

DATED 1ST NOVEMBER 2016{PRIVATE }

ILLYRIAN OIL COMPANY (IOC)

- and -

PETROFINA LTD (CYPRUS)

JOINT OPERATING AGREEMENT

- for -

Republic of Illyria
Production Sharing Agreement No. 21
Block No. 21 Avalon Bay

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THIS AGREEMENT is made the 1st day of November 2016

BETWEEN:-

1. Illyria Oil Company (IOC), a company incorporated in the Republic of Illyria and having a registered office at City of Illyria; and
2. Petrofina Ltd, a company incorporated in the Republic of Cyprus and having a registered office at Nicosia.

NOW IT IS HEREBY AGREED as follows:

1. DURATION

This Agreement shall be deemed to have commenced on the date upon which the Transfer of Licence commenced and shall, subject to Clause 16, continue for so long as the Licence (PSA) remains in force, i.e. for another 20 years, and until all Joint Property has been disposed of and final settlement has been made between the Participants in accordance with their respective rights and obligations hereunder.

2. SCOPE AND UNDERSTANDING

2.1 Scope

2.1.1 The scope of this Agreement shall extend to the exploration for and the production of Petroleum under the Licence (PSA) and, without prejudice to Clause 15, the consideration of the treatment, storage and transportation of the same.

2.1.2 Notwithstanding the foregoing, this Agreement shall not extend to any joint financing arrangements or any joint marketing or joint sales of Petroleum.

2.2 Understanding

This Agreement represents the entire understanding of the Participants in relation to the matters dealt with herein. Any amendment to this Agreement must be in writing and signed by authorised signatories of all the Participants.

3. INTERESTS OF THE PARTICIPANTS

Subject as hereinafter provided, the Licence, all Joint Property, all Joint Petroleum and all costs and obligations incurred in the conduct of the Joint Operations shall be owned and borne by the Participants in proportion to their respective Percentage Interests which at the date hereof are as follows: IOC 51 per cent and PETROFINA 49 per cent.

4. THE OPERATOR

4.1 Designation

PETROFINA Ltd is hereby designated and agrees to act as the Operator under this Agreement.

4.2 Resignation and Removal

4.2.1 The Operator shall have the right to resign at the end of any Month by giving not less than two hundred and seventy (270) days notice to the Participants or such shorter period of notice as may be Determined.

4.2.2 The Operator may be removed:-

(i) at the end of any Month by the Joint Operating Committee giving not less than ninety (90) days notice to it in the event that the Operator has committed any material breach of or has failed to observe or perform any obligation on its part contained in this Agreement and such breach or failure has not been remedied to the satisfaction of the Non-Operators within ninety (90) days of receipt of a notice to the Operator to remedy the same or within such longer period as may be specified in the said notice; or

(ii) forthwith upon the Joint Operating Committee giving notice to it if:-

(a) a petition is presented to, and agreed to be heard by, a court having jurisdiction or an order is made or an effective resolution is passed or legislation is enacted for the dissolution, liquidation or winding up of the Operator; or

(b) the Operator becomes insolvent or makes an assignment for the benefit of creditors or is deemed for the purposes of Section 123 of the Insolvency Act, 1986 to be unable to pay its debts as the same become due (or if it is not a company to which such section applies would be so deemed if it were such a company); or

(c) a receiver is appointed or an encumbrancer takes possession of the whole or a material part of the assets or undertaking of the Operator; or

(d) the Operator ceases or threatens to cease to carry on its business or a major part thereof or a distress, execution or other process is levied or enforced or sued out upon or against any significant part of the chattels or property of the Operator and is not discharged within fourteen (14) days; or

(e) neither the Operator nor any Affiliate of the Operator holds any Percentage Interest;

provided that in respect of any vote of the Joint Operating Committee on any such removal the votes of the Participant which is the Operator and the votes of any Participant which is an Affiliate of the Operator shall be

ignored and the percentage figure set out in Clause 8.8.2 shall apply to the total votes available to the remaining Participants.

4.2.3 The Operator shall have no claim against the Participants as a consequence of the resignation or removal of the Operator or as a consequence of replacement under Clause 4.1 but such resignation or removal shall be without prejudice to any rights, obligations or liabilities which accrued during the period when the Operator acted as such. If the Operator resigns before the completion of all the Working Obligations, it shall not be entitled to any costs or expenses incurred in connection with the change of operatorship, but if the Operator resigns thereafter or is replaced thereafter or is removed except under the circumstances described in Clause 4.2.2(ii), it shall be entitled to charge to the Joint Account such costs and expenses incurred in connection with the change of operatorship as may be approved by a Determination (such approval not to be unreasonably withheld).

4.3 Election of Successor

As soon as practicable after notice is duly given as to the resignation or removal of the Operator under Clause 4.2, one of the Non-Operators shall, subject to its acceptance of the position under the terms of this Agreement and subject to any necessary approval of the Secretary, be selected by the Joint Operating Committee to assume the position of the Operator upon the effective date of the resignation or removal provided that, in the case of a removal of the Operator, if the Participant which is the Operator or any Participant which is an Affiliate of the Operator either fails to vote or votes for itself or any of its Affiliates as successor to the operatorship, those votes shall be ignored and the percentage figure set out in Clause 8.8.2 shall apply to the total votes available to the remaining Participants.

In the event that the Participants fail to elect a successor Operator pursuant to this Clause 4.3, then the Non-Operator having the largest Percentage Interest shall, subject to its acceptance of the position under the terms of this Agreement and subject to any necessary approval of the Secretary, assume the position of Operator.

4.4 Transfer of Responsibilities

4.4.1 Upon the effective date of resignation or removal of the Operator under Clause 4.2, the Operator shall hand or deliver to, or relinquish custody in favour of, the Non-Operator selected to succeed it as aforesaid or, if no such selection shall have been made, the Non-Operator having the largest Percentage Interest, all funds relating to the Joint Account, all Joint Property, all Joint Petroleum and all books, records and inventories relating to the Joint Operations other than those books, records and inventories maintained by the Operator as the owner of a Percentage Interest. The Operator shall further use its best endeavours to transfer to the aforesaid Non-Operator, effective as of the effective date of such resignation or removal, its rights as the Operator under all contracts exclusively relating to the Joint Operations and the aforesaid Non-Operator shall assume all obligations of the Operator thereunder.

Pending such transfer and in relation to all other contracts relating to the Joint Operations (to the extent such so relate) the Operator shall hold its rights and interests as the Operator from such effective date for the account and to the order of the aforesaid Non-Operator and the Participants shall, from such effective date, indemnify and hold harmless the Operator from all obligations thereunder.

4.4.2 As soon as practicable after the date on which the Operator is required to transfer its responsibilities as provided in Clause 4.4.1, the Participants shall audit the Joint Account and conduct an inventory of all Joint Property and all Joint Petroleum and such inventory shall be used in the return of and the accounting for the said Joint Property and Joint Petroleum by the outgoing Operator for the purposes of the transfer of responsibilities under this Clause 4.4. All costs and expenses incurred in connection with such audit and inventory shall be for the Joint Account.

5. AUTHORITIES AND DUTIES OF THE OPERATOR

5.1 Rights

5.1.1 Subject to this Agreement, the Operator has the right and is obliged to conduct the Joint Operations by itself, its agents or its contractors under the overall supervision and control of the Joint Operating Committee. Such right shall not be assignable without the written consent of the Non-Operators and any necessary consent of the Secretary provided that the Non-Operators shall not withhold their consent in the case of an assignment to an Affiliate of the Operator which enters into a written instrument (in form and content satisfactory to the Non-Operator) accepting and assuming all of the obligations of the Operator under this Agreement, providing that such Affiliate has demonstrated to the reasonable satisfaction of the other Participants its financial capability to meet its prospective obligations as Operator hereunder.

5.1.2 If the Operator does not conduct any of the Joint Operations itself, it shall nevertheless remain responsible for such operations as the Operator as and to the extent provided under this Agreement.

5.2 Responsibility

5.2.1 [Subject to the overall supervision of the Joint Operating Committee] the responsibilities of the Operator shall include, but not be limited to:

- (i) the preparation of Programmes, Budgets and AFEs pursuant to the provisions of this Agreement;
- (ii) the implementation of such Programmes and Budgets as shall, together with the relevant AFEs, have been approved by a Determination;
- (iii) the provision to each of the Participants of reports, data and

information concerning the Joint Operations pursuant to the provisions of this Agreement;

- (iv) the planning for and obtaining of all requisite services and Material;
- (v) the direction and control of statistical and accounting services;
- (vi) the provision of all technical and advisory services required for the efficient performance of the Joint Operations; and
- (vii) the obtaining of any consent or permission required by law for the undertaking of or in respect of the conduct of the Joint Operations.

5.2.2 The Operator shall conduct the Joint Operations in a proper and workmanlike manner in accordance with methods and practices customarily used in good and prudent oil and gas field practice and with that degree of diligence and prudence reasonably and ordinarily exercised by experienced operators engaged in a similar activity under similar circumstances and conditions. The Operator shall further do or cause to be done, with due diligence, all such acts and things within its control as may be necessary to keep and maintain the Licence in force and effect and shall conduct the Joint Operations in compliance with the requirements of the Acts, the Licence and any other applicable law and in accordance with approved Programmes and Budgets.

5.2.3 The Operator shall not be liable for any loss or damage which results from Joint Operations unless such loss or damage results from:

- (i) Wilful Misconduct of the Operator; or
- (ii) its failure to obtain or maintain any insurance which it is required to obtain and maintain under Clause 7.1.1, except where the Operator has used all reasonable endeavours to obtain or maintain any such insurance but has been unable to do so and has promptly notified the Participants participating or proposing to participate therein;

provided that in neither case shall the Operator be responsible or liable for any consequential loss or damage including but not limited to inability to produce Petroleum, lost production or loss of profits.

5.3 Liens and Encumbrances

The Operator shall, in so far as may be within its control, keep all Joint Property and all Joint Petroleum free from all liens, charges and encumbrances which might arise by reason of the conduct of the Joint Operations.

5.4 Employees and Contractors

5.4.1 Subject to the provisions of any approved Programme and Budget, the number of employees of the Operator employed in connection with the Joint Operations shall be determined by the Operator. The Operator

shall also determine their selection, hours of work and remuneration.

5.4.2 In the case of any proposed exploration or appraisal contract for the Joint Operations where the cost thereof is likely to exceed two hundred and fifty thousand pounds (£250,000) (or the equivalent in other currency) and be less than the limit set out in Clause 5.4.3, or such other amount as may be Determined having regard to the Joint Operations, the Operator shall, unless otherwise Determined or except in circumstances referred to in Clause 5.9.2:

(i) obtain competitive bid tenders;

(ii) obtain the approval of the Joint Operating Committee to the terms of the recommended bid prior to entering into any contract in respect thereof; and

(iii) use all reasonable endeavours to ensure that any such contract can be freely assigned to any of the Non-Operators in the event of any change of the Operator under Clause 4.

5.4.3 In the case of any proposed contract for the Joint Operations where the cost thereof will or is likely to exceed five hundred thousand pounds (£500,000) or such other amount as may from time to time be Determined, having regard (inter alia) to the nature of the Joint Operations, the Operator shall, unless otherwise Determined or except in the circumstances referred to in Clause 5.9.2:

(i) obtain competitive sealed bid tenders from, if possible, at least three (3) contractors and consult fully with the Non-Operators over the preparation of a list of persons to be invited to tender (including any sub-contractors) and the preparation of the tender documents, such consultations to take place on a timely enough basis to allow the Non-Operators to make recommendations;

(ii) after the expiration of the period allowed for tender, and the bids have been opened, report details of all bids received and any rebids, amendments to bids and subsequent negotiations to the Non-Operators and make a recommendation to them;

(iii) obtain the approval of the Joint Operating Committee to the terms of the recommended bid prior to entering into any contract in respect thereof;

(iv) use all reasonable endeavours to ensure that any such contract can be freely assigned to any of the Non-Operators in the event of any change of the Operator under Clause 4; and

(v) promptly notify the Non-Operators when a commitment is entered into and promptly supply the Non-Operators with conformed copies of each such contract and of any subsequent revisions thereto.

5.4.4 Without prejudice to the provisions of Clause 5.4 it is expressly acknowledged that if any Participant (or any of its Affiliates) wishes to carry out work or to provide services which are to be the subject of

any contract which falls within Clause 5.4, the Joint Operating Committee may by a Determination waive the requirements of that Clause if it is satisfied with the terms and conditions of the proposed contract with such Participant (or any of its Affiliates).

5.4.5 In the case of any proposed contract the cost of which is expected to exceed five million pounds (£5,000,000) the Operator shall, unless otherwise directed by the Joint Operating Committee and notwithstanding an approved Programme and Budget, submit the proposed contract to the Joint Operating Committee for approval by a Determination. If a Participant does not notify the Operator of any objection to the proposed contract within twenty (20) days after receipt thereof, then the proposed contract shall be deemed approved by that Participant.

5.4.6 The Operator shall act as agent for the Participants except in circumstances where the Operator for reasons of commercial necessity or practical benefit to the Participants acts expressly as an independent contractor. Where acting as agent in dealings with third parties the Operator shall use all reasonable endeavours to include in all commitments made pursuant to this Agreement a provision which ensures that the Operator makes the commitment on behalf of all Participants. The Operator shall use all reasonable endeavours to include in all such commitments a requirement that:

(i) The third party agrees to look only to the Operator for the due performance of the commitment; and

(ii) The Operator will be entitled to recover on behalf of the Participants the full amount of:

a. any loss, damage, injury or expense caused to them by any tort, delict or breach of such commitment by the third party concerned; or

b. any right of subrogation, contribution or indemnity arising in respect of such commitments;

subject to the express defences, limitations and exclusions of liability given to the said third party in such commitments.

5.5. Representation of the Participants

When and as directed by the Joint Operating Committee, the Operator shall represent the Participants regarding any matters or dealings with the Secretary, any other governmental authorities or third parties in so far as the same relate to the Joint Operations, provided that there is reserved to each Participant the unfettered right to deal with the Secretary or any other governmental authorities in respect of matters relating to its own Percentage Interest.

5.6. Records

The Operator shall prepare and maintain proper books, records and inventories of the Joint Operations which shall be kept in compliance with the Accounting Procedure and with due regard to the requirements of the

Acts and the Licence.

5.7. Reports

The Operator shall:-

- (i) promptly provide each Participant with daily drilling reports (by telex), Monthly production reports of Joint Petroleum and copies of all well logs and core analyses and such engineering, geological, geophysical, technical and other data, information and reports relating to the Joint Operations as may be Determined and, at the sole cost of the Participant requesting the same, such additional data and information and reports as such Participant may reasonably request; and
- (ii) timely make all reports concerning the Joint Operations to the appropriate governmental authorities as required under the Acts and the Licence after review by the Participants and, concurrently therewith, furnish copies of all such reports to all the Participants unless otherwise Determined.

