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# SIERRA LEONE PETROLEUM LICENCE AGREEMENT

## BLOCK 10A-10

NIMA HOLDINGS (SL) LTD.

Petroleum  
Licence

PARLIAMENT LIBRARY  
TOWER HILL FREETOWN





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## PETROLEUM (EXPLORATION AND PRODUCTION) LICENCE

NO: 2013/10A-10/008

MADE: ..... OF ..... 2013

LAI D BEFORE PARLIAMENT: ..... 2013

COMING INTO FORCE:

The Director General of the Petroleum Directorate in exercise of Executive Powers conferred on him by H.E the President of the Republic of Sierra Leone on the 20<sup>th</sup> day of December 2011, hereby grants the following Petroleum Exploration and Production Licence to:

Nima Holdings (SL) Ltd. a company incorporated in Sierra Leone on the 27<sup>th</sup> September 2011 with registration number C.F.924/2011, and with its registered address at 112 Pademba Road , Freetown Sierra Leone;

(hereinafter referred to as "the Licensee").

### CITATION AND COMMENCEMENT

This Licence may be cited as the Petroleum (Exploration and Production) Licence No: 2013/10A-10/008 for Block SL 10A-10 and shall come into force on this \_\_\_\_ day of \_\_\_\_\_, 2013.

### WITNESSETH:

1. All Petroleum existing in its natural state within Sierra Leone is the property of the Republic of Sierra Leone and held in trust by the State.
2. The Licence Area that is the subject matter of this Petroleum Licence has been declared open for Petroleum Operations by the Director General, and the Government of Sierra Leone desires to encourage and promote Exploration, Development and Production within the said area.
3. Any obligations which are to be observed and performed by the Licensee, shall at any time at which the Licensee is more than one person, be joint and several obligations.
4. Licensee, having the financial ability, technical competence and professional skills necessary for carrying out the Petroleum Operations herein described, hereby accept the offer of this Petroleum Licence granted by the State for the Exploration, Development and Production of the Petroleum resources of the said area.





NOW THEREFORE in consideration of the mutual covenants hereinafter provided for and the performance and observance by the Licensee of all the terms and conditions hereof, the Director General of the Petroleum Directorate, in exercise of the powers conferred upon him by executive order and all other powers in that behalf enabling him, hereby grants to the Licensee, licence and liberty during the continuance of this Licence and subject to the provisions hereof to search for, explore, develop and produce petroleum in the Licence Area referred to in Annex 1 of this Licence.

IT IS HEREBY AGREED AND DECLARED AS FOLLOWS:

## ARTICLE 1

### INTERPRETATION

- 1.1 **In this Licence:**
- 1.2 **"The Act"** means the Petroleum (Exploration and Production) Act 2011;
- 1.3 **"Accounting Guide"** means the accounting guide which is attached hereto as Annex 2 and made a part hereof;
- 1.4 **"Affiliate"** means any person, whether a natural person, corporation, partnership, unincorporated association or other entity:
- a) in which one of the Parties hereto directly or indirectly holds more than fifty percent (50%) of the share capital or voting rights;
  - b) which holds directly or indirectly more than fifty percent (50%) of the share capital or voting rights in a Party hereto;
  - c) in which the share capital or voting rights are directly or indirectly and to an extent more than fifty percent (50%) held by a company or companies holding directly or indirectly more than fifty percent (50%) of the share capital or voting rights in a Party hereto; or
  - d) which holds directly five percent (5%) or more of the share capital or voting rights in Licensee;
- 1.5 **"Appraisal Program"** means a program carried out following a Discovery of Petroleum for the purpose of delineating the accumulation of Petroleum to which that Discovery relates in terms of thickness and lateral extent and estimating the quantity of recoverable Petroleum therein;
- 1.6 **"Appraisal Well"** means a well drilled for the purposes of an Appraisal Program;
- 1.7 **"Associated Gas"** means Natural gas produced from a well in association with Crude Oil;





- 1.8 **"Barrel"** means a quantity or unit of Crude Oil equal to forty two (42) United States gallons at a temperature of sixty (60) degrees Fahrenheit and at 14.65 psia pressure;
- 1.9 **"Block"** means a Licence area as depicted on the reference map prepared by the Director General in accordance with the provisions of the Petroleum Act;
- 1.10 **"Business Day"** means weekday i.e. Monday to Friday;
- 1.11 **"Carried Interest"** means an interest held by the State in respect of which the Licensee pays for the Exploration and Development costs without any entitlement to reimbursement from the State unless otherwise agreed by the parties;
- 1.12 **"Calendar Year"** means the period of twelve (12) months of the Gregorian calendar, commencing on January 1 and ending on the succeeding December 31;
- 1.13 **"Commercial Discovery"** means a Discovery which is determined to be commercial in accordance with the provisions of this Licence;
- 1.14 **"Commercial Production Period"** means in respect of each Development and Production Area the period from the Date of Commencement of Commercial Production until the termination of this Licence or earlier relinquishment of such Development and Production Area;
- 1.15 **"Contract Area"** and **"Licence Area"** means the area covered by this Licence in which Licensee is authorized to explore for, develop and produce Petroleum, which is described in Annex 1 attached hereto and made a part of this Licence, but excluding any portions of such area in respect of which Licensee's rights hereunder are from time to time relinquished or surrendered pursuant to this Licence;
- 1.16 **"Contract Year"** means a period of twelve (12) calendar months, commencing on the Effective Date or any anniversary thereof;
- 1.17 **"Crude Oil"** means hydrocarbons which are liquid at 14.65 psia pressure and sixty (60) degrees Fahrenheit and includes condensates and distillates obtained from Natural Gas;
- 1.18 **"Date of Commencement of Commercial Production"** means, in respect of each Development and Production Area, the date on which production of Petroleum under a program of regular production, lifting and sale commences;
- 1.19 **"Date of Commercial Discovery"** means the date of approval of the Development Plan;
- 1.20 **"Default"** means failure on the part of the Licensee to
- (a) observe or perform any of its duties or obligations under the Licence



- (b) comply with any court or arbitral order arising out of or in connection with the Licence or the enforcement thereof.

- 1.21 **"Development" or "Development Operations"** means the preparation of a Development Plan, the building and installation of facilities for Production, and includes drilling of Development Wells, construction and installation of equipment, pipelines, facilities, plants and systems, in and outside the Licence Area, which are required for achieving Production, treatment, transport, storage and lifting of Petroleum, and preliminary Production and testing activities carried out prior to the Date of Commencement of Commercial Production, and includes all related planning and administrative work, and may also include the construction and installation of secondary and tertiary recovery systems;
- 1.22 **"Development Costs"** means Petroleum Costs incurred in Development Operations;
- 1.23 **"Development and Production Area"** means that portion of the Licence Area reasonably determined by Licensee on the basis of the available seismic and well data to cover the area extent of an accumulation of Petroleum constituting a Commercial Discovery, enlarged in area by ten percent (10%), where possible, such enlargement to extend uniformly around the perimeter of such accumulation;
- 1.24 **"Development Period"** means in respect of each Development and Production Area, the period from the Date of Commercial Discovery until the Date of Commencement of Commercial Production;
- 1.25 **"Development Plan"** means the plan for development of a Commercial Discovery prepared by Licensee;
- 1.26 **"Development Well"** means a well drilled in accordance with a Development Plan for producing Petroleum, for pressure maintenance or for increasing the Production rate;
- 1.27 **"Director General"** means The Director General of the Petroleum Directorate appointed under Section 8 of the Act, and where the context so applies, the person appointed by the President of Sierra Leone to oversee the administration of the Act and all aspects of petroleum resources management until the establishment of a Ministry and the appointment of a Minister with responsibility for petroleum matters;
- 1.28 **"Discovery"** means finding during Exploration Operations an accumulation of Petroleum which can be and is recovered at the surface in a flow measurable by conventional petroleum industry testing methods;
- 1.29 **"Discovery Area"** means that portion of the Licence Area, reasonably determined by Licensee on the basis of the available seismic and well data to cover the area extent of the geological structure in which a Discovery is made. A Discovery Area may be modified at any time by Licensee if justified on the basis



of new information, but may not be modified after the date of completion of the Appraisal Program;

- 1.30 **"Effective Date"** means the date on which this Licence comes into effect and, unless otherwise provided, shall be the date of ratification of this Licence by Parliament of the Republic of Sierra Leone.
- 1.31 **"Exploration" or "Exploration Operations"** means the search for Petroleum by geological, geophysical and other methods and the drilling of Exploration Well(s) and includes any activity in connection therewith or in preparation thereof and any relevant processing and appraisal work, including technical and economic feasibility studies, that may be carried out to determine whether a Discovery of Petroleum constitutes a Commercial Discovery;
- 1.32 **"Exploration Period"** means the period commencing on the Effective Date and continuing during the time provided within which Licensee is authorized to carry out Exploration Operations and shall include any periods of extensions provided for in this Licence. The period shall terminate with respect to any Discovery Area on the Date of Commercial Discovery in respect of such Discovery Area;
- 1.33 **"Exploration Well"** means a well drilled in the course of Exploration Operations conducted hereunder during the Exploration Period, but does not include an Appraisal Well;
- 1.34 **"Force Majeure"** means any event beyond the reasonable control of the Party claiming to be affected by such event which has not been brought about at its instance, including, but not limited to, earthquake, storm, flood, lightning or other adverse weather conditions, war, embargo, blockade, strike, riot or civil disorder which could hinder the performance of the party's obligations. Force Majeure is not applicable to any default by Licensee to pay any sum of money due under this Licence;
- 1.35 **"Foreign National Employee"** means an expatriate employee of Licensee, its Affiliates, or its Sub-contractors who is not a citizen of Sierra Leone;
- 1.36 **"Gross Production"** means the total amount of Petroleum produced and saved from a Development and Production Area during Production Operations which is not used by Licensee in Petroleum Operations; Gross Production";
- 1.37 **"IT Act"** means the Income Tax Act of 2000 and all amendments thereto;
- 1.38 **"Licensee"** means the person or persons to whom the Licence is granted, their successors and any person or persons to whom the rights conferred by this Licence may lawfully have been assigned. Where two or more persons are the Licensee any reference to the Licensee is a reference to any of these persons;





- 1.39 **"The Licence"** means the right to explore for and produce hydrocarbons issued by the Director General Petroleum Directorate acting on behalf of the government of Sierra Leone, and includes the Annexes attached hereto;
- 1.40 **"The Minister"** means the same as defined in The Act;
- 1.41 **"Month"** means a month of the Calendar Year;
- 1.42 **"Natural Gas"** means all hydrocarbons which are gaseous at 14.65 psia pressure and sixty (60) degrees Fahrenheit temperature and includes wet gas, dry gas and residue gas remaining after the extraction of liquid hydrocarbons from wet gas;
- 1.43 **"Non-Associated Gas"** means Natural Gas produced from a well other than in association with Crude Oil;
- 1.44 **"Operator"** means the same as defined in The Act;
- 1.45 **"Participating Interest"** means the undivided percentage interest of each Party in the rights and obligations derived from the Petroleum Licence Agreement.
- 1.46 **"Party"** means the State or Licensee, as the case may be;
- 1.47 **"Petroleum"** means Crude Oil or Natural Gas or combination of both;
- 1.48 **"Petroleum Costs"** means all expenditures made and costs incurred in the conduct of Petroleum Operations hereunder, determined in accordance with the Accounting Guide attached hereto as Annex 2;
- 1.49 **"Petroleum Operations"** means all activities, both in and outside Sierra Leone, relating to the Exploration for, Development, Production, handling and transportation of Petroleum contemplated under this Licence and includes Exploration Operations, Development Operations and Production Operations and all activities in connection therewith;
- 1.50 **"Petroleum Product"** means any product derived from Petroleum by any refining or other process;
- 1.51 **"Production" or "Production Operations"** means activities not being Development Operations undertaken in order to extract, save, treat, measure, handle, store and transport Petroleum to storage and/or loading points and to carry out any type of primary and secondary operations, including recycling, recompression, maintenance of pressure and water flooding and all related activities such as planning and administrative work and shall also include maintenance, repair and replacement of facilities, and well workovers, conducted after the Date of Commencement of Commercial Production of the respective Development and Production Area;
- 1.52 **"Production Costs"** means Petroleum Costs incurred in Production Operations;



- 1.53 **"Quarter"** means a quarter, commencing January 1, April 1, July 1 or October 1;
- 1.54 **"Remedy"** means to make good, or making good, such Default including performing the obligation of Licensee under the Licence;
- 1.55 **"Sierra Leone"** means the territory of the Republic of Sierra Leone and includes the sea, seabed and subsoil, the Continental Shelf, the exclusive economic zone and all other areas within the jurisdiction of Sierra Leone ;
- 1.56 **"Specified Rate"** means the rate which the Barclays Bank, London, certifies to be the London Interbank offered rate (LIBOR) in the London Interbank Eurodollar market on thirty (30) day deposits, in effect on the last business day of the last respective preceding month, plus two and half per cent (2.5%);
- 1.57 **"Standard Cubic Foot" or "SCF"** means the quantity of gas that occupies one (1) cubic foot at 14.65 psia pressure and sixty (60) degrees Fahrenheit temperature;
- 1.58 **"State"** means the Government of the Republic of Sierra Leone;
- 1.59 **"Subcontractor"** has the meaning assigned to that term in the Petroleum Act;
- 1.60 **"Work Program"** means the annual plan for the conduct of Petroleum Operations.

## ARTICLE 2

### SCOPE OF THE LICENCE AND LICENCE AREA

- 2.1 This Licence provides for the Exploration for and Development and Production of Petroleum in the Licence Area by Licensee.
- 2.2 Nima Holdings (SL) Ltd. is hereby appointed Operator with One Hundred percent (100%) Participating Interest in the Licence.
- 2.3 Subject to the terms of this Licence, Operator shall be responsible for the execution of such Petroleum Operations as are required by the provisions of this Licence and is hereby appointed the exclusive entity to conduct Petroleum Operations in the Licence Area.
- 2.4 The Director General authorizes the Licensee, pursuant to the terms set forth herein, to carry out the useful and necessary Petroleum Operations in the Licence Area.
- 2.5 The Licensee undertakes, for all the work necessary for carrying out the Petroleum Operations provided for hereunder, to comply with good international



petroleum industry practice and to be subject to the laws and regulations in force in Sierra Leone unless otherwise provided under this Contract.

- 2.6 The Licensee shall maintain all apparatus and appliances and all wells which have not been abandoned and plugged as provided by Article 20 of this Licence in good repair and condition and shall execute all operations in or in connection with the exploration area in a proper and workmanlike manner in accordance with methods and practice of exploration customarily used in best oilfield practices and without prejudice to the generality of the foregoing provision the licensee shall take all steps practical in order
- (a) to prevent the escape or waste of petroleum discovered in the exploration area;
  - (b) to conserve the exploration area for production operations;
  - (c) to prevent damage to Petroleum bearing strata;
  - (d) to prevent the entrance of water through wells to Petroleum bearing strata and;
  - (e) to prevent the escape of Petroleum into any waters in or around the vicinity of the Exploration Area.
- 2.7 The Licensee shall comply with any instructions from time to time given by the Director-General in writing relating to any of the matters set out in the foregoing paragraph. If the licensee objects to any such instruction on the ground that it is unreasonable he may, within fourteen days from the date upon which the same was given, meet with the Director General to raise its objections to the Directive and provide alternatives that will meet the Director General's objectives. If after the meeting, Director General informs Licensee in writing that notwithstanding its objections, Licensee should comply with his original written directives, Licensee may within fourteen days (14) days of receiving the written instruction refer the matter to arbitration in the manner provided in Article 28. If the matter is of a technical nature, it may be referred for sole expert determination in the manner provided for in Article 28.7.
- 2.8 The Licensee shall give notice to the Director General of any event causing escape or waste of Petroleum, damage to Petroleum – bearing strata or entrance of water through wells to Petroleum bearing strata forthwith after the occurrence of that event and shall, forthwith after the occurrence of any event causing escape of Petroleum into the sea, give notice of the event to the Chairperson of the Environment Protection Agency and Director General Petroleum Directorate
- 2.9 The Licensee shall not carry out any operations authorized by this Licence in or about the Exploration Area in such manner as to interfere unjustifiably with navigation or fishing in the waters of the Exploration Area or with the conservation of the living resources of the sea.



- 2.10 The Licensee shall bear alone the financial risk associated with the performance of the Petroleum Operations. The Petroleum Costs related thereto shall be recoverable by the Licensee in accordance with the provisions of the terms of this Licence.
- 2.11 In the event that no Commercial Discovery is made in the Licence Area, or that Gross Production achieved from the Licence Area is insufficient fully to reimburse Licensee in accordance with the terms of this Licence, then Licensee shall bear its own loss; the Director General and the State shall have no obligations whatsoever to Licensee in respect of such loss.
- 2.12 During the term hereof, in the event of Production, the total Production arising from the Petroleum Operations shall be shared between the parties according to the terms set forth in this Licence.
- 2.13 On the Effective Date, the Licence Area shall be the area referred to as Block SL 10A-10 as defined in Annex One (1).
- 2.14 As of the Effective Date, the Licence Area shall cover a total of approximately one thousand nine hundred and forty eight Square Kilometres (1,948 Sq. Km) as depicted by Annex (1) One and shall from time to time during the Term of this Licence be reduced according to the terms herein. During the Exploration, Licensee shall pay rentals to the State for that area included within the Licence Area at the beginning of each Contract Year according to the provisions of this Licence.

## ARTICLE 3

### STATE PARTICIPATION

- 3.1 The Licensee shall have one hundred percent (100%) interest in the Licence Area during the Exploration Period.
- 3.2 Subject to Article 3.3 below, the State shall have a ten percent (10%) initial carried interest with respect to all Development Operations. The State's initial interest shall be a working interest with respect to all Production Operations.
- 3.3 In addition to the initial interest provided for in Article 3.2 above, the State shall have the option in respect of each Development and Production Area to contribute a proportionate share not exceeding 5% of all Development and Production Costs in respect of such Development and Production Area, (or make arrangements satisfactory to Licensee to that effect) thereby acquiring an additional interest of up to 5% in Petroleum Operations in such Development and Production Area. The Director General shall notify Licensee of its option within ninety (90) days of the Date of Commercial Discovery.







- 3.4 If the State exercises the Option pursuant to Article 3.2, the Participating Interests of the Licensee provided in Article 2.2 of this Licence shall be proportionally reduced as follows: Nima Holdings (SL) Limited's one hundred percent (100%) Participating Interest shall be reduced to ninety percent (90%) and if the State exercises the Option pursuant to Article 3.3 the Participating Interests of Nima Holdings (SL) Limited shall be further reduced by five percent to eighty five percent (85%) with the State holding the remaining ten percent (10%) or fifteen percent (15%) Participating Interest as the case may be in all Petroleum Operations and all rights under this Licence.
- 3.5 For interest as provided for in Article 3.3 within six (6) months of its election, the State shall reimburse Licensee for all expenditure attributable to State's Additional Interest and incurred from the Date of Commercial Discovery to the date the Director General notifies Licensee of its election.
- 3.6 For the avoidance of doubt the State shall only be liable to contribute to costs:
- (a) Incurred in respect of Development Operations in any Development and Production Area to the extent only of any Additional Interest acquired in such Development and Production Area under Article 3.3.
  - (b) Incurred in respect of Production Operations in any development and production area both to the extent of
    - i. Its ten percent (10%) initial interest
    - ii. Any additional interest acquired in such development and production area under Article 3.3.
- 3.7 All Development costs incurred by the Licensee on behalf of the State shall be fully recoverable subject to a maximum of forty percent (40%) of the State's share of the oil and gas production attributable to the State's ten percent (10%) Interest in any given financial year. All unrecovered costs shall be carried forward until such costs are fully recovered.
- 3.8 If the oil and gas production ceases before the amounts funded by Licensees are fully reimbursed, the State is under no obligation to pay to Licensee the unrecovered amounts.

#### ARTICLE 4

##### LICENCE TERM

- 4.1 The Licence Term shall be for a period of Thirty (30) years from the effective date, unless sooner cancelled or terminated as provided for in the Act or this Licence.



- 4.2 The Exploration Period shall commence on the Effective Date of this Licence, and shall last a maximum of seven (7) years which shall be divided into an initial exploration period of three (3) years, a first extension period and a second extension period of up to two years each.
- 4.3 For each well drilled by Licensee during the Initial Exploration Period, the Initial Exploration Period shall be extended by three (3) months and the commencement of subsequent periods shall be postponed in their entirety accordingly. Extension to be subject to such reasonable terms and conditions as the Director General may stipulate to assure performance of the work in accordance with Section 46 of The Act.
- 4.4 The term of this Licence may be extended only once and for a period not exceeding ten years on such terms and conditions as the Director General may deem fit.

## ARTICLE 5

### PERFORMANCE GUARANTEE

- 5.1 Within Sixty (60) days of the Effective Date, the Licensee shall deliver to the Director General a performance security in the amount stipulated in Article 6.2 (a) as the minimum expenditure in the initial Exploration Period to guarantee the performance of their work obligation under this Licence.
- 5.2 Within Sixty days from the day the Licensee elects to enter into any extension period in accordance with Article 4 of this Licence, the Licensee shall deliver to the Director General, subject to Article 6.2, a performance security in the amount of the minimum expenditure specified in Article 6.2 (b) for the first extension period and Article 6.2 (c) for the second extension period to guarantee the performance of their work obligation for that period.
- 5.3 All performance security delivered under this Licence, shall be in the form of an unconditional and irrevocable bank guarantee as stipulated in Annex 3 of this Licence or in any such wording acceptable to the Director General, and with or without such other wording that will be acceptable to the bank issuing the guarantee, from a reputable bank in good standing, and shall be denominated in United States Dollars. The performance security shall be issued either (a) by a foreign bank through a correspondent bank located in Sierra Leone, or (b) with the agreement of the Director General directly by a foreign bank acceptable to the Director General.
- 5.4 Licensee shall also provide a legal opinion from its legal advisors in a form acceptable to the State, to the effect that the aforesaid guarantees have been duly signed and delivered on behalf of the guarantors with due authority and is legally valid and enforceable and binding upon them;



- 5.5 All letters of guarantee issued under this Licence shall remain effective for six (6) months after the end of the relevant Exploration Period for which it has been issued, except as it may be expired prior to that time in accordance with the terms thereof.
- 5.6 Where Licensee completes part of the minimum exploration Work Programme, the Director General shall permit the Licensee to reduce the guarantee by an amount equivalent to the expenses incurred in respect of the work completed for the stipulated period.
- 5.7 Upon completion of the minimum exploration Work Programme within the stipulated period, the Director General shall return the guarantee to the Licensee.
- 5.8 In the circumstances of a Default, to undertake the minimum work obligation by the end of the period for which the performance security is deposited, the Director General shall immediately furnish the guaranteeing bank with all relevant document evidencing non-performance of the work obligation and shall make a written demand on the guarantee copying the Licensee, and the minimum expenditure for the period shall be paid to the Director General by the guaranteeing bank without recourse to court action.
- 5.9 Demand shall not be made on the guarantee by the Director General for Default due to Force Majeure, but the guarantee shall be extended for the period through which Force Majeure is claimed.

