the British Bankers Association (BBA) interest settlement rates for such deposits of Euro Dollars in the London Interbank market and any other required information previously provided on the page "LIBOR01", plus two percentage points; and (ii) if payment is to be made in Tanzania Shillings, the Overdraft Rate on the first Business Day of such Quarter.

#### 1.6 Audit Requirements.

PanAfrican Tanzania will furnish to GOT and TPDC so long as this Agreement is in effect such financial statements of PanAfrican Tanzania as are required by the Laws of Tanzania. If the Companies Ordinance of Tanzania no longer requires the submission of financial statements, PanAfrican Tanzania shall, as soon as available and in any event within 90 days after the close of each fiscal year of PanAfrican Tanzania thereafter, provide to GOT and TPDC a copy of its balance sheet as of the close of such fiscal year, and statements of income and retained earnings and changes in financial position of PanAfrican Tanzania for such fiscal year, in each case setting forth in comparative form the figures for the preceding fiscal year, all in reasonable detail and accompanied by an opinion thereon of its auditors, who shall be independent accountants, to the effect that such financial statements have been prepared in accordance with generally accepted accounting principles in Tanzania, consistently applied, and that the examination of such accounts in connection with such financial statements has been made by them in accordance with generally accepted auditing standards in Tanzania.

#### 1.7 Audit and Inspection Rights of the GOT.

- (a) Without prejudice to statutory rights, TPDC shall have the right to audit, at its cost, PanAfrican Tanzania's accounts and records maintained hereunder with respect to each year within two years (or such longer period as may be required in exceptional circumstances) from the end of each such year. Notice of any exception to the accounts for any year shall be submitted to PanAfrican Tanzania within 90 days of receipt by TPDC of the report of its auditors. For purposes of auditing, TPDC may examine and verify, at reasonable times, all charges and credits relating to PanAfrican Tanzania'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 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 PanAfrican Tanzania directly or indirectly serving its activities under the Agreement and to visit personnel associated with those activities. Where TPDC requires verification of charges made by an Affiliated Company, it shall have the right to obtain an audit certificate from a recognized firm of public accountants acceptable to both TPDC and PanAfrican Tanzania.

- (b) PanAfrican Tanzania shall answer any notice of exception under Section 1.7(a) within 90 days of its receipt of such notice. Where PanAfrican Tanzania has after such 90-day period failed to answer a notice of exception made by TPDC, TPDC's exception shall be deemed accepted by PanAfrican Tanzania and the accounts shall be adjusted accordingly.

## ARTICLE II

### CLASSIFICATION, DEFINITION AND ALLOCATION OF COSTS AND EXPENDITURES

Expenditures shall be segregated in accordance with the objectives for which such expenditures was made. All expenditures allowable under Article III relating to Petroleum Operations shall be classified, defined and allocated as set out below, with separate accounting of such expenditures on account of Natural Gas production and Crude Oil production. In the event of a discovery, expenditure records shall be maintained in expenditures to each Joint Development Area.

2.1 Exploration Expenses are all direct and allocated indirect expenditures incurred after Financial Closing in the search for Petroleum in an area which is or was, at the time when such expenses were incurred, part of the Contract Area including:

- (a) Airborne and remote geophysical surveys, aerial, geophysical, palaeontological, geological, topographical and seismic surveys and studies and their interpretation;
- (b) Core hole drilling and water well drilling;
- (c) Labour, materials and services used in drilling and testing wells with the object of finding new reservoirs of Petroleum, or for the purposes of appraising the extent of Petroleum provided such wells are not completed as producing wells;
- (d) Facilities used solely in support of the purposes described in (a), (b) and (c) above including access roads, fixed assets and purchased geological and geophysical information, all identified separately;
- (e) Any General and Administrative Costs and Service Costs directly incurred on Exploration Operations and identifiable as such; and a portion of the remaining General and Administrative Costs and Service Costs allocated to the Exploration Operations, determined by the proportionate share of total Contract Expenses (excluding unallocated General and Administrative Costs and Service Costs) represented by all other Exploration Expenses; and
- (f) Any other Contract Expenses specifically incurred in the search for Petroleum after the Financial Closing and not covered under subsections 2.2, 2.3, 2.4 and 2.5.