5.8. Consultation and Information

- 5.8.1 The Operator shall freely consult with the Participants and keep them informed of matters concerning the Joint Operations. In particular the Operator shall ensure that the Participants are advised of circumstances which, in the opinion of the Operator, may warrant the taking out of insurance either for the Joint Account or by the Participants individually.
- 5.8.2 Without prejudice to the generality of Clause 5.8.1, the Operator shall inform each Participant of all logging, coring, testing and such other Joint Operations as may be Determined with such advance notice as is practicable in the circumstances, so that each Participant may, subject to Clause 6.3, have one or more representatives present on location during the conduct of such operations.
- 5.8.3 The Operator shall provide each Party with all information reasonable necessary to enable them to complete their respective returns to the Oil Taxation Office.

5.9 Expenditures and Actions

- 5.9.1 The Operator is authorised to make such expenditures, incur such commitments for expenditures and take such actions as may be Determined in accordance with Clauses 9, 10 and 11 provided that nothing contained in this Clause 5.9.1 shall derogate from Operator's duties under Clause 5.4.2 and the Operator shall not undertake any operation not included in a Determined Programme or incur any expenditure not included in a Determined Budget.
- 5.9.2 The Operator is also authorised to make any expenditure or incur commitments for expenditures or take any actions it deems necessary in the case of safeguarding of lives or property or the prevention of

pollution. The Operator shall promptly notify all the Participants of any such circumstances and the amount of expenditures and commitments for expenditures so made and incurred and actions so taken.

5.10 Disposal and Abandonment

5.10.1 If the Operator shall consider that any item of the Joint Property is no longer needed or suitable for the Joint Operations the Operator shall, subject to the provisions of the Accounting Procedure, dispose of the same.

5.10.2 If the Participants shall decide to abandon the Joint Operations, or any part thereof, the Operator shall recover and endeavour to dispose of as much of the Joint Property as may be Determined can economically and reasonably be recovered or as may be required to be recovered under the Acts, the Licence or any other applicable law, and the net cost or net proceeds therefrom shall be charged or credited to the Joint Account.

5.10.3 Without prejudice to Clause 5.10.2 it is agreed that following any proposal made to the Joint Operating Committee for the Operator to prepare a development Programme and Budget for a particular discovery the Participants will before submission of an Annex 'B' to the Department of Energy agree the terms of an Abandonment Agreement which should, inter alia, include an equitable sharing of liabilities between the Participants and the provision of security therefor provided that in the event of failure to obtain unanimous agreement of the Participants to the terms of such Abandonment Agreement the provisions of this Clause 5.10.3 shall be deemed to have been satisfied for the purpose of enabling the submission of an Annexe 'B' if the Participants who have agreed the terms of such Abandonment Agreement hold in aggregate a Percentage Interest not less than that specified in Clause 8.8.2 and provided further that in such event the Participants shall use all reasonable endeavours to obtain unanimous agreement to the terms of the Abandonment Agreement as soon as practicable after such submission.

5.11 The Operator hereby consents to act as "the responsible person for the oilfield" in accordance with the provisions of Schedule 2 of the Oil Taxation Act.

6. RIGHTS OF THE PARTICIPANTS

6.1 Reservation of Rights

Subject as otherwise provided in this Agreement, each Participant reserves all its rights under the Licence.

6.2 Inspection Rights

Without prejudice to the provisions of paragraph 8 of Section 1 of the

Accounting Procedure, each Participant shall have the right to inspect, at all reasonable times during usual business hours, all books, records and inventories of any kind or nature maintained by or on behalf of the Operator and relating to the Joint Operations other than those books, records and inventories maintained by the Operator as the owner of a Percentage Interest, provided that such Participant gives the Operator not less than fourteen (14) days' prior notice of the date upon which it desires to make such inspection, and identifies the person or persons to conduct such inspection.

6.3 Access Rights

6.3.1 Each Participant shall have the right, at all reasonable times and at its sole risk and expense, of access to the Licence Area and/or the Joint Operations provided such Participant gives the Operator reasonable notice of the date such access is required and identifies the representative or representatives to whom such access is to be granted. If any Participant wishes access to be given to more than one representative at a time the Operator shall not be required to grant such access for the additional representatives if, and to the extent that, the granting of such access will interfere with the conduct of the Joint Operations.

6.3.2 In the case of offshore operations the Operator shall, at the cost of the Joint Account, provide facilities to gain such access in transportation engaged thereon and also provide accommodation offshore but so that the provision of such facilities and accommodation shall not interfere with the conduct of the Joint Operations.

7 RESPONSIBILITY, INSURANCE AND LITIGATION

7.1 Except where Operator is liable under Clause 4.2.2 hereof or as otherwise provided therein, all risk, obligations, losses, damages, liabilities and associated expenses incurred in or arising out of the conduct of the Joint Operations shall be borne by the Parties in proportion to their respective anticipations Interests.

7.1 Insurance

7.2.1 The Operator shall obtain and maintain, in respect of the Joint Operations and the Joint Property, all insurance required under the Acts, the Licence or any other applicable law or by the terms of any contract entered into by the Operator in furtherance of the Joint Operations and such other insurance as may be Determined from time to time provided that, in respect of such other insurance, any Participant may elect not to participate provided such Participant gives notice to that effect to the Operator and does nothing which may interfere with the Operator's negotiations for such insurance for the other Participants and obtains and maintains in respect of its Percentage Interest share of all the risks covered by the Determined Insurance, such insurance (in respect of which a certificate of adequate cover from a reputable insurance broker shall be sufficient evidence) or

other evidence of financial responsibility as may be Determined (provided however, that no such Determination shall in any way absolve any non participating Participants from its obligation to meet each Cash Call including any Cash Call in respect of damages and losses and/or the costs of remedying the same in accordance with the terms of this Agreement, and of its obligations to indemnify the other Participants and provided further that if such Participant obtains other insurance such insurance shall contain a waiver of subrogation in favour of all the other Participants but only in respect of their Percentage Interest hereunder. The cost of insurance in which all the Participants are participating shall be for the Joint Account and the cost of insurance in which less than all the Participants are participating shall be charged to Participants so participating in proportion to their respective Percentage Interests. The Operator shall, in respect of all insurance obtained pursuant to this Clause 7.1.1:

- (i) promptly inform the Participants participating therein when it is taken out and/or varied and/or renewed and supply them with copies of the relevant policies and variations if any when the same are issued;
- (ii) arrange for the Participants participating therein, according to their respective Percentage Interest, to be named as co-insureds on the relevant policies with waivers of subrogation in favour of all the Parties but only in respect of their interests hereunder any non participating Participants; and
- (iii) duly file all claims and take all necessary and proper steps to collect any proceeds and, if all the Participants are participating therein, credit them to the Joint Account or, if less than all the Participants are participating therein, credit them to the participating Participants.

Subject as provided above, any of the Participants may obtain such insurance as it deems advisable for its own account at its own expense.

7.1.2 Each of the Participants shall, in addition to any insurance required under Clause 7.1.1, obtain and maintain, in respect of its Percentage Interest share of any liability to third parties which may arise in connection with the Joint Operations, such insurance or other evidence of financial responsibility as may from time to time be Determined. Each of the Participants shall, as and when required by a Determination, produce to the Joint Operating Committee such evidence as it may reasonably require to establish that such insurance or other evidence of financial responsibility is being maintained.

7.1.3 The Operator shall take all reasonable steps to ensure that all contractors (including sub-contractors) performing work in respect of the Joint Operations and the Joint Property obtain and maintain all insurance required under the Acts, the Licence or any other applicable law and such other insurance as may be from time to time Determined.

The Operator shall in respect of all insurance obtained by such contractors

(including sub-contractors):

- (i) if requested by any Participant, supply such Participant with evidence that it has been effected and is being maintained; and
- (ii) take all reasonable steps to arrange for such contractors (including sub-contractors) to obtain from their insurers a waiver of subrogation in favour of the Participants.

7.2 OPOL

- 7.2.1 The Operator as a party to the Offshore Pollution Liability Agreement dated 4 September 1993 as amended ("OPOL"), and as a member of the Offshore Pollution Liability Association Limited ("the Association"), agrees that it, as the Operator for the Joint Operations, will be bound by and will comply with the provisions from time to time of OPOL, the Memorandum and Articles of Association of the Association dated 20th August 1974 and amendments made thereto and the rules of the Association adopted on 2nd October 1974 and amendments made thereto.
- 7.2.2 The Operator will use its best endeavours to make OPOL applicable to such Offshore Facilities (as defined in OPOL) as are used for the purpose of the Joint Operations.
- 7.2.3 Subject as hereinafter provided, any payments made by the Operator under Clause IV of OPOL and/or under article 7 of the Articles of Association of the Association, as well as under any other provisions of either OPOL or of the Memorandum or Articles of association or the rules of the Association ("OPOL Payments") which arise out of the foregoing provisions of this Clause 7.2 and fall due while it remains the Operator, shall be for the Joint Account provided always that no Participant shall be under any obligation to reimburse the Operator in respect of payments resulting from a Sole Risk Project in which it is not a Sole Risk Participant (as hereinafter defined).
- 7.2.4 The Non-Operators hereby agree to provide, in such form as the Operator may require, sufficient information which will enable the Operator to establish evidence of financial responsibility in accordance with the requirements of Form B annexed to the Rules of the Association as amended from time to time.
- 7.2.5 Any release obtained by the Operator from Claimants (as defined in OPOL) shall include a release of the Non-Operators as well as the Operator.
- 7.2.6 The Operator shall promptly give the Non-Operators notice of all proposed amendments to OPOL and the memorandum and articles of association and the rules of the Association to be considered by the Association in general meeting and, in respect of such amendments, the Operator shall cast those of its votes which are attributable solely to the Joint Operations in the manner Determined.

7.3 Litigation

7.3.1 The Operator shall promptly notify the Participants of any claim, litigation, lien, demand or judgment relating to the Joint Operations where the total amount in dispute and/or the total amount of damages together with any costs are estimated to exceed [one hundred thousand pounds (£100,000)], or such other amount as may from time to time be Determined, and the Operator shall have the authority to prosecute, pursue, defend or settle any claim, litigation, lien, demand or judgment relating to the Joint Operations (other than as between the Participants) provided that:

(i) in the case of any litigation (irrespective of the estimated amount of damages and costs) to be prosecuted or defended otherwise than in any court in the United Kingdom the Operator shall have no such authority without the prior approval of all the Participants except such authority as may be necessary to prevent judgment being given against the Joint Account while full authority by the Participants is being sought; and

(ii) where the total amount in dispute and/or the total amount of damages together with any costs are estimated to exceed one hundred thousand pounds (£100,000), or such other amount as may from time to time be Determined by the Joint Operating Committee, the Operator shall have no such authority, except as provided in sub-paragraph (i) above, without prior approval by a Determination.

7.3.3 Each Participant (including the Operator when not acting as Operator pursuant to the authority under Clause 7.3.1) shall promptly notify the other Participants of any claim, litigation, lien, demand or judgment relating to the Joint Operations and shall use all reasonable endeavours not to conduct such proceedings in such a way as to prejudice, affect or vitiate any insurance obtained pursuant to Clause 7.1.1.

7.3.4 Notwithstanding Clause 7.3.1, each Participant shall have the right to participate in any prosecution, defence or settlement conducted in accordance with Clause 7.3.1 at its sole cost and expense.

7.3.5 For the avoidance of doubt it is hereby declared that the conduct of any litigation involving a Sole Risk Project will be at the sole cost, risk and expense of the Sole Risk Participant.

8. THE JOINT OPERATING COMMITTEE

8.1 Establishment and Powers

There is hereby established a Joint Operating Committee which shall exercise overall supervision and control of all matters pertaining to the Joint Operations. Without limiting the generality of the foregoing, but subject as otherwise provided in this Agreement, the powers and duties of the Joint Operating Committee shall include:-

- (i) the consideration and Determination of all matters relating to general policies, procedures and methods of operating hereunder;
- (ii) the approval of any public announcement or statement regarding this Agreement or the Joint Operations;
- (iii) the consideration, revision and approval by a Determination or disapproval, of all proposed Programmes, Budgets and AFEs prepared and submitted to it pursuant to the provisions of this Agreement;
- (iv) the Determination of the timing and location of all wells drilled under the Joint Operations and any change in the use or status of a well;
- (v) the Determination of whether the Operator will represent the Participants regarding any matters or dealings with the Secretary, any other governmental authorities or third parties in so far as the same relate to the Joint Operations provided that there is reserved to each Participant the unfettered right to deal with the Secretary or any other governmental authorities in respect of matters relating to its own Percentage Interest; and
- (vi) the consideration and, if so required, the Determination of any other matter relating to the Joint Operations which may be referred to it by the Participants or any of them (other than any proposal to amend this Agreement) or which is otherwise designated under this Agreement for reference to it.

8.2 Representation

The Joint Operating Committee shall consist of one representative appointed by each of the Participants provided always that more than one of the Participants may appoint the same representative who shall represent them separately. Each Participant shall, as soon as possible after the date of this Agreement, give notice to all the other Participants of the name of its representative and of an alternate on the Joint Operating Committee. Such representative may be replaced from time to time, by like notice.

Representatives may bring to meetings of the Joint Operating Committee such advisers as they consider necessary. The representative of a Participant or, in the absence of the representative, his alternate, shall be deemed authorised to represent and bind such Participant with respect to any matter which is within the powers of the Joint Operating Committee.

8.3 Chairman

The representative of the Participant which is the Operator shall be the chairman of the Joint Operating Committee.

8.4 Meetings

8.4.1 The Joint Operating Committee shall hold meetings once a year (or at such other regular intervals as may be agreed by a Determination) at such place as may be Determined. The Operator shall call such meetings and shall give at least twenty (20) days' notice of the time and date of each meeting, together with an agenda and all available data and information relating to the matters to be considered at that meeting. By notice to all other Participants, any Participant can advise of additional matters which such Participant desires to be considered at the meeting, and provided such notice is given at least ten (10) days before the date of the meeting, those matters shall be considered.

8.4.2 The Joint Operating Committee shall hold a special meeting upon the request of any of the Participants. Such request shall be made by notice to all the other Participants and state the matters to be considered at that meeting. Upon receiving such request, the Operator shall without delay call a special meeting for a date not less than seven (7) nor more than ten (10) days after receipt of the request.

8.4.3 For any meeting of the Joint Operating Committee, the period of notice stipulated above may be waived with the consent of all the Participants.

8.4.4 Any Participants not represented at a meeting may vote on any matter on the agenda for such meeting by either:

(i) appointing a proxy in writing, or

(ii) giving notice of such vote to the Operator prior to the submission of such matter for vote at such meeting.

8.5 Minutes

The chairman of the Joint Operating Committee shall appoint a secretary for the Joint Operating Committee who will prepare the minutes of each meeting and provide each Participant with a copy thereof not more than twenty-one (21) days after the end of the meeting. Each Participant shall notify all the other Participants of its approval or disapproval of the minutes within ten (10) days of receipt thereof. A Participant who fails to do so will be deemed to have approved the minutes. The approval or disapproval of minutes as aforesaid shall not affect the validity of Determinations made in the meeting to which such minutes relate.