## ARTICLE 6

### MINIMUM EXPLORATION PROGRAM

- 6.1 Exploration Operations shall begin as soon as practicable, and in any case not later than ninety (90) days after the Effective Date.
- 6.2 Subject to the provisions of this Article, in discharge of its obligations to carry out Exploration Operations in the Licence Area, Licensee shall during the several phases into which the Exploration Period is divided carry out the work specified hereinafter:
- a) **Initial Exploration Period:** Three Years. Commencing on the Effective Date and terminating at the end of the Third Contract Year;

**Description of Work:**

Licence a minimum 1500 Sq. Km of existing 2D seismic. Process and interpret acquired 2D data to determine drillable prospects. Gravity and magnetic data coverage of the entire block. Acquisition of any other G&G data that may increase the understanding of the petroleum play.





**Minimum Expenditure:** Licensee's minimum expenditure for the work in the Initial Exploration Period shall be Five Million United States Dollars (US\$5,000,000).

- b) **First Extension Period:** Two Years. Commencing at the end of the Initial Exploration Period and terminating at the end of the Fifth year of the Contract Period.

**Description of Work:**

Interpretation of 3D seismic data, mapping and ranking of prospects.

**Minimum Expenditure:** Licensee's minimum expenditure for the work in the First Extension Period shall be Fifteen Million United States Dollars (US\$15,000,000).

- c) **Second Extension Period:** Two Years. Commencing at the end of the First Extension and terminating at the end of the Seventh year of the Contract Period.

**Description of Work:**

Integrating all data. Firm Commitment to drill at least one exploration well.

**Minimum Expenditure:** Minimum expenditure for work in the Second Extension Period shall be Fifteen Million United States Dollars (US\$15,000,000).

- d) Work and expenditures accomplished in any period in excess of the above obligation may be applied as credit in satisfaction of obligations called for in any other Period. The fulfillment of any work obligation shall relieve Licensee of the corresponding minimum expenditure obligation, but the fulfillment of any minimum expenditure obligation shall not relieve Licensee of the corresponding work obligation.

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

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



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

6.5 Each of the Exploration Wells referred to above shall be drilled to a minimum depth of between Three (3) to Five (5) Kilometres, after deduction of the water depth, or to a lesser depth if the continuation of drilling performed in accordance with good international petroleum industry practice is prevented for any of the following reasons:

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

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

- 6.6 Notwithstanding any provision in this Article to the contrary, the Director General and the Licensee may, at any time, agree to abandon the drilling of a well at a lesser depth than the minimum contractual depth.
- 6.7 If during an Exploration Period the Licensee has performed its work commitments for an amount lesser than the amount specified above, it shall be deemed to have fulfilled its investment obligations relating to that period. Conversely, the Licensee shall perform the entirety of its work commitments set forth in respect of an Exploration Period even if it results in exceeding the amount specified above for that period.
- 6.8 If in the course of drilling an Exploration Well, the Licensee concludes that drilling to the minimum depth specified in Article 6.5 above is impossible, impracticable or imprudent in accordance with accepted international petroleum industry drilling and engineering practice, then Licensee may plug and abandon the Exploration Well.
- 6.9 During the Exploration Period, Licensee shall have the right to perform additional Exploration Operations, including without limitation performing gravity and magnetic surveys, drilling stratigraphic wells and performing additional



geological and geophysical studies, provided the minimum work obligations are performed within the applicable period.

- 6.10 During the Exploration Period, Licensee shall deliver to the Director General reports on Exploration Operations conducted during each Calendar Quarter within thirty (30) days following the end of that Quarter. Further requests for information by the Director General shall be complied with within a reasonable time and copies of documents and other material containing such information shall be provided to the Director General.

## ARTICLE 7

### RELINQUISHMENT

- 7.1 Except as otherwise provided in this License, Licensee shall relinquish portions of the Licence Area in the manner provided hereunder.
- a) If on or before the expiration of the Initial Exploration Period, Licensee elects to enter into the First Extension Period, then at the commencement of the First Extension Period the area retained shall not exceed fifty percent (50%) of the Contract Area as at the Effective Date;
  - b) If on or before the expiration of the First Extension Period, Licensee elects to enter into the Second Extension Period, at the commencement of the Second Extension Period the area retained shall not exceed twenty five percent (25%) of the Contract Area as at the Effective Date;
  - c) On the expiration of the Second Extension Period, Licensee shall relinquish the remainder of the retained Contract Area subject to Article 7.2.
- 7.2 The Provisions of Article 7.1 shall not be read or construed as requiring Licensee to relinquish any portion of the Contract Area which constitutes or forms part of either a Discovery Area or a Development and Production Area.
- provided however that if at the end of the Initial Exploration Period or the First Extension Period as the case may be Licensee elects not to enter into the First or Second Extension Period, Licensee shall relinquish the entire Licence Area.
- 7.3 Nothing in this provision shall be construed as requiring the Licensee to relinquish the remainder of the Licence Area under Article 7.1 (c) above where the licensee has been granted a further extension on the second extension period until the end of the further extension.
- 7.4 Each area to be relinquished pursuant to this Article shall be selected by Licensee and shall be measured as far as possible in terms of continuous and



compact units of a size and shape that will permit the carrying out of Petroleum Operations in the relinquished portions subject to the approval of the Director General.

## ARTICLE 8.

### OBLIGATIONS AND RIGHTS OF LICENSEE

- 8.1** Licensee shall maintain an office in Sierra Leone at which notices shall be validly served. Licensee shall appoint a Country Manager and assign to those offices such representatives as it shall consider necessary for the purposes of this Licence. The Country Manager and staff shall be entrusted by Licensee with sufficient power to act on behalf of Licensee and carry out all local written directions given to them by the State under the terms of this Licence.
- 8.2** Subject to the provisions of this Licence, Licensee shall be responsible for the conduct of Petroleum Operations and shall:
- (a) conduct Petroleum Operations with utmost diligence, efficiency and economy, in accordance with accepted Petroleum Industry practices, observing sound technical and engineering practices using appropriate advanced technology and effective equipment, machinery, materials and methods;
  - (b) ensure compliance with The Act and any other law and regulations promulgated by the State; including ensuring the maximum conservation of Petroleum in the Licence Area in accordance with accepted Petroleum industry practices
  - (c) prepare and maintain in Sierra Leone full and accurate records of all Petroleum Operations performed under this Licence;
- 8.3** In connection with its performance of Petroleum Operations, Licensee shall have the right within the terms of applicable law;
- (a) to use public lands in accordance with existing law for installation and operation of shore bases, and terminals, harbours and related facilities, pipelines from fields to terminals and delivery facilities, camps and other housing;
  - (b) to receive licenses and permission to install and operate such communications and transportation facilities as shall be necessary for the efficiency of its operations;
  - (c) subject to local content requirements, to bring to Sierra Leone such number of Foreign National Employees as shall be necessary for its



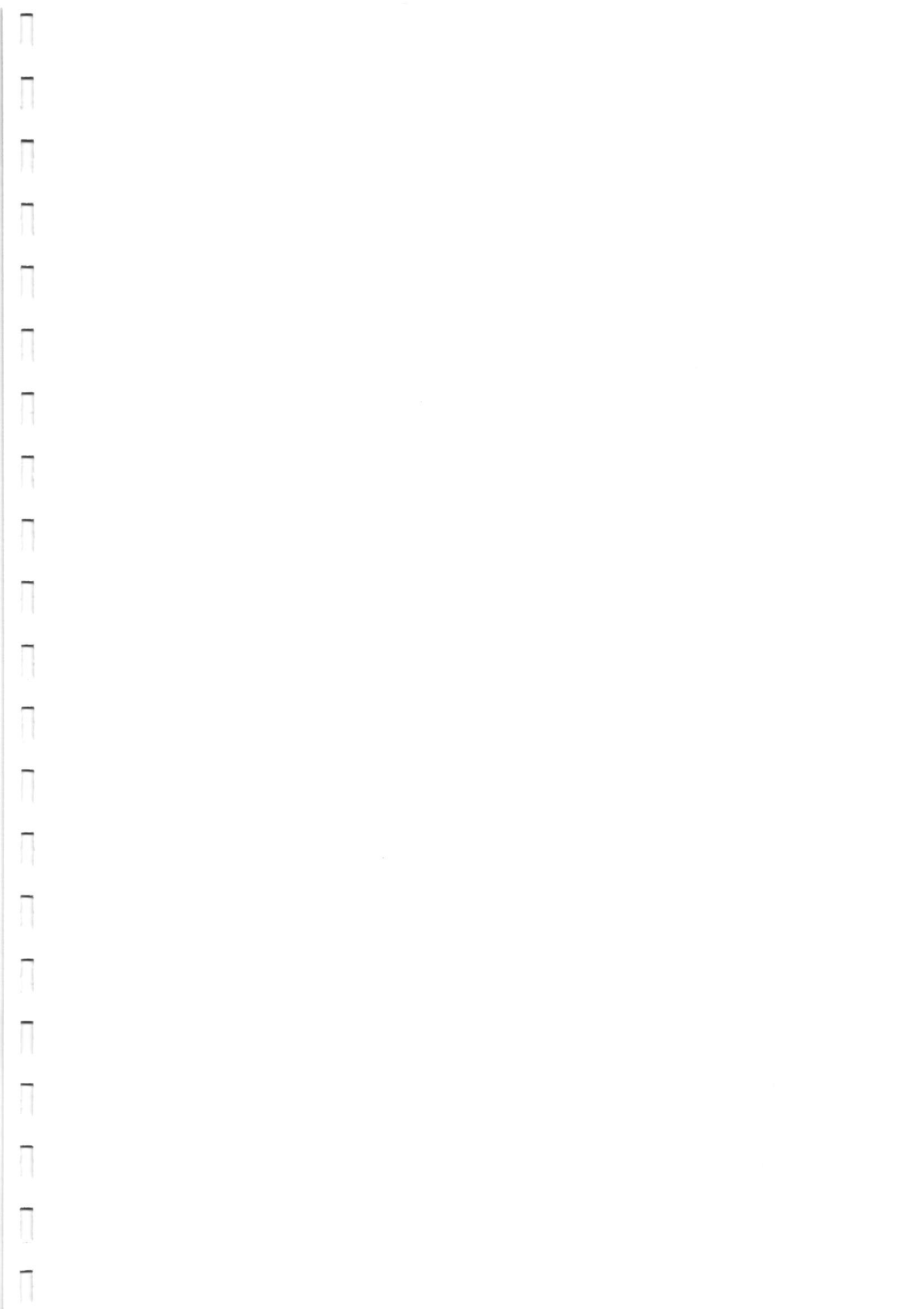


operations, including employees assigned on permanent or resident status, with or without families, as well as those assigned on temporary basis such as rotational employees;

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

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

- (a) establish supply bases and obtain necessary communications facilities, equipment and supplies;
- (b) obtain necessary approvals to open and operate bank accounts in Sierra Leone;
- (c) obtain entry visas and work permits for such number of Foreign National Employees of Licensee and its Subcontractors engaged in Petroleum Operations and members of their families who will be resident in Sierra Leone and make arrangements for their travel, medical services and other necessary amenities;



- (d) obtain the necessary permits to transport documents, samples or other forms of data to foreign countries for the purpose of analysis or processing if such is deemed necessary for the purposes of Petroleum Operations;
- 8.5 The Director General shall use his best efforts to render assistance to Licensee in emergencies and major accidents, and such other assistance as may be requested by Licensee, provided that any reasonable expenses involved in such assistance shall be borne by Licensee.

## ARTICLE 9

### ANNUAL WORK PROGRAMS AND BUDGETS

- 9.1 Without prejudice to the rights and obligations of Licensee for day-to-day management of the operations, the Director General shall ensure that all Work Programs and Development Plans are complied with and also that accounting for costs and expenses and the maintenance of records and reports concerning the Petroleum Operations are carried out in accordance with this Licence and the accounting principles and procedures generally accepted in the international Petroleum industry.
- 9.2 Each Work Program submitted to the Director General pursuant to this Article and every revision or amendment thereof shall be consistent with the requirements set out in this Licence relating to minimum work and expenditure for the period of the Exploration Period in which such Work Program or budget falls;
- 9.3 The work obligations referred to in Article 6 shall be described in an annual plan, drawn up in due detail and with the respective budget, to be prepared by the Licensee and submitted to the Director General for review and approval.
- 9.4 The annual work program should be submitted to the Director General no less than sixty (60) days before the start of the year in question.
- 9.5 The Director General will review Work Programs and budgets and any amendments or revisions thereto, and Appraisal Programs submitted to him by Licensee pursuant to this Article,
- 9.6 In the event of all or part of the annual plan being refused, the Director General shall notify the Licensee of the fact within forty-five days of receiving the plan, indicating the reasons for the refusal.
- 9.7 If the plan is not refused within the period referred to in Article 9.6, the plan may be implemented.



- 9.8 If refused under Article 9.6, the Director General may propose amendments or modifications to the Annual Work Program and corresponding Annual Budget. In such event the Director General and the Contractor shall meet as soon as possible to review the amendments or modifications proposed by the Director General and establish by mutual agreement the Annual Work Program and corresponding Annual Budget. The parts of the Annual Work Program for which the Director General does not require amendment or modification will be deemed approved and must be completed by the Licensee within the stated time period, provided they may be undertaken on an individual basis. With respect to the parts of the Annual Work Program for which the Director General proposes any amendment or modification, the date of approval of the Annual Work Program and corresponding Annual Budget shall be the date on which the Director General and the Contractor reach the aforementioned mutual agreement. In the event the Director General and the Contractor do not reach an agreement regarding the amendments and modifications proposed by the Director General within one hundred and twenty (120) days from the receipt of the refusal, the instructions of the Director General shall apply, and Licensee shall amend its Work Program and/or Budget accordingly.
- 9.9 The Licensee may submit addenda to the annual work plan to the Director General provided they are justified on technical grounds.
- 9.10 After the date of the first Commercial Discovery, Licensee may submit a proposal for the drilling of an Exploration Well or Wells not associated with the Commercial Discovery and not otherwise required to be drilled hereunder.
- 9.11 From the first occurring Date of Commercial Discovery, the Licensee:
- (a) Within sixty (60) days after the Date of Commercial Discovery shall prepare and submit to the Director General any revisions to its annual Work Program and budget that may be necessary for the remainder of that Contract Year and for the rest of the Exploration Period.
  - (b) At least ninety (90) days before the Commencement of each subsequent Calendar Year, Licensee shall submit to the Director General for review a Work Program and budget setting forth all Development and Production Operations which Licensee proposes to carry out in that Calendar Year and the estimated cost thereof and shall also give an indication of Licensee's plans for the succeeding Calendar Year;
  - (c) Within sixty (60) days of the Date of Commencement of Commercial Production and thereafter not later than one hundred and twenty (120) days before the commencement of each Calendar Year, Licensee shall submit to the Director General an annual production schedule which shall be in accordance with good international oilfield practice, and shall be designed to provide the most efficient, beneficial and timely production of the Petroleum resources.



- 9.12 The Licensee shall provide The Director General with lifting schedules for Development and Production Areas as well as Licensee's reports on the conduct of Petroleum Operations.

## ARTICLE 10

### COMMERCIALITY

- 10.1 The provisions of Section 50 and other relevant sections of the Act shall apply;
- 10.2 Unless Licensee and the Director General otherwise agree in any particular case, Licensee shall have a period of two (2) years from the date of Discovery to complete the Appraisal Program.
- 10.3 Licensee shall commence appraisal work within one (1) year from the date of submission of the Appraisal Program to the Director General.
- 10.4 If Licensee informs the Director General that the Discovery is not commercial, then Licensee shall relinquish such Discovery Area; provided, however, that in appropriate cases, before declaring that a Discovery is not commercial, Licensee shall consult with the Director General and may make appropriate representations proposing minor changes in the fiscal and other provisions of this Licence which may, in the opinion of Licensee, affect the determination of commerciality. The Director General may, where feasible, and in the best interests of all parties agree to make such changes or modifications in the existing arrangements. In the event the Parties do not agree on such changes or modifications, then Licensee shall relinquish the Discovery Area.
- 10.5 If Licensee informs the Director General that the Discovery is commercial, Licensee shall not later than one hundred and eighty (180) days thereafter, prepare and submit to the Director General a Development Plan.
- 10.6 The Development plan shall be based on engineering studies and shall include:
- (a) The revisions proposed by the Director General, to the Development Plan as submitted, and the reasons thereof.
- 10.7 Where the Development Plan is not approved by the Director General, the Parties shall within a period of thirty (30) days from the date of the notice by the Director General as referred to above, meet to agree on the revisions proposed by the Director General to the Development Plan.
- 10.8 In the event that Licensee indicates that a Discovery does not at the time merit appraisal, or after appraisal does not appear to be commercial but may merit appraisal or potentially become commercial at a later date during the Exploration Period, then Licensee need not relinquish the Discovery Area and may continue





its Exploration Operations in the Licence Area during the Exploration Period provided that the Licensee shall explain what additional evaluations, including Exploration work or studies, and or may be planned in order to determine whether subsequent appraisal is warranted or that the Discovery is commercial. After completion of the evaluations, Licensee shall make the indications called for under this Article and either proceed with appraisal, confirm commerciality or relinquish the Discovery Area. In any case, if at the end of the Exploration Period Licensee has not proceeded with an Appraisal Program or declared that the Discovery is Commercial, then the Discovery Area shall be relinquished.

**10.9** Nothing in this Article shall be read or construed as requiring Licensee to relinquish any area which constitutes or forms part of another Discovery Area in respect of which:

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

## ARTICLE 11

### PRODUCTION OF CRUDE OIL

**11.1** Gross Production of Crude Oil from each Development and Production Area shall be distributed in the following sequence and proportions:

- (a) The rate of Royalty for Oil Production shall be as indicated in Annex 4 and shall be delivered to the State as royalty.
- (b) After distribution of such amounts of Crude Oil as are required pursuant to (a) above, the remaining Crude Oil produced from each Development and Production area shall be the Licensee's and, the State on the basis of their respective participating Interests pursuant to Article 2.

**11.2** Licensee shall have the right freely to export and dispose of all of its Petroleum pursuant to this Article subject to Article 16.

**11.3** The Parties shall through consultation enter into supplementary agreements concerning Crude Oil lifting and tanker schedules, loading conditions and Crude Oil metering at the end of each Calendar Year. The Crude Oil to be distributed or otherwise made available to the Parties in each Calendar Year in accordance with



the preceding provisions of this Article shall insofar as possible be in reasonably equal monthly quantities.

## ARTICLE 12

### MEASUREMENT AND PRICING OF CRUDE OIL

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



- (e) if the quality of Crude Oils produced from the Licence Area is different, the market price shall be determined separately for each type sold and/or exported by Licensee.
- 12.4 Licensee shall notify the Director General of the Market Price determined by it for its respective lifting during each Quarter not later than thirty (30) days after the end of that Quarter.
- 12.5 If the Director General considers that the price notified by Licensee was not correctly determined, it shall so notify Licensee not later than thirty (30) days after notification by Licensee of such price, and the Director General and Licensee shall meet not later than twenty (20) days thereafter to agree on the correct market price.
- 12.6 If the Parties fail to agree on the Market Price applicable to a given quarter within seventy five (75) days after the end of that quarter, the Director General or the Licensee may immediately submit to an expert, appointed in accordance with the following paragraph, the determination of the Market Price (including the determination of reference crude oils if the Parties have not determined them). The expert shall determine the price within thirty (30) days after his appointment and his conclusions shall be final and binding on the Parties. The expert shall decide in accordance with the provisions of this Article.
- 12.7 The expert shall be selected by agreement between the Parties or, if no agreement is reached, by the international centre of technical expertise of the International Chamber of Commerce in accordance with its rules on technical expertise, at the request of the most diligent Party. The expert costs shall be charged to the Licensee and included in the Petroleum Costs.

## ARTICLE 13

### LICENCE FEES

- 13.1 The Licensees shall, be subject to the following Annual Licence Fees based on the acreage of the Licence area held during the period under consideration,
- 13.2 Annual Licence Fees are payable to the Petroleum Directorate per square kilometer of the area under Licence in the amounts as set forth below:

Phase of Operation	Licence Fees Per annum
Initial Exploration Period	US \$40 per sq. km.
1st Extension Period	US \$60 per sq. km.



2nd Extension Period                      US \$85 per sq. km.

Development and  
Production Area                      US \$110 per sq. km.

- 13.3 An additional surcharge of \$20 per sq. km will be applied to any additional extension granted.
- 13.4 The Licence Fee shall be paid in advance for the entire year, and is due on the Effective Date and annually thereafter on the anniversary of the Effective Date until the termination of this Licence.

## ARTICLE 14

### FOREIGN EXCHANGE TRANSACTIONS

- 14.1 Licensee shall for the purpose of this Licence be entitled to receive, remit, keep and utilize freely abroad all the foreign currency obtained from the sales of the Petroleum assigned to it by this Licence or purchased hereunder, or from transfers, as well as its own capital, receipts from loans and in general all assets thereby acquired abroad. Upon making adequate arrangements with regard to its commitment to conduct Petroleum Operations, Licensee shall be free to dispose of this foreign currency or assets as it deems fit.
- 14.2 Licensee shall have the right to open and maintain in Sierra Leone bank accounts in foreign currency and Sierra Leone currency. No restriction shall be made on the import by Licensee of funds assigned to the performance of the Petroleum Operations, in accordance with applicable law and Licensee shall be entitled to purchase Sierra Leone currency through authorized means, without discrimination, at the prevailing rate of exchange; provided, however, that such prevailing rate applicable to Licensee hereunder for all transactions for converting Sierra Leone currency into U.S. Dollars, and vice versa, shall be at a buying or selling, as the case may be, rate of exchange not less favorable to Licensee than that quoted by the State or its foreign exchange control authority to any person or entity on the dates of such conversion.
- 14.3 Licensee shall be entitled to convert in an authorized manner into foreign currencies of its choice funds imported by Licensee for the Petroleum Operations and held in Sierra Leone which exceed its local requirements at the prevailing rate of exchange and remit and retain such foreign currencies outside Sierra Leone.
- 14.4 Licensee shall have the right to make direct payments outside of Sierra Leone from its home offices or elsewhere to its Foreign National Employees, and to its Subcontractors and suppliers for wages, salaries, purchases of goods and performance of services, whether imported into Sierra Leone or supplied or





performed therein for Petroleum Operations carried out hereunder, in accordance with the provisions of this Licence, in respect of services performed within the framework of this Licence, and such payments shall be considered as part of the costs incurred in Petroleum Operations. In the event of any changes in the location of Licensee's home or other offices, Licensee shall so notify the Director General. All such payments however shall be subject to the Income Act 2000 and other relevant financial Acts and Regulations currently in force.