2.2 Development Expenses shall consist of all expenditures incurred after the Financial Closing in:

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

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

2.4 Service Costs are direct and indirect expenditures in support of the Petroleum Operations including warehouses, export terminals, harbours, piers, marine vessels, vehicles, motorized rolling equipment, aircraft, fire and security stations, workshops, water and sewage plants, power plants, housing community and recreational facilities and furniture, tools and equipment used in these activities. Service Costs in any year shall include costs incurred in such year to purchase and/or construct said facilities as well as the annual costs to maintain and

operate the same, each to be identified separately. All Service Costs shall be regularly allocated as specified in subsections 2.1(e), 2.2(e) and 2.3 to Exploration Expenses, Development Expenses and Operating Expenses and shall be separately shown under each of these categories.

2.5 General and Administrative Costs are:

- (a) All main office, field office and general administrative expenses in Tanzania, including but not limited to supervisory, accounting and employee relations services, but excluding commissions paid to intermediaries by PanAfrican Tanzania;
- (b) An annual overhead charge for services rendered outside Tanzania, and not otherwise charged under this Accounting Procedure, for managing the Petroleum Operations and for staff advice and assistance including financial, legal, accounting and employee relations services. From the Financial Closing this annual charge shall be an amount equal to 1% of the total Contract Expenses, including those covered in subsection 2.5(a), incurred during the year. The annual overhead charge shall be separately identified in all reports to the GOT and TPDC; and
- (c) All General and Administrative Costs will be regularly allocated as specified in subsections 2.1(e), 2.2(e) and 2.3 to Exploration Expenses, Development Expenses and Operating Expenses and shall be separately shown under each of these categories.

2.6 Market and Market Research Costs are all expenditures incurred by PanAfrican Tanzania, or by TPDC with the prior approval of PanAfrican Tanzania, in the marketing of Additional Gas and all reasonable costs and expenses (not exceeding the sum of US\$250,000) incurred by PanAfrican Tanzania in market research activities relating to the marketing of Additional Gas.

### ARTICLE III

#### COSTS, EXPENSES, EXPENDITURES AND CREDITS OF PANAFRICAN TANZANIA

##### 3.1 Costs Recoverable without Further Approval of TPDC.

Subject to the provisions of the Agreement, PanAfrican Tanzania shall bear and pay all costs and expenses in respect of Petroleum Operations. These costs and expenses will be classified under the headings referred to in Article II. The following costs and expenses are recoverable out of Cost Gas Revenues and Cost Oil Revenues by PanAfrican Tanzania under the Agreement.

- (a) Surface Rights. This covers all direct costs attributable to the acquisition, renewal, or relinquishment of surface rights acquired and maintained in force for the purposes of the Agreement.
- (b) Labour and Associated Costs.
  - (i) Gross salaries and wages including bonuses of PanAfrican Tanzania's employees directly and necessarily engaged in the Petroleum Operations (including engineering design work relating to the Petroleum Operations), irrespective of the location of such employees, it being understood that in case of those personnel only a portion of whose time is wholly dedicated to Petroleum Operations, only that pro rata portion of applicable wages and salaries will be charged;
  - (ii) The cost to PanAfrican Tanzania of established plans for employees' group life insurance, hospitalization, company pension, retirement, savings plan and other benefits of a like nature customarily granted to the employees, the costs of safety and service award programs and the costs regarding holiday, vacation, sickness and disability payments applicable to the salaries and wages chargeable under clause (i) above shall be allowed at actual cost, provided, however, that such total costs shall not exceed 25% of the total labour cost under clause (i) above;
  - (iii) Expenses or contributions made pursuant to assessments or obligations imposed under the Laws of Tanzania which are applicable to the cost of salaries and wages chargeable under clause (i) above;
  - (iv) Reasonable travel and personal expenses of employees of PanAfrican Tanzania including those made for travel and relocation of the