8.6 Action without a Meeting

8.6.1 The Participants may vote on and Determine by notice to the Operator any proposal which is submitted to them by the Operator by notice and which they could validly Determine at a meeting of the Joint Operating Committee if duly held for that purpose. Each Participant shall cast its vote within fourteen (14) days after the proposal is received by it except that where the Participants are requested to vote on and Determine any proposal relating to the deepening, testing, plugging back or abandonment of a well on which drilling equipment is then located or where the matter presented for consideration by its nature

requires Determination in less than fourteen (14) days and such fact and lesser period are so stated in the notice submitting the proposal, the Participants shall cast their votes within such lesser period which shall not be less than forty eight (48) hours after receipt of the proposal. Failure by a Participant to cast its vote within the relevant period shall be regarded as a vote by that Participant against the proposal.

8.6.2 The Operator will give prompt notice of the results of any such voting to the Participants and any decision so taken shall be binding on the Participants notwithstanding that any Participant may have requested a special meeting to discuss any such proposal under Clause 8.4.2.

8.7 Sub-Committees

8.7.1 The Joint Operating Committee may establish such advisory sub-committees as it considers desirable from time to time. Each sub-committee established shall be given written terms of reference and shall be subject to such procedures as may be Determined. The meetings of sub-committees will as far as possible be arranged so that the minutes of such meetings can be presented to the Participants in sufficient time for consideration before the next following regular meeting of the Joint Operating Committee.

8.8 Voting Procedure

8.8.1 Each Participant shall have a voting interest equal to its Percentage Interest.

8.8.2 Unless otherwise provided in this Agreement, all Determinations shall be made by the affirmative vote of a Participant or Participants having individually or in aggregate a Percentage Interest of not less than sixty-five per cent (65%).

8.8.3 All the Participants shall be bound by each Determination duly made in accordance with the provisions of this Agreement.

8.9 Licence Provisions

8.9.1 In respect of the Working Obligations, unless and to the extent that relief from such obligations is sought and obtained from the Secretary, the location and the time at which such obligations are to be discharged shall be Determined provided that, if a Determination has not been made in relation to any obligation well on the location thereof by a date which is two (2) years prior to the expiration of the applicable period for the discharge of the obligation to drill such well, the Operator shall promptly propose to the Participants a location for the well. Unless within one (1) Month after such proposal another location is Determined (in which case the location so Determined shall be the location at which the well shall be drilled), the location proposed by the Operator shall be deemed to be the Determined location and the well shall be drilled at such location at the time (if any) previously Determined, or, if no time has been so Determined, at a time selected by the Operator, but in any event

drilling will be commenced not later than a date which will allow timely completion of such well before the expiration of the applicable period for the discharge of the obligation to drill it.

8.9.2 In relation to the requirements of model clauses 4, 5 or 6 a meeting of the Operating Committee shall be held not later than ninety (90) days prior to the latest date on which notice to continue the Licence must be given to the Secretary pursuant thereto in order to continue the Licence beyond the expiration of the Initial Term, the Second Term or the extension to the Second Term. At such meeting(s) each Participant shall advise the other Participants whether it intends to continue the Licence as aforesaid provided that such advice shall be without prejudice to each Participant's rights under Clause 16. The Licence shall be so continued unless all the Participants vote against such continuation.

8.9.3 In relation to model clause 4, those Participants intending to continue the Licence shall at the Operating Committee meeting referred to in Clause 8.9.2 above or at such other time as they may agree, decide upon the delineation of the surrendered area to be described in the notice to be given under the said model clause 4, and for the purposes of such decision the percentage figure set out in Clause 8.8.2 shall apply to the total votes available to the Participants so wishing to continue. In relation to the continuation of the Licence under model clauses 4, 5 or 6, each of the Participants agrees to execute such documents as may be necessary to effect the continuation of the Licence for the benefit of those Participants desiring to continue the Licence.

8.9.4 The affirmative vote of all the Participants shall be required to determine the Licence or surrender any part of the Licence Area under model clause 7 or for the use of Joint Property by third parties.

9. EXPLORATION AND APPRAISAL PROGRAMMES AND BUDGETS

9.1 Annual Programmes and Budgets

9.1.1 The Operator shall, in each Year, submit to the Participants not later than 1 September a proposed exploration Programme and Budget for the next Year. In the event of a Discovery, the Operator shall, if so Determined and as soon as practicable after such Determination, submit to the Participants a proposed appraisal Programme and Budget for such Discovery. An exploration Programme and Budget and (where applicable) an appraisal Programme and Budget shall show, inter alia:-

- (i) the projects and other work to be undertaken and if applicable, the wells to be drilled;
- (ii) the information required under paragraph 1.1 of Section IV of the Accounting Procedure;
- (iii) details of the number of employees and contract personnel required; and

(iv) such other information as the Joint Operating Committee may have required the Operator to provide.

9.1.2 The proposed Programmes and Budgets shall be subject to consideration, revision and approval by a Determination. The Joint Operating Committee shall consider such Programmes and Budgets and make such revisions thereto as may be agreed not later than 1 November in the case of exploration and as soon as practicable in the case of appraisal. Not later than 1 December in the case of exploration, and as soon as practicable in the case of appraisal, a Programme and Budget therefor shall be approved by a Determination and such Determination shall, subject to Clause 9.2 and 9.3, authorise and oblige the Operator to proceed with it.

9.2 Authorisations for Expenditure

Except as provided in Clause 5.9.2, the Operator shall, before entering into any commitment or incurring any expenditure under an approved Programme and Budget, submit to the Participants an AFE therefor. An AFE shall include the information set out in, and be prepared in accordance with, paragraph 6 of Section IV of the Accounting Procedure. To the extent that the Joint Operating Committee approves an AFE, the Operator shall be authorised and obliged, in accordance with the said paragraph 6 but subject to Clause 9.3, to proceed with such commitment or expenditure.

9.3 Amendment

At any time any Participant may, by notice to all the other Participants, propose that an approved Programme and Budget and/or an approved AFE be amended. To the extent that an amendment is approved by a Determination, the approved Programme and Budget and/or AFE shall be deemed amended accordingly provided always that any such amendment shall not invalidate any authorised commitment or expenditure made by the Operator prior thereto.

9.4 Working Obligations

In respect of any obligation well which is to be drilled following the procedures laid down in Clause 8.9.1 the Operator will include the drilling of such well in the relevant exploration Programme and Budget and, notwithstanding the foregoing provisions of this Clause 9, such Programme and Budget and any AFE shall, to the extent that they relate to the drilling of such well and unless in either case it is otherwise Determined within twenty-eight (28) days of their submission to the Participants, be deemed to be approved by a Determination.

10. DEVELOPMENT PROGRAMMES AND BUDGETS

10.1 Joint Programme and Budget

10.1.1 The Operator shall, if so Determined and as soon as practicable after such Determination, submit to the Participants a proposed

development Programme and Budget for a Discovery showing:

- (i) the projects and other works to be undertaken;
- (ii) the information required under paragraph 1.2 of Section IV of the Accounting Procedure;
- (iii) the manner in which the development is to be managed with details of the number of employees and contract personnel required;
- (iv) an estimate of the date of commencement of production and of the annual rates of production; and
- (v) such other information as the Joint Operating Committee may have required the Operator to provide.

10.1.2 The proposed development Programme and Budget shall be subject to consideration, revision and approval by a Determination. The Joint Operating Committee shall meet to consider such development Programme and Budget as soon as practicable and to make such revisions thereto as may be agreed. Unless otherwise Determined, the Joint Operating Committee shall approve or reject the development Programme and Budget within ninety (90) days of its submission by the Operator to the Participants provided that, within the said period of ninety (90) days (or such other period as may have been Determined), any Participant wishing to carry out further work or studies in connection with the development of the Discovery may, by notice to the other Participants, require that the said period be extended up to a maximum total period of:

- (i) in the case of carrying out of further appraisal drilling of the Discovery, one hundred and eighty (180) days; and
- (ii) in all other cases, one hundred and twenty (120) days;

and in such event the said period shall be so extended. A Participant proposing to carry out further appraisal drilling of the Discovery shall in its said notice to the other Participants inform them of its intention and:

- (a) the Operator shall carry out such drilling at the risk, cost and expense of such Participant and the provisions of Clause 12.2.4, 12.2.5, 12.2.6 (other than the first sentence) and 12.2.10 shall apply as if such Participant was a Sole Risk Participant and such drilling was Sole Risk Drilling under that Clause;
- (b) such Participant shall not be entitled to any reimbursement from the other Participants of the costs and expenses thereof, unless as a result of such drilling all the Participants decide not to proceed with the development of the Discovery in which event each of the other Participants shall pay to such Participant within twenty eight (28) days of the decision not to proceed with the development an amount equal to the amount it would have contributed to the Joint Account had such drilling been carried

out as part of the Joint Operations, such amount shall be paid in cash in the currency or currencies in which the contributions for such costs and expenses would have been made to the Joint Account (assuming any approval by a Determination under paragraph 2.4 of Section I of the Accounting Procedure to have been forthcoming); and

(c) all data and information obtained from such drilling shall promptly be made available to, and be owned jointly by, all the Participants.

10.1.3 If a development Programme and Budget is Determined, each of the Participants shall decide within ninety (90) days of such Determination, or such longer period as may be Determined, whether to participate in respect of its Percentage Interest share in the development of the Discovery and shall inform the other Participants of its decision by notice to them. If all the Participants decide to participate in the development of the Discovery the Operator shall prepare from the said development Programme and Budget a Programme for submission to the Secretary in accordance with model clause 17. Any such Programme shall require the approval of the Joint Operating Committee prior to its submission as aforesaid.

10.1.4 Upon the Secretary authorising (whether by consenting or by approving or serving a Programme) under model clause 17, the commencement of the development, any of the Participants may, if the Programme and Budget approved by a Determination under Clause 10.1.2, has been or is required to be amended (which shall, for the avoidance of doubt, include any change in the date of commencement of the development), by notice to the other Participants given within twenty-eight (28) days following the said authorisation, elect not to proceed with the development. If no Participant is entitled to give such notice, or being entitled, no Participant gives such notice, the approved development Programme and Budget (with any amendments as aforesaid) shall be adopted for the development, the Participants shall be obligated to participate in carrying it out and the Operator shall, subject to Clause 10.2 and 10.3, be authorised and obliged to proceed in accordance with it.

10.2 Authorisation for Expenditure

Except as provided in Clause 5.9.2, the Operator shall, before entering into any commitment or incurring any expenditure with respect to the preparation of a development Programme and Budget or under an approved development Programme and Budget, submit to the Participants an AFE therefor. An AFE shall include the information set out in, and be prepared in accordance with, paragraph 6 of Section IV of the Accounting Procedure. To the extent that an AFE is approved by a Determination, the Operator shall be authorised and obliged, in accordance with the said paragraph 6 but subject to Clause 10.3, to proceed with such commitment or expenditure provided always that an AFE within an approved development Programme and Budget shall be deemed to be approved by a Determination unless, within fourteen (14) days (or such longer period as may be Determined) of its submission to the

Participants, a Participant or Participants having individually or in aggregate a Percentage Interest of not less than forty per cent (40%) give notice to the Operator that they require such AFE to be formally approved by a Determination of the Joint Operating Committee.

10.3 Review and Amendment

10.3.1 The Operator shall, in each Year, review the approved development Programme and Budget and submit to the Participants not later than 1 August a report thereon together with an update of such development Programme and Budget dealing separately with the next Year and the remaining phases of the approved development Programme and showing the matters listed under Clause 10.1.1 and the information required under paragraph 3 of Section IV of the Accounting Procedure.

10.3.2 At any time any Participant may, by notice to all the other Participants, propose that an approved development Programme and Budget and/or an approved AFE be amended. The Joint Operating Committee shall consider such proposal and, if so Determined, the Operator shall prepare and submit to the Participants a revised development Programme and Budget incorporating any such amendment and showing the matters listed under Clause 10.1.1 and the information required under paragraph 3 of Section IV of the Accounting Procedure. To the extent that any such amendment or revised development Programme and Budget is approved by a Determination, the approved development Programme and/or AFE shall, subject to obtaining any necessary consent of the Secretary, be deemed amended accordingly provided always that any such amendment shall not invalidate any authorised commitment or expenditure made by the Operator thereto.

11. PRODUCTION PROGRAMMES AND BUDGETS

11.1 Annual Programme and Budget

11.1.1 The Operator shall not later than 1 August in the Year prior to the commencement of production and each subsequent Year, submit to the Participants a proposed production Programme and Budget for the next Year showing:

- (i) the projects and other work to be undertaken;
- (ii) the information required under paragraph 1.1 of Section IV of the Accounting Procedure;
- (iii) details of the number of employees and contract personnel required;
- (iv) an estimate of the date of commencement of production (if appropriate) and of the total production by Quarters and the maximum daily rate to be achieved in each Quarter; and

(v) such other information as the Joint Operating Committee may have required the Operator to provide.

11.1.2 The proposed production Programme and Budget shall be subject to consideration, revision and approval by a Determination. The Joint Operating Committee shall consider such production Programme and Budget and make such revision thereto as may be Determined as soon as practicable but in any event not later than 1 October. Not later than 1 December a production Programme and Budget shall be approved by a Determination and such approval shall, subject to Clauses 11.2 and 11.3, authorise and oblige the Operator to proceed with it.

11.2 Authorisation for Expenditure

Except as provided in Clause 5.9.2, the Operator shall, before entering into any commitment or incurring any expenditure under an approved production Programme and Budget, submit to the Participants an AFE therefor. An AFE shall include the information set out in and be prepared in accordance with, paragraph 6 of Section IV of the Accounting Procedure. To the extent that an AFE is approved by a Determination, the Operator shall be authorised and obliged, in accordance with the said paragraph 6 and subject to Clause 11.3, to proceed with such commitment or expenditure.

11.3 Amendment

At any time any Participant may, by notice to all the other Participants, propose that an approved production Programme and Budget and/or an approved AFE be amended. To the extent that an amendment is approved by a Determination, the approved production Programme and Budget and/or AFE shall be deemed amended accordingly provided always that any such amendment shall not invalidate any authorised commitment or expenditure made by the Operator prior thereto.

12. SOLE RISK

12.1 Preliminary

Any Participant may undertake sole risk drilling ("Sole Risk Drilling") or sole risk development ("Sole Risk Development") (either being a "Sole Risk Project") subject to the following provisions of this Clause.

12.2 General Provisions

12.2.1 No Sole Risk Project may be carried out until the Working Obligations have been completed and, subject to Clause 12.3.1 (ii), no Sole Risk Project may be carried out at any time if it is substantially similar to or conflicts with all or part of any Programme approved by a Determination and current at the commencement of the Sole Risk Project.