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

## ARTICLE 15

### SPECIAL PROVISIONS FOR NATURAL GAS

#### PART 1 - GENERAL

- 15.1** Licensee shall have the right to extract Condensate and Natural Gas liquids for disposition under the provisions relating to Crude Oil. Residual Natural Gas remaining after the extraction of Condensate and Natural Gas Liquids is subject to the provisions of this Article.
- 15.2** When gas flaring is authorized in accordance with The Act, the Director General may determine that a relevant fee be charged in accordance with the quantity and quality of the gas flared and with its location.
- 15.3** Licensee shall have the right to use Natural Gas produced from any Development and Production Area for Petroleum Operations within the Licence Area such as for, but not limited to, reinjection for pressure maintenance and/or power generation.



## **PART II – ASSOCIATED GAS**

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

## **PART III – NON-ASSOCIATED GAS**

- 15.5 Licensee shall notify the Director General in writing as soon as any discovery of Non- Associated Gas is made in the Licence Area.
- 15.6 As soon as possible after the technical evaluation of the test results of such discovery is complete and in any event not later than one hundred eighty days (180) days from the date of Discovery, Licensee shall by a further notice in writing to The Director General (the "Notice") indicate whether in Licensee's opinion the Discovery merits Appraisal.
- 15.7 Where Licensee's Notice indicates that the Discovery does not at that time merit Appraisal but may merit Appraisal or additional evaluation at a later date during the Exploration Period, then Licensee need not submit a proposed Appraisal Program at that time but instead shall indicate what other studies or evaluation may be warranted before an Appraisal Program is undertaken.
- 15.8 Where Licensee's Notice indicates that the Discovery merits the drilling of one or more Appraisal Wells at that time, Licensee shall prepare and submit the appropriate Appraisal Program which Program shall be scheduled to be completed within two (2) years of the submission of the Notice to the Director General.
- 15.9 Not later than ninety (90) days from the date on which the Appraisal Program relating to a Discovery is concluded, Licensee shall submit a report containing the results of the Program. If the report concludes that the Discovery merits commercial assessment, Licensee shall notify the Director General within one hundred eighty (180) days from the date on which the Appraisal Program relating to the Discovery was completed of a Program of such assessment and shall conduct such Program during the rest of the Exploration Period. Notwithstanding the above, Licensee may also notify the Director General that commercial assessment of the Discovery is not warranted at that time but the Discovery may merit such assessment at a later date during the Exploration Period.
- 15.10 The purpose of the commercial assessment shall be to study the uses to which production from the Discovery Area can be devoted and whether involving exports or domestic utilization. As part of the assessment, the Parties shall also pursue discussions on the required contractual arrangements for disposition of the Natural Gas to potential purchasers and/or consumers of the Natural Gas.
- 15.11 Licensee may consult with the Director General and may make appropriate representations proposing minor changes in the fiscal and other provisions of this



Licence which may, in the opinion of Licensee, affect the above determinations. The Director General may, where feasible and in the best interests of the Parties, agree to make such changes or modifications in the existing arrangements.

**15.12** Nothing in this Part III of Article 15 shall be read or construed as requiring Licensee to relinquish any area

(a) which constitutes or forms part of another Discovery Area in respect of which Licensee has given to the Director General a separate notice indicating that such Discovery merits confirmation or commercial assessments; or

(b) which constitutes or forms part of a Development and Production Area.

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

**15.13** If at any time during the commercial assessment Licensee informs the Director General in writing that the Discovery can be produced commercially, it shall as soon as reasonably possible thereafter submit its proposals for an agreement relating to the development of the Discovery on the principles set forth in this Part IV of Article 15. The Director General undertakes on receipt of such notice to negotiate in good faith with Licensee with a view to reaching agreement on terms for such production. Any such agreement will be based on terms and fiscal requirements which shall be no less favorable to Licensee than those provided elsewhere in this Licence.

**15.14** If at any time during the commercial assessment Licensee has identified a market in Sierra Leone for the reserves of Associated and/or Non-Associated Gas or any part thereof that can be saved without prejudice to an export project, the Parties shall proceed in good faith to negotiate the appropriate contractual arrangements for the disposition of the Gas. In the event of a domestic market for such Gas, Licensee shall receive for delivery onshore of its share of the Gas a price to be agreed between the Director General and Licensee taking into account among other things the cost of developing the Gas and the uses which will be made of the Gas.

**15.15** In the event of a Discovery of Natural Gas in the Licence Area which is to be developed and commercially produced, the provisions of this Licence in respect to interests, rights and obligations of the Parties regarding Crude Oil shall apply to Natural Gas, with the necessary changes in points of detail, except with respect to specific provisions in this Licence concerning Natural Gas and different or additional provisions concerning Natural Gas which may be agreed by the Parties in the future.

**15.16** The system for the allocation of Natural Gas among the Parties shall follow the same general format as provided for Crude Oil, with the exception that the royalty to be delivered to the State on Natural Gas shall be at the rate indicated in Annex



4 as an incentive to enhance the viability of a Gas project on the basis herein provided for.

15.17 The Parties recognize that projects for the development and production of Natural Gas are generally long-term in nature for both the project developers and the customers who purchase the Natural Gas. Substantial investments and dedication of facilities require long-term commitments on both sides. This Licence, being for a specific term of years, may not cover the length of time for which customers in given cases will require commitments on the part of the Parties to this Licence to deliver their respective shares of the output. Accordingly the Parties agree to consider undertaking such commitments where reasonably required for the efficient and viable development of a Natural Gas project. It is recognized that, unless otherwise agreed by the Parties hereto, Licensee will have no right or interest in the project or the Natural Gas produced and delivered after the term of this Licence has expired.

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

15.19

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





- iii) shall contain in respect of the initial period or of any renewal period details of the evaluations or studies which Licensee proposes to undertake in order to determine or keep under review the commerciality of the discovery.
- c) Where Licensee has not, before the end of the initial period, declared the Discovery to be commercial and the Director General has in his discretion determined that further evaluation or studies may be required before the Discovery can be declared commercial, the right of Licensee to retain the Discovery Area shall continue for a further period not exceeding in the aggregate five (5) years. The right of Licensee to retain the Discovery Area aforesaid shall be secured by the renewal of the Licence referred to in this Article 15 or where necessary by a new Licence entered into by the Parties for that purpose.

## ARTICLE 16

### DOMESTIC SUPPLY REQUIREMENTS (CRUDE OIL)

- 16.1 Crude Oil for consumption in Sierra Leone (in this Article called the "Domestic Supply Requirement") shall be supplied, to the extent possible, by the State from its respective entitlement under this Licence and under any other contract for the production of Crude Oil in Sierra Leone.
- 16.2 In the event that Crude Oil available to the State is insufficient to fulfill the Domestic Supply Requirements, Licensee shall be obliged together with any third parties which produce Crude Oil in Sierra Leone, to supply a volume of Crude Oil to be used for such Domestic Supply Requirements, calculated on the basis of the ratio of Licensee's entitlement to Crude Oil to the similar entitlements of all such third parties and provided that Licensee's obligation to supply Crude Oil for purposes of meeting the Domestic Supply Requirement Crude Oil shall not exceed the total of Licensee's said entitlement under this Licence. The State shall purchase any Crude Oil supplies by Licensee pursuant to this Article at the weighted average Market Price determined under this Licence for the Month of delivery, and the State shall pay such prices within thirty (30) days after receipt of invoice, failing which Licensee's obligations in respect of the Domestic Supply Requirement under this Article 16 shall be suspended until payment is made good, at which time deliveries shall be resumed subject to any alternative commitments that may have been reasonably entered into by Licensee to dispose of the Domestic Supply Requirement Crude Oil during the period of Default in payment.



## ARTICLE 17

### LICENSEE TO KEEP RECORDS

17.1 Licensee shall keep the Director General regularly and fully informed of operations being carried out by Licensee and provide the Director General with all information, data, (film, paper, digital forms and magnetic tapes), samples, interpretations and reports, (including progress and completion reports) including but not limited to the following:

- (a) processed seismic data and interpretations thereof;
- (b) the site of and number assigned to every well
- (c) the subsoil and strata through which the well was drilled
- (d) the casing inserted in any well and any alteration to such casing
- (e) any petroleum, water ,mines encountered in the course of such activities
- (f) well data, including but not limited to electric logs and other wireline surveys, and mud logging reports and logs, samples of cuttings and cores and analyses made therefrom;
- (g) any reports prepared from drilling data or geological or geophysical data, including maps or illustrations derived therefrom;
- (h) well testing and well completion reports;
- (i) reports dealing with locations surveys, seabed conditions and seafloor hazards and any other reports dealing with well, platform or pipeline locations;
- (j) reservoir investigations and estimates regarding reserves, field limits and economic evaluations relating to future operations;
- (k) daily, weekly, monthly and other regular reports on Petroleum Operations;
- (l) comprehensive final reports upon the completion of each specific project or operation;
- (m) contingency programs and reports on safety and accidents;
- (n) procurement plans, subcontractors and contracts for the provision of services to Licensee.
- (o) such other matters as the Director General may from time to time direct



- 17.2 The licensee shall keep in Sierra Leone accurate geological plans and maps relating to the Exploration Area and such other records in relation thereto as may be necessary to preserve all information that the licensee has about the geology of the Exploration Area.
- 17.3 The licensee shall deliver copies of the said records , plans and maps referred to in the two foregoing paragraphs to the Director General when requested to do so, either:
- (a) Within any time limit specified in the request; or
  - (b) If there is no time limit specified, within four weeks of the request.
- 17.4 All information, data, logs, reports, samples, collected, processed or analysed pursuant to this Licence shall remain the property of the State but the Licensee shall have the right to retain for its own use in connection with the conduct of Petroleum Operations under this Licence copies of data, well logs, maps, magnetic tapes, other geological and geophysical information, portions of core samples and copies of reports, studies and analysis referred to in Article 17.1.

## ARTICLE 18

### INFORMATION AND CONFIDENTIALITY.

- 18.1 Not later than ninety (90) days following the end of each Calendar Year, Licensee shall submit to the Director General a report covering Petroleum Operations performed in the Licence Area during such Calendar Year. Such report shall include, but not be limited to:
- (a) statement of the number of Exploration Wells, Appraisal Wells and Development Wells drilled, the depth of each such well, and a map on which drilling locations are indicated;
  - (b) statement of any Petroleum encountered during Petroleum Operations, as well as a statement of any fresh water layers encountered and of any other minerals discovered;
  - (c) statement of the quantity and quality of Petroleum produced and of all other minerals produced therewith from the same reservoir or deposit;
  - (d) summary of the nature and extent of all exploration activities in the Licence Area;
  - (e) a general summary of all Petroleum Operations in the Licence Area.



**18.2** All data, information, reports and statistics including interpretation and analysis which the Licensee is or may from time to time be required to furnish under the provisions of this Licence shall be supplied at the expense of the Licensee and shall not (except with the consent in writing of the Licensee which shall not be unreasonably withheld) be disclosed to any person not in the service or employment of the State of Sierra Leone

**18.3** The provisions of Article 18.2 shall not prevent disclosure:

(a) By the Director General or the State:

- i. To any agency of the State or to any adviser or consultant to the Director General or the State;
- ii. For the purpose of obtaining a Petroleum Licence in respect of any acreage adjacent to the Licence Area; or
- iii. For the purpose of complying with the State's international obligations for the submission of statistics and related data.

b) By Licensee:

- i. to its Affiliates, advisers or consultants;
- ii. to a bona fide potential assignee of all or part of Licensee's interest hereunder;
- iii. to banks or other lending institutions for the purpose of seeking external financing of costs of the Petroleum Operations;
- iv. to non-affiliates who shall provide services for the Petroleum Operations, including Subcontractors, vendors and other service contractors, where this is essential for their provision of such services;
- v. to governmental agencies for obtaining necessary rulings, permits, licenses and approvals, or as may be required by applicable law or financial stock exchange, accounting or reporting practices.

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

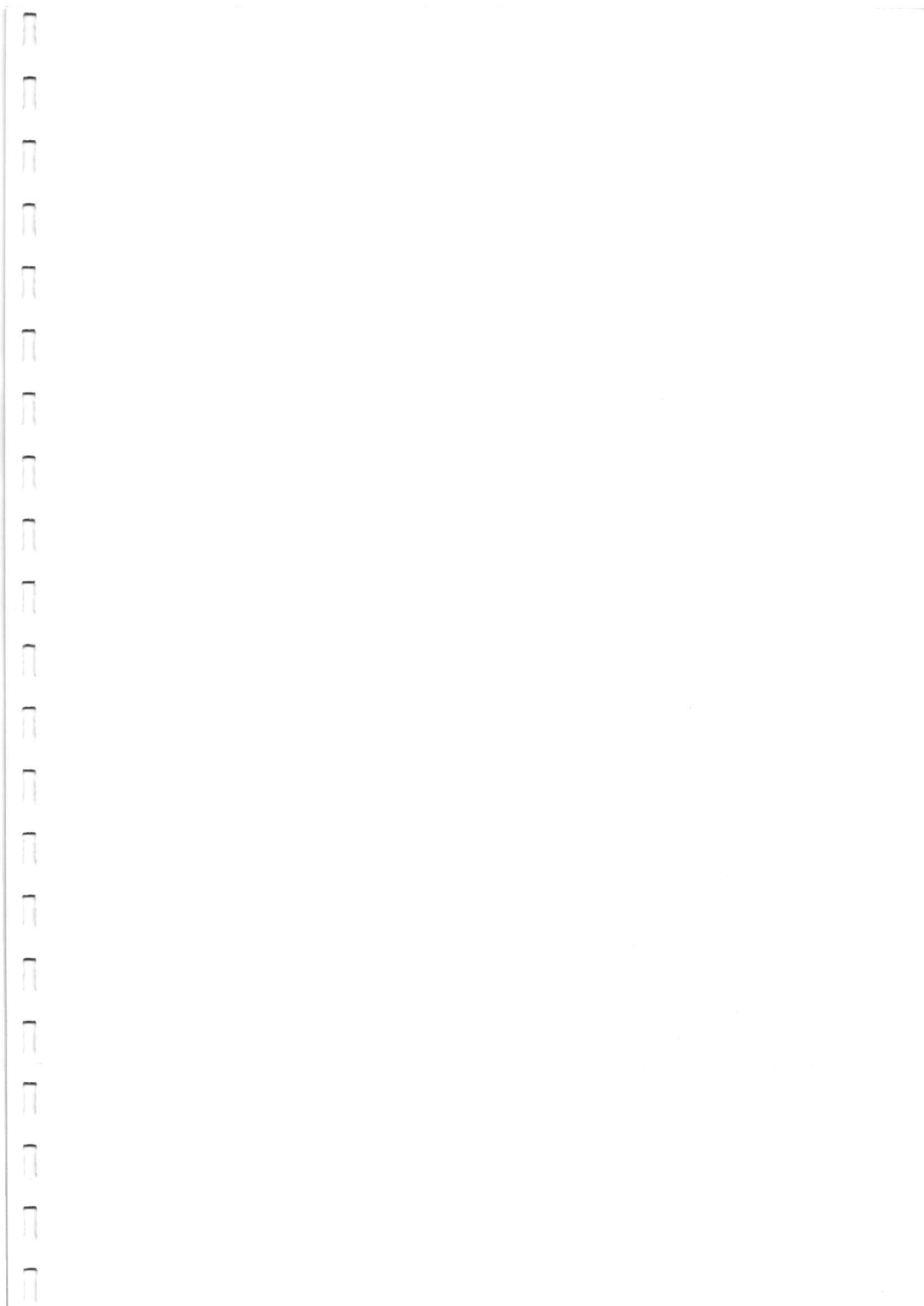




## ARTICLE 19

### MONITORING OF PETROLEUM OPERATIONS

- 19.1 The Director General of the Petroleum Directorate shall be responsible for monitoring and inspecting all activities undertaken by the Licensee under the scope of this Petroleum Licence
- 19.2 The Director General or his duly authorized representatives shall have the right of access to all sites and offices of Licensee and the right to inspect all buildings and installations used by Licensee relating to Petroleum Operations. Such inspections and access shall take place in consultation with Licensee and at such times and in such manner as not unduly to interfere with the normal operations of Licensee. Such representatives may make a reasonable number of surveys, drawings, and tests for the purpose of enforcing this Licence. They shall, for this purpose, be entitled to make reasonable use of the machinery and instruments of the Licensee on the condition that no danger or impediment to the operations hereunder shall arise directly or indirectly from such use. Such representatives shall be given reasonable assistance by the agents and employees of the Licensee so that none of their activities endanger or hinder the safety or efficiency of the operations. The Licensee shall offer such representatives all privileges and facilities accorded to its own employees in the field and shall provide them, free of charge, the use of reasonable office space and of adequate housing while they are in the field for the purpose of facilitating the objectives of this Article.
- 19.3 Licensee shall save and keep a representative portion of each sample of cores and cuttings taken from drilling wells, to be disposed of, or forwarded to the Director General. All samples acquired by the Licensee for their own purposes shall be considered available for inspection at any reasonable time by the Director General or his representatives.
- 19.4 The Licensee shall provide the Director General with copies of any and all data (including, but not limited to, geological and geophysical reports, logs and well surveys), information and interpretation of such data, and other relevant information in Licensees possession.
- 19.5 Licensee shall provide an effective and safe system for disposal of water and waste oil, oil base mud and cuttings in accordance with accepted Petroleum Industry practice, and shall provide for the safe completion or abandonment of all boreholes and wells.
- 19.6 If Licensee's failure to comply with the requirements of Article 19.5 results in the release of Petroleum or other materials on the seabed, in the sea, on land or in fresh water, or if Licensee's operations result in any other form of pollution or otherwise cause harm to fresh water, marine, plant or animal life, Licensee shall, in accordance with accepted Petroleum Industry practice, promptly take all



necessary measures to control the pollution, to clean up Petroleum or released material, or to repair, to the maximum extent feasible, damage resulting from any such circumstances. The cost of clean-up and repair activities shall be borne by Licensee.

- 19.7 The Licensee shall furnish to the Director General all logs, operational reports and incident reports on their activities by the tenth (10<sup>th</sup>) day of the end of each month and at intervals of three (3) months thereafter during the period in which this licence is in force a return in a form from time to time approved by the Director General of the progress of his operations in the Licence Area.
- 19.8 If it is determined that a particular Petroleum Operation may endanger the lives of persons or the preservation of the environment, the Director General, after consulting Licensee, may:
- (a) order such Petroleum Operation to be suspended;
  - (b) order the withdrawal of all persons from the locations deemed dangerous, in coordination with the relevant State authorities;
  - (c) order the suspension of the use of any machine or equipment which may jeopardize the said values.
- 19.9 Licensee shall notify the Director General immediately in the event of any emergency or accident and shall take such action as may be prescribed by its emergency procedures and by accepted Petroleum Industry practices.

## ARTICLE 20

### COMMENCEMENT AND ABANDONMENT AND PLUGGING OF WELLS

- 20.1 The Licensee shall not commence or recommence the drilling of any well without the consent in writing of the Director General.
- 20.2 The Licensee shall not abandon any well without the consent in writing of the Director General.
- 20.3 The licensee shall ensure compliance with any conditions subject to which any consent under either of the foregoing paragraph is given.
- 20.4 If any such condition under Article 20.1 of this clause relates to the position, depth or direction of the well, or to any casing of the well or if any condition under either Article 20.1 or 20.2 relates to any plugging or sealing of the well, the Director General may from time to time direct that the well and all records relating thereto shall be examined in such manner, upon such occasions or at such



intervals and by such person as may be specified by the Director General's direction and the Licensee shall pay to any such person or to the Director General such fees and expenses for such examination as the Director General may specify

- 20.5** The plugging of any well shall be done in accordance with a specification approved by the Director General applicable to that well or to wells generally or to class of wells to which the well belongs and shall be carried out in an efficient and workmanlike manner.
- 20.6** Subject to Article 20.7 of this Licence, any Well drilled by the Licensee pursuant to this Licence shall be plugged and sealed in accordance with Article 20.2, 20.3, 20.4 and 20.5, not less than one month before the expiry or determination of the Licensee's rights in respect of the area or part thereof in which that well is drilled.
- 20.7** A direction by the Director General may be given by notice in writing to the Licensee not less than one month before the Licensee's rights in respect of the area or part thereof in which the well is situate expire or determine so as to relieve the Licensee of the Obligation imposed by Article 20.6 of this Article to plug and seal the well.
- 20.8** Any well that, pursuant to a direction by the Director General Under Article 20.7 of this Article, has not been plugged and sealed, shall be left in good order and fit for further working together with all casings and well head fixtures the removal whereof would cause damage to such wells
- 20.9** All casings and fixtures left in position pursuant to Article 20.7 of this Article shall be the property of the State.