Expatriate Employees assigned to Tanzania, all of which shall be in accordance with the normal practice of PanAfrican Tanzania; and

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

(c) Transportation. The cost of transportation of employees and consultants or other representatives, equipment, materials and supplies necessary for the conduct of the Petroleum Operations and not provided for elsewhere.

(d) Charges for Services.

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

(ii) Affiliated Companies. Without prejudice to the charges to be made in accordance with subsection 2.5, in the case of general services, advice and assistance rendered to the Petroleum Operations by an Affiliated Company, the charges will be based on actual costs and will be no greater than market prices. The charges will also be no higher than the most favourable prices charged by the Affiliated Company to third parties for comparable services under similar terms and conditions elsewhere; and

(iii) In the event that the prices and charges referred to in clauses (i) and (ii) above are shown to be uncompetitive, then TPDC will have the right to disallow that portion as it deems fit for cost recovery purposes.

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

(f) Material.

(i) General. So far as is practicable and consistent with efficient and economical operation, only such material shall be purchased or furnished by PanAfrican Tanzania for use in the Petroleum Operations as may be required for use in the reasonably foreseeable future and the accumulation of surplus stocks shall be avoided;



(ii) Warranty of Material. PanAfrican Tanzania does not warrant material beyond the supplier's or manufacturer's guarantee and, in case of defective material or equipment, any adjustment received by PanAfrican Tanzania from the suppliers/manufacturers or their agents will be credited to the accounts under the Agreement; and

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

(A) Except as otherwise provided in (b) below, material purchased by PanAfrican Tanzania for use in Petroleum Operations shall be valued to include invoice price less trade and cash discounts (if any), purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, custom duties, consular fees, other items chargeable against imported material and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site, and its costs shall not exceed those currently prevailing in normal arms' length transactions on the open market;

(B) Material purchased from or sold to Affiliated Companies or transferred to or from activities of PanAfrican Tanzania other than Petroleum Operations 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 to normal arm's length transactions on the open market; and

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

(a) Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classified as Condition "B" and priced at not more than 75% of the current price of new materials defined in (1) above;

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

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

(ii) is serviceable for original function but substantially not suitable for reconditioning, shall be classified as Condition "C" and priced at not more than 50%

of the Condition A price as defined in (1) above. The cost of reconditioning shall be charged to reconditioned material provided that the Condition "C" material value plus the cost of reconditioning does not exceed the value of Condition "B" material;

(c) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value to be agreed between TPDC and PanAfrican Tanzania;

(d) Material involving erection costs shall be charged at the applicable condition percentage of the current price of new material as defined in (1) above, but no erection cost shall be charged;

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

- (g) Taxes, Duties and Other Assessments. All taxes, duties, rentals, levies, charges, fees, contributions and any other assessments and charges levied by the GOT (or any subdivision thereof) in connection with Petroleum Operations or otherwise and paid directly by PanAfrican Tanzania or reimbursed to TPDC, including the Annual Charges referred to in Section 9.2, but excluding any Additional Profits Tax paid pursuant to Article XIII of the Agreement. Such taxes, duties and assessments shall include, without limitation, import duties; taxes, duties, fees and other imposts for specific services rendered on request or to the public or commercial enterprises generally and rent due to the GOT in respect of any land rights granted or assigned to PanAfrican Tanzania; local GOT rates or taxes; and stamp duties, registration fees, licence fees and other similar duties and imposts.
- (h) Insurance and Losses. Insurance premiums and costs incurred for insurance pursuant to Article XVIII of the Agreement, provided that if such insurance is wholly or partly placed with an Affiliated Company, such premiums and costs shall be recoverable only to the extent generally charged by competitive insurance companies other than an Affiliated Company.