12.2.2 The following types, and only the following types, of Sole Risk Project may be proposed:

(i) subject to Clause 12.3, Sole Risk Drilling consisting of:-

(a) the drilling of an exploratory well or the deepening, sidetracking, deviating or testing of a suspended well neither of such wells being inside the interpreted closure of any geological structure or stratigraphic trap on which a well has been drilled in which Petroleum of potentially commercial significance has been found to be present; or

(b) the drilling of an exploratory well or the deepening, sidetracking, deviating or testing of a suspended well inside the interpreted closure of any geological structure or stratigraphic trap on which a well has been drilled in which Petroleum of potentially commercial significance has been found to be present and which well is drilled, deepened or sidetracked to, or tested at a different stratigraphic level to that in which such Petroleum was found to be present within that interpreted closure and which is not completed in the horizon in which such Petroleum was found to be present provided always that, if the well in which Petroleum of potentially commercial significance was found to be present was a Joint Account well, approval by a Determination shall be required before any such drilling, deepening, sidetracking, deviating or testing is carried out; or

(c) the deepening, sidetracking or testing of a well which is in the course of being drilled and which does not form part of a development Programme, provided always that, unless otherwise Determined, any test programmes by the Participants must have been carried out, the Participants informed of the results and a Determination made to abandon the well before any such deepening, sidetracking deviating or testing is carried out; or

(d) the drilling and testing of an appraisal well inside, or the carrying out of geographical work in respect of, the interpreted closure of any geological structure or stratigraphic trap on which a well has been drilled in which Petroleum has been found to be present; or

(e) the carrying out of geophysical work; and

(ii) subject to Clause 12.5, Sole Risk Development consisting of the development of a Discovery.

12.2.3 Any Sole Risk Project shall be carried out at the sole risk, cost and expense of the Participant proposing such project and any other Participant electing to join such project as hereinafter provided ("Sole Risk Participant"). If a Sole Risk Project is undertaken by more than one Sole Risk Participant the risk and cost thereof

shall, subject in the case of Sole Risk Development to Clause 12.5.8, be borne by each Sole Risk Participant in the proportion that its Percentage Interest bears to the sum of the Percentage Interests of the Sole Risk Participants or in such other proportion as the Sole Risk Participants may agree provided that no Sole Risk Participant shall be obliged to participate in a Sole Risk Project with an interest greater than its Percentage Interests.

12.2.4 A Sole Risk Participant shall exercise all necessary precautions to ensure that a Sole Risk Project does not jeopardise, hinder or unreasonably interfere with the Joint Operations provided that a Sole Risk Development shall have priority over Joint Operations commenced subsequent to the authorisation of such Sole Risk Development by the Secretary.

12.2.5 A Sole Risk Participant shall indemnify and hold harmless the other Participants ("Non-Sole Risk Participants") against all actions, claims, demands and proceedings whatsoever brought by any third party (including without limitation any employee of the Sole Risk Participant) arising out of or in connection with the Sole Risk Project, shall insofar as it may be within its control keep the Licence and this Agreement free from all liens, charges and encumbrances which might arise by reason of the conduct of the Sole Risk Project and shall further indemnify the Non-Sole Risk Participants against all damages, costs, losses and expenses whatsoever directly or indirectly caused to or incurred by them as a result of anything done or omitted to be done in the course of carrying out such Sole Risk Project, excepting only damage inflicted to the subsurface including any reservoir. The approval of a Non-Sole Risk Participant to the conduct of a Sole Risk Project (whether or not such approval is required) shall not constitute a waiver of these provisions.

12.2.6 A Sole-Risk Participant carrying out Sole Risk Drilling under Clause 12.2.2 (i) (c) shall be entitled to use Joint Property for such Sole Risk Drilling unless otherwise Determined within the period for response to the notice proposing such Sole Risk Drilling provided under Clause 12.3.4. A Sole Risk Participant wishing to use Joint Property for a Sole Risk Project other than as aforesaid shall give notice to all the Participants stating the purposes for which the Joint Property is to be used. Within twenty eight (28) days after such notice, it shall be Determined whether such Sole Risk Participant shall be authorised to so use Joint Property and, if so, the terms and conditions upon which it may be used, it being understood, that the use of Joint Property shall not be unreasonably withheld and that the charges for such use shall be on a reasonable and equitable basis.

12.2.7 A Sole Risk Participant shall be entitled to use for a Sole Risk Project, any data and information which it owns jointly with the Non-Sole Risk Participants. Data and information obtained in respect of Sole Risk Drilling shall be made available to the Non-Sole Risk Participants but shall remain the property of the

Sole Risk Participant until, and in the event that, one or more of the Non-Sole Risk Participants discharges in full its liability to the Sole Risk Participant under Clause 12.4 when such data and information shall become the joint property of the Participants discharging such liability and the Sole Risk Participant.

12.2.8 Subject to any necessary consent of the Secretary, a Sole Risk Project will be carried out by the Operator on behalf of the Sole Risk Participant under the provisions of this Agreement provided that, with the exception of any Sole Risk Project involving the use of Joint Property as provided under Clause 12.2.6, if the Operator is not participating in the Sole Risk Project:-

(i) in the case of Sole Risk Drilling, the Operator subject to the consent of the Secretary may decline to carry out the Drilling of the Sole Risk well; and

(ii) in the case of Sole Risk Development, the Operator will not carry out the Sole Risk Development unless all the Participants otherwise agree.

In either of such events the Sole Risk Project will, subject to any necessary consent of the Secretary, be carried out by the Sole Risk Participant, or, if more than one Participant takes part in the Sole Risk Project, the Sole Risk Participant appointed by them and, in respect of the conduct of such Sole Risk Project, such Sole Risk Participant shall, unless the context otherwise requires, be deemed the Operator for the purposes of this Agreement.

12.2.9 Sole Risk Development will in respect of the area comprised therein be regarded as creating a Sub-Area and this Agreement shall so far as possible apply independently in the manner of a separate contract to such Sub-Area and apply mutatis mutandis to the interests of the Participants which participate in such Sole Risk Development provided always that:-

(i) the Sole Risk Participant shall have a right of access to the Sub-Area; and

(ii) there shall be no separate right of assignment or withdrawal and accordingly Clauses 21 and 22 shall not apply independently to such separate contract.

The participants agree that, in the event of the creation of a Sub-Area or Sub-Areas during the Initial Term, the surface area above the Sub-Area or Sub-Areas will, to the extent permitted under the Licence and subject to the surface area above any area comprised in any development carried out under Joint Operations and authorised by the Secretary prior to his authorisation of the Sole Risk Development having priority, be included in the part of the Licence Area to which the Licence is to continue to apply during the Further Term.

12.2.10 In connection with any Sole Risk Project:-

- (i) the Sole Risk Project will be carried out under the overall supervision and control of the Sole Risk Participant in lieu of the Joint Operating Committee, provided always that in the case of Sole Risk Drilling such Sole Risk Participant shall maintain in respect of the Sole Risk Drilling operations:
 - (a) such insurance as is required under the Acts, the Licence or any other applicable law;
 - (b) insurance (or other evidence of financial capability) equivalent to:
 - (1) Determined Insurance under Clause 7.1.1, and
 - (2) Insurance under Clause 7.1.2;
- (ii) the computation of costs and expenses of the Sole Risk Project incurred by the Sole Risk Participant shall be made in accordance with the principles set out in the Accounting Procedure;
- (iii) the Operator or the Sole Risk Participant carrying out the Sole Risk Project shall maintain separate books, records and accounts (including bank accounts) for the Sole Risk Project which shall be subject to the same right of examination and audit by the Sole Risk Participants and, so long as they are entitled to elect to participate in the Sole Risk Project, the Non-Sole Risk Participants as those relating to the Joint Operations;
- (iv) the costs and expenses of the Sole Risk Project shall not be reflected in the statements and billings rendered by the Operator for the Joint Operations;
- (v) if the Operator is carrying out a Sole Risk Project on behalf of a Sole Risk Participant, the Operator shall be entitled to make Cash Calls on the Sole Risk Participant in connection with the Sole Risk Project and shall not use Joint Account funds or be required to use its own funds for the purpose of paying the costs and expenses of the Sole Risk Project; furthermore the Operator shall not be obliged to commence or, having commenced, to continue the Sole Risk Project unless and until the relevant Advances have been received from the Sole Risk Participant; and
- (vi) for the avoidance of doubt it is declared that in the application of Clause 7.1.2 in respect of a Sole Risk Project, all Non-Sole Risk Participants shall be regarded as third parties.

12.3 Sole Risk Drilling

12.3.1 No Sole Risk Drilling under Clause 12.2.2(i) (a) or (b) may be proposed unless:

- (i) such drilling was proposed to the Joint Operating Committee at the time of the consideration of the current exploration Programme but was not included in such Programme; or

(ii)having been included in the current exploration Programme the Joint Operating Committee has voted against or failed to vote in favour of an AFE (or the relevant part thereof) relating to such drilling within twenty-eight (28) days of submission of such AFE to the Participants provided that a Determination to change the timing of such drilling within the Year to which the current exploration Programme relates shall not be a vote against the AFE for the purposes of this Clause 12.3.1 (ii); or

(iii)such drilling was proposed to the Joint Operating Committee in reasonably sufficient detail by way of amendment to the current exploration Programme and the Joint Operating Committee has voted against or failed to vote in favour of such drilling within sixty (60) days of submission of such amendment to the Participants.

12.3.2 No Sole Risk Drilling under Clause 12.2.2 (i) (d) may be proposed unless:

(i)the Joint Operating Committee has voted against or failed to vote in favour of a proposal to instruct the Operator to prepare an appraisal Programme in respect of the interpreted closure of any geological structure or stratigraphic trap on which a well has been drilled in which Petroleum has been found to be present or, having so instructed the Operator, has voted against or failed to vote in favour of such a Programme within sixty (60) days of its submission to the Participants; or

(ii)the Joint Operating Committee has abandoned or completed its appraisal Programme of the interpreted closure of any geological structure or stratigraphic trap on which a well has been drilled in which Petroleum has been found to be present and the Joint Operating Committee has voted against or failed to vote in favour of a proposal to instruct the Operator to prepare a development Programme in respect thereof and no Participant has given notice under Clause 12.5.1 that it intends to prepare such a development Programme.

12.3.3 Subject to Clauses 12.3.1 and 12.3.2 if a Participant wishes to propose Sole Risk Drilling under Clause 12.2.2 (i) (a), (b) or (d) it shall give notice to the other Participants setting out:

(i)the proposed surface and bottom hole location of such drilling; and

(ii)all other relevant information including but not limited to the work to be performed, proposed depth, objective formation, the casing programme, if any, the drilling rig to be used, a properly itemised estimated cost of the operations and the date on which it proposes that operations should be started, such date being not less than sixty (60) nor more than one hundred and eighty (180) days from the date of the notice.

Each of the Participants receiving such a notice shall respond to it, by notice to the other Participants, within twenty-eight (28) days

thereof, electing whether or not to participate. Any Participant failing to respond within the said twenty-eight (28) days shall be deemed to have elected not to participate.

12.3.4 If a Participant wishes to propose Sole Risk Drilling under Clause 12.2.2(i) (c), such Participant shall give as much notice as possible to the other Participants stating whether it wishes to use Joint Property for such Sole Risk Drilling (and, if so, what items thereof) and setting out such relevant information as is necessary in order to allow the other Participants to consider the proposal and elect whether or not to participate within the period hereinafter specified. Each of the Participants receiving such a notice shall respond to it, by notice to the other Participants, within forty-eight (48) hours thereof (or within such longer period as may be specified in the notice), electing whether or not to participate. Any Participant failing to respond within the said period shall be deemed to have elected not to participate.

12.3.5 If the Percentage Interest of the Participants electing to participate together with the Percentage Interest of the Participant proposing the Sole Risk Drilling are not less than the percentage provided under Clause 8.8.2, the operations shall be carried out, in accordance with the said notice, by the Operator as part of the Joint Operations as if Determined and, if appropriate, the current relevant Programme shall be deemed amended accordingly and the Operator shall promptly notify the Participants of the consequential amendments to the current relevant Budget.

12.3.6 If the Percentage Interests of the Participants electing to participate together with the Percentage Interest of the Participant proposing the Sole Risk Drilling are less than the percentage provided under Clause 8.8.2 such Participant together with any other Participants which have elected to participate may, subject to the provisions of Clause 12.2.2 (i) (b) or (c) in the case of Sole Risk Drilling thereunder, within twenty eight (28) days following the expiration of the said notice, require the Operator (subject to Clause 12.2.8) to undertake the Sole Risk Drilling. In such event, if the same arose as a result of the Joint Operating Committee voting against or failing to vote in favour of an AFE under a current exploration Programme, such Programme shall be deemed amended accordingly and the Operator shall promptly notify the Participants of the consequential amendments to the current exploration Budget. In the case of a notice given under Clause 12.3.3, the Sole Risk Drilling may not be commenced later than one hundred and eighty (180) days following such notice and, in the case of a notice given under Clause 12.3.4, the Sole Risk Drilling may be commenced as soon as it is possible to do so without interference to the Joint Operations on that well.

12.4 Sole Risk Payments

12.4.1 If Sole Risk Drilling carried out under Clause 12.2.2 (i) (a), (b) or

(c) has resulted in a particular Discovery or Sole Risk Drilling has been carried out under Clause 12.2.2 (i) (d) in respect of a particular Discovery and any Participant which was a Non-Sole Risk Participant in all or part of such Sole Risk Drilling wishes to participate in appraisal drilling or a development Programme relating to that Discovery, then in respect of any such Sole Risk Drilling:-

(i) in which such Participant was a Non-Sole Risk Participant; and

(ii) to the cost and expense of which such Participant has not previously contributed pursuant to the provisions of this Clause 12.4;

such Participant shall pay to the respective Sole Risk Participant (if more than one Participant, in proportion to their respective Percentage Interests in the Licence or in such other proportion as they may have agreed under Clause 12.2.3) an amount equal to the amount it would have contributed to the Joint Account together with interest calculated on a day to day basis at a rate of two per cent (2%) above Base Rate from the date upon which the contribution would have been paid had such Sole Risk Drilling been carried out as part of the Joint Operations until the date of payment under this Clause 12.4.1. Such amount shall be paid, in cash in the currency or currencies in which the contributions for the costs and expenses would have been made to the Joint Account (assuming any approval by a Determination under paragraph 2.4 or Section I of the Accounting Procedure to have been forthcoming), before the commencement of the appraisal drilling or development Programme in question.

12.4.2 Upon the Secretary authorising (whether by consenting or by approving or serving a Programme) under model clause 15 of the Licence the commencement of the development of a Discovery in respect of which Sole Risk Drilling has been carried out, then any Participant which participates in such development and was required to make one or more payments under the provisions of Clause 12.4.1 to one or more Sole Risk Participants in respect of that Discovery shall in addition be liable to pay such Sole Risk Participants (if more than one Participant, in proportion to their respective Percentage Interests in the Licence or in such other proportion as they may have agreed under Clause 12.2.3) as are also participating in the development an amount in Sterling in respect of each Sole Risk Drilling operation in which it did not participate equal to ten (10) times the amount it would have contributed to the Joint Account had such Sole Risk Drilling been carried out as part of the Joint Operations. Such amount shall be paid within thirty (30) days of the date of the said authorisation and for the purpose of calculating the amount payable under this sub-paragraph any Advance paid in a currency other than Sterling shall be translated to Sterling at the Conversion Rate on the date of the said authorisation.