## ARTICLE 21

### ACCOUNTING AND AUDITING

- 21.1** Licensee shall maintain, at its offices in Sierra Leone, books of account and supporting records in the manner required by applicable law and accepted accounting principles generally used in the petroleum industry and shall file reports, tax returns and any other documents and any other financial returns which are required by applicable law.
- 21.2** In addition to the books and reports required by Article 21.1 above, Licensee shall maintain, at its office in Sierra Leone, a set of accounts and records relating to Petroleum Operations under this Licence. Such accounts shall be kept in accordance with the requirements of the applicable law and accepted accounting principles generally used in the industry. These shall include reports of
- (a) the quantity of petroleum in the form of gas won and saved



- (b) the quantity of petroleum in any other form won and saved.
  - (c) the name and address of any person to whom any Petroleum has been supplied by the Licensee, the quantity so supplied, the price thereof or other consideration thereof and the place to which the Petroleum was conveyed pursuant to the agreement for such supply and
  - (d) Such other particulars as the Director General may from time to time direct
- 21.3 The accounts required by Articles 21.1 and 21.2 shall be kept in United States Dollars.
- 21.4 Licensee will provide the Director General with quarterly summaries of the Petroleum Costs incurred under this Licence.
- 21.5 The Director General shall review all financial statements submitted by the Licensee as required by this Licence, and shall signify its provisional approval or disapproval of such statements in writing within ninety (90) days of receipt, failing which the financial statements as submitted by Licensee shall be deemed approved by the Director General.
- 21.6 Notwithstanding any provisional approval pursuant to Article 21.5 the Director General shall have the right at its sole expense and upon giving reasonable notice in writing to Licensee to audit the books and accounts of Licensee relating to Petroleum Operations within two (2) years from the submission by Licensee of any report of financial statement. The Director General shall not, in carrying out such audit, interfere unreasonably with the conduct of Petroleum Operations. Any such audit shall be completed within nine (9) months after commencement. Licensee shall provide all necessary facilities for auditors appointed hereunder including working space and access to all relevant personnel, records, files and other materials.
- 21.7 During the term of this License, Licensee shall be subject to such fiscal and accounting terms and guides as are contained in Annex 2 and Annex 4, which shall form part of this agreement.
- 21.8 Subject to any adjustments resulting from such audits, Licensee's accounts and financial statements shall be considered to be correct on expiry of a period of two (2) years from the date of their submission unless before the expiry of such two year period the Director General has notified Licensee of any exceptions to such accounts and statements.





## ARTICLE 22

### PURCHASING AND PROCUREMENT

- 22.1 In the acquisition of plant, equipment, services and supplies for Petroleum Operations, Licensee shall give preference to materials, services and products produced in Sierra Leone, of the same or superior quality, if such materials, services and products can be supplied in due time at prices, which are no more than ten percent (10%) higher than the imported items including transportation, insurance costs and customs charges due.
- 22.2 For the purposes of the provisions of Article 22.1, Sierra Leonean companies shall be mandatorily consulted on the same terms as those used for consulting companies on the international market.
- 22.3 The Licensee shall always Contract local service providers, to the extent to which the services they provide are similar to those available on the international market, and their prices, when subject to the same tax charges, are no more than ten percent (10%) higher than the prices charged by foreign contractors for similar services.
- 22.4 In furtherance of the obligations under this Article, during the term of this Licence, Licensee shall prepare in respect of each Year a local procurement statement, containing the following information:
- (a) The amount of expenditure incurred by the Licensee directly, or indirectly through its Subcontractors, on goods supplied, produced or manufactured in Sierra Leone
  - (b) the amount of expenditure incurred by the Licensee directly, or indirectly through its Subcontractors, on services provided by Sierra Leonean entities;
  - (c) the respective percentages that the expenditures recorded under items (a) and (b) above represent of the Licensee's total expenditures;
- 22.5 a detailed description of the procedures adopted during the Year to identify and purchase goods and services from Sierra Leonean suppliers; and
- 22.6 a detailed exposition of how the local purchases for the Year as recorded under items (a) and (b) above compared with the projected purchases included in the budget statement for that Year, with explanations for any significant variations;
- 22.7 The local procurement statement shall be submitted to the Director General within sixty (60) days after the end of each Year and shall be published in the Sierra Leone gazette and in at least one local newspaper.



## ARTICLE 23

### EMPLOYMENT AND TRAINING

- 23.1** For each Block held under Licence, Licensee shall pay to the Training Research and Development Fund, the sum of two hundred thousand US dollars (US\$200,000) every year from the Effective Date during the Exploration and Development period, and five hundred thousand US dollars (US\$500,000) for each contract year during the production period, which the State shall use at its sole discretion to train Sierra Leonean personnel and transfer the management and technical skills required for the efficient conduct of Petroleum Operations, and for other general and educational training purposes. This sum shall be paid on the Effective Date of the Licence, and on every anniversary of the Effective Date, for the duration of this Licence
- 23.2** Where qualified Sierra Leone personnel are available for employment, Licensee shall be required to employ Sierra Leone citizens in all categories and functions, except if there are no Sierra Leone citizens in the national market with the required qualifications and experience, under terms to be regulated.
- 23.3** National and foreign workers employed by Licensee who occupy identical professional categories and carry out identical functions shall enjoy the same rights of remuneration and the same working and social conditions, without any type of discrimination.
- 23.4** Licensee shall, if so requested by the Director General, provide opportunities for a mutually agreed number of employees nominated by the Director General to be seconded for on-the-job training or attachment to all phases of its Petroleum Operations under a mutually agreed secondment contract.
- 23.5** Licensee shall regularly provide to the Director General Information and data relating to worldwide Petroleum science and technology, Petroleum economics and engineering available to Licensee. It is agreed that there will be no disclosure or transfer of any documents, data, know-how, technology or other information owned or supplied by Licensee, its Affiliates, or non-affiliates, to third parties without Licensee's prior written consent, and then only upon agreement by the recipients to retain such information in strict confidence during the life of this Licence.
- 23.6** Licensee shall ensure that at least 20% of Management Staff and 50% of intermediate Staff be sourced from the local labor market, and the ratio to be progressed to 60% and 80% respectively after 5 years. A knowledge/skills transfer plan to be submitted where non-availability of suitable skills can be demonstrated.



23.7 In furtherance of its obligations under this Article, Licensee shall during the term of this Licence, prepare in respect of each Year a local employment statement, containing the following information:

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

23.8 The local employment statement shall be submitted to the Director General within sixty (60) days after the end of each Year and shall be published in the Sierra Leone gazette and in at least one local newspaper.

## ARTICLE 24

### IMPORT AND EXPORT

24.1 The Licensee shall have the right to import into Sierra Leone, in its own name or on behalf of its contractors and Subcontractors, all the technical equipment, materials, machinery, tools, goods and supplies necessary in the Licensee's opinion for the proper conduct and achievements of the Petroleum Operations; that includes but is not limited to, drilling, exploration, development, production, transportation, sales and marketing, equipment, pipelines, tanks, geological and geophysical tools, boats, ships, launches, drilling barges, ships and platforms, production platforms, civil engineering and telecommunication equipment, power plants and all related equipment, aircraft, automotive equipment and other vehicles, instruments, tools, spare parts, alloys and additives, camping equipment, protective clothing and equipment, medical, surgical and sanitary equipment, supplies and instruments necessary for the installation and operation of hospitals and dispensaries, documentation equipment, construction materials of all types,



lumber, office furniture and equipment, automobiles, explosives, chemicals, fuels, ship supplies, pharmaceutical products, medicines.

- 24.2 The Licensee shall have the right to import into Sierra Leone, in its own name or on behalf of its Contractors, Subcontractors and Agents the furniture, clothing, household appliances and all personal effects for all the Foreign National Employees and their families assigned to work in Sierra Leone for the Licensee or its Contractors, Subcontractors or Agents.
- 24.3 The Licensee, its Contractors, Subcontractors and Agents shall have the right to re-export from Sierra Leone free of all duties and taxes and at any time, all the items imported under Article 24.1 and 24.2 which are no longer necessary for the Petroleum Operations.
- 24.4 All the technical material, materials, machinery and tools, goods and supplies specified in Article 24.1 which the Licensee, its Contractors, Subcontractors and Agents, their Foreign National Employees and their families will have the right to import in one or more shipments to Sierra Leone shall be fully exempt of all duties and taxes payable as a result of such importation.

## ARTICLE 25

### PROTECTION OF RIGHTS

- 25.1 The State shall take all necessary and possible steps to facilitate the implementation by the Licensee of the objectives of this Licence, and to protect the property and operations of the Licensee, its employees and agents in the territory of Sierra Leone.
- 25.2 At the duly justified request of the Licensee, the State shall prohibit the construction of dwelling or business buildings in the vicinity of installations, which the Licensee may declare dangerous as a result of its operations. It shall take all necessary precautions to prohibit anchoring in the vicinity of submerged pipelines at river passages and to prohibit any hindrance to the use of any other installation necessary for the Petroleum Operations whether on land or offshore.
- 25.3 The Licensee shall take out and cause to be taken out by its contractors and subcontractors, in respect of the Petroleum Operations, all insurances of the type and for such amounts customarily used in the international Petroleum industry, including without limitation third party liability insurance and insurances to cover damage to property, facilities, equipment and material.
- 25.4 Upon the entry into Sierra Leone of all Foreign National Employees of Licensees, its Affiliates, Non-Affiliates and Subcontractors and their Agents, the Director General shall facilitate the issue of the documents necessary for the entry to all





such Foreign National Employees, such as entry visas, working permits, exit visas and other related documents.

- 25.5 At the request of the Licensee, the Director General shall facilitate any immigration formalities at the points of entry into and exit from Sierra Leone in respect of all such Foreign National Employees and their families.
- 25.6 All the Foreign National Employees required for the conduct of the Petroleum Operations shall be under the Licensee's authority or that of its Affiliates, Non-Affiliates, Subcontractors and Agents, in their capacity as employers. Their work, number of working hours, salaries and any other matters relating to their employment conditions shall be determined by the Licensee or its Affiliates, Non-Affiliates, Subcontractors and Agents. .

## ARTICLE 26

### FORCE MAJEURE

- 26.1 The provisions of Section 149 of The Act on Force Majeure shall apply mutatis mutandis.
- 26.2 Obligations other than those affected by Force Majeure shall continue to be performed in accordance with the provisions of this Licence.

## ARTICLE 27

### SOCIAL PROGRAMS

- 27.1 During the Exploration Period, Licensee commits to spend:
- (a) five hundred thousand United States Dollars (US\$500,000) during the initial exploration period,
  - (b) five hundred thousand United States Dollars (US\$500,000) during the first extension period and
  - (c) five hundred thousand United States Dollars (US\$500,000) during the second extension period,
- for a total of one million five hundred thousand United States Dollars (US\$1,500,000) on social programs relating to areas of housing, health, education, sanitation, agriculture, and/or small and medium enterprise development for the whole Exploration Period.



- 27.2 Licensee shall work with the Petroleum Directorate and identified communities to design and implement strategic community engagement programs to advance health, education and sustainable socioeconomic development.
- 27.3 While Licensee shall collaborate with the Petroleum Directorate in the implementation of these social programs, Licensee shall at its sole discretion determine the appropriation of these funds.
- 27.4 Licensee at the request of the Director General can combine and coordinate efforts with other Petroleum Industry Stakeholders in the implementation of joint social projects.
- 27.5 Licensee at the request of the Director General can combine and coordinate efforts with other Petroleum Industry stakeholders in the implementation of joint social projects.
- 27.6 Funds under this program shall be used in a judicious manner and Licensee shall account for all expenditures under this program.
- 27.7 Accounting for the use of these funds shall be included in the annual budget, and shall be included in quarterly and annual reports due to the Director General and shall be subject to the same Audit terms.

## ARTICLE 28

### CONSULTATION, ARBITRATION AND INDEPENDENT EXPERT

- 28.1 Any dispute or difference arising between the State on one hand and Licensee on the other in relation to or in connection with or arising out of any terms and conditions of this Licence shall be resolved by consultation and negotiation. In the event that no agreement is reached within thirty (30) days after the date when either Party notifies the other that a dispute or difference exists within the meaning of this Article or such longer period specifically agreed to by the Parties or provided elsewhere in the Licence, any Party shall have the right subject to Article 28.8 to have such dispute or difference settled through international arbitration under the rules and procedures and under the auspices of the International Chamber of Commerce
- 28.2 The tribunal shall consist of three (3) arbitrators. Each Party to the dispute shall appoint one (1) arbitrator and those so appointed shall designate an umpire arbitrator. If a Party's arbitrator and/or the umpire arbitrator is not appointed within the period provided in the rules, such Party's arbitrator and/or the umpire arbitrator shall at the request of any Party to the dispute be appointed by the International Chamber of Commerce



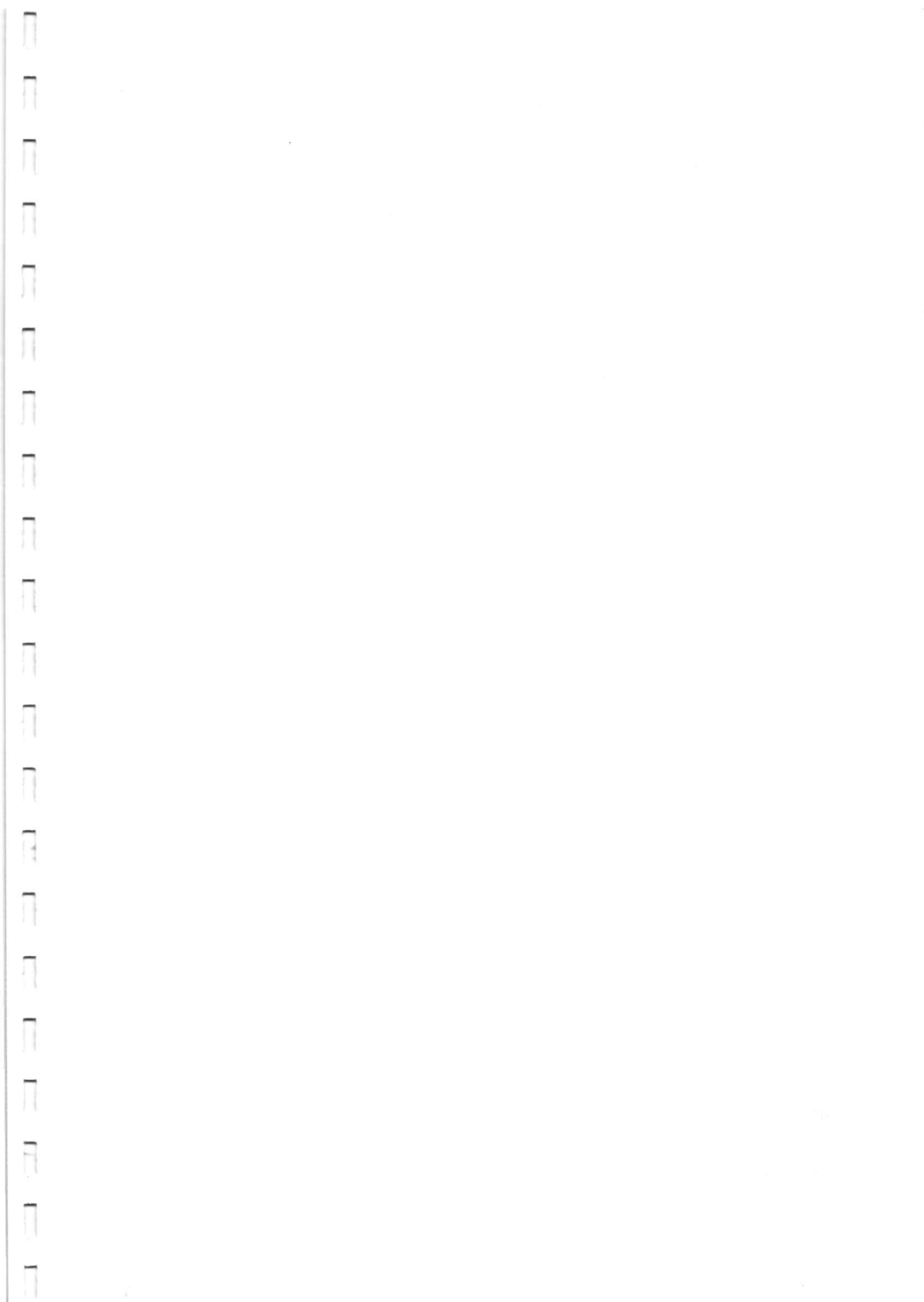
- 28.3 No arbitrator shall be a citizen of the home country of any Party hereto, and shall not have any economic interest or relationship with any such Party.
- 28.4 The arbitration proceedings shall be conducted in London, England, or at such other location as selected by the arbitrators unanimously. The proceedings shall be conducted in the English language.
- 28.5 If the opinion of the arbitrators are divided on issues put before the tribunal, the decision of the majority of the arbitrators shall be determinative. The award of the tribunal shall be final and binding upon the Parties. The award may be submitted to a court of appropriate jurisdiction to implement as a judicial decree.
- 28.6 The right to arbitrate disputes arising out of this Licence shall survive the termination of this Licence.
- 28.7 In lieu of resorting to arbitration, the Parties to a dispute arising under this Licence, including the Accounting Guide, which such Parties by mutual agreement may consider appropriate may be referred for determination by a sole expert to be appointed by agreement of the Parties. In such case, the Parties shall agree on the terms of reference for such proceeding, the schedule of presentation of evidence and testimony of witnesses, and other procedural matters. The decision of the sole expert shall be final and binding upon the Parties. The sole expert shall have ninety (90) days after his appointment to decide the case, subject to any extensions mutually agreed to by the Parties to the dispute. Upon failure of the sole expert to decide the matter timely, any Party may call for arbitration under Article 28.1 above.
- 28.8 Each Party to a dispute shall pay its own counsel and other costs of litigation; however, costs of the arbitration tribunal shall be allocated in accordance with the decision of the tribunal. The costs and fees of the Sole Expert shall be borne equally by the Parties to the dispute.

## ARTICLE 29

### ASSIGNMENT

- 29.1 The Licensee shall not, except with the consent in writing of the Director General and in accordance with the conditions (if any) of the consent, do anything whatsoever, whereby under the law (including the rules of equity), any right granted by this Licence or derived from a right so granted becomes exercisable by or for the benefit of or in accordance with the directions of another person.
- 29.2 All or part of the rights and obligations arising from this Licence may be assigned by any of the entities constituting the Licensee to third parties whose technical and financial reputation is well established; the assignees with the other entities







constituting the Licensee shall thereafter be jointly and severally liable for the obligations arising from this Licence.

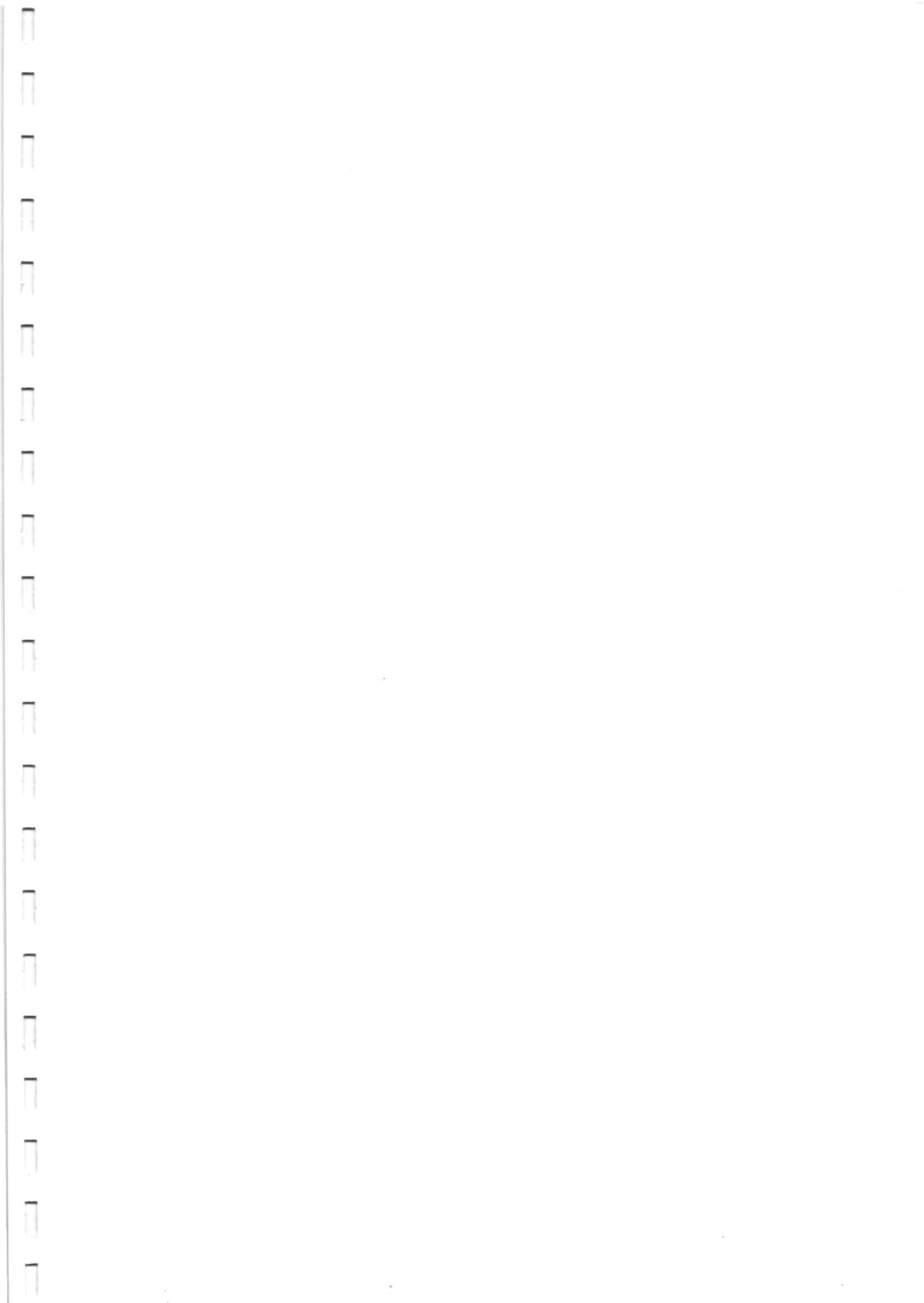
**29.3** The terms of any joint and several assignment and ownership shall be subject to the prior approval of the Director General

**29.4** To enable consideration to be given to any request for the Director General's consent referred to in Articles 29.3, the following conditions must be fulfilled:

- (a) All the obligations of the assignor deriving from this Licence must have been duly fulfilled as of the date such request is made.
- (b) The instrument of assignment must include all the terms of the Assignment, and provisions stating precisely that the assignee is bound by all covenants contained in this Licence and any modifications or additions in writing that up to such time may have been made. A draft of such instrument of assignment shall be submitted to the Director General for review and approval before being formally executed.
- (c) The assignor(s) must submit to the Director General reasonable documents that evidence the assignee's financial and technical competence.
- (d) Once the assignor and a proposed third party assignee, other than an Affiliated Company, have agreed the final conditions of an assignment, the assignor shall disclose in details such final conditions in a written notification to the Director General. The State shall have the right to acquire the interest intended to be assigned, if, within Thirty (30) days from assignor's written notification, the Director General informs the assignor by a written notification that it accepts the same conditions agreed to with the proposed third party assignee. If the Director General does not give such notification within the Thirty (30) day period, the assignor shall have the right to assign to the proposed third party assignee, subject to the Director General's approval under Article 29.3 of this Licence.
- (e) As long as the assignor shall hold any interest under this Licence, the assignor together with the assignee shall be jointly and severally liable for all duties and obligations of Licensee under this Licence.