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

- (i) Legal Expenses. All reasonable costs and expenses of litigation and legal or related services necessary or expedient for the procuring, perfecting, retention and protection of the Contract Area, and in defending or prosecuting lawsuits involving the Contract Area or any third party claim arising out of activities under the Agreement, or sums paid in respect of legal services necessary or expedient for the protection of the joint interest of the GOT, TPDC and PanAfrican Tanzania are recoverable. Where legal services are rendered in such matters by salaried or regularly retained lawyers of PanAfrican Tanzania or an Affiliated Company, such compensation shall be included instead under subsection 3.1(b) or 3.1(d) above as applicable.
- (j) Training Costs. All costs and expenses incurred by PanAfrican Tanzania in the training of its Tanzanian employees engaged in Petroleum Operations and such other training as is required under Article XVI of the Agreement.
- (k) General and Administrative Costs. The costs described in Section 2.5(a) and the charge described in Section 2.5(b) of this Annex D.
- (l) Market and Market Research Costs. All reasonable costs and expenses incurred by PanAfrican Tanzania, or by TPDC with the prior approval of PanAfrican Tanzania, in the marketing of Additional Gas and all reasonable costs and expenses (not exceeding the sum of US\$250,000) incurred by PanAfrican Tanzania in market research activities relating to the marketing of Additional Gas.
- (m) Environmental Costs. All reasonable costs and expenses incurred by PanAfrican Tanzania to protect the natural environment and marine life in the Contract Area, including the costs of all equipment and environmental training programmes and Environmental Impact Assessment Studies conducted by PanAfrican Tanzania and all remedial actions taken by PanAfrican Tanzania in response to any damage, accident or emergency affecting the environment.
- (n) Safety Programmes. All costs and expenses incurred by PanAfrican Tanzania in connection with safety programmes and training (including safety equipment and materials) for or in respect of Petroleum Operations in the Contract Area.

- (o) Interest and Financing Charges. All interest and other financing charges incurred by PanAfrican Tanzania on loans raised to finance Petroleum Operations under the Agreement.
- (p) Processing and Transportation Costs. All tariffs paid to Songas and any other transporter of Additional Gas for the processing and transportation of Additional Gas, if not otherwise deducted in the calculation of Net Sales Revenue.
- (q) Abandonment and Reclamation Costs. All costs and expenses incurred in the abandonment and reclamation of wells in the Contract Area.
- (r) Consents. All fees paid in connection with all required Consents for Petroleum Operations and those tax exemption applications contemplated in the Agreement.

### 3.2 Costs Not Recoverable under the Agreement.

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

- (a) All costs incurred before the Financial Closing;
- (b) The costs of any bank guarantee or letter of guarantee required under the Basic Agreements or any other amounts spent on indemnities with regard to non-fulfillment of contractual obligations;
- (c) Costs of arbitration and any expert in respect of any dispute under the Agreement, except as provided in Section 13.1(b) of the Agreement;
- (d) Fines and penalties imposed by courts of law in Tanzania;
- (e) Costs incurred as a result of willful misconduct or gross negligence of PanAfrican Tanzania;
- (f) Donations made by PanAfrican Tanzania, unless approved by the GOT and TPDC; and
- (g) Any costs which, by reference to general oil industry practices, can reasonably be shown to be excessive.

### 3.3 Other Costs and Expenses.

Any other costs and expenses not covered or dealt with in the foregoing provisions of this Article III and which are incurred by PanAfrican Tanzania for the necessary and proper conduct of Petroleum Operations are recoverable only with the prior approval in writing of TPDC.