12.5 Sole Risk Development

12.5.1 In the event that a proposal is made to the Joint Operating Committee

that a development Programme and Budget should be prepared for a particular Discovery, pursuant to Clause 10.1.1 and such proposal is rejected then, provided that any appraisal Programme approved by a Determination relating to that Discovery has been completed (but excluding any appraisal work included in an appraisal Programme if an AFE therefor has been submitted to the Participants under Clause 9.2 and the Joint Operating Committee has voted against or failed to vote in favour of the same within twenty-eight (28) days after submission), any Participant may give notice to the other Participants that it intends to prepare a development Programme and Budget for that Discovery. Such Participant, together with such of the other Participants as within twenty-eight (28) days of such notice give counter-notice of their wish to participate therein, shall be entitled to proceed with the preparation thereof and to submit the same for approval by a Determination in accordance with Clause 10.1.2.

12.5.2 If a development Programme and Budget, prepared in accordance with Clause 12.5.1 or a revised form thereof, is approved by a Determination in accordance with Clause 10.1.2, then the Participant or Participants which prepared the development Programme and Budget shall be entitled to charge all reasonable costs incurred in the preparation thereof to the Joint Account together with interest calculated on a day to day basis at the rate of five (5) per cent above the Base Rate from time to time from the date on which the costs were incurred to the date of repayment.

12.5.3 In the event that, following the submission to the Joint Operating Committee of a proposed development Programme and Budget for a particular Discovery in accordance with Clause 10.1.2, such development Programme and Budget is not approved by a Determination within the period therein provided, then any Participant may serve notice on the other Participants of its intention to develop the Discovery as a Sole Risk Development. Such notice shall be accompanied by details of its proposed development Programme and Budget. The other Participants may give counter-notice that they wish to participate in the development:-

(i) within twenty-eight (28) days of such notice if the proposed development Programme and Budget is the same as, or substantially similar to, that which was not approved by a Determination; or

(ii) within ninety (90) days of such notice if the proposed development Programme and Budget is substantially different from that which was not approved by a Determination.

If all the other Participants elect to participate the Participants shall proceed with the development in accordance with such development Programme and Budget and the provisions of Clause 10.1.4 shall apply upon the Secretary authorising the commencement of the development.

12.5.4 If the development of a Discovery is carried out in accordance with

the provisions of Clause 12.5.3, then the Participants which prepared the development Programme and Budget shall be entitled to charge all reasonable costs incurred in the preparation thereof to the Joint Account relating to that Discovery together with interest thereon calculated on a day to day basis at the rate of five (5) per cent above the Base Rate from time to time from the date on which the costs were incurred to the date of repayment.

12.5.5 In the event that, following approval by a Determination of a development Programme and Budget pursuant to Clause 10.1.2 or following any notice served under Clause 12.5.3 less than all the Participants, or in the case of Clause 12.5.3 less than all the Non-Sole Risk Participants, elect to participate in the development of a Discovery within the periods therein respectively provided, those Participants which elected to participate, or in the case of Clause 12.5.3 the Sole Risk Participant and those Non-Sole Risk Participants which elected to participate, shall be entitled to proceed with the development of the Discovery at sole risk in accordance with the relevant development Programme and Budget provided that if, upon the Secretary authorising (whether by consenting or by approving or serving a Programme) under model clause 15 of the Licence the commencement of the development, such development Programme and Budget has been or is required to be amended (which shall for the avoidance of doubt include any change in the date of commencement of the development) then the Participants participating in the development shall as soon as practicable following such authorisation give notice to the other Participants of such amendments and within twenty eight (28) days of such notice:-

- (i) any of the Participants participating in the development of the Discovery may, by notice to all the other Participants, elect not to proceed with the development; and/or
- (ii) any of the Participants not participating in the development of the Discovery may, by notice to all the other Participants elect to do so.

Those Participants which, at the expiry of the said period of twenty eight (28) days, are participating in the development shall be obliged to carry it out.

12.5.6 In the event that, following the Secretary authorising (whether by consenting or by approving or serving a Programme) under model clause 17, the commencement of a development in which all the Participants are participating, any of the Participants elect not to proceed with the development under Clause 10.1.4 the other Participants shall be entitled to proceed with the development in accordance with the approved development Programme and Budget (as amended) and, if they do so proceed, shall be obliged to carry out the development.

12.5.7 In the event that less than all the Participants participate in the

development of a Discovery in respect of which no Sole Risk Drilling has been carried out then, unless the Participants participating in such development unanimously agree otherwise which agreement shall be subject to any necessary consent of the Secretary, the Percentage Interest of each Participant in such development shall be in proportion to its Percentage Interest in the Licence.

12.5.8 In the event that less than all the Participants participate in the development of a Discovery in respect of which Sole Risk Drilling has been carried out then, unless the Participants participating in such development unanimously agree otherwise which agreement shall be subject to any necessary consent of the Secretary:-

(i) if the Participant which participated in the first such Sole Risk Drilling (for the purposes of this Clause 12.5.8 "Original Sole Risk Participant") or if more than one such Participant, all such Participants participate in the development, then the Percentage Interest of each Participant which was not an Original Sole Risk Participant in such development shall equal its Percentage Interest in the Licence, and the remaining Percentage Interest in the development shall be held by the Original Sole Risk Participant (if more than one, in proportion to their Percentage Interests in the Licence or in such other proportion as they may have agreed under Clause 12.2.3); or

(ii) if less than all the Original Sole Risk Participants participate in the development, then the calculation under (i) above shall first be performed as though all the Original Sole Risk Participants were participating. The Percentage Interests in such development of those Original Sole Risk Participants who do not participate shall then be allocated to all the participating Participants, in proportion to the Percentage Interests obtained in such preliminary calculation.

12.5.9 Any Participant which does not participate in the development of a Discovery shall have no rights in such development.

13. COSTS AND ACCOUNTING

The Accounting Procedure

The Accounting Procedure is hereby made part of this Agreement. In the event of any conflict between any provision in the main body of this Agreement and any provision in the Accounting Procedure, the provision in the main body shall prevail.

14. DEFAULT

14.1 Failure to Pay

If any Participant ("Defaulting Participant") fails to pay in full its share of any Advance by the due date in accordance with paragraph 2.6 of Section I of the Accounting Procedure:-

- (i) the Operator shall forthwith notify by telex all the Participants of such default;
- (ii) with the exception of the Defaulting Participant each Participant ("Non-Defaulting Participant") shall contribute, as hereinafter provided, a share of the amount in default in the proportion that its Percentage Interest bears to the total of the Percentage Interests of the Non-Defaulting Participants and pending receipt of such additional contributions the Operator shall make arrangements to meet any commitments falling due by borrowing the necessary finance from outside sources or by making the necessary finance available itself and all costs of any such finance shall be charged to the Non-Defaulting Participants. Finance made available by the Operator shall bear interest calculated on a day to day basis at a rate equal to two (2) per cent above the Base Rate from time to time;
- (iii) within three (3) Working Days following the notification by the Operator under (i) above, the Operator shall notify all the Participants of the liability of each of the Non-Defaulting Participants to contribute to the amount in default and shall make a further Cash Call accordingly to take effect on the expiry of the six (6) Working Days specified in (iv) below; and
- (iv) if such default continues for more than six (6) Working Days after the date of notification by the Operator each of the Non-Defaulting Participants shall on the Working Day next following such sixth Working Day pay the amount notified under (iii) above, and thereafter shall continue to pay, in addition to its share of subsequent Advances, the same proportion of that part of all such subsequent Advances attributable to the Defaulting Participant until such time as the Defaulting Participant has remedied its default in full or until forfeiture, as hereinafter provided, and failure by any Participant to make such payments shall likewise and with the same results render that Participant in default.

14.2 Remedy of Default

The Defaulting Participant shall have the right to remedy the default at any time prior to forfeiture, as hereinafter provided, by payment in full to the Operator or, if the Non-Defaulting Participants have paid any amounts under Clause 14.1(iv), the Non-Defaulting Participants, in proportion to the amounts so paid by them, of all amounts in respect of which the Defaulting Participant is in default together with interest thereon calculated on a day to day basis at the rate of five (5) per cent above the Base Rate from time to time, from and including the due date for payment of such amounts until the actual date of payment.

14.3 Continuation of Default

14.3.1 If any default continues for more than six (6) Working Days after the date of notification by the Operator under Clause 14.1 (i) then, for so long as the default so continues, the Defaulting Participant shall not be entitled to its Substance Entitlement of Petroleum which shall instead be owned by the Non-Defaulting Participants in the proportions in which their respective Percentage Interests bear to the total of the same.

14.3.2 During the continuation of any default the Defaulting Participant shall not be entitled to be represented at meetings of the Joint Operating Committee or any subcommittee thereof nor to vote thereat (so that the voting interest of each Participant other than the Defaulting Participant shall be in the proportion which its Percentage Interest bears to the total of the Percentage Interests of such Participants) and shall have no further access to any data and information relating to the Joint Operations. The Defaulting Participant shall be bound by Determinations made during the continuation of the default.

14.3.3 (i) In the event that the default continues for more than sixty (60) days then each of the Non-Defaulting Participants shall have the right to have forfeited to it and to acquire, by notice to the other Participants given within thirty (30) days after such period of sixty (60) days, the interest of the Defaulting Participant in the Licence and in and under this Agreement or, if more than one Non-Defaulting Participant exercises such right, its proportionate share of the interest of the Defaulting Participant in the Licence and in and under this Agreement, such share being the proportion which its Percentage Interest bears to the total Percentage Interest of such Non-Defaulting Participants; or

(ii) if none of the Non-Defaulting Participants exercises such right as is mentioned in Clause 14.3.3(i) then, without prejudice to any rights of the Non-Defaulting Participants, the Participants shall be deemed to have decided to abandon the Joint Operations and each Participant, including the Defaulting Participant, shall pay its Percentage Interest share of the costs of abandoning the Joint Operations, provided that if none of the Non-Defaulting Participants shall exercise such right prior to the completion of the Working Obligations under the Licence then all such Non-Defaulting Participants shall with unanimous agreement be deemed to have exercised such right;

14.3.4 With respect to Clause 14.3.3, any such forfeiture and acquisition of the interest of the Defaulting Participant in the Licence and in and under this Agreement shall be:-

(i) subject to any necessary consent of the Secretary;

(ii) without prejudice to any other rights of each Participant other than the

Defaulting Participant;

(iii) so forfeited and acquired as beneficial owner or owners free of any charges and encumbrances (other than rent and royalty under the Licence);

(iv) effective as of the date of default; and

(v) subject to the provisions of any Abandonment Agreement entered into pursuant to Clause 5.10.3;

and the Defaulting Participant shall promptly join in such actions as may be necessary or desirable to obtain any necessary consent of the Secretary and shall execute and deliver any and all documents necessary to effect any such forfeiture and acquisition, and all costs and expenses pertaining to any such forfeiture and acquisition (including for the avoidance of doubt any stamp duty incurred on the documents executed to effect such forfeiture and acquisition) shall be the responsibility of the Defaulting Participant.

15. DISPOSAL OF PETROLEUM

15.1 Right and Obligation

Subject to Clause 14 and to the provisions hereinafter contained, in respect of the development of any Discovery:-

(i) each of the Participants shall have the right to take in kind and separately dispose of its Substance Entitlement in the total quantities of Petroleum available under this Agreement, provided always that the Operator shall have the right to use in any operations relating thereto as much of such Petroleum as may be needed by it therefor and the quantities to be so used shall be excluded from the estimates to be provided by the Operator;

(ii) each of the Participants shall have the obligation to lift and separately dispose of its Substance Entitlement in all Petroleum produced and/or stored at such times, in such quantities and in accordance with such procedures as may be agreed by all Participants which have or may have Substance Entitlements in respect of such development prior to the commencement of production but so that the rights of each of such Participants to lift Petroleum to which it is entitled shall not be prejudiced; and

(iii) prior to initial commercial production the Participants shall negotiate and agree amongst themselves upon appropriate offtake procedures for the disposal of available Crude Oil.

15.2 Failure to Lift Crude Oil

In the event that any of the Participants having a Substance Entitlement in any development shall find itself unable for any reason to lift such

quantities of Crude Oil as are to be lifted by it in accordance with agreed offtake procedures it shall forthwith notify the other Participants having Substance Entitlements in such development to that effect and such quantities of crude oil shall be dealt with in accordance with such offtake procedures.

15.3 NGLs and Natural Gas

The Participants recognise that, in the event of the production of NGLs or Natural Gas, it may become or will be desirable for them to enter into the special arrangements for the disposal of the same and they agree that, in such event and upon the request of any of them, their respective representatives shall meet together as necessary to consider their entry into such arrangements and that, if and to that extent any such arrangements are agreed, they will adopt and undertake the same.

15.4 Sole Risk

For the avoidance of doubt it is hereby agreed that the provisions of this Clause 15 will apply separately to Petroleum produced and saved from a Sole Risk Development. In the event that any Joint Property is used by the Operator in handling, storing, treating or transporting such petroleum, the Non-Sole Risk Participants and the Sole Risk Participants will agree a charge for the costs and expenses relating to the use of such facilities. Further, in the event of commingling of Petroleum produced from a Sole Risk Development and Joint Petroleum, an appropriate adjustment will be made to reflect any difference in value of the respective Petroleums.

16. CONFIDENTIALITY

16.1 Confidential Data and Information

All data and information acquired or received by any Participant under this Agreement shall be held confidential during the continuance of this Agreement and for a period of five (5) years thereafter and shall not be divulged in any way to any third party, without the prior written approval of all the Participants, provided that:-

- (i) any Participant may, without such approval, disclose such data and information:
 - (a) to any Affiliate or bona fide intending assignee of such Participant upon obtaining a strict undertaking of confidentiality from such Affiliate or assignee; or
 - (b) to any outside professional consultants, upon obtaining a strict undertaking of confidentiality from such consultants provided that such Participant shall promptly inform the other Participants of the name of such consultants and the data and information disclosed to them; or

- (c) to any bank or financial institution from whom such Participant is seeking or obtaining finance, upon obtaining a strict undertaking of confidentiality from such bank or institution; or
 - (d) to the extent required by the Acts, the Licence, any other applicable law or the regulations of any recognised stock exchange; or
 - (e) to the extent that the same has become generally available to the public; and
- (ii) the Operator may disclose such data and information to such persons as may be necessary in connection with the conduct of the Joint Operations upon obtaining a strict undertaking of confidentiality from such persons provided that the Operator shall promptly inform the other Participants of the names of such persons and the data and information disclosed to them.

In the event of any Participant ceasing to hold a Percentage Interest, such Participant shall nevertheless remain bound by this Clause 16.1.

16.2 Trading Rights

The Operator may, with the prior approval by a Determination and on such terms and conditions as they may determine exchange any such data and information for other similar data and information and, the Operator shall promptly provide all the Participants with all such data and information and, if any Participant so requests, a conformed copy of the agreement relating to such exchange provided that, notwithstanding the foregoing provisions of this Clause 16, no Participant shall unreasonably withhold its approval of such proposed exchange. If the sole reason for wishing to withhold such approval is that the Participant already has the other data and information then this shall be deemed unreasonable.

17. PUBLIC ANNOUNCEMENTS

17.1 Subject to Clause 17.2, the Operator shall be responsible for the preparation and release of all public announcements and statements regarding this Agreement or the Joint Operations provided always that no such public announcement or statement shall be issued or made unless prior thereto all the Participants have been furnished with a copy thereof and the approval by a Determination has been obtained.