**29.5** On the date of approval of each assignment requested by any of the entities constituting the Licensee to any Assignee in accordance with the terms of this Licence in the following cases:

- (a) During any Exploration Period, in case any of the entities constituting the Licensee assigns in whole or in part of its rights, privileges, duties and obligations to any Assignee other than an Affiliate Company of the same entity constituting the Licensee, the Assignee shall pay to the State the





sum of Two Million Five Hundred Thousand United States Dollars (US\$2,500,000) as assignment fees

- (b) During any Development or Production Period, in case any of the entities constituting the Licensee assigns in whole or in part of its rights, privileges, duties and obligations to any Assignee other than an Affiliate Company of the same entity constituting the Licensee, Assignor shall pay to the Director General the sum Two Hundred and Fifty Thousand United States Dollars US\$250,000 and Assignee shall pay to the State the sum of Four Million United States Dollars (US\$4,000,000) as assignment fees.
- (c) In case of an assignment by any of the entities constituting the Licensee to an Affiliate company of the same entity constituting the Licensee during the Exploration phase; Assignee shall pay to the Director General the sum of Two Hundred and Fifty Thousand US Dollars (US\$250,000) as Assignment Fee, and in the case of an Assignment by any of the entities constituting the Licensee to an Affiliate company of the same entity constituting the Licensee during the Development or Production Phase, Assignee shall pay to the Director General the sum of Five Hundred Thousand US Dollars (US\$500,000) as assignment fee.

29.6 All fees paid in accordance with Article 29.5 shall be deductible only from capital gains taxes due to the State.

29.7 Wherein

- (a) any of the entities constituting the Licensee ("Assignor") assigns all or a part of its Participating Interest to a third party ("Assignee") in accordance with this Article 29;
- (b) the Assignee provides an irrevocable, unconditional bank guarantee from a reputed bank of good standing, acceptable to the State, in favour of the State, for an amount equal to the assignee's Participating Interest share of the estimated expenditure of the Minimum Work Programme of the Exploration Phase current at the Effective Date of the assignment;
- (c) the Assignee provides performance guarantee and legal opinion in terms of Article 5; and
- (d) the assignment of Participating Interest is executed by all Parties;

then the Director General shall release the guarantee given by the assignor under Article 5 to the extent of the amount of the guarantee provided by the assignee

## ARTICLE 30



## BONUSES

### 30.1 Signature Bonus

- (a) Licensee shall pay to the State in Cash as a signature bonus The Sum of Three Million United States Dollars (US\$3,000,000) no later than fourteen business days after the Effective Date of this Licence.

### 30.2 Development Bonus

- (a) Licensee shall pay to the State in Cash as a Development bonus the Sum of One Million United States Dollars (US\$1,000,000) the date of the approval of each Commercial Development.

### 30.3 Extension Bonus

- (a) Licensee shall pay to the State in Cash the Sum of Five Million US Dollars (US\$5,000,000) as an extension bonus no later than Thirty days after the approval date of entry into any further extensions other than that provided for the first and second extension under the work program. This Bonus may be waived at the Discretion of the Director General for extensions granted under Section 46 (4) and (5) of The Act.

### 30.4 Production Bonus

- (a) Production Bonuses shall be based on Cumulative Production Milestones. These Bonuses shall be paid to the State only once, in Cash at the amounts set below, and shall be paid within thirty days (30) from the date on which all cumulative oil production from the Licence Area exceeds Three Hundred Million barrels of oil or oil equivalent (300 MMBOE) and at each subsequent One Hundred Million barrels of oil or oil equivalent (100 MMBOE) incremental production as stated below.
  - i. Bonus payment of Ten Million United States Dollars (US\$ 10,000,000) shall be paid for reaching three hundred million barrels of oil or oil equivalent (300 MMBOE);
  - ii. Bonus of Twenty Million United States Dollars (US\$ 20, 000,00) shall be paid for reaching four hundred million barrels of oil or oil equivalent (400 MMBOE);
  - iii. Bonus of Thirty Million United States Dollars (US\$30,000,000) shall be paid on reaching five hundred million barrels of oil or oil equivalent (500 MMBOE);
  - iv. Bonus of Forty Million United States Dollars (US\$ 40,000,000) shall be paid on reaching six hundred million barrels of oil or oil equivalent (600 MMBOE);



v. Bonus of Fifty Million United States Dollars (US\$ 50,000,000) shall be paid on reaching seven hundred million barrels of oil or oil equivalent (700 MMBOE) and for every additional one hundred million barrels of oil or oil equivalent (100 MMBOE) thereafter.

(b) Gas shall be taken into account for purpose of determining the total production from the Licence Area under this Article by converting daily Gas delivered into equivalent barrels of Crude Oil production in accordance with the following formula for each unit of one thousand (1,000) standard Cubic Feet of Gas: Equivalent Barrels of Oil Per MSCF =  $H \times 0.167$  Where: MSCF = one thousand Standard Cubic Feet of Gas. H = the number of million British Thermal Units (MMBTU) per MSCF.

### 30.5 Technology Bonus

(a) Licensee shall pay to the Director General the sum of Five Hundred Thousand U.S. Dollars (US\$ 500,000) as a technology bonus, which the Directorate may use at its discretion to acquire leading edge technology and equipment, infrastructure improvement and research and development, for the efficient conduct of Petroleum Operations. Payment shall be made only once, on the first anniversary of the Effective Date.

30.6 The Director General shall act as agent for the State in the invoicing and collection of all Petroleum or Amounts accruing to the State under this Article and delivery or payment to Director General by Licensee shall discharge Licensee's liability.

30.7 All the above mentioned bonuses shall in no event be recovered by Licensee.

## ARTICLE 31

### ADMINISTRATION OF CONTRACT

31.1 This Licence and the relationship between the State and the Director General on one hand and Licensee on the other shall be governed by and construed with the laws of the Republic of Sierra Leone.

31.2 Any Party failing to pay any amounts payable by it under this Licence (including the provisions of Annex 2 and 4) on the respective dates on which such amounts are payable by such Party hereunder shall be obligated to pay interest on such unpaid amounts to the Party to which such amounts are payable. The rate of such interest with respect to each day of delay during the period of such non-payment shall be the rate which the Barclays Bank, London, certifies to be the London Interbank offered rate (LIBOR) in the London Interbank Eurodollar market on thirty (30) day deposits, in effect on the last business day of the respective preceding Month, plus Two and half percent (2.5%). Such interest shall accrue



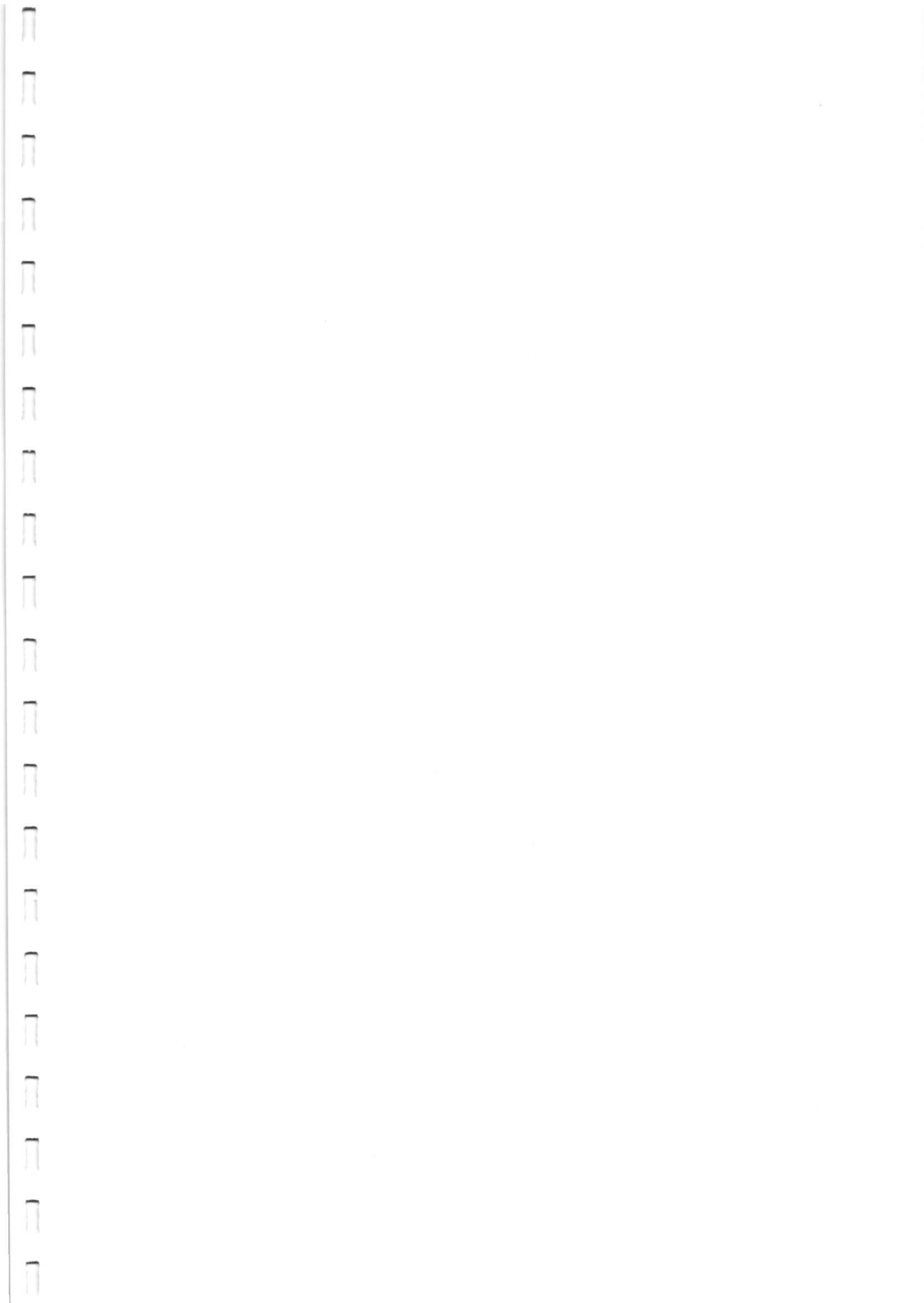
from the respective dates until such amounts are payable and until the amounts are actually duly paid. The Party to whom any such amount is payable may give notice of non-payment to the Party in Default and if such amount is not paid within fifteen (15) days after such notice, the Party to which the amount is owed may, in addition to the interest referred to above, seek remedies available pursuant to the arbitration provision hereunder.

- 31.3 The rights and obligations under this Licence of the State on the one hand and Licensee on the other shall be separate and proportional and not joint. This Licence shall not be construed as creating a partnership or joint venture, nor an association or trust or as authorizing any Party to act as agent, servant or employee for any other Party for any purpose whatsoever.
- 31.4 The duties and obligations of each Party constituting Licensee hereunder shall be joint and several and it is recognized that each such Party shall own and be responsible for its undivided Interest in the rights and obligations of Licensee hereunder; provided, however, that the following payments shall be the separate obligation of and shall be made by each Party which constitutes the Licensee:
- (a) Payments of income tax under the terms of this Licence;
  - (b) Payments of royalty under the terms of this Licence;
  - (c) Payments of Licence fees under the terms of this Licence
  - (d) Payment of assignment fees under the terms of this Licence.

## ARTICLE 32

### IMPLEMENTATION OF LICENCE

- 32.1 The Parties agree to cooperate in every possible manner to achieve the objectives of this License. The Director General shall facilitate the grant of any permits, licenses, access rights, appropriate services and facilities required by the Licensee for the performance of the Petroleum Operations.
- 32.2 If the Director General considers that the Licensee has committed a breach in the performance of any of its obligations, it shall so notify the Licensee in writing and the Licensee shall have Forty Five (45) days to remedy the breach or refer the matter to Arbitration in accordance with the provisions of this Licence.
- 32.3 If any of the events specified in the following paragraph shall occur then and in any such case the Director General may revoke this Licence and thereupon the same and all rights hereby granted shall cease and determine but subject nevertheless and without prejudice to any obligation or liability incurred by the Licensee or imposed upon him by or under the terms and conditions hereof.





32.4 The breach by the Licensee of the provisions of this Licence may give rise to the termination thereof by the State upon the uncorrected occurrence of any of the events or failures to act listed below.

- (a) the submission by Licensee to the Director General of a written statement which the Licensee knows or should have known to be false in a particular material matter;
- (b) the assignment or purported assignment by Licensee, of this Licence contrary to the assignment provisions hereunder;
- (c) the insolvency or bankruptcy of Licensee or the entry of the Licensee into liquidation or receivership, whether compulsory or voluntary, and there is justifiable anticipation that the obligations of Licensee hereunder will not be performed;
- (d) the failure of Licensee to fulfill its minimum work obligations under Article 6 of this agreement unless the Director General has waived the Default;
- (e) the substantial and material failure by Licensee to comply with any of its obligations pursuant to Article 8 hereof;
- (f) the failure of the Licensee to provide the required Performance Security within Sixty (60) days of the Effective Date for the Initial Exploration Period or within Sixty (60) days of entrance into any extension period.
- (g) the failure by Licensee to make any payment of any sum due to the Director General or the State pursuant to this Licence within forty five (45) days after receiving notice that such payment is due.
- (h) If Licensee intentionally extracts any mineral other than petroleum, not authorized by this Licence, or without the authorization of the Government, except such extractions that may be unavoidable as a result of the operations conducted hereunder in accordance with accepted petroleum industry practice, and which shall be notified to the Director General as soon as possible.
- (i) any breach or non-observance by the Licensee of the terms and conditions of an approved Development Plan.
- (j) If the Licensee is a company and there is a change in the control of the Licensee and the Director General serves notice in writing stating that the Director General proposes to revoke this Licence in pursuance of this paragraph unless such a further change in control of the Licensee as is specified in the notice takes place within the period of three months beginning with the date of service of the notice and that further change does not take place within that period.



- (k) There is a change in the control of the Licensee for the purposes of Article 32.4 (j) of this Article whenever a person has control of the Licensee who did not have control of the Licensee when this Licence was granted. For the purposes of determining whether for the purposes of this paragraph a person has control or had control of the Licensee if he holds a greater part in the Licence or more than One-Third.
- 32.5 The Director General may terminate this Licence as to one of the parties comprising the Licensee, if the circumstances set forth in Article 32.4 are applicable to only that party in the manner set forth in Article 32.4.
- 32.6 The Director General may terminate this Licence as to one of the parties comprising the Licensee if the Operator informs the Director General that that party has consistently defaulted in its obligations under the Joint Operating Agreement between the parties, if one or more of the parties holding shares in the Licence suspend their payments, requests the opening of negotiations for a compulsory composition, are declared bankrupt, go into liquidation or are in a similar situation.
- 32.7 If the Director General or the State believes an event or failure to act as described in Article 32.4 and 32.6 above has occurred, a written notice shall be given to Licensee describing the event or failure. Licensee shall have Forty Five (45) days from receipt of said notice to remedy the event or failure cited in the notice. If after said Forty Five (45) days Licensee has failed to Remedy the default, the Director General or the State may then Suspend or Terminate the Licensee unless the Licensee has referred the matter to Arbitration under this Licence.
- 32.8 If so referred to Arbitration, the Director General and/or the State may not terminate this Licence in respect of such event except in accordance with the terms of any resulting Arbitration Award.
- 32.9 Disputes regarding non-payment of Bonuses, Annual Licence Fees, Annual Training Fees (OR COULD BE ANY AMOUNT DUE TO THE STATE UNDER THIS LICENCE AGREEMENT) and non-receipt of bank guarantees for minimum work expenditure shall not be referred to Arbitration and such written Notice of Termination shall be effective without delay.
- 32.10 The terms and conditions of this Licence may be modified only in writing and by mutual agreement between the Parties.
- 32.11 The Director General shall represent the State under this Licence and is empowered to grant by due process, in the name and on behalf of the State, any consent necessary or useful for the implementation of this Licence.
- 32.12 The Petroleum Directorate shall act as an agent for the State in the collection of all petroleum or money apart from Duties and Taxes, accruing to the State under this Licence, and delivery or payment to the Director General by Licensee shall discharge Licensee's liability.



- 32.13 Headings in this Licence are inserted for purposes of convenience and reference and in no event shall define, restrict or describe the scope or object of the License or of any of its clauses.
- 32.14 Annexes 1, 2, 3 and 4 attached hereto shall form an integral part of this Licence.
- 32.15 Any waiver of the State concerning the performance of any obligation of the Licensee shall be in writing and signed by the Director General, and no waiver shall be implied if the Director General does not exercise any of its rights to which it is entitled under this Licence.

### ARTICLE 33

#### STABILITY OF CONTRACT

- 33.1 During the validity of the Licence, the State guarantees that no future government acts shall apply to the Licence without the prior agreement of the Parties, that may affect, directly or ipso facto, the obligations and charges imposed on the Licensee through the provisions of the Licence, or that may adversely affect the rights and economic benefits of the Licensee provided in the Licence.
- 33.2 This shall apply, in particular, to the following:
- (a) Exemption from fees, duties and taxes;
  - (b) Obligations with regard to Royalties and profits tax;
  - (c) Rights to keep and transfer abroad the funds and foreign currencies;
  - (d) Non-discrimination for the charges for services rendered by the State for similar services provided within the public domain.
- 33.3 In the event that such changes were made by the Government of the Republic of Sierra Leone without the prior agreement of the Licensee, the Parties will agree on the necessary amendments in order to provide the Licensee with the same financial terms, obligations and charges, as well as the same rights and economic benefits that existed before said changes occurred.
- 33.4 Where a Party considers that a significant change in the circumstances prevailing at the time the Licence was entered into, has occurred affecting the economic balance of the Licence, the Party affected hereby shall notify the other Parties in writing of the claimed change with a statement of how the claimed change has affected the relations between the Parties.
- 33.5 The other Parties shall indicate in writing their reaction to such representation within a period of one (1) month of receipt of such notification and if such



significant changes are established by Parties to have occurred, the Parties shall meet to engage in negotiations and shall effect such changes in, or rectification of, these provisions as they may agree are necessary.

- 33.6** Where parties cannot agree on new terms, the matter may be submitted for arbitration or sole expert determination according to Article 28.





## ARTICLE 34

### NOTICE

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

#### FOR THE STATE:

##### ADDRESS:

Director General  
Petroleum Directorate  
43 Siaka Stevens Street  
Freetown, Sierra Leone

##### TELEPHONE:

+232 22222714

##### EMAIL:

info@pd-sl.com

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#### FOR LICENSEE:

##### ADDRESS:

Nima Holdings (SL)  
Limited. 112 Pademba Road,  
Freetown, Sierra Leone

##### TELEPHONE:

+232 76 135 195

##### EMAIL:

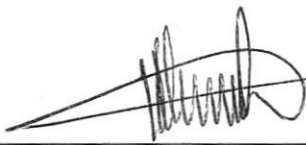
rwalters@nimaholdingsllc.com

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



FOR THE STATE : represented by

By:  24/6/13

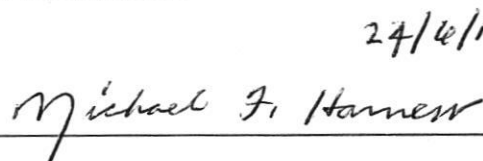
**DR. KAIFALA MARAH**  
MINISTER OF FINANCE & ECONOMIC DEVELOPMENT

WITNESSED:

By:  24/6/13

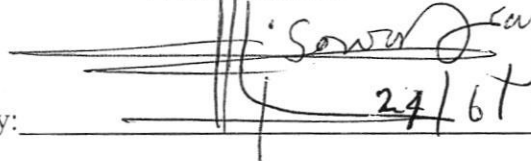
**RAYMOND SAIDU KARGBO**  
DIRECTOR GENERAL PETROLEUM DIRECTORATE

FOR LICENSEE:


By:  24/6/13

**MICHAEL F. HARNESS**  
NIMA HOLDINGS (SL) LIMITED

WITNESSED:

By:  24/6/13

**MOHAMED SOWA TURAY**  
NIMA HOLDINGS (SL) LIMITED





## ANNEX 1

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

### LICENCE AREA/LICENCE AREA

On the Effective Date, the Contract Area/Licence Area, designated as Block SL 10A-10, is formed by the area included inside the perimeter constituted by the points indicated SL-10A, SL-10B, SL-10E and SL-10F on the map attached hereto.

SL-10A-10	Area = 1948 sq. km		
	SL-10A	12° 47' 00" W	6° 14' 00" N
	SL-10B	12° 28' 56" W	6° 00' 35" N
	SL-10E	12° 43' 53" W	5° 41' 28" N
	SL-10F	13° 03' 50" W	5° 57' 34" N

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

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

The surface of the Licence Area above defined is deemed to be equal to about One Thousand Nine Hundred and Forty Eight Square Kilometres (1,948 Sq Km).