#### 3.4 Credits under the Agreement.

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

- (a) The net proceeds of any insurance claim in connection with Petroleum Operations or any assets charged to the accounts under the Agreement when such operations or assets were insured and the premiums charged to the accounts under the Agreement;
- (b) Legal expenses charged to the accounts under Section 3.1(i) of this Annex D and subsequently recovered by PanAfrican Tanzania;
- (c) Revenue received from third parties for the use of property or assets charged to the accounts under the Agreement;
- (d) Any adjustment received by PanAfrican Tanzania from the suppliers/manufacturers or their agents in connection with defective material the cost of which was previously charged by PanAfrican Tanzania to the accounts under the Agreement;
- (e) Rentals, refunds or other credits received by PanAfrican Tanzania which apply to any charge which has been made to the accounts under the Agreement, but excluding any award granted to PanAfrican Tanzania under arbitration or sole expert proceedings;
- (f) The net proceeds for materials originally charged to the accounts under the Agreement and subsequently exported from Tanzania without being used in Petroleum Operations;
- (g) The net proceeds from the sale or exchange by PanAfrican Tanzania of materials, equipment, plant or facilities, the acquisition costs of which have been charged to the accounts under the Agreement;

- (h) The proceeds from the sale of any information which relates to the Contract Area provided that the acquisition costs of such rights and information have been charged to the accounts under the Agreement; and
- (i) The proceeds derived from the sale or licence of any intellectual property the development costs of which were incurred under the Agreement.

3.5 Duplication of Charges and Credits.

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

## **ARTICLE IV**

### **RECORDS AND VALUATION OF ASSETS**

PanAfrican Tanzania shall maintain detailed records of property and assets in use for Petroleum Operations in accordance with normal practice in exploration and production activities of the international petroleum industry. At six-month intervals, PanAfrican Tanzania shall notify TPDC in writing of all assets acquired during the preceding six months indicating the quantities, costs and location of each asset. At reasonable intervals but at least once a year with respect to movable assets and once every four years with respect to immovable assets, inventories of the property and assets under the Agreement shall be taken by PanAfrican Tanzania. PanAfrican Tanzania shall give TPDC at least 30 days written notice of its intention to take such inventory and TPDC shall have the right to be represented when such inventory is taken. PanAfrican Tanzania will clearly state the principles upon which valuation of the inventory has been based. When an assignment of rights under the Agreement takes place a special inventory may be taken by PanAfrican Tanzania at the request of the assignee provided that the costs of such inventory are borne by the assignee.

## ARTICLE V

### PRODUCTION STATEMENT

5.1 Upon commencement of production from the Contract Area, PanAfrican Tanzania shall submit a monthly Production Statement to TPDC showing the following information for the Contract Area:

- (a) The quantity of Protected Gas and Additional Gas produced, as measured by totalling the monthly volumes as shown on the Sales Meters, and the quantity of Crude Oil produced;
- (b) The quantities of Lost and Unaccounted For Gas (as defined in the Gas Agreement);
- (c) The quantities of Natural Gas flared;
- (d) The number of days in the month during which Natural Gas was produced from the Contract Area, and the number of days in the month during which Crude Oil was produced from the Contract Area; and
- (e) The average daily sales of Additional Gas, in MMcfd (calculated by dividing the total volume of Additional Gas produced and sold from the Contract Area during such month by the total number of days during which Additional Gas was produced in such month), and the average daily sales of Crude Oil, in Barrels, calculated as aforesaid, during the month.
- (f) At the end of each Quarter, the monthly volume of Liquid Hydrocarbons produced per well, any volumes of Liquid Hydrocarbons flared or disposed of or used by Songas in its operations (pursuant to Section 6.8 of the Gas Agreement).

5.2 At the end of each Quarter aggregated statements in respect of the three months comprising that Quarter shall be submitted for each of the items in Section 5.1 above.

5.3 The Production Statement for each month or Quarter shall be submitted to the GOT and TPDC not later than 15 days after the end of such month or Quarter.