17.2 If any Participant shall itself wish to issue or make any public announcement or statement regarding this Agreement or the Joint Operations it shall not do so unless prior thereto it furnishes all the Participants with a copy of such announcement or statement and obtains the approval by a Determination provided that, notwithstanding any failure to obtain such approval, no Participant or any Affiliate of such Participant shall be prohibited from issuing or making any such public announcement or statement if it is necessary to do so in order to comply with any applicable law or the regulations of a recognised

stock exchange.

18. OUTGOINGS AND GRANTS

18.1 Outgoings

The Participants shall be liable for the payment of their respective Percentage Interest shares of all sums which may be properly payable under the Acts and the Licence provided that, to the extent permitted by the Acts and the Licence, the Operator shall pay all such sums excepting royalties for the Joint Account.

18.2 Grants

Grants received by any of the Participants from any governmental agency or body in the United Kingdom or of the European Economic Community in respect of their respective expenditures made pursuant to this Agreement will be retained by the Participant receiving the same provided that where the Operator receives a grant on behalf of all the Participants the proceeds thereof shall be credited to the Joint Account. The Operator shall supply to any Participant applying for a grant, at the sole cost of the Participant requiring the same, all requisite data and information which such Participant may reasonably require for the purpose.

19. COVENANT, UNDERTAKING AND INDEMNITY

19.1 Covenant and Undertaking

Without prejudice to the overriding responsibility of the Operator under Clause 5.2.2, each Participant hereby covenants and undertakes with each other Participant that it will comply with all the applicable provisions and requirements of the Acts and the Licence and will do all such acts and things within its control as may be necessary to keep and maintain the Licence in force and effect.

19.2 Indemnity

Subject to Clause 5.2.3, each Participant agrees to indemnify each other Participant, to the extent of its Percentage Interest share, for any claim by or liability to (including any costs and expenses necessarily incurred in respect of such claim or liability) any person not being a Participant hereto, arising from or in connection with the Joint Operations.

20. RELATIONSHIP

20.1 The liability of the Participants hereunder shall be several and not joint or collective and each Participant shall be responsible only for

its individual obligations hereunder. It is expressly agreed that it is not the purpose or intention of this Agreement to create, nor shall the same be construed as creating, any mining partnership, commercial partnership or other partnership. Specifically this Agreement shall not be treated as a partnership for United States tax purposes.

21. ASSIGNMENT AND ENCUMBRANCE

21.1 Restriction

No assignment or transfer of any interest under the Licence or this Agreement shall be made by any Party otherwise than in respect of an undivided interest in all or part of its interest in the Licence and in and under this Agreement (so that any such assignment shall include all or a corresponding part of any interest of such Party in a Sole Risk Project) in accordance with the following provisions of this Clause or the provisions of Clause 22.

21.2.1 Right

Each of the Participants may, subject to any necessary consent of the Secretary and to the provisions hereinafter contained, at any time upon notice to the other Participants assign all or part of its said interest to an Affiliate of such Participant or a third party which has demonstrated to the satisfaction of the other Participants its financial capability to meet its prospective obligations hereunder.

21.2.2 No assignment prior to the commencement of commercial production other than as provided in Clause 21.2.1 shall be effective or binding upon the Participants unless:

- (i) the Participant seeking to assign has first given notice to the other Participants in writing of its intentions. Within seven (7) days of receipt of such notice any Participant who so wishes shall be entitled to put forward a proposal for the acquisition of such Participating Interest, subject to contract, setting out the material terms upon which it would be prepared to acquire such Participating Interest and such proposal shall be considered by the Assignor along with any other opportunities open to it; and
- (ii) any necessary consent and approval of the Secretary to such assignment shall have been obtained; and
- (iii) the remaining, non-assigning Participants shall have consented to such assignment in writing (which consent may only be withheld on grounds of lack of financial responsibility and capability of the proposed assignee to discharge the obligations under this Agreement as they relate to the interest to be assigned).

21.2.3 (i) If at any time following the commencement of commercial production, any Participant desires to dispose of all or part of its Participating Interest otherwise than as provided in Clause

21.2.1 it shall give written notice to each of the other Participants of its desire to dispose including a proposal of terms and conditions. Within the period of seven (7) days of receipt of such notice, any Participant(s) wishing to negotiate shall give counter-notice to that effect to the assignor and such Participant(s) shall be entitled to negotiate in good faith for the period of thirty (30) days following receipt by the assignor of such counter-notices with a view to making, prior to the expiry of such period, a proposal, subject to contract, setting out the material terms for the acquisition of the said interest.

(ii) If such a proposal is made and is acceptable to the assignor, the assignor and the proposing Participant(s) shall use their best endeavours to prepare final documentation for the assignment of such interest and to apply to the Secretary for any necessary consents and approvals within sixty (60) days after the date of such proposal.

(iii) If no such counter-notice is given or if no such proposal is made, then subject to any necessary consent of the Secretary, the assignor shall be entitled to assign such interest to a third party provided that application shall be made to the Secretary for all necessary consents and approvals relating to such assignment within the period of ninety (90) days after the expiry date of the relevant period of seven (7) or thirty (30) days as the case may be.

(iv) If such a proposal is made but is not acceptable to the assignor, then subject to any necessary consent of the Secretary, the assignor shall be entitled to assign such interest to a third party provided:

(a) that such assignment shall be on terms and conditions which are more favourable to the Assignor than those set out in such proposal; and

(b) that application shall be made to the Secretary for all necessary consents and approvals relating to such assignment within the period of ninety (90) days after the expiry of the said period of thirty (30) days.

21.3 Effective Date

No such assignment shall be effective or binding upon the Participants until the date upon which the Assignor or Assignee furnishes all the Participants with:-

(i) an executed or photostatic copy of an instrument evidencing such assignment, together with any necessary consent and approval of the Secretary; and

(ii) a written instrument (in form and content satisfactory to the Participants and duly executed by the Assignee) accepting and

assuming all of the obligations under this Agreement and any Abandonment Agreement executed by the Participants pursuant to Clause 5.10.3 in so far as the interest assigned is concerned.

21.4 Continuing Obligations

A Participant so assigning all or part of its said interest shall remain liable to the other Participants for all obligations attaching to the interest assigned pursuant to this Clause 21 which are incurred prior to the effective date of such assignment and such obligations shall in addition become the obligations of the Assignee.

21.5 Consent

The Participants shall promptly join in such reasonable actions as may be necessary or desirable to obtain any consent and approval of the Secretary in connection with, and shall execute and deliver any and all documents reasonably necessary to effect, any such assignment.

21.6 Costs

All costs and expenses pertaining to any such assignment (including for the avoidance of doubt any stamp duty incurred on the documents executed to effect such assignment) shall be the responsibility of the assignor.

21.7 Encumbrance

Nothing contained in this Clause 21 shall prevent a Participant from mortgaging, pledging or otherwise encumbering all or part of its interest in the Licence and in and under this Agreement for the purpose of security relating to the finance provided that:-

(i) such Participant shall remain liable for all obligations relating to such interest; and

(ii) the encumbrance shall be subject to any necessary approval of the Secretary and be expressly subordinated to the rights of the other Participants under this Agreement.

22. WITHDRAWAL

22.1 Restriction

No Participant may withdraw from the Licence or this Agreement otherwise than in accordance with the following provisions of this Clause.

22.2 Right

22.2.1 Any Participant may, subject to Clause 22.2.3 and always provided that all working obligations set out in schedule 4 to the Licence have been completed, at any time prior to five (5) Months before the expiration of the Initial Term, give notice to the other

Participants that it wishes to withdraw from the Licence and this Agreement.

Within thirty (30) days of receipt of such notice, any of the other Participants may similarly give notice that it wishes to withdraw from the Licence and this Agreement. If all the other Participants give such notice no assignment shall take place, the Participants shall be deemed to have decided to abandon the Joint Operations and the Licence shall be surrendered on the earliest possible date. If less than all the other Participants give such notice the withdrawing Participants shall withdraw from the Licence and this Agreement on the earliest possible date and shall assign their respective interest in the Licence and in and under this Agreement to the non-withdrawing Participants in accordance with Clause 22.3 without any compensation whatsoever.

22.2.2 In the event that the Licence is continued for a Second term or an Extension to the Second Term or a Further Extension to the Second Term is granted any Participant may, subject to Clauses 22.2.3 and 22.3, at any time thereafter give notice to the other Participants that it wishes to withdraw from the Licence and this Agreement. Within thirty (30) days of receipt of such notice, any of the other Participants may similarly give notice that it wishes to withdraw from the Licence and this Agreement. If all the other Participants give such notice no assignment shall take place, the Participants shall be deemed to have decided to abandon the Joint Operations and the Licence shall be surrendered on the earliest possible date. If less than all the other Participants give such notice the withdrawing Participants shall withdraw from the Licence and this Agreement on the earliest possible date and shall assign their respective interest in the Licence and in and under this Agreement to the non-withdrawing Participants in accordance with Clause 22.3 without any compensation whatsoever.

22.2.3 No Participant participating in a development Programme which the Secretary has authorised under model clause 17 may withdraw from the Licence and this Agreement prior to the completion of the relevant works (as defined in that Model Clause) comprised in such development Programme.

22.3 Conditions

With respect to Clause 22.2:-

- (i) a withdrawing Participant shall assign all of its said interest to the non-withdrawing Participants, which interest shall (unless otherwise agreed by such non-withdrawing Participants) be allocated to them in the proportion in which their respective Percentage Interests prior to the effective date of the withdrawal (as hereinafter defined) bear to the total of the same;
- (ii) a withdrawing Participant shall promptly join in such actions as may be necessary or desirable to obtain any consent of the Secretary in

connection with, and shall execute and deliver any and all documents necessary to effect, any such assignment and a withdrawal shall not be effective and binding upon the Participants until the date upon which the same shall have been done ("the effective date of the withdrawal") and all costs and expenses pertaining to any such assignment (including for the avoidance of doubt any stamp duty incurred on the documents executed to effect such assignment) shall be the responsibility of the withdrawing Participant;

(iii) a withdrawing Participant shall promptly join in all actions required by the other Participants for the maintenance of the Licence provided that its participation in such actions shall not cause it to incur any financial obligations except as provided in this Clause 22 after the date on which notice of withdrawal is given;

(iv) a withdrawing Participant shall pay all fines and penalties which may be prescribed by the Secretary and all costs and expenses incurred by the other Participants in connection with such withdrawal;

(v) a withdrawing Participant shall not be allowed to withdraw from the Licence and this Agreement if its said interest is subject to any liens, charges or encumbrances other than rent and royalty under the Licence, unless the other Participants are willing to accept the assignment subject to such additional liens, charges or encumbrances;

(vi) unless the Participant or Participants acquiring its said interest agree to accept the withdrawing Participant's liabilities and obligations, a withdrawing Participant shall remain liable and obligated for its Percentage Interest share of all expenditure accruing to the Joint Account under any Programme and Budget approved by a Determination and authorised by AFE prior to the date on which notice of withdrawal is given even if the operations concerned are to be implemented thereafter provided always that this sub-paragraph (vi) shall not render a withdrawing Participant liable for any amounts which such Participant would not have been obliged to pay had it not withdrawn; and

(vii) a withdrawing Participant shall remain liable and obligated for its Percentage Interest share of all net costs and obligations that in any way relate to the abandonment of Joint Operations or a Sole Risk Project in which such withdrawing Participant participated if abandonment occurs within five (5) Years after the effective date of withdrawal and, prior thereto, such withdrawing Participant shall provide the other Participants with such security therefor as is acceptable to all such other Participants.

23. FORCE MAJEURE

23.1 The obligations of each of the Participants hereunder, other than the obligations to make payments of money, shall be suspended during the period and to the extent that such Participant is prevented or hindered from complying therewith by "Force Majeure" (as hereinafter defined). In such event, such Participant shall give notice of suspension as soon as reasonably possible to the other Participants stating the date and extent of such suspension and the cause thereof. Any of the Participants whose obligations have been suspended as aforesaid shall resume the performance of such obligations as soon as reasonably possible after the removal of the cause and shall so notify all the other Participants.

23.2 In this Clause 23 "Force Majeure" means any cause beyond the reasonable control of such Participant including (in so far as beyond such control but without prejudice to the generality of the foregoing expression) strikes, lock-outs, labour disputes and compliance with any law or governmental order, rule, regulation or direction but solely restricted to laws, orders, rules, regulations, or directions of governmental agencies or bodies in the United Kingdom or of the European Economic Community or of any other organisation binding within the United Kingdom, provided that a lack of funds shall not constitute "Force Majeure".

Nothing herein shall require the Participant concerned to settle strikes or labour disputes by acceding to demands deemed to be unreasonable by such Participant but subject to this, the Participant concerned shall use its reasonable endeavours to remove, avoid and/or mitigate the effects of such circumstances.

24. APPLICABLE LAW

This Agreement shall be governed by and construed in accordance with English law and each of the Participants hereby submits to the jurisdiction of the High Court of England.

25. NOTICES

Any notice required to be given pursuant to this Agreement shall be in writing and may be given by delivering the same by hand at, or by sending the same by prepaid first class post, telex or facsimile to, the relevant address set out below or such other address as any Participant may notify to the other Participants from time to time. Any such notice given as aforesaid shall be deemed to have been given or received at the time of delivery (if delivery by hand), the first Working Day next following the day of sending (if sent by telex or facsimile) and the second Working Day next following the day of sending (if sent by post). Without prejudice to the foregoing provisions of this Clause, if a Participant to which a notice is given does not acknowledge the same by the end of the third Working Day next following the day of delivery by sending, the Participant giving the notice shall

communicate with the Participant which has not so acknowledged and, if necessary, re-deliver or re-send the notice.