MAP OF THE LICENCE AREA

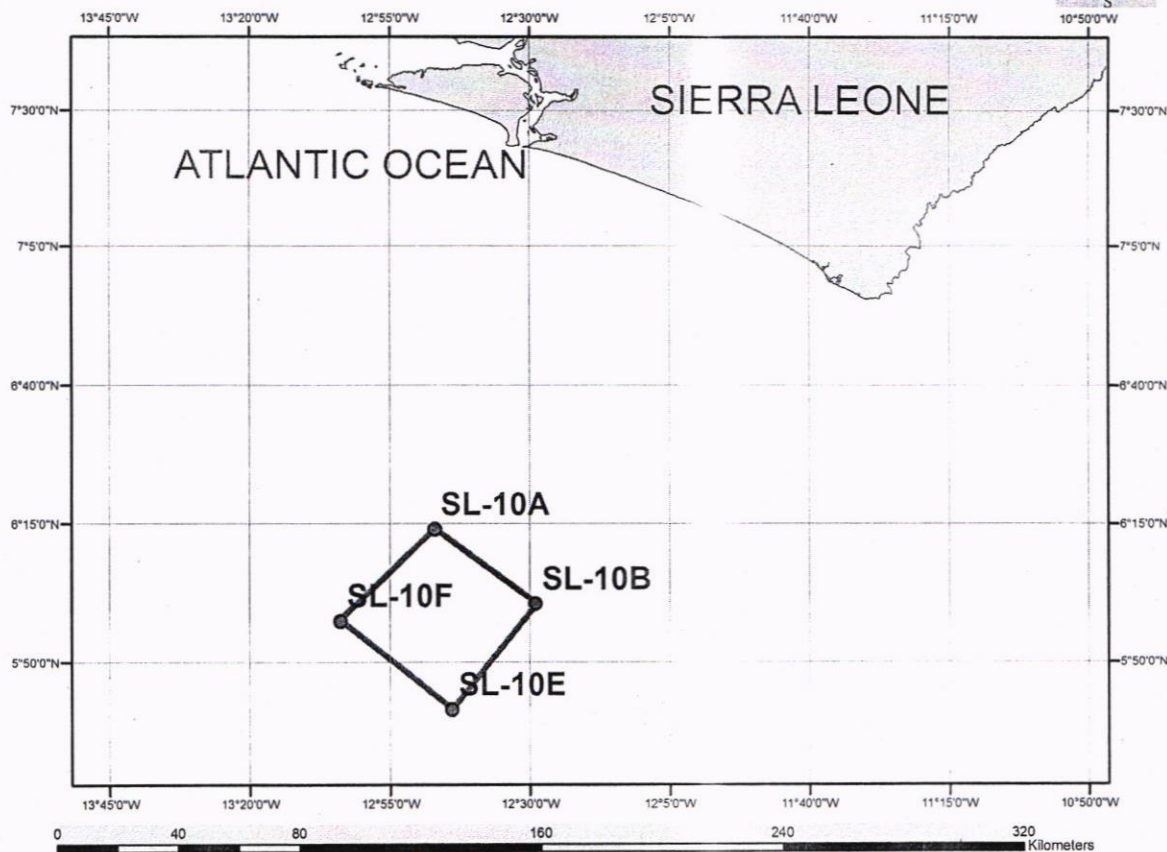
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# **SIERRA LEONE PETROLEUM OFFSHORE BLOCK SL-10A-10** **AREA=1948 sq.km**



Reference Scale=1:3,000,000

## **Legend**

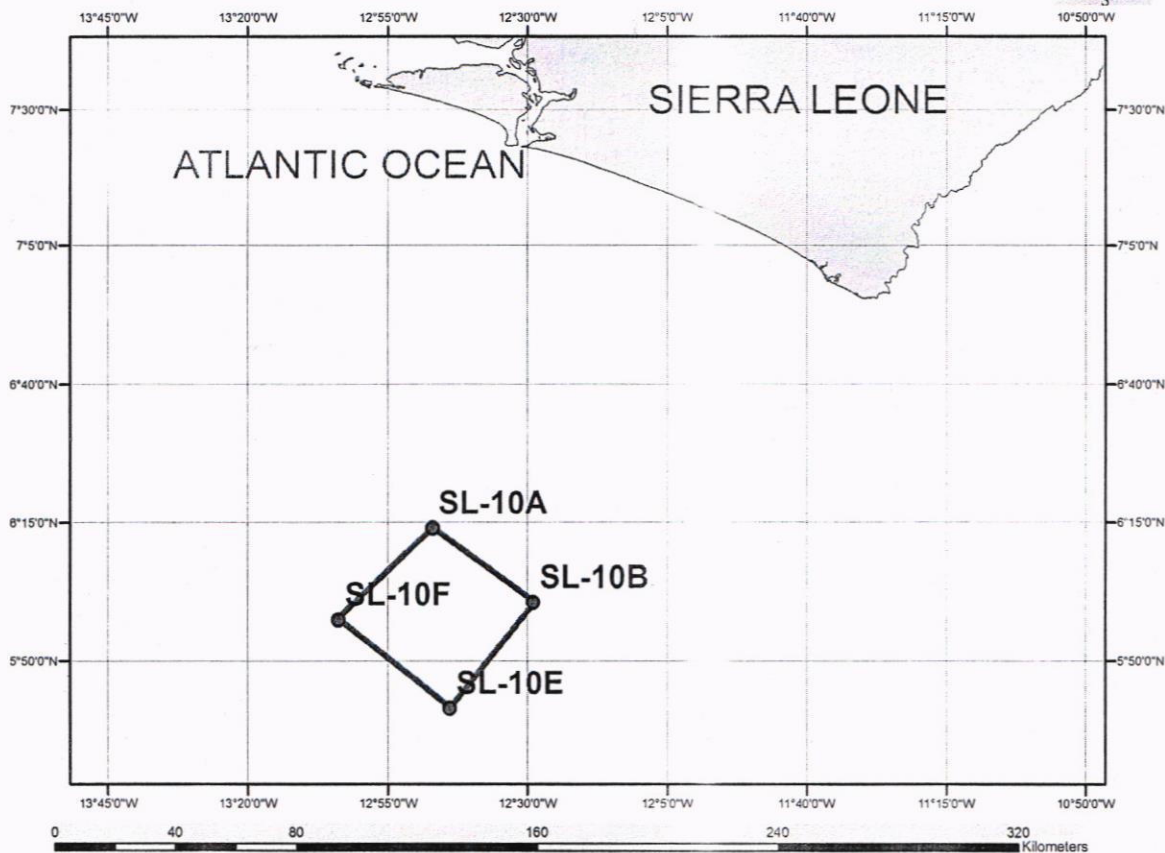
 Block Boundary

Block	Block id	Longituide	Latitude
SL- 10B-10	SL-10B	12° 28' 56" W	6° 00' 35" N
	SL-10C	12° 11' 00" W	5° 47' 00" N
	SL-10D	12° 25' 54" W	5° 26' 56" N
	SL-10E	12° 43' 53" W	5° 41' 28" N

Map Datum=WGS 1984  
Coordinate System=Geographic Coordinate System(GCS)



**SIERRA LEONE PETROLEUM OFFSHORE BLOCK SL-10A-10**  
**AREA=1948 sq.km**



Reference Scale=1:3,000,000

**Legend**

Block Boundary

Area=1948 sq.km			
SL- 10A-10	Block ID	Longitude	Latitude
	SL-10A	12° 47' 00" W	6° 14' 00" N
	SL-10B	12° 28' 56" W	6° 00' 35" N
	SL-10E	12° 43' 53" W	5° 41' 28" N
	SL-10F	13° 03' 50" W	5° 57' 34" N

**Map Datum=WGS 1984**  
**Coordinate System=Geographic Coordinate System(GCS)**



## ANNEX 2

### ACCOUNTING GUIDE

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

#### 1.1 GENERAL PROVISIONS

- 1.1.1 Words and terms appearing in this Annex shall have the same meaning as in the Licence and to that end shall be defined in accordance with Article 1 of the Licence.
- 1.1.2 In the event of a conflict between the provisions of the Accounting Guide and the provisions of the Licence, the provisions of the Licence shall prevail.

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

- 1.2.1 Within forty-five (45) days from the Effective Date, Licensee shall propose to the Director General an outline of the chart of accounts, operating records and reports to be prepared and maintained, which shall describe the basis of the accounting principles and procedures to be used during the term of the Licence, and shall be consistent with normal practice of the international petroleum industry.
- 1.2.2 Within ninety (90) days of the receipt of such proposal the Director General shall either accept it or request such revisions as the Director General deems necessary. Failure to notify Licensee of any requested revisions within a ninety (90) day period shall be deemed acceptance of such proposal.
- 1.2.3 Within one hundred and eighty (180) days from the Effective Date, the Parties shall either agree on such outline or submit any outstanding issue for determination by a Sole Expert pursuant to the Arbitration provisions of this Licence.
- 1.2.4 Following agreement over the outline Licensee shall prepare and submit to the Director General formal copies of the chart of accounts relating to the accounting, recording and reporting functions listed in such outline. Licensee shall also permit the Director General to inspect its manuals and to review all procedures which are to be followed under the Licence.
- 1.2.5 Without prejudice to the generality of the foregoing, Licensee shall make separate statements relating to Petroleum Operations for each Development and Production Area as follows:



- (a) Production Statement (see Section 5)
- (b) Value of Production Statement (see Section 6)
- (c) Cost Statement (see Section 7)
- (d) Statement of Expenditures and Receipts (see Section 8)
- (e) Final End-of-Year Statement (see Section 19)
- (f) Budget Statement (see Section 10)
- (g) Long Range Plan and Forecast (see Section 13)

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

- 1.3.1** The U.S. Dollar being the currency unit for investments and compensation hereunder shall therefore be the unit of currency for all bookkeeping and reporting under the Licence. When transactions for an asset or liability are in currency other than the U.S. Dollar, the respective accounts shall be kept in such other currency as well as the U.S. Dollar.
- 1.3.2** Measurement required under this Annex shall be in the metric system and Barrels.
- 1.3.3** The English language shall be employed.
- 1.3.4** Where necessary for purposes of clarification, Licensee may also prepare financial reports in other languages, units of measurement and currencies.
- 1.3.5** It is the intent of the Parties that no Party shall experience any gain or loss at the expense of or to the benefit of the other as a result of exchange of currency. Where any such gain or loss arises it shall be charged or credited to the accounts under the Licence.
- 1.3.6** The rate of exchange for the conversion of currency shall be the rate quoted by the Bank of Sierra Leone, or, where buying and selling rates are quoted, the arithmetic average of those rates, at the close of business on the date of such currency conversion.
- 1.3.7** Current Assets and Liabilities shall be translated at the rate prevailing on the date of settlement of the account.





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

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

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

**SECTION 2** Expenditure relating to Petroleum Operations shall be classified, as follows:

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

and shall be defined and allotted as herein below provided.

### **2.2 EXPLORATION EXPENDITURE**

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

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



## **2.3 DEVELOPMENT EXPENDITURE**

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

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

## **2.4 PRODUCTION EXPENDITURE**

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

## **2.5 SERVICE COSTS**

- 2.5.1** Service Costs shall consist of but not be limited to direct and indirect expenditure incurred in support of Petroleum Operations, including the construction or installation of warehouses, piers, marine vessels, vehicles, motorized rolling equipment, aircraft, fire security stations, workshops, water and sewage plants, power



plants, housing community and recreational facilities and furniture, tools and equipment used in such construction or installation.

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

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

## **2.6 GENERAL AND ADMINISTRATIVE EXPENSES**

General and Administrative Expenses shall consist of:

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

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

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

## **SECTION 3**

### **3.1**

#### **COSTS NOT ALLOWABLE UNDER THE LICENCE**

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

- (a) commission paid to intermediaries by Licensee;
- (b) costs and charges incurred before the Effective Date including costs in respect of preparation, signature or ratification of this Licence;



- (c) expenditures in respect of any financial transaction to negotiate, float or otherwise obtain or secure funds for Petroleum Operations including, but not limited to, interest, commission, brokerage and fees related to such transactions, as well as exchange losses on loans or other financing, whether between Affiliates or otherwise;
- (d) expenditures incurred in obtaining, furnishing and maintaining the guarantees required under the Contract and any other amounts spent on indemnities with regard to non-fulfillment of contractual obligations;
- (e) attorney's fees and other costs and charges in connection with arbitration proceedings and sole expert determination pursuant to the Contract;
- (f) amounts paid with respect to non-fulfillment of contractual obligations;
- (g) costs incurred as a result of failure to insure where insurance is required pursuant to the Contract, or of failure to follow procedures laid down by an insurance policy or where the Licensee has elected to self insure, or has under-insured;
- (h) financing cost of inventory and loss on disposal of inventory
- (i) Costs which are not adequately supported and documented.
- (j) any bonus payments made by the Licensee;
- (k) any payments made to the State for failure to fulfill the minimum Exploration work obligations pursuant to Article 6 of the Contract;
- (l) any fines and sanctions incurred for infringing the laws and regulations of Sierra Leone;
- (m) any donation to the State carried out by Licensee unless otherwise agreed;
- (n) the State's audit and inspection expenses incurred as a result of the absence of original documents in the Licensee's offices in Sierra Leone;
- (o) costs related to the assignment from the Licensee to any of its Affiliates or other Persons.
- (p) petroleum marketing costs or costs of transporting petroleum beyond the Delivery Point;
- (q) cost of arbitration under the Licence or dispute settlement by any independent expert under the terms of the Licence;
- (r) fines and penalties imposed by a competent Court of Law;





- (s) costs incurred as a result of gross negligence or willful misconduct chargeable to Licensee or the Operator under the terms of the Licence....

### **3.2 ALLOWABLE AND DEDUCTIBLE**

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

### **3.3 CREDITS UNDER THE LICENCE**

The net proceeds of the following transactions will be credited to the accounts under the Licence:

- a) the net proceeds of any insurance or claim in connection with Petroleum Operations or any assets charged to the accounts under the Licence when such operations or assets were insured and the premiums charges to the accounts under the Licence;
- b) revenue received from third parties for the use of property or assets charged to the accounts under this Licence;
- c) any adjustment from the suppliers or manufacturers or their agents in connection with a defective equipment or material the cost of which was previously charged to the account under the Licence;
- d) the proceeds received for inventory materials previously charged to the account under the Licence and subsequently exported from the Republic of Sierra Leone or transferred or sold to third parties without being used in the Petroleum Operations;

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

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



## **MATERIAL**

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

Material purchased, leased or rented by Licensee for use in Petroleum Operations shall be valued at the actual net cost incurred by Licensee. The net cost shall include invoice price less trade and cash discounts, if any, purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, customs duties, consular fees, other items chargeable against imported material, and any other related costs actually paid.

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

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

#### **4.2.1 New Material (Condition "A")**

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

#### **4.2.2 Used Material (Condition "B")**

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

#### **4.2.3 Used Material (Condition "C")**

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

### **4.3 CLASSIFICATION OF MATERIALS**

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



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

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

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

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

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

#### **4.6 CONTROLLABLE MATERIALS**

- 4.6.1** The Licensee shall control the acquisition, location, storage and disposition of materials which are subject to accounting record control, physical inventory and adjustment for overages and shortages (hereinafter referred to as Controllable Material).
- 4.6.2** Licensee shall conduct one physical inventory of the Controllable Material each Calendar Year which shall be completed prior to the end of the year.
- 4.6.3** The gain or loss resulting from the physical inventory shall be reflected in the stock records of Controllable Materials. The Licensee shall compile a reconciliation of the inventory with a reasonable explanation for such gains or losses. Failure on the part of the Director General to object to Licensee's reconciliation within thirty (30) days of compilation of said reconciliation shall be regarded as approval by the Director General.

### **SECTION 5**

#### **PRODUCTION STATEMENT**

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

- a)** the quantity of Crude Oil produced and saved ;
- b)** the quantity of Natural Gas produced and saved;
- c)** the quantities of Petroleum used for the purpose of conducting drilling and Production Operations, pumping to field storage and re-injection;



- d) the quantities of Natural Gas flared;
- e) the size of Petroleum stocks held at the beginning of the Month;
- f) the size of Petroleum stocks held at the end of the Month.
- (a) Such other particulars as the Director General may from time to time direct

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

## SECTION 6

### 6.1 VALUE OF PRODUCTION STATEMENT

- 6.1.1 Licensee shall prepare a statement providing calculations of the value of Crude Oil produced and saved during each Quarter based on the Market Price established under the Licence. Such Statement shall be submitted to the Director General not later than thirty (30) days following the determination, notification and acceptance of the World Market Price to the Director General according to the Licence. Report should also include the name and address of any person to whom any Petroleum has been supplied by the Licensee, the quantity so supplied, the price thereof or other consideration thereof and the place to which the Petroleum was conveyed pursuant to the agreement for such supply.

### COST STATEMENT

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

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

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





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

## **SECTION 7**

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

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

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

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

## **SECTION 8**

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

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

## **SECTION 9**

### **BUDGET STATEMENT**

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

- a) forecast Expenditures and Receipts for the budget year under the Licence;
- b) cumulative Expenditures and Receipts to the end of said budget year, and



- c) the most important individual items of Exploration, Development and Production Expenditures for said budget year.

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

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

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

## SECTION 10

### LONG RANGE PLAN AND FORECAST

10.1 Licensee shall prepare and submit to the Director General the following:

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

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

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

- a) In the event of a Development Plan being approved, the Licensee shall prepare a Development Forecast for each calendar year of the Development Period, which shall contain the following information:
  - i) forecast of the capital expenditure portions of Development and Production expenditures for each Calendar Year of the Development Period;
  - ii) forecast of operating costs for each Calendar Year;



- iii) forecast of Petroleum production for each Calendar year;
- iv) description of main technologies employed; and
- b) The Development forecast shall be revised at the beginning of each Calendar Year commencing as of the second year of the first Development forecast. Licensee shall prepare and submit to the Director General the first Development forecast within one hundred and twenty (120) days of the date when the first Development Plan is approved by the Director General no later than forty-five (45) days before each Calendar Year commencing as of the second year of the first Development forecast.

### **10.3 CHANGES OF PLAN AND FORECAST**

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



## ANNEX 3

### FORM OF GUARANTEE

1. In consideration of the Government of Sierra Leone represented by the Director General of the Petroleum Directorate (hereinafter referred to as "the State") having granted a Petroleum Licence for the block \_\_\_\_\_ dated \_\_\_\_\_ (hereinafter referred to as "Licence", which expression shall include all the terms, and amendments agreed to between the State and the Licensee, thereto), with M/s \_\_\_\_\_ having its registered office at \_\_\_\_\_ (hereinafter referred to as "Licensee", which expression unless repugnant to the context or meaning thereof include all its successors, administrators, executors and assigns), and the State have agreed that the Licensee shall furnish to the State, a bank guarantee (hereinafter referred to as "Guarantee") towards its minimum financial obligations as provided in the Contract for US\$(xxx) for the performance of its obligations under the Licence.
2. We \_\_\_\_\_ (name of the Bank) registered under the Law of \_\_\_\_\_ and having its registered office at \_\_\_\_\_ (hereinafter referred to as "the Bank", which expression shall unless repugnant to the context or meaning thereof includes all its successors, administrators, executors and assigns) do hereby guarantee and undertake to pay to the State, immediately on the first demand in writing, any/all money(s) to the extent of US\$ \_\_\_\_\_ (in figures) and (US\$ \_\_\_\_\_ in words) without any demur, reservation, contest or protest and/or without any reference to the Licensee. Any such demand made by the State on the Bank by serving a written notice shall be conclusive and binding, without any proof, on the Bank as regards the amount due and payable, notwithstanding any dispute(s) pending before any court, tribunal, arbitrator, sole expert, conciliator or any other authority and/or any other matter or thing whatsoever, as liability under these presents being absolute and unequivocal. We agree that the Guarantee herein contained shall be irrevocable and shall continue to be enforceable until it is discharged by the State in writing. This Guarantee shall not be determined, discharged or affected by the liquidation, winding up, dissolution or insolvency of the Licensee and shall remain valid, binding and operative against the Bank.
3. The amount of this Guarantee may be reduced annually by the United States Dollar amount(s) specified as having been spent by Contractor on the Work Programme during [Initial Phase] of the Exploration Period. Such reduction will take place when the Bank receives such notice in writing in a letter from the Director General. Such notice will be accepted as conclusive evidence that the work has been completed and the amount will be reduced as specified within five (5) days of the Bank receiving such notice from the Director General.
4. The Bank also agrees that the State at its option shall be entitled to enforce this Guarantee against the Bank as a principal debtor, in the first instance, without proceeding against the Licensee and notwithstanding any security or other guarantee that the State may have in relation to the Licensee's liabilities.





5. The Bank further agrees that the State shall have fullest liberty without our consent and without affecting in any manner our obligations hereunder to vary any of the terms and conditions of the said Contract or to extend time of performance by the said Licensee from time to time or to postpone for any time or from time to time exercise of any of the powers vested in the State against the said Licensee and to forebear or enforce any of the terms and conditions relating to the said Contract and we shall not be relieved from our liability by reason of any such variation, or extension being granted to the said Licensee or for any forbearance, act or omission on the part of the State or any indulgence by the State to the said Licensee or any such matter or thing whatsoever which under the law relating to sureties would, but for this provision, have effect of so relieving us.
6. The Bank further agree that the Guarantee herein contained shall remain in full force during the period that is taken for the performance of the Licence and all dues of the state under or by virtue of this Licence have been fully paid and its claim satisfied or discharged or till the State discharges this Guarantee in writing, whichever is earlier.
7. This Guarantee shall not be discharged by any change in our constitution, or in the constitution of the Licensee.
8. The Bank confirms that this Guarantee has been issued with observance of appropriate laws of the country of issue.
9. The Bank also agree that this guarantee shall be governed and construed in accordance with [Sierra Leone Laws] and subject to the exclusive jurisdiction of Sierra Leone courts
10. Notwithstanding anything contained herein above, our liabilities under this Guarantee is limited to US\$ \_\_\_\_\_ (in figures) US\$ \_\_\_\_\_ (in words) and our Guarantee shall remain in force up to \_\_\_\_\_ and including sixty (60) days after the expiry date/extended date. Any claim under this Guarantee must be received before the expiry of sixty (60) days after the expiry date, or before the expiry of sixty (60) days from the extended date if any. If no such claim has been received by us within sixty (60) days after the said date/extended date the Petroleum Directorate's right under this guarantee will cease. However, if such a claim has been received by us within and up to sixty (60) days after the said date/extended date, all the Petroleum Directorate's's rights under this Guarantee shall be valid and shall not cease until we have satisfied that claim.