## ARTICLE VI

### COST ALLOCATION STATEMENT

6.1 PanAfrican Tanzania shall prepare with respect to each Quarter a Cost Allocation Statement with respect to the matters covered by Sections 3.4 and 3.5 of the Gas Agreement. The statement will distinguish between seismic mobilization/fixed costs and seismic acquisition/processing/variable costs and identify the length of the seismic programme over the Discovery Blocks and Adjoining Blocks. The statement will further itemize all Capital Costs incurred in the Discovery Blocks, segregating those incurred with respect to Additional Gas, those incurred with respect to Protected Gas and those incurred with respect to Crude Oil. Finally, the statement will identify the amount of Operating Expenses incurred during such Quarter, segregating those incurred with respect to Additional Gas and those incurred with respect to Protected Gas. The statement will show the following:

- (a) Actual expenditures and receipts (including all credits pursuant to Section 3.4 of this Annex D) for the Quarter in question; and
- (b) Cumulative expenditure and receipts (including all credits pursuant to Section 3.4 of this Annex D) for the budget year in question.

6.2 The Cost Allocation Statement for each Quarter shall be submitted to the GOT and TPDC not later than 30 days after the end of each such Quarter.

## ARTICLE VII

### PRODUCTION AND PRICING STATEMENT

7.1 PanAfrican Tanzania shall, for purposes of Articles X, XI and XIII of the Agreement, prepare a statement of actual Additional Gas revenues and Crude Oil revenues received each month and Quarter. The statement shall contain the following information:

- (a) For each Additional Gas customer, the volumes delivered, the amounts payable by the customer, the revenues received from the customer, the portion of such revenues payable for processing and transportation services (other than to Songas) and the portion of such revenues paid to Songas pursuant to the Gas Processing and Transportation Agreement, and for each Crude Oil customer, the quantities delivered, the amounts payable by the customer, and the revenues received from the customer;
- (b) The total of the revenues received from all Additional Gas customers, the portion of such total paid for processing and transportation services (other than to Songas), the portion of such total paid to Songas pursuant to the Gas Processing and Transportation Agreement and the total Net Sales Revenue; and the total of the revenues received from all Crude Oil customers;
- (c) Of the total Additional Gas sold, a statement of how much of that Additional Gas was produced outside the Proven Section. If Natural Gas is produced outside the Proven Section, sales to each customer (and, accordingly, Profit Gas and Cost Gas from such sales) shall be deemed to be in the same proportion as each of total gas volumes from the Proven Section and total gas volumes from outside the Proven Section bears to total Additional Gas volumes;
- (d) As apportioned in the same manner as volumes pursuant to Section 7.1(c) of this Annex D for each customer, the total Net Sales Revenue for Natural Gas produced from within the Proven Section and from outside the Proven Section;
- (e) The average daily sales, in MMcfd, in the Proven Section, Unproven Section and the Adjoining Blocks, using the same proportions as each bears to the whole, calculated in the manner provided in Sections 10.5 and

10.6 of the Agreement, and the average daily sales in Barrels, calculated as provided in Section 10.7 of the Agreement;

- (f) For each Quarter, the cumulative sales of Additional Gas since the Financial Closing, and the cumulative sales of Crude Oil since the Financial Closing.
- (g) For each Quarter, (i) the volumes of Liquid Hydrocarbons produced from the Proven Section, and (ii) the volumes of Liquid Hydrocarbons produced from outside the Proven Section, the revenues received from the sales thereof, less any transportation costs and taking into account the differential amount of Liquid Hydrocarbons remaining in storage.

7.2 The Production and Pricing Statement for each Quarter shall be submitted to the GOT and TPDC not later than 20 days after the end of such Quarter.