26. DEFINITIONS AND INTERPRETATIONS

In this Agreement:-

"Accounting Procedure" means the procedure set out in the Schedule hereto;

"Acts" means the Petroleum (Production) Act, 1934, the Continental Shelf Act, 1964, the Petroleum and Submarine Pipe-lines Act, 1975 and the Petroleum Act 1987 and any Regulations made thereunder;

"Advance" means each payment of cash required to be made pursuant to a Cash Call;

"AFE" means authority for expenditure;

"Affiliate" means in relation to any Participant, any company which is a Subsidiary of such Participant or a company of which such Participant is a Subsidiary or a company which is another Subsidiary of a company of which such Participant is a Subsidiary;

"Base Rate" means the Sterling Base Rate as set from time to time by the Head Office of Midland Bank PLC or by any Head Office of a London Clearing Bank as nominated by the Operator;

"Budget" means any budget in respect of a Programme;

"Cash Call" means any request for payment of cash made by the Operator to the Participants in connection with the Joint Operations or, where the context so requires, to the Sole Risk Participant in connection with any Sole Risk Project;

"Crude Oil" means crude liquid petroleum which is stable or has been stabilised and, if necessary otherwise treated to render it suitable for transportation by conventional crude oil tankship;

"Conversion Rate" means the mean of the spot selling and buying rates for transaction between the two currencies in question as openly quoted by Midland Bank PLC (5 Threadneedle Street, London EC2 branch) at 10.30 am London time on the relevant date (or, if no such rates were quoted on that date, on the next following date on which such rates were quoted);

"Determined" shall mean a decision of the Joint Operating Committee pursuant to Clause 8.8.2 hereof and the words **"Determine"**, **"Determined"**, **"Determining"** and **"Determination"** shall be construed accordingly;

"Discovery" means any discovery of reserves of Petroleum;

"Dollars" or **"\$"** means dollars of the United States of America;

"Extension to the Second Term" means the term of years specified in the Licence as being the period for which the Licence may be continued from the date next after the expiry of the Second Term;

"Further Extension to the Second Term" means the term of years to be agreed between the Participants and the Secretary for which the Licence may be continued from the date next after the expiry of the Extension to the Second Term;

"Initial Term" has the meaning assigned to it under the Licence;

"Joint Account" means the account established and maintained by the Operator to record all Advances, expenditures and receipts in the conduct of the Joint Operations;

"Joint Operations" means all operations approved, or deemed to be approved, by the Joint Operating Committee and conducted in accordance with this Agreement after the date of commencement of this Agreement as provided in Clause 1 and in the case of operations under a development Programme and Budget means all operations in which all Participants are obliged to Participate;

"Joint Operating Committee" means the committee established pursuant to Clause 8;

"Joint Petroleum" means all Petroleum won and saved under the Joint Operations;

"Joint Property" means all property acquired or held for use in connection with the Joint Operations;

"Licence" means the PSA entered into by and between the State of Illyria and the Illyrian Oil Company (IOC);

"Licence Area" means the area for the time being covered by the Licence;

"Material" means personal property, equipment or supplies;

"Model Clause" means a model clause of the Licence;

"Month" means a calendar month;

"Natural Gas" means methane and any other hydrocarbons not extracted by artificial means and therefore forming part of the methane stream;

"NGLs" means any hydrocarbon or mixture of hydrocarbons other than Crude Oil and Natural Gas;

"Non-Operator" means a Participant other than the Operator;

"Operator" means the Participant for the time being designated as such under Clause 4, acting in that capacity and not as the owner of a Percentage Interest;

"**Participants**" means the parties to this Agreement and their respective successors and assigns;

"**Percentage Interest**" means for each of the Participants the undivided percentage interest held from time to time by it pursuant to this Agreement in the Licence, or where the context so requires, in any Sole Risk Development;

"**Petroleum**" has the meaning assigned to it under the Licence;

"**Programme**" means any programme of operations;

"**Quarter**" means a period of three Months ending on 31 March, 30 June, 30 September or 31 December in any year;

"**Receipts**" includes, but is not limited to, repayments of Advances, grants received from any governmental agency or body in the United Kingdom or of the European Economic Community and monies (or the monetary value or other consideration) arising from the sale of Joint Property;

"**Secretary**" means the Secretary of State for Trade & Industry or his successor for the time being;

"**Second Term**" has the meaning assigned to it under the Licence;

Sole Risk Development, and includes its entitlement for the time being to Petroleum won and saved under the Licence;

"**Sterling**" or "**£**" means pounds sterling of the United Kingdom;

"**Sub-Area**" means, at any given time, any part of the Licence Area, being delimited by surface area but applying only to that interpreted closure of any geological structure or stratigraphic trap in which the reservoir or reservoirs exist, which is subject to development by less than all Participants and in which the entire Percentage Interest therein is owned by those of the Participants carrying out the development;

"**Subsidiary**" has the meaning assigned to it under section 736 of the Companies Act, 1985;

"**Substance Entitlement**" means, in relation to any Participant and after taking into account the quantity of any Crude Oil, NGLs or Natural Gas (as the case may be) required to be delivered to the Secretary as royalty in kind pursuant to model clause 13 of the Licence, the Percentage Interest entitlement of that Participant in the development;

"**Wilful Misconduct**" means, in relation to the Operator, an intentional and conscious, or reckless, disregard of:

(a) any provision of this Agreement; or

(b) any Programme, not justifiable by any special circumstances;

but shall not include any error of judgment or mistake made by any director, employee, agent or contractor of the Operator in the exercise, in good faith, of any function, authority or discretion conferred upon the Operator;

"Working Day" means a day on which banks in the city of London are normally open for business;

"Working Obligations" means the working obligations as set out in Schedule 4 to the Licence;

"Year" means a calendar year;

reference to any statute, statutory provision or statutory instrument includes a reference to that statute, statutory provision or statutory instrument as from time to time amended extended or re-enacted;

reference to the singular includes a reference to the plural and vice versa;

reference to any gender includes a reference to all other genders;

unless the context otherwise requires, reference to any Clause is to a Clause of this Agreement; and

the headings are used for convenience only and shall not effect the construction or validity of this Agreement.

IN WITNESS whereof the Participants have caused this Agreement to be executed by their duly authorised representatives the day and year first above written.

Signed for and on behalf of
ILLYRIA OIL COMPANY (IOC)

Witnessed by

_____)

Signed for and on behalf of
PETROFINA Ltd (Cyprus)

Witnessed by:)

_____)

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Section

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THE ACCOUNTING PROCEDURE

SECTION I - GENERAL PROVISIONS

1. DEFINITIONS AND PURPOSE

1.1 In this Schedule:

- i. "**Accruals**" means the difference in any period between costs and benefits computed on the Cash Basis and costs and benefits computed on the Accrual Basis and shall include such items as contract retentions and pre-payments;
- ii "**Accrual Basis**" means that basis of accounting under which costs and benefits are regarded as applicable to the period in which the liability to the cost is incurred or the right to the benefit arises regardless of when invoiced, paid or received;
- iii. "**Administrative Overhead Costs**" shall include all corporate overheads other than those considered to be non-relevant;
- iv "**the Agreement**" means the Agreement of which this Schedule forms part;
- v. "**Billing Schedule**" has the meaning given to that expression in paragraph 4.2 of Section I;
- vi. "**Billing Statement**" has the meaning given to that expression in paragraph 4.2 of Section I;
- vii. "**Cash Basis**" means that basis of accounting under which only costs actually paid in cash and benefits actually received are included for any period;
- viii. "**Cash Reconciliation**" has the meaning given to that expression in paragraph 5 of Section I;
- ix. "**Major Service**" has the meaning given to that expression in paragraph 4.2 of Section III;
- x. "**Major Surplus Item**" has the meaning given to that expression in paragraph 2.1 of Section III;
- xi. "**Non-timewriters**" means all personnel who work on the Joint Operations other than Timewriters as defined below;
- xii. "**Timewriters**" means personnel from exploration, production, operations, legal and consortium departments and personnel seconded from the finance department (together with personnel from any other departments as may be Determined from time to time;

- xiii. words and expressions defined in the Agreement have the meanings therein ascribed to them;
- xiv. reference to any Section is to a Section of this Schedule;
- xv. unless the context otherwise requires, reference to any paragraph is to a paragraph of the Section in which the reference is made.

1.2 The purpose of the Accounting Procedure is to establish the principles of accounting which shall truly reflect the Operator's actual cost to the end that the Operator shall, subject to the provisions of the Agreement, neither gain nor lose by reason of the fact that it acts as the Operator. It is the intention of the Participants that there shall be no duplication of items charged to the Joint Account. Each of the Participants is responsible for maintaining its own accounting records to comply with all legal requirements and to support all fiscal return or any other accounting reports required by any governmental authority in regard to the Joint Operations, except those (if any) which it is the statutory obligation of the Operator to prepare and submit on behalf of the Participants. To enable each Participant to maintain such accounting records, the Operator will provide each Participant with such accounting data and information as may be necessary to enable such Participant to fulfil any statutory obligation to which it may be subjected, to the extent that such data and information could reasonably be expected to be available from the accounting records maintained by the Operator, and the cost thereof shall be for the Joint Account.

1.3 With the determination of all Participants the reporting requirements specified in the Accounting Procedure may be temporarily waived or varied to take account of the level of activity on the Licence.

2. BANK ACCOUNTS, CASH CALLS AND ADVANCES

2.1 The Operator shall open and maintain separate current and interest earning deposit accounts in respect of funds in Sterling and any other currency in which Cash Calls are made from time to time at a properly constituted bank recognised as a bank by the Bank of England under Section 3 of the Banking Act 1979, in order to deposit and hold the funds of the Participants for the Joint Operations. Upon opening the bank accounts the Operator shall notify to the Participants the name of the bank and the account numbers. Thereafter the Operator shall notify any changes to the Participants. The Operator shall at the request of any Participant furnish it with copies of bank statements and bank mandates in respect of any of the separate current or interest earning deposit accounts. Except as provided in paragraph 2.7 the Operator shall not, without the prior approval of the Joint Operating Committee, transfer amounts between any of the bank accounts for the Joint Account held for different currencies. The Operator may transfer amounts from the separate bank accounts to its central disbursement accounts for expenditures to be borne by the Participants. Such transfers shall

only be allowed in respect of payments already made by the Operator to suppliers.

2.2 Not less than ten (10) days prior to the beginning of each Month, the Operator shall furnish the Participants with a Cash Call requesting an Advance or Advances for the following Month. Such Cash Call shall include an estimate of the funds required for each of three (3) subsequent months. The amount requested in a Cash Call shall be the Operator's estimate of the amount required from the Participants to enable the Operator to defray the net cash payments, being cash payments less cash receipts, due in the relevant Month under obligations authorised by the Participants and properly incurred by the Operator in connection with the Joint Operations. Such payments and receipts shall include value added tax and other taxes recoverable by the Operator for the benefit of the Participants. Following the approval of a development Budget the Operator may, with the determination of all Participants, institute a system of weekly Cash Calls.

2.3 Each Cash Call shall specify, in respect of each Advance, the currency required, the bank account to which payment is to be made and the due date or dates on which payment is required. The due date or dates on which payment of an Advance or Advances is or are required shall be the date or dates on which the Operator estimates that it will be making a substantial amount of the net cash payments described in paragraph 2.2. Each Cash Call shall show the total sum required analysed by Participant. The amount requested in each such Advance shall be the Operator's estimate of the aggregate of the relevant net cash payment or payments to be made on each such date and any smaller sums which it estimates will be payable between the due date for payment of such Advance and the due date on which payment of the next Advance has been or will be required. Such estimate shall be based on the latest information available to the Operator at the time the Cash Call is made. If it becomes necessary to change the amount or the due date of any Advance, the Operator shall provide at least five (5) Working Days prior notice to the Participants.

2.4 Cash Calls shall be made in Sterling and Dollars but may, with the prior approval of the Joint Operating Committee, be made in a currency other than Sterling or Dollars to the extent only that expenditure is contractually required to be paid in such currency and to the extent only that such expenditure is in excess of a sum to be Determined from time to time. Except as provided above, where payment is contractually required to be made in a currency other than Sterling or Dollars, the Operator shall purchase the appropriate amount of the required currency with Sterling. The Operator shall keep the Participants informed of expenditures which are contractually required to be paid in currencies other than Sterling and Dollars.

2.5 The Operator shall supply with each Cash Call a statement indicating the AFEs (or main grouping of AFEs in the case of an approved development Budget) for which the funds are required and the amounts attributable to each such AFE.

2.6 Following a Cash Call, the Participants shall make payments to the appropriate bank account maintained by the Operator for the Joint Account.

All such payments shall be made in sufficient time to ensure that they will each be credited to the appropriate bank account on the due date specified in the Cash Call. If any Participant fails to pay in full its share, calculated as above, of any Advance by the due date, the provisions of Clause 14 shall apply.

2.7 The Operator shall restrict the funds held in the bank accounts for the Joint Operations to a level consistent with that required for the conduct of the Joint Operations and, if circumstances occur so that funds are not required for immediate disbursement, shall either:

ideposit them as soon as possible in the interest earning bank accounts until they are required for disbursement; or

ii promptly repay them to the Participants entitled thereto, subject to giving the notice as required below.

Notwithstanding the foregoing, if on any day there exists a balance of cash which exceeds that which is required to enable the Operator to make the net cash payments due between such day and the due date for payment of the next Advance, the Operator shall, provided such excess is greater than an amount which may from time to time be Determined as being significant, immediately provide the Participants entitled thereto with five (5) Working Days notice of repayment and shall repay such excess to such Participants on the sixth Working Day. In the event that such a balance of cash remains from Advances made in a currency other than Sterling and Dollars and is not repaid to the Participants entitled thereto pursuant to this paragraph, the Operator shall, except where an Advance in such currency is required pursuant to the next Cash Call, convert such a balance to Sterling.

2.8 Any interest received by the Operator under paragraph 2.6 shall be repaid to the Participants entitled thereto and any interest received by the Operator under paragraph 2.7 shall be credited to the Participants entitled thereto. Any interest received in respect of funds held in central disbursement accounts shall be equitably apportioned between the properties controlled by the Operator.

3. ACCOUNTING RECORDS

3.1 The Operator shall open and maintain such separately identifiable accounting records as may be necessary to record in a full and proper manner all Advances received by the Operator from the Participants and all expenditure incurred and all receipts obtained by the Operator in connection with the Joint Operations.

3.2 The Joint Account shall be maintained in Sterling. Advances made by the Participants, expenditures and receipts in currencies other than

Sterling shall be translated into Sterling using translation rates in accord with the Operator's standard translation practice, a copy of which will be provided to the Participants on request.

Where expenditure is made in any currency other than Sterling and is met out of Advances made in Sterling, the sum charged to the Joint Account shall be the actual cost in Sterling of the other currency purchased. Any gain or loss resulting from the reconversion of any part of such currency to Sterling shall be for the Joint Account.

4. BILLING STATEMENTS AND SCHEDULES

4.1 The Operator shall send a report to the Participants within twenty five (25) days following the end of each Month, on all payments made and all receipts obtained by the Operator in connection with the Joint Operations during such Month. Notwithstanding the provisions of this paragraph 4, interest received pursuant to paragraphs 2.6, 2.7 and 2.8 shall not be included in receipts for the purposes of such report, but shall be reported separately to the Participants in a statement accompanying the Billing Statement.

4.2 Such report shall be made on a "Billing Statement" which shall be a statement showing the net total of all payments (less all receipts) relating to the Joint Operations and the amount thereof paid by or repaid to each Participant and shall be accompanied by "Billing Schedules" which shall be schedules, dividing such payments and receipts into main classifications of expenditure indicative of the nature thereof within each approved AFE. The Billing Schedules shall also show cumulative net totals of all payments (less all receipts). In addition, unusual payments and receipts and also adjustments arising from audit reports submitted in accordance with paragraph 8.3 shall be indicated separately.

4.3 All Billing Statements and Billing Schedules shall give totals in Sterling. All payments made and receipts obtained in currencies other than Sterling and the rates used for their translation to Sterling as provided in paragraph 3.2 shall be identified in the Billing Schedules. Where expenditures detailed on invoices from contractors include escalation as a separate item it shall be deemed to be a main classification of cost for the purpose of paragraph 4.2.

4.4 The Operator shall include within the Billing Schedules a report in Dollars of payments and receipts divided into main classifications of expenditure indicative of the nature thereof within each approved AFE.

4.5 The Cash Basis, rather than the Accrual Basis, shall be used in Billing Statements and Billing Schedules. Nevertheless for the Participants' internal accounting purposes the Operator shall show its estimate of Accruals for each AFE additionally and separately in the Billing Schedules each Month. The Operator shall also provide the Participants with its estimate of Accruals applicable to the Joint Account as at the end of each Year, as soon as possible and in any event not later than

the following 15 January.

4.6 In addition to its obligations under Clause 7 the Operator shall, within twenty five (25) days following the end of each Quarter, provide the Participants with a list of insurance and other claims and litigation outstanding as at the end of that Quarter.

5. MONTHLY CASH RECONCILIATION

5.1 At the end of each Month the Operator shall prepare a reconciliation (a "Cash Reconciliation") consisting of a statement in each currency in which Advances have been made of:

- i. the total of Advances received in such currency during the Month and the balance, if any, brought forward from previous Months;
- ii. the total of cash payments, net of receipts other than interest, made in such currency by the Operator during the Month as reflected in the Billing Statement for such Month and the net transfers, if any, during the Month to other currencies held for the Joint Account; and
- iii. the balances per the joint bank account(s) at the Month end.

If any Cash Reconciliation shows a difference between i and ii above, the Operator shall, subject to giving notice as required under paragraph 2.3 and to the extent that such difference has not been, or will not be, repaid under the provisions of paragraph 2.7, adjust the amounts in the Advance or Advances next due for payment, and, if part of such difference still remains, shall take such part into account in fixing the amount of Advances in subsequent Cash Calls. The Cash Reconciliation for any Month shall show separately the funds employed at the end of such Month on value added tax and other taxes recoverable by the Operator for the benefit of the Participants. The Cash Reconciliation shall be sent by the Operator to the Participants within twenty five (25) days following the end of each Month.

6. INVENTORIES OF MATERIAL

6.1 Periodic Inventories, Notice and Representation

At reasonable intervals and at least annually for warehouse stocks, a complete inventory shall be taken by the Operator of all controllable Material forming part of Joint Property, in accordance with the Operator's standard procedure. Notice of intention to take a complete inventory shall be given by the Operator at least thirty (30) days before any such inventory is to be taken, so that each Non-Operator may be represented when any such inventory is to be taken. Alternatively, if the Operator maintains a system of checking Material by taking an inventory on a continuous basis, the Operator may notify the

Non-Operators whereupon the taking of a complete inventory shall not be required, and in such case the Non-Operators shall have the right to attend the Operator's premises to observe any part of such continuous check upon giving at least thirty (30) days notice to the Operator and the other Non-Operators. Failure of any of the Non-Operators to be represented at the taking of any complete inventory or any part of an inventory taken on a continuous basis shall bind such Non-Operator to accept any such inventory taken by the Operator. In any event the Operator shall furnish the Non-Operators with copies of all inventories.

6.2 Reconciliation and Adjustment of Inventories

At reasonable intervals, and at least annually for warehouse stocks, a reconciliation shall be made between an inventory list and the records of stocks held on the Joint Account and a list of surpluses and shortages shall be determined by the Operator. Inventory adjustments shall be made by the Operator to the Joint Account for surpluses and shortages, with relevant explanations where available.

6.3 Special Inventories

Special inventories may be taken whenever there is any assignment under Clause 21 or 22. In such cases, both the assignor and the assignee shall be entitled to be represented and shall be bound by the inventory so taken. Each Non-Operator shall be entitled at its own expense to require the Operator to take a special inventory of the Material forming part of Joint Property at any reasonable time. A special inventory shall be taken upon any change of the Operator.

7 ADJUSTMENTS

7.1 Payment of any Advance shall not prejudice the right of any of the Participants to protest or question the correctness of any amount included in a Billing Statement or a Billing Schedule. Subject to the right of audit under paragraph 8, all Billing Statements and Billing Schedules rendered to the Participants by the Operator in relation to any Year shall conclusively be presumed to be true and correct after twenty four (24) Months following the end of such Year unless within the said twenty four (24) Month period any Participant takes written exception thereto and makes claim on the Operator for adjustment. Similarly adjustments favourable to the Operator shall only be made if written notice is given to the Participants within the aforesaid twenty four (24) Month period. The provisions of this paragraph shall not prevent adjustments resulting from physical inventories of property as provided in paragraph 6 nor any claims involving a third party or adjustments required as a result of any statutory provisions.

8 AUDITS

8.1 All the Non-Operators shall have the right to audit the accounts and records of the Joint Account for each Year including the Billing Statements and Billing Schedules relating thereto and to obtain all necessary information for such purposes, before the end of the twenty fourth (24th) Month following the end of such Year. The Non-Operators shall give at least thirty (30) days notice to the Operator of their intention to conduct an audit. The right of audit includes the right of access at all reasonable times during normal business hours to all accounts and records, pertaining to the Joint Account, maintained by the Operator and its Affiliates. The Operator may require that audits of accounts and records pertaining to the Joint Account maintained by Affiliates of the Operator, other than any Affiliates of the Operator which are conducting a substantial part of the Joint Operations on behalf of the Operator, be conducted either by the Operator's statutory auditors working to the instruction of the Non-Operators (provided such appointment is accepted by the statutory auditors), or by an external auditor of international standing, to be appointed by the Non-Operators. (At the request of the Non-Operators, the fixed percentage rates for administrative overhead to be applied pursuant to paragraph 2 of Section II will be subject to audit. Such audit shall be conducted by the Operator's statutory auditors working to the instruction of the Non-Operators.) The Operator shall use its best endeavours to obtain audit rights for all Non-Operators in all contracts of a "cost plus" nature entered into by the Operator on behalf of the Participants.

8.2 The Non-Operators shall make every reasonable effort to conduct audits jointly in a manner which will result in a minimum of inconvenience to the Operator. The Operator shall make every reasonable effort to co-operate with the Non-Operators and, where appropriate, under the provisions of paragraph 8.1 its statutory auditors or the external auditor and will provide reasonable facilities and assistance.

8.3 At the conclusion of each audit, the Participants shall endeavour to settle outstanding matters and a written report will be circulated to all the Participants within three (3) Months of the conclusion of each audit. The report shall include all claims arising from such audit together with comments pertinent to the operation of the accounts and records. The Operator shall reply to the report in writing as soon as possible and in any event not later than three (3) months following receipt of the report. Should the Non-Operators consider that the report or reply requires further investigation of any item therein, the Non-Operators shall have the right to conduct further investigation in relation to such matter notwithstanding that the said period of twenty four (24) Months may have expired. Such further investigation shall be commenced within thirty (30) days and be concluded within sixty (60) days of the receipt of such report or reply.

8.4 Notwithstanding that the said period of twenty four (24) Months may have expired, if evidence exists that the Operator has been guilty of Wilful Misconduct, the Non-Operators shall have the right to conduct further audits in respect of any earlier periods.

8.5 All adjustments resulting from an audit agreed between the Operator and

the Non-Operator conducting the audit shall be rectified promptly in the Joint Account by the Operator and reported to the other Non-Operators. If any dispute arises in connection with an audit, it shall be discussed by the Joint Operating Committee and, if a settlement between the Participants is not unanimously determined, the item or items in dispute shall be referred to arbitration as provided for below.

Any dispute between the Participants in relation to the above shall be settled by arbitration in accordance with the rules then obtaining of the International Chamber of Commerce before a board of one (1) or more arbitrators appointed in accordance with the said rules. Arbitration shall be held in London and any award rendered shall be binding on the Participants.

8.6 Costs incurred by the Non-Operators in connection with paragraphs 8.1 to 8.5 inclusive shall not be charged to the Joint Account.

9 BUDGETING, FORECASTING AND REPORTING

The Operator shall furnish the Participants with Budgets, forecasts and reports in accordance with the procedures described in Section IV. All Budgets shall be in Sterling.

10 COST CONTROL

The Operator shall control costs in accordance with the procedures described in Section V.

11 MODIFICATION AND REVISIONS

The Accounting Procedure may be revised or amended from time to time by determination of all Participants or, where expressly so provided, by a Determination.

SECTION II - CHARGEABLE EXPENDITURE

Subject to the limitations hereinafter set out, and to other relevant provisions of the Agreement, the Operator shall charge the Joint Account with the following items of expenditure insofar as they relate to and are necessary for the Joint Operations:

1 LICENCE PAYMENTS

Licence rentals and Licence fees of whatever nature paid by the Operator on behalf of the Participants in connection with the Joint Operations.

2 PERSONNEL AND OVERHEAD COSTS

Actual cost of salary and related benefits of all personnel who work on the Joint Operations.

2.1 Personnel

2.1.1 Timewriters

Those personnel designated as Timewriters who work on the Joint Operations under the direct control of the Operator will maintain time sheets for the purpose of charging salary and related benefits direct to the Joint Account. Time sheets will record time worked on the Joint Operations and all other operations whether such personnel are engaged full time or part time on the Joint Operations and will show the time worked on the various projects and other classifications of cost to enable personnel costs to be allocated to AFEs and shown separately within each AFE for Budget and cost control purposes.

2.1.2 Non-Timewriters

Actual cost of salary and related benefits of all Non-timewriters who work on the Joint Operations under the direct control of the Operator will be charged in accordance with the provisions of paragraph 2.1.4.

2.1.3 Amounts to be Charged for Timewriters

The amount to be charged to the Joint Account for Timewriters employed by the Operator or by any of its Affiliates and who are working on the Joint Operations under the direct control of the Operator shall be the proportion of the Operator's or any of its Affiliates' actual cost of salaries and related benefits for each such person that the hours worked by such person on the Joint Operations bears to the total hours worked by such person, provided that payments in respect of retirement and severance and other like items shall be allocated equitably to the Joint Operations and other operations of the Operator and its Affiliates which have benefited from the services of the staff involved. For the purpose of this paragraph the Operator's or any of its Affiliates' actual cost of salary and related benefits will

comprise:

- i. gross salary plus allowances and benefits payable generally by the Operator or any of its Affiliates as part of its standard terms of employment in force in the relevant period;
- ii. pension cost (assessed as a percentage of the salary cost for all the Operator's or any of its Affiliates' employees from time to time);
- iii. National Insurance cost; and
- iv. any governmental tax or other such charges that may be levied upon the Operator or any of its Affiliates in respect of personnel.

The Operator shall charge unchargeable time such as sickness, staff training and other like items both to Joint Operations and to other operations conducted each Year on an equitable basis.

2.1.4 Administrative Overhead Costs

Administrative Overhead Costs incurred by the Operator or any of its Affiliates in relation to Timewriters shall be charged as a fixed percentage of the amount charged each Month under paragraph 2.1.3. The percentage rate shall be as follows:

For each person employed by the Operator or any of its Affiliates, 220% of the amount calculated under paragraph 2.1.3 which relates to such person.

Such percentage rate and the definition of Timewriters under Section I paragraph 1.1 (xii), shall be subject to review by the Joint Operating Committee at the request of any Participant made by 1 August in any year. If the Joint Operating Committee and the Operator approve any change to such percentage rate, which approval shall not be unreasonably withheld, the new percentage rate shall be applied to charges made under paragraph 2.1.4 for periods commencing 1 January in the following year. The charges made under paragraph 2.1.4 for any period ending 31 December shall not be affected by any change of percentage rate which may be agreed to be effective from the following 1 January.

At the request of any Non-Operator, Operator will provide the number of Timewriters as a percentage of the total of UK based employees of Operator and its Affiliates. Such request shall not be made more than once per year.

2.2 Personnel Seconded to the Operator or any of its Affiliates from any Non-Operator or Hired by the Operator or any of its Affiliates from Third Party Agencies

The amount to be charged to the Joint Account for each person who is working on the Joint Operations under the direct control of the Operator in an office or at a site which is controlled by the Operator, other than any

such person who is:

- i. described in paragraph 2.1.2; or
- ii. involved in providing specific services under paragraph 7.2.2; or
- iii. working in a location for which the cost of such seconded or hired personnel is to be charged direct under paragraph 11;

and who is either seconded to the Operator or any of its Affiliates from any Non-Operator or hired from any third party agency, shall be the proportion of the actual cost of salary and related benefits and where appropriate overheads charged to the Operator or any of its Affiliates by such third party agency that the time worked on such Joint Operations by such person bears to the total time worked by such persons as shown on the time sheets completed by such persons.

The Operator shall take all reasonable steps to ensure that unchargeable time, such as annual holidays, public holidays, sickness, staff training and other like items, if any, charged by a third party agency, is charged both to Joint Operations and to other operations served during the period of secondment on an equitable basis.

3EXPENSES INCURRED BY PERSONNEL

All direct expenses reasonably and necessarily incurred by personnel who work under the direct control of the Operator or any of its Affiliates on the Joint Operations including:

- i. travelling and relocation expenses; and
- ii. living allowance (when paid in lieu of hotel expenses for visits to site).

All expenses charged to the Joint Account under this paragraph shall be in accordance with the Operator's standard terms of employment in force in the relevant period and shall include expenses incurred in connection with the families of personnel where appropriate. Relocation expenses at the termination of a period of work on the Joint Operations will be on the basis of a return to domicile within the United Kingdom, unless the personnel involved return to a location outside the United Kingdom from which they have been drawn for work on the Joint Operations when the relocation expenses shall be on the basis of a return to that location. Where an employee is relocated for the Operator's sole benefit, the costs of such relocation shall not be charged to the Joint Account. Direct expenses charged under the provisions of this paragraph will be charged on an equitable basis taking into consideration time spent by personnel on both the Joint Operations and on other operations of the Operator or its Affiliates.

4 MATERIAL

4.1 General

Material purchased by the Operator from third parties or transferred from the Operator or any of its Affiliates for use in connection with the Joint Operations, including Material purchased or transferred for warehouse stock, at values provided in paragraphs 4.2 and 4.3 unless otherwise chargeable under this Section II. So far as is reasonably practical and consistent with efficient and economical operation and provision for emergencies, only such Material shall be purchased as or transferred to Joint Property as may be required for immediate use, and the accumulation of surplus stocks of Joint Property shall be avoided.

4.2 Material Purchased from Third Parties

Material purchased from third parties for use on the Joint Operations at cost which shall mean net invoice price (after deducting all trade and cash discounts actually received) together with any transport costs, forwarding and documentation fees, packing costs, duties, Licence fees, non-recoverable taxes and like items chargeable against the goods.

4.3 Material Transferred from the Operator or any of its Affiliates

4.3.1 No charge shall be made for Material transferred from the Operator or any of its Affiliates for use on the Joint Operations whether wholly or partly owned by them except as provided in this paragraph 4.3.

4.3.2 Material may be transferred from the Operator or any of its Affiliates for use on the Joint Operations. The value to be charged therefor shall be determined as follows:

i. New Material (Condition A)

New Material shall be classified as condition A and shall, unless otherwise agreed by the Joint Operating Committee, be charged at the lower of cost including related expenses or Market Value.

ii. Used Material (Conditions B and C)

Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classified as condition B and priced at seventy five per cent (75%) of the value determined in accordance with paragraph 4.3.2 i. Material which is not in sound and serviceable condition but which is suitable for re-use after reconditioning shall be classified as condition C and priced at fifty per cent (50%) of the value determined in accordance with paragraph 4.3.2 i.

4.3.3 Material transferred from the Operator or any of its Affiliates for use on the Joint Operations in the safeguarding of lives or property or the prevention of pollution under clause 5.9.2 shall be charged at the higher of cost