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

\_\_\_\_\_  
Secretary

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

Witness:



## ANNEX 4 FISCAL TERMS

### SECTION 1

#### INTERPRETATION

- 1.1 In this Annex 4, unless the context requires otherwise-
- 1.2 **“adjusted cost base”** of an asset has the meaning given in section 2 of the IT Act, but is determined without indexation under section 58(7) of that Act;
- 1.3 **“arrangement”** has the meaning given in section 95 of the IT Act; **“associate”** has the meaning given in section 2 of the IT Act;
- 1.4 **“Commissioner-General of the NRA”** means the Commissioner-General appointed under the National Revenue Authority Act, 2002;
- 1.5 **“debt claim” and “debt obligation”** have the meanings given in section 2 of the IT Act;
- 1.6 **“derivative instrument”** has the meaning prescribed by regulations and, in the absence of regulations, takes its meaning from generally accepted accounting principles;
- 1.7 **“Petroleum Producer”**-means a person engaged in petroleum production activities under a petroleum licence
- 1.8 **“exploration operations”**-with respect to a petroleum right, means “exploration” within the meaning given in section 1 of the Act;
- 1.9 **“excluded expenditure”** means – in addition to unallowable costs under Annex 2 (a) income tax and PRRT; (b) bribes and expenditure incurred in corrupt practices; (c) interest, penalties and fines payable to a government or a political subdivision of a Government of any country for breach of any law or subsidiary legislation; and (d) expenditure incurred as a consequence of breach of an Licence Agreement;
- 1.10 **“financial cost” and “financial gain”** have the meanings given in section 35 of the IT Act;
- 1.11 **“fiscal stability clause”** refers to a clause in a Licence Agreement that warrants that the fiscal regime applying to a contracting party will continue to apply or not be altered to the detriment of the party;
- 1.12 **“foreign currency instrument”** has the meaning prescribed by regulations and, in the absence of regulations, takes its meaning from generally accepted accounting principles;



- 1.13 **“generally accepted accounting principles”** means the International Financial Reporting Standards;
- 1.14 **“NRA”** means the National Revenue Authority established under the National Revenue Authority Act, 2002;
- 1.15 **“relevant financial cost” and “relevant financial gain”** mean- (a) a financial cost or a financial gain, respectively, with respect to a derivative or foreign exchange instrument; or (b) a loss or gain, respectively, with respect to a debt claim or debt obligation denominated in a currency other than that in which the person accounts for the purposes of this Act;
- 1.16 **“relevant Ministry” and “relevant Minister”**- (a) mean-with respect to petroleum, the Ministry and Minister responsible for management of petroleum matters; and (b) where there is no current Ministry or Minister, includes- (ii) with respect to petroleum, the directorate or agency and the person appointed to oversee the administration of the Act;
- 1.17 **“revenue”** has the meaning in section 2 of the National Revenue Authority Act, 2002;
- 1.18 **“revenue law”** means a law referred to in the Schedule to the National Revenue Authority Act, 2002
- 1.19 **“separate petroleum operation”** has the meaning given in section 5;
- 1.20 **“service fee”** has the meaning given in section 117 of the IT Act;
- 1.21 **“underlying ownership or control”** has the meaning given in section 2 of the IT Act; and **“year of assessment”** has the meaning given in sections 45, 46 and 47 of the IT Act.

## SECTION 2 ROYALTIES

- 2.1 Royalties are payable by the holder of a petroleum right in respect of petroleum produced and saved pursuant to the right.
- 2.2 Royalties are calculated by applying the relevant rates set out in paragraph 1 of the Second Schedule to the market value of the petroleum produced and saved as determined under paragraph 2 of the Second Schedule.
- 2.3 Royalties are payable at the time prescribed in paragraph 3 of the Second Schedule and in accordance with the procedure outlined in Annex 2 this Licence Agreement.
- 2.4 This section and the provisions referred to in it are subject to the State’s right to receive royalties in kind pursuant to section 107 of the Act.
- 2.5 Assessment of Royalties



- (a) A person liable to pay royalties under this Act must, at the time the royalties are payable, file with the Commissioner-General of the NRA a return of royalties and make payment.
- (b) A return filed under subsection 2.5 (a) must be in the manner and form prescribed specifying-
  - i) the volume of petroleum liable for royalties;
  - ii) the market value of the petroleum calculated in accordance with Part I of the Second Schedule;
  - iii) the amount of royalties for which the person is liable; any
  - iv) any other information that the Commissioner-General may prescribe.

2.6 Subject to this section, the provisions of Part XVIII of the IT Act (assessments) apply, with any necessary adaptations, to a return filed under subsection (2.1). In particular, a return filed under subsection 2.5 is-

- (a) treated as a self-assessment; but
- (b) subject to sections 102 (jeopardy assessment) and 103 (amended assessment) of the IT Act.

### SECTION 3 INCOME TAX PRINCIPLES OF TAXATION

- 3.1 A person conducting petroleum operations is subject to income tax with respect to those operations under the IT Act, but as modified by this Annex. To the extent there is no modification, the standard rules in the IT Act apply.
- 3.2 The provisions of the IT Act apply to the assessment and payment of income tax with respect to petroleum operations.
- 3.3 Income tax payable with respect to petroleum operations for a year of assessment is calculated by applying the rate set out in Part II of the First Schedule to a person's chargeable income from petroleum operations for the year. If the person has other chargeable income, that income is charged at the appropriate rate under the IT Act.
- 3.4 For the purposes of calculating a person's chargeable income from petroleum operations-
  - (a) each separate petroleum operation is treated as an independent business and the person must prepare accounts for that business separate from any other activity of the person; and





- (b) the person must calculate chargeable income, loss and income tax liability for the business independently for each year of assessment.
  - (c) Section 95 of the IT Act (arm's length standard) applies-
    - i) to arrangements between a separate petroleum operation and other activities of the person conducting the petroleum operation (including other petroleum operations or refining or other processing operations of the person); and
    - ii) as though the arrangements were conducted between associated persons.
- 3.5 In accordance with subsection 1.3, the transfer of an asset to or from a separate petroleum operation is treated as an acquisition or disposal of the asset, as the case requires.
- 3.6 Where two or more persons hold a petroleum right, they must calculate their chargeable income from petroleum operations with respect to the right separately, but do so as though they were associated persons. As a result, section 95 of the IT Act (arm's length standard) applies to arrangements between the persons.

## SECTION 4 INCOME TAX

### SEPARATE PETROLEUM OPERATIONS

- 4.1 Subject to subsection 4.2 petroleum operations pertaining to each petroleum right constitute a separate petroleum operation.
- 4.2 The following rules apply following an approval of commerciality within a petroleum licence area:
- (a) petroleum operations conducted with respect to a petroleum right to the date of approval and petroleum operations conducted with respect to the approved discovery area after that date are treated as conducted with respect to the same separate petroleum operation; and
  - (b) from the date of approval, petroleum operations conducted with respect to the petroleum right that are not in respect of the approved production area are treated as a new separate petroleum operation.
- 4.3 Subsection (4.4) applies where-
- (a) there is an approval of commerciality with respect to an approved discovery area within a petroleum licence area (whether or not there are prior approved discovery areas within the licence area); and



- (b) subsequently, but before any further approval of commerciality within the petroleum licence area, the holder of the petroleum licence relinquishes all of the licence area that is not subject to an approval of commerciality (whether the approval referred to in paragraph (a) or an earlier approval).
- 4.4 Where this subsection applies, petroleum operations conducted with respect to the relinquished area referred to in subsection (1.3)(b) from the date of approval of commerciality are treated as conducted with respect to the approved area referred to in subsection (4.3)(a), and so are treated as conducted with respect to the same separate petroleum operation.
- 4.5 Regulations may prescribe circumstances in which and extent to which petroleum operations conducted with respect to a pipeline permit are treated as conducted with respect to the same separate petroleum operation as that conducted with respect to an approved discovery area serviced by the pipeline. In particular, the regulations may apportion pipeline costs between petroleum operations conducted with respect to more than one approved discovery area.
- 4.6 In this section-
- (a) "pipeline permit" means a permit granted under section 76 of the Act; and
  - (b) "reconnaissance permit" has the meaning given in section 2 of the Act.

## SECTION 5 INCOME TAX

### INCOME FROM PETROLEUM OPERATIONS

- 5.1 Subject to subsection 5.2, in calculating a person's income from a separate petroleum operation for a year of assessment, include the following:
- (a) the market value of petroleum produced and saved from the licence area that is disposed of or treated as disposed of during the year;
  - (b) compensation received, whether under a policy of insurance or otherwise, in respect of loss or destruction of petroleum from the licence area;
  - (c) amounts received in respect of the sale of information pertaining to the operations or petroleum reserves;
  - (d) gains from the assignment or other disposal of an interest in the petroleum right with respect to which the operation is conducted;



- (e) amounts required to be included under section 10 in respect of a positive balance in a decommissioning fund; and
- (f) any other amounts derived by the person during the year from or incidental to the operation that are included in calculating income under the IT Act.

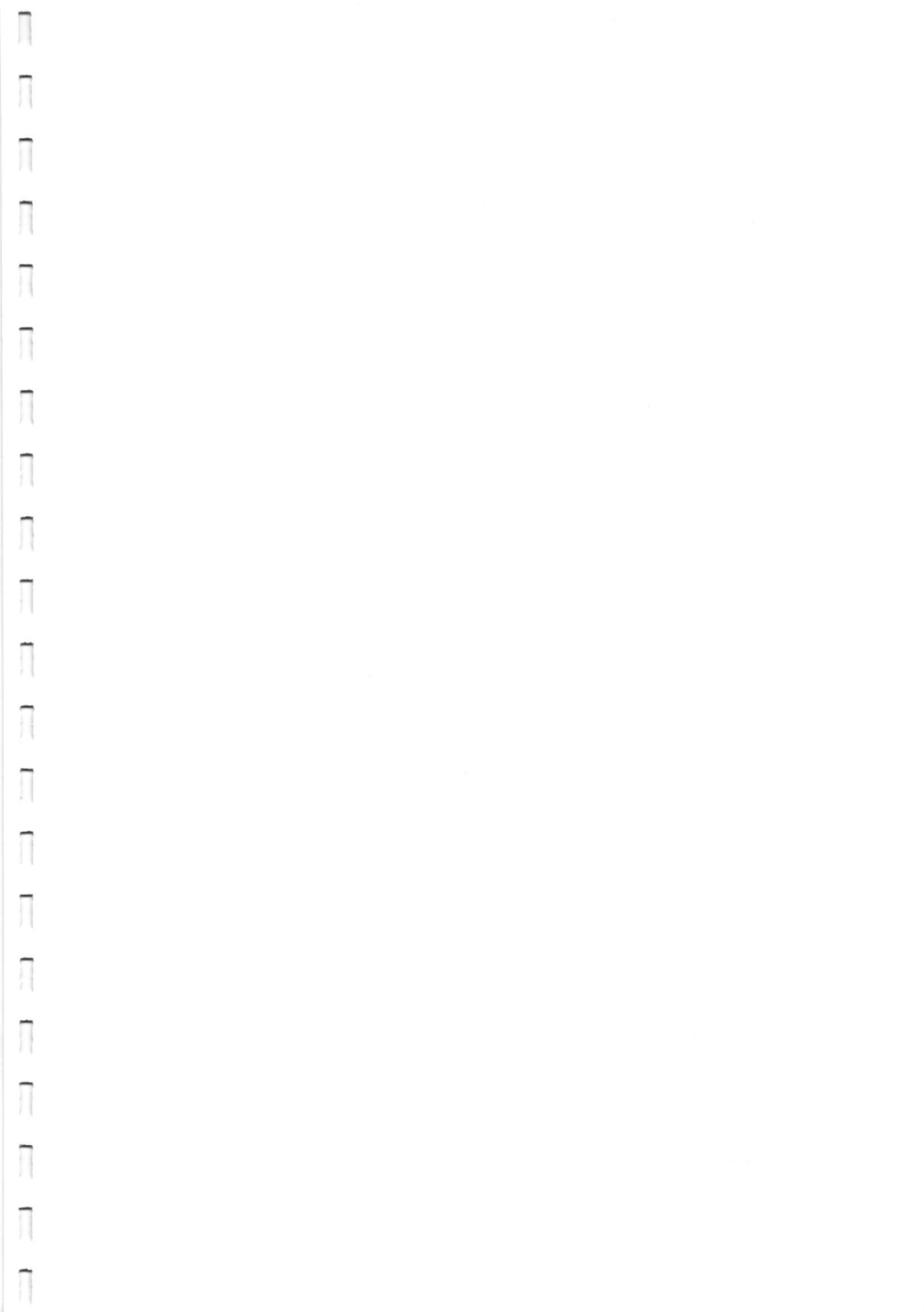
5.2 The market value of petroleum is determined in accordance with paragraph 2 of the Second Schedule.

## SECTION 6 INCOME TAX

### DEDUCTIONS FROM PETROLEUM OPERATIONS

6.1 Subject to this section, in calculating a person's chargeable income from a separate petroleum operation for a year of assessment, deduct the following:

- (a) area fees, rent and royalties paid by the person under this Act or the Act with respect to the petroleum right;
- (b) expenditure (other than financial costs) incurred in respect of the petroleum operation on the following, but only if it has been expensed in the person's financial accounts and that expensing is in accordance with generally accepted accounting principles:
  - i) expenditure on reconnaissance, appraisal and exploration operations; and
  - ii) expenditure in developing petroleum operations and infrastructure, including as may be prescribed by regulations;
- (c) capital allowances granted with respect to the petroleum operation and calculated in accordance with Part II of the Second Schedule;
- (d) contributions to and other expenses incurred in respect of a decommissioning fund for the petroleum operation as required under the Licence Agreement or decommissioning plan approved by the Minister responsible for management of petroleum matters;
- (e) expenses incurred by the person in the course of reclamation, rehabilitation and closure of the petroleum operation, but only to the extent funds in the relevant decommissioning fund are not yet available or are inadequate; and



- (f) subject to subsection (6.2), any other amounts incurred by the person during the year directly in the course of the operation that may be deducted under the provisions of the IT Act.
- 6.2 No deduction is allowed in calculating chargeable income from a separate petroleum operation-
- (a) under sections 37, 40, 43 and 44 of the IT Act
  - (b) for an amount unless-
    - i) it is incurred in the acquisition or improvement of a valuable asset used in the operation; or
    - ii) it is incurred in providing services or facilities for the operation and the amount constitutes income of the recipient that has a source in Sierra Leone (see section 89 of the IT Act);
  - (c) to the extent the amount does not comply with section 95 of the IT Act (arm's length standard);
  - (d) for a bonus payment referred to in section 5; or
  - (e) for excluded expenditure.
- 6.3 In calculating a person's chargeable income from a separate petroleum operation for a year of assessment, relevant financial costs incurred during the year may be deducted only to the extent that relevant financial gains are included in calculating the income. This limitation is in addition to that provided in section 35 of the IT Act (deduction of interest).
- 6.4 Any excess financial cost for which a deduction is not available under subsection (6.3) is carried forward and treated as a financial cost incurred in the following year of assessment. However, section 88 of the IT Act (change of control) applies to restrict the carry forward of that excess.
- 6.5 The following are treated as the cost of a depreciable asset for which capital allowances are granted with respect to a separate petroleum operation in accordance with Part II of the Second Schedule:
- (a) the adjusted cost base of the petroleum right;
  - (b) expenditure incurred in respect of the petroleum operation and referred to in subsection (6.1)(b) that-





- i) in accordance with generally accepted accounting principles, is capitalised in the person's financial accounts; and
    - ii) does not otherwise fall to be included in the cost base of an asset; and
  - (c) bonus payments made in respect of the grant of the petroleum right and referred to in section 5.
- 6.6 Regulations may make further provision with respect to the deduction of amounts in calculating income from petroleum operations.
- 6.7 In particular, where goods or services are supplied to a petroleum right holder by an associated person, regulations may limit the deduction for any amount incurred by the right holder to the no profit amount referred to subsection (6.8).
- 6.8 The no profit amount is the actual costs incurred by the associated person in the provision of the goods or services, but excludes any cost incurred in favour of another associated person.

## SECTION 7 INCOME TAX

### LOSSES FROM PETROLEUM OPERATIONS

- 7.1 Section 32(2)(b) of the IT Act applies to allowable losses of a person from a separate petroleum operation with the following modifications:
- (a) tax payable may be reduced to 15% of the tax that would be due if losses were not carried forward;
  - (b) losses are used in the order in which they are incurred; and
  - (c) losses from the separate petroleum operation may be deducted only in calculating future chargeable income from that operation and not chargeable income from any other petroleum operations or non-petroleum activities.

## SECTION 9 INCOME TAX

### DECOMMISSIONING FUNDS

- 9.1 Amounts accumulated in or withdrawn from a decommissioning fund to meet decommissioning expenditure are exempt from tax.



9.2 Subsection (9.3) applies where there is a positive balance in the relevant decommissioning fund at any of the following times:

- (a) after a person completes rehabilitation of a separate petroleum operation conducted by the person; or
- (b) at the time the person breaches an approved decommissioning plan.

9.3 Where this subsection applies, the positive balance is included in calculating the chargeable income of the person from the separate petroleum operation for the year of assessment in which the event referred to in subsection (9.2) occurs. Further, the person may be liable for PRRT with respect to the positive balance (see **section 19**).

## SECTION 10 INCOME TAX

### MINIMUM TAX

10.1 Part V of the IT Act does not apply to petroleum operations.

## SECTION 11 PETROLEUM RESOURCE RENT TAX (PRRT)

### PETROLEUM RESOURCE RENT TAX IMPOSED

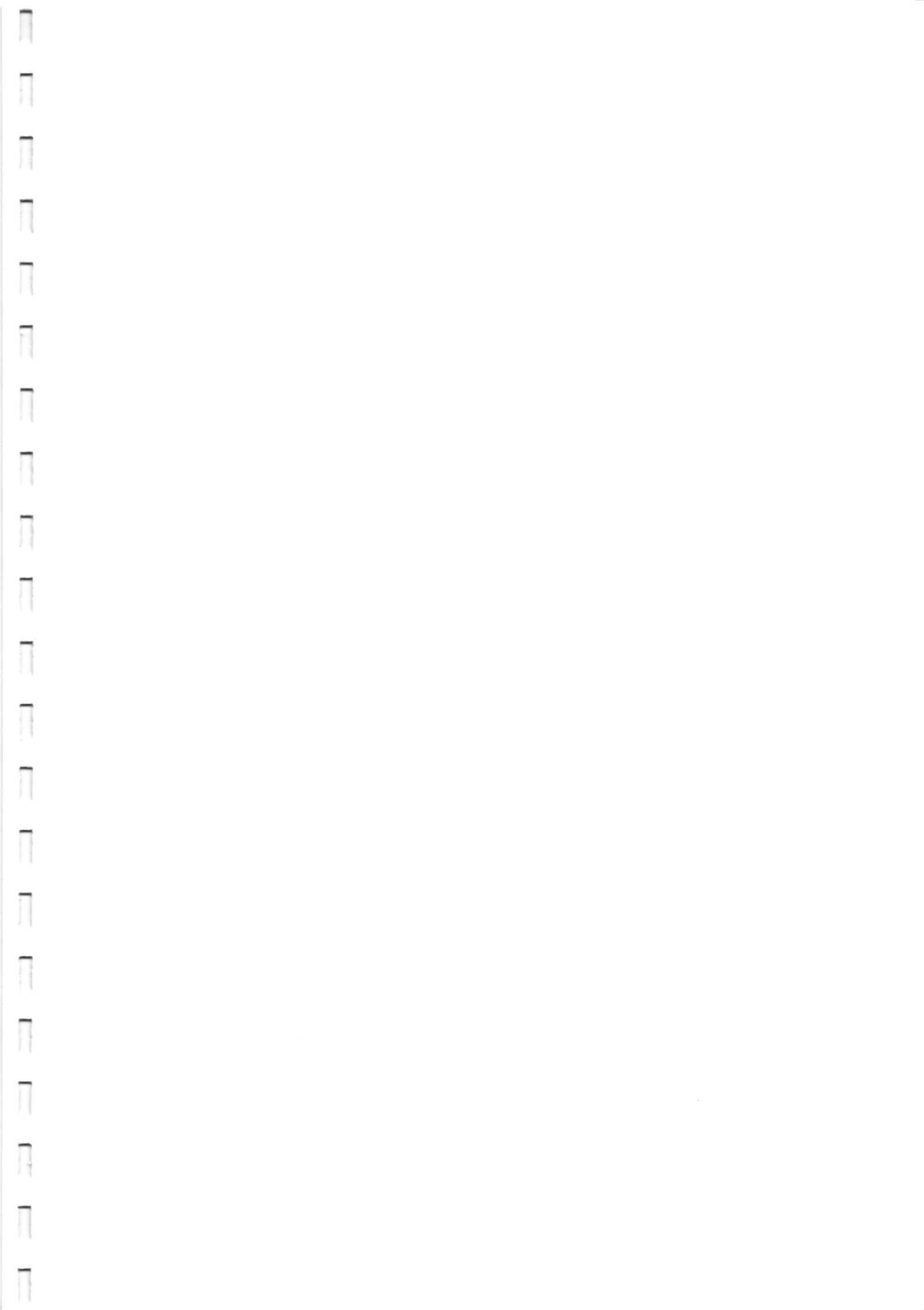
11.1 Petroleum resource rent tax ("PRRT") is payable by a petroleum licence holder that has accumulated net receipts for a year of assessment from Petroleum Operations of a Petroleum License.

11.2 The amount of PRRT payable under subsection (11.1) is calculated by applying the rate specified in Part III of the Second Schedule to the accumulated net receipts for the year.

11.3 For the purposes of all PRRT provisions, but subject to **section 17**, Petroleum Operations conducted with respect to a Petroleum License is treated as a Petroleum Operation separate from any other Petroleum License.

11.4 A petroleum licence holder becomes liable to PRRT with respect to a separate Petroleum Operation from the point Petroleum Operations commence with respect to this Licence.

11.5 PRRT is imposed in addition to any other tax or charge, including income tax.



- 11.6 Where two or more Licensee's hold a petroleum right, each shall separately and individually calculate PRRT, file PRRT tax returns and pay to the Government their chargeable PRRT from Petroleum Operations with respect to their right,

## SECTION 12 PETROLEUM RESOURCE RENT TAX (PRRT)

### ACCUMULATED NET RECEIPTS AND ACCUMULATED NET EXPENDITURE

- 12.1 Accumulated net receipts of a separate Petroleum Operation for a year of assessment is the extent to which-
- (a) net receipts of the operation for the year; exceeds
  - (b) accumulated net expenditure for that operation for the previous year of assessment (if any) as increased by the uplift specified in Part III of the Second Schedule.
- 12.2 Accumulated net expenditure for a separate Petroleum Operation for a year of assessment is the extent to which-
- (a) net expenditure for the operation for the year (if any); plus
  - (b) accumulated net expenditure for that operation for the previous year of assessment (if any) as increased by the uplift specified in Part III of the Second Schedule; exceeds
  - (c) net receipts of the operation for the year (if any).

## SECTION 13 PETROLEUM RESOURCE RENT TAX (PRRT)

### NET RECEIPTS AND NET EXPENDITURE

- 13.1 Net receipts of a separate Petroleum operation for a year of assessment are the extent to which-
- (a) gross receipts of the operation for the year: exceed
  - (b) deductible expenditure of the operation for the year.