## **ARTICLE VIII**

### **STATEMENT OF EXPENDITURE AND RECEIPTS**

8.1 PanAfrican Tanzania shall prepare with respect to each calendar month a Statement of Expenditure and Receipts under the Agreement. The statement will distinguish between Exploration Expenses, Development Expenses, Operating Expenses and Market and Market Research Costs and will separately identify all significant items of expenditures within these categories. If TPDC is not satisfied with the degree of disaggregation within the categories it shall be entitled to ask for a more detailed breakdown. The statement will show the following:

- (a) Actual expenditures and receipts (including all credits pursuant to Section 3.4 of this Annex D) for the month in question;
- (b) Cumulative expenditure and receipts (including all credits pursuant to Section 3.4 of this Annex D) 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.

8.2 At the end of each Quarter aggregated statements in respect of the three months comprising that Quarter shall be submitted for each of the items (a) to (d) in subsection 8.1 above.

8.3 The Statement of Expenditure and Receipts for each Calendar month or Quarter shall be submitted to the GOT and TPDC not later than 30 days after the end of each such month or Quarter.

## **ARTICLE IX**

### **COST RECOVERY STATEMENT**

9.1 PanAfrican Tanzania shall prepare with respect to each Quarter a Cost Recovery Statement with respect to Natural Gas production and Crude Oil production containing the following information:

- (a) Recoverable Contract Expenses carried forward from the previous Quarter, if any;
- (b) Recoverable Contract Expenses for the Quarter in question;
- (c) Total Recoverable Contract Expenses for the Quarter in question (Section 9.1(a) plus Section 9.1(b));
- (d) Quantity and value of Cost Gas and quantity and value of the Crude Oil for the Quarter in question;
- (e) Contract Expenses recovered for the Quarter in question;
- (f) Total cumulative amount of Contract Expenses recovered up to the end of the Quarter in question; and
- (g) Amount of Recoverable Contract Expenses to be carried forward into the next Quarter.

9.2 The Cost Recovery information required pursuant to subsection 9.1 above shall be presented in sufficient detail so as to enable the GOT and TPDC to identify how the cost of assets are being recovered for the purposes of Article X of the Agreement.

9.3 The Cost Recovery Statement for each Quarter shall be submitted to the GOT and TPDC not later than 30 days after the end of such Quarter.

## **ARTICLE X**

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

PanAfrican Tanzania shall prepare a definitive End-of-Year Statement. The End-of-Year Statement will contain aggregated information for the year in the same format as required in the Production and Pricing Statement, Cost Recovery Statement and Statement of Expenditures and Receipts. The End-of-Year Statement for each year shall be submitted to the GOT and TPDC within 60 days of the end of such year. The End-of-Year Statement shall contain a detailed calculation of the Additional Profits Tax pursuant to Article XIII of the Agreement, and shall detail each component of said calculation. The real internal rate of return shall be calculated in the same manner as in Annex E.

## **ARTICLE XI**

### **BUDGET STATEMENT**

11.1 PanAfrican Tanzania shall prepare an annual Budget Statement. The Budget Statement shall distinguish between Exploration Expenses, Development Expenses, Operating Expenses and Market and Market Research Costs 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 Development Expenses for the said budget year.

11.2 The Budget Statement shall be submitted to the GOT and TPDC with respect to each budget year no less than 90 days before the start of the year, except in the case of the year in which the Financial Closing falls, when the Budget Statement shall be submitted within 30 days following the Financial Closing.

## **ARTICLE XII**

### **REVISION OF ACCOUNTING PROCEDURE**

12.1 The provisions of this Annex D may be amended by agreement between PanAfrican Tanzania, GOT and TPDC. The amendments shall be made in writing and shall state the date upon which the amendments shall become effective.

12.2 In the event, and at the time, that TPDC elects to participate in Joint Operations the Parties shall modify this Annex D to reflect TPDC's status as a party to a Joint Operations Agreement.



### **ARTICLE XIII**

#### **CONFLICT WITH THE AGREEMENT**

In the event of any conflict between the provisions of this Annex D and the Agreement, the provisions of the Agreement shall prevail.