- 13.2 Net expenditure of a separate Petroleum operation for a year of assessment is the extent to which-
- (a) deductible expenditure of the operation for the year; exceeds
  - (b) gross receipts of the operation for the year.

## SECTION 14 PETROLEUM RESOURCE RENT TAX (PRRT)

### GROSS RECEIPTS

- 14.1 Subject to this section, gross receipts of a separate Petroleum Operation for a year of assessment is the sum of the following gross amounts (without deduction):
- (a) gross amounts directly included in calculating income from the Petroleum Operation for the year, including service fees, amounts received from the disposal of petroleum and other trading stock and, with respect to a positive balance in a decommissioning fund,;
  - (b) gross positive amounts included in calculating income from the petroleum operation for the year as required by section 5, including consideration received on the disposal of depreciable, business or other assets; and
  - (c) interest and other financial gains, including an amount treated as interest income under the IT Act; and
- 14.2 Gross receipts of a separate Petroleum Operation does not include-
- (a) subject to section 18, consideration received for the transfer of a petroleum right.
- 14.3 An amount -
- (a) determined in accordance with section 95 of the IT Act (arm's length standard); and
  - (b) may be included in the gross receipts of a year of assessment when it is actually received during that year.





**SECTION 15**  
**PETROLEUM RESOURCE RENT TAX (PRRT)**

**DEDUCTIBLE EXPENDITURE**

15.1 Subject to this section, the deductible expenditure of a separate Petroleum Operation for a year of assessment is the sum of the following gross amounts:

- (a) gross amounts in respect of the Petroleum Operation that are directly deducted in calculating chargeable income for the year and where the amounts are referred to in **section 7**;
- (b) gross expenditure included during the year in the adjusted cost base of a depreciable or business asset used in the Petroleum Operation;
- (c) other gross expenditure that enters into the calculation of a net amount that is included in calculating income from the Petroleum Operation for the year;
- (d) other gross expenditure that enters into the calculation of a net amount (such as a loss) that is deductible in calculating chargeable income from the petroleum operation for the year where that amount is referred to in section 7;
- (e) the amount of income tax payable with respect to the Petroleum Operation for the year as calculated under section 4; and
- (f) with respect to the year of commencement of Petroleum Operations, any amount provided for in **section 17**;
- (g) interest or other financial costs, including an amount treated as interest under the IT Act;
- (h) The States Carried Interest paid by Licensee's.

15.2 The deductible expenditure of a separate Petroleum Operation does not include-

- (a) amounts claimed as capital allowances, but not to limit a deduction under subsection 15.1(b);
- (b) subject to **section 17**, amounts included in the adjusted cost base of a petroleum right;
- (c) bonus payments referred to in section 5; and
- (d) payments to acquire an interest in the profits, receipts or expenditures of the Petroleum operation and payments made with respect to such interests.

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- 15.3 Expenditure is not deductible expenditure to the extent it exceeds the requirements of section 95 of the IT Act (arm's length standard).

## SECTION 16

### PETROLEUM RESOURCE RENT TAX (PRRT)

#### YEAR OF COMMENCEMENT

- 16.1 This section applies with respect to the year of assessment in which a person commences Petroleum Operations under a petroleum licence (as to which, see definition of "Petroleum Operations" in section 1). It applies for the purposes of allowing a deduction with respect to exploration expenditure incurred since the Effective Date up to the year of assessment.
- 16.2 Subject to this section, the deduction allowed under section 15(1)(f) is equal to the amount by which-
- (a) relevant deductible expenditure; exceeds
  - (b) relevant gross receipts.
- 16.3 Relevant deductible expenditure means expenditure-
- (a) incurred by the person exclusively on exploration in the relevant licence area since the Effective Date and
  - (b) of a type referred to in section 15 (other than section 15 (1)(f)), presuming that the petroleum operation in question is that conducted under the petroleum licence prior to the commencement.
- 16.4 Relevant gross receipts means receipts-
- (a) derived by the person from exploration in the relevant licence area since the Effective Date; and
  - (b) of a type referred to in section 14, presuming that the petroleum operation in question is that conducted under the petroleum licence prior to the commencement.
- 16.5 No amount is deductible under section 15(1)(f) unless the relevant deductible expenditure and relevant gross receipts have been audited and certified as correct by the



Commissioner-General of the NRA. Regulations may prescribe a time limit for the Commissioner-General for conducting the audit and certification.

## SECTION 17

### PETROLEUM RESOURCE RENT TAX (PRRT)

#### TRANSFER OF PETROLEUM RIGHTS

- 17.1 This section applies where a person transfers an interest in a petroleum right during a year of assessment together with the person's interest in the separate Petroleum Operation conducted under that right.
- 17.2 For the purposes of calculating any PRRT payable by the transferee, the transferee is treated as-
- (a) having the same accumulated net expenditure for the Petroleum Operation for the year of assessment preceding the transfer as the transferor had (if any);
  - (b) incurring the same deductible expenditure for the Petroleum Operation during the year of assessment of the transfer and to the time of transfer as the transferor did (if any); and
  - (c) deriving the same gross receipts for the Petroleum Operation during the year of assessment of the transfer and to the time of transfer as the transferor did (if any).
- 17.3 Where a person transfers only a part of an interest in a petroleum right, the amounts referred to in subsection (17.2) are apportioned according to the amount of the interest transferred.

## SECTION 18

### PETROLEUM RESOURCE RENT TAX (PRRT)

#### DECOMMISSIONING FUND POSITIVE BALANCE

- 18.1 In the circumstances provided for in section 9, the positive balance in a decommissioning fund may be included in calculating the chargeable income of a person from a separate petroleum operation.
- 18.2 An inclusion referred to in subsection (18.1) is also included in gross receipts for the purposes of calculating PRRT (see section 14(1)(d)).



## SECTION 19 PETROLEUM RESOURCE RENT TAX (PRRT)

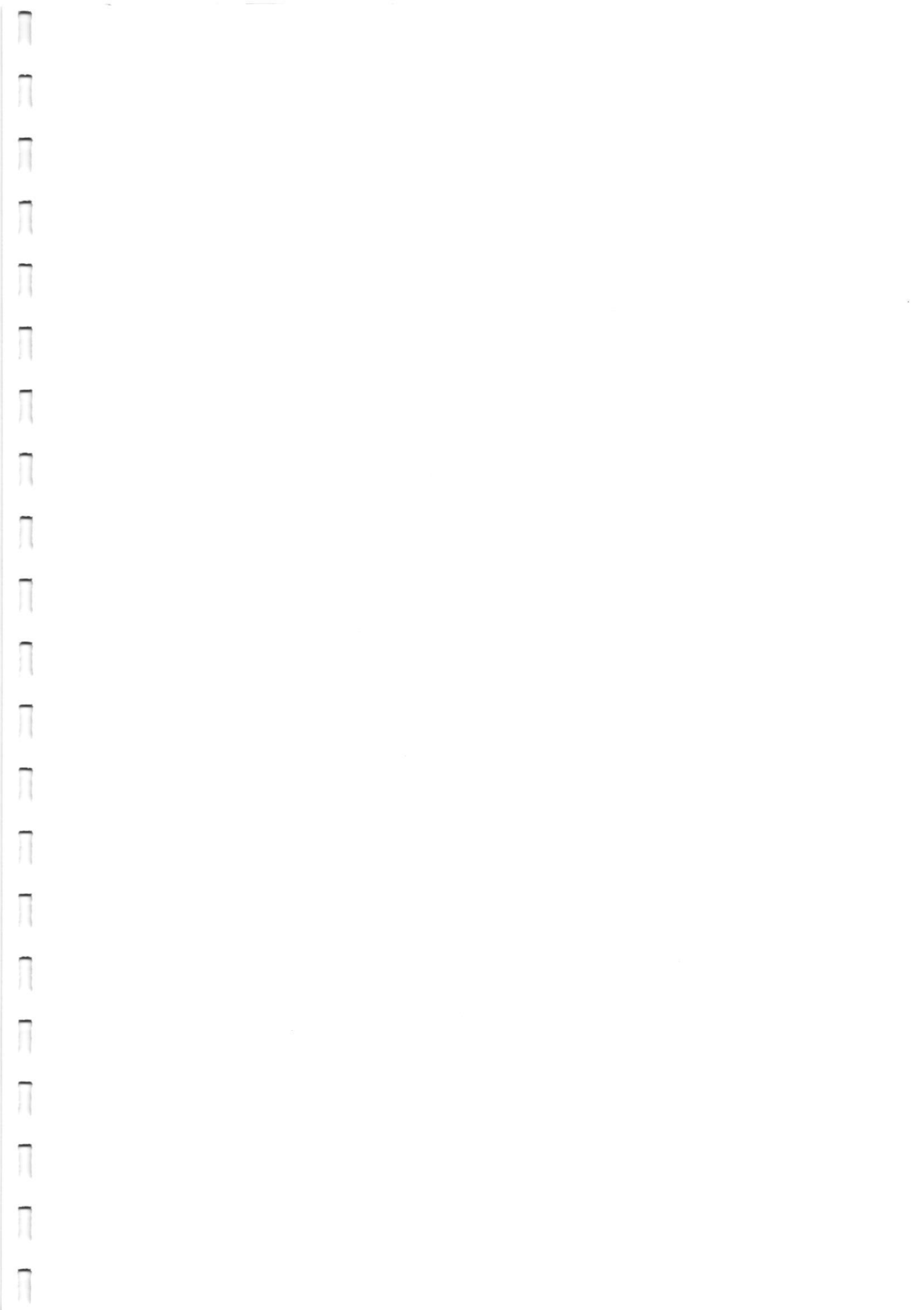
### INSTALLMENTS OF PRRT

- 19.1 Petroleum Producer must, at the time the producer would be liable to file an estimate of chargeable income under section 113 of the IT Act, file an estimate of PRRT due with respect to the same year of assessment.
- 19.2 An estimate filed under subsection (19.1) must be in the manner and form prescribed estimating-
- (a) gross receipts, deductible expenditure, net receipts, net expenditure, accumulated net receipts and accumulated net expenditure for the year of assessment from the separate Petroleum Operation;
  - (b) accumulated net expenditure for that operation for the previous year of assessment (if any) as increased by any uplift available;
  - (c) where the producer estimates accumulated net receipts for the year of assessment, the amount of PRRT payable with respect to those receipts; and
  - (d) any other information that the Commissioner-General may prescribe;
- 19.3 An Petroleum Producer must file an estimate under subsection (19.1) irrespective of whether any amount of PRRT is estimated as payable.
- 19.4 An Petroleum Producer that estimates PRRT as payable for a year of assessment under subsection (19.3) must pay that PRRT by quarterly instalment at the same time as income tax would be payable under section 113 of the IT Act.
- 19.5 Subject to this section, the procedure in section 113 of the IT Act applies to estimates and payment of instalments under this section as though PRRT were income tax.

## SECTION 20 PETROLEUM RESOURCE RENT TAX (PRRT)

### ASSESSMENT OF PRRT

- 20.1 A Petroleum Producer must, at the time the producer would be liable to file a return of income under section 97 of the IT Act, file a return of PRRT due with respect to the same year of assessment.





20.2 A return filed under subsection (20.1) must be in the manner and form prescribed specifying-

- (a) gross receipts, deductible expenditure, net receipts, net expenditure, accumulated net receipts and accumulated net expenditure for the year of assessment from the separate ... Petroleum Operation;
- (b) accumulated net expenditure for that operation for the previous year of assessment (if any) as increased by any uplift available;
- (c) where the producer has accumulated net receipts for the year of assessment, the amount of PRRT payable with respect to those receipts; and
- (d) any other information that the Commissioner-General may prescribe.

20.3 A Petroleum Producer must file a return under subsection (20.1) irrespective of whether any amount of PRRT is payable for the year of assessment.

20.4 A Petroleum Producer that estimates PRRT as payable for a year of assessment under subsection (20.3) must pay that PRRT (less any instalments paid under section 19) at the time the return is filed.

20.5 Subject to this section, the provisions of Part XVIII of the IT Act (assessments) apply with any necessary adaptations to a return filed under subsection (20.1). In particular, a return filed under subsection (20.1) is-

- (a) treated as a self-assessment; but
- (b) subject to sections 102 (jeopardy assessment) and 103 (amended assessment) of the IT Act.

## SECTION 21

### PETROLEUM RESOURCE RENT TAX (PRRT)

#### PRRT TRANSITION

21.1 For the purposes of imposing PRRT, "relevant deductible expenditure" and "relevant gross receipts" referred to in section 16 may include amounts incurred or derived in a year of assessment prior to the year of commencement.



## SECTION 22

### GENERAL PRINCIPLES OF ADMINISTRATION

22.1 Subject to the Act, this Annex is administered in accordance with the following rules and procedures of the IT Act:

- (a) tax avoidance (section 96 of the IT Act);
- (b) recovery of tax (section 106 to 112 of the IT Act);
- (c) refunds of tax (section 115 of the IT Act);
- (d) records and investigation powers (Part XVI of the IT Act);
- (e) objections and appeals (Part XVII of the IT Act);
- (f) interest and penalties (Part XVIII of the IT Act); and
- (g) administration (Part XIX of the IT Act).

22.2 The rules and procedures referred to in subsection 22.1 apply with any necessary adaptations and, in particular, as though amounts payable under this Act were income tax.

22.3 For the purposes of section 133 of the IT Act, the holder of a petroleum licence must maintain accounts and records for the Petroleum Operations in accordance with generally accepted accounting principles.

22.4 The Minister responsible for finance may, by statutory instrument, make regulations-

- (a) for matters authorised to be made or prescribed under this Annex 4 by regulation;
- (b) amending, repealing or replacing provisions of the First, Second or Third Schedules, but not in a way that is inconsistent with any other provision of this Annex 4;
- (c) for the better carrying into effect and interpreting the principles, purposes and provisions of this Annex; and
- (d) requiring petroleum right holders to provide such information as may be prescribed, whether on an isolated or periodic basis.



## SECTION 23 BONUS PAYMENTS

- 23.1 The terms and conditions for grant, transfer or assignment of a petroleum licence may provide for the payment of one or more bonuses from the licensee, transferee or assignee, as the case requires.
- 23.2 A bonus under subsection (23.1) may be a lump sum or dependent on or calculated by reference to specific production targets.
- 23.3 Bonus payments are not deductible for income tax or PRRT purposes. However, capital allowances are granted with respect to bonus payments, but for income tax purposes only. (See sections 7 and 16).
- 23.4 In this section, "bonus payment" does not include a fee prescribed by the Act or regulations made under those Acts.

## SECTION 24 ASSISTANCE OF OFFICERS OF PUBLIC BODIES

- 24.1 For the purposes of this Annex, the Commissioner-General of the NRA may request the officers of a public body, including bodies that provide security, to assist or protect the NRA and its officers in the proper performance of their functions. Regarding those functions, see section 12 of the National Revenue Authority Act, 2002.
- 24.2 Within the limits of its authority and resources, a public body that receives a request under subsection (24.1) must do its best to provide assistance.
- 24.3 Without limiting the scope of subsection (24.1), officers of the relevant Ministries must provide officers of the NRA with all necessary information and assistance, including for the proper assessment, audit and collection of all amounts due under this Act.
- 24.4 An NRA officer authorised for the function in question must supervise assistance provided by a public officer.
- 24.5 Section 165 of the IT Act (secrecy) applies to a public officer providing assistance under this section with respect to all information and documents that, solely by reason of the assistance provided, come into the public officer's possession.



## SECTION 25

### PROHIBITION ON DISPOSAL OF PETROLEUM

- 25.1 This section applies where the holder of a petroleum right fails to pay any amount due under this Act, including income tax referred to in Division II of Part III.
- 25.2 Where this section applies the Commissioner-General of the NRA may serve a notice on all holders of a petroleum right who fails to pay any amount due under this Act, establishing a lien under section 107 of the IT Act, in favour of the Commissioner General until the outstanding amount has been paid.
- 25.3 The Commissioner-General may enforce payment of the amount by issuing distress proceedings under section 109 of the IT Act against the petroleum referred to in subsection 25.2.
- 25.4 Where by reason of this section a holder of a petroleum right pays tax due by a joint holder of that right, the holder may recover any loss from the joint holder as a debt due.
- 25.5 A person who without reasonable excuse fails to comply with a notice issued under (subsection 25.2) is treated as wilfully evading tax for the purposes of section 154 of the IT Act.

## SECTION 26

### PROVISION OF FINANCIAL FORECASTS

- 26.1 Each relevant licence holder must-
- (a) on each of the occasions referred to in subsection (26.2) and, on each of those occasions, for each year of the projected life of the licence (including any potential for extension), prepare forecasts of-
    - i) amounts, sources, methods, terms and conditions of financing of operations under the licence;
    - ii) exploration, development and operating costs as well as additional capital costs incurred after the commencement of commercial production;
    - iii) production volumes and expected conditions of sale, particularly with respect to price;
    - iv) production or profit sharing arrangements, including expected distributions, the policy on which distributions are to be based and the order of priority between distributions and other payments (especially interest and repayment of debt);





- v) taxes and other revenues to become payable to the Government of Sierra Leone and the manner in which those amounts are calculated; and
  - vi) any other information as the Minister responsible for finance may prescribe.
- (b) use an appropriate template provided by the Minister responsible for finance in making the forecasts referred to in paragraph (a); and
  - (c) have appointed, by written notification to the Minister responsible for finance and at all times, an officer-
    - i) of sufficient seniority to be able to access the information referred to in paragraph (a); and
    - ii) who is to liaise with the Ministry of Finance and Economic Development regarding matters prescribed by this section.

26.2 Forecasts under subsection (26.1)(a)-

- (a) must be prepared twice each year, stating the forecasts as at 30 March and 30 September;
- (b) in the case of 30 March forecasts, must be forwarded to the Minister responsible for finance by no later than 15 April of the same year; and
- (c) in the case of 30 September forecasts, must be forwarded to the Minister responsible for finance by no later than 15 October of the same year.

26.3 Upon receiving forecasts under subsection (26.2), the Minister responsible for finance may, by notice in writing, required the licence holder to provide further and better particulars as to the forecasts. The licence holder must provide those particulars within 7 days of receiving the notice.

26.4 If a relevant licence holder becomes aware of facts that make the most recent forecasts referred to in subsection (26.1)(a) inaccurate in a material particular, then the licence holder must immediately notify the Minister responsible for finance and provide updated information.

26.5 A failure by a relevant licence holder to comply with the requirements of this section constitutes-

- (a) impeding the administration of this Act for the purposes of section 155 of the IT Act (applied by section 22 of this Annex); and



- (b) a serious breach of the terms and conditions upon which the licence is granted and so constitutes grounds upon which the licence may be revoked (see section 115 of the Act).

26.6 Information received under this section-

- (a) may be used within the Ministry of Finance and Economic Development for revenue forecasting and public financial management purposes, but
- (b) is otherwise subject to the requirements of section 165 of the IT Act (secrecy), with any necessary adaptations.

26.7 In this section, "relevant licence holder" means the holder of a petroleum licence.

## FIRST SCHEDULE - - PETROLEUM PART I: ROYALTIES

### ROYALTY RATES

1. (1) Subject to subparagraph (2), the royalty rates referred to in section 2 are:
  - (a) for crude oil - 10%; and
  - (b) for natural gas - 5%.
- (2) Samples of petroleum produced and saved for purposes of assay, analysis or other examination or testing are exempt from the payment of royalties. However, royalties apply if a sample is sold or any economic benefit is derived from its disposal.
- (3) In this paragraph-"crude oil" and "natural gas" have the meanings given in section 2 of the Act; and "sample" includes petroleum used in the commission of facilities that are used directly in the same separate Petroleum Operation from which the petroleum is produced and saved.

### MARKET VALUE OF PETROLEUM

2. The market value of petroleum-
  - (a) is determined in accordance with the method prescribed in the petroleum agreement, but



- (b) is not less than the sale value receivable in a transaction meeting the requirements of section 95 of the IT Act (arm's length standard) without discount, commission or deduction.

#### **TIME FOR PAYMENT OF ROYALTIES**

3. Royalties with respect to petroleum produced or saved during a calendar month are payable/receivable on or before the last day of the following calendar month.

#### **PART II: INCOME TAX INCOME TAX RATE**

4. The income tax rate for petroleum operations is 30%.

#### **CAPITAL ALLOWANCES**

5. (1) All capital allowance expenditure incurred in respect of petroleum operations during a year of assessment is placed in a separate pool. Capital allowances are granted with respect to each pool at the rates provided for in subparagraph (2).
- (2) Capital allowances are granted for expenditure pooled under subparagraph 5(1) for a year of assessment at the following rates:

<b>Year of Assessment</b>	<b>Amount of Capital Allowance</b>
In which expenditure incurred	40% of expenditure
Second Year	20% of expenditure
Third Year	20% of expenditure
Fourth Year	20% of expenditure

- (3) Capital allowances granted with respect to a particular year of assessment must be taken in that year and cannot be deferred to a later year of assessment.
- (4) Where an asset for which capital allowances has been granted under this paragraph is disposed of (or deemed to be disposed of) during a year of assessment-
- (a) if the consideration received for the disposal exceeds the written down value of the asset, the excess is included in calculating chargeable income from the petroleum operations for the year;

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- (b) if the written down value of the asset exceeds the consideration received for the disposal, an additional capital allowance is granted for the year in an amount equal to the excess; and
  - (c) the relevant pools referred to in subparagraph 5(1) are reduced by the written down value of the asset.
- (5) In this paragraph-
  - “capital allowance expenditure” means expenditure for which capital allowances are available, either under section 6 of this Annex or section 39 of the IT Act; and
  - “written down value” of an asset means the adjusted cost of the asset less all capital allowances granted with respect to expenditure included in that cost.

### **PART III: PETROLEUM RESOURCE RENT TAX (PRRT)**

#### **PETROLEUM RESOURCE RENT TAX RATE**

6. The rate of PRRT for a year of assessment is 30%.

#### **UPLIFT FOR ACCUMULATED NET EXPENDITURE**

7. (1) The uplift referred to in section 12 to be applied to accumulated net expenditure for a previous year of assessment is-
- (a) in the case of a period of Petroleum Operations during the current year of assessment - 22% per annum applied to the period; and
  - (b) in any other case - nil.
- (2) In this paragraph, “period of Petroleum Operations”-
- (a) means a period during which Petroleum Operations are conducted under a petroleum licence;
  - (b) includes the period between the approval of commerciality and the commencement of production activities

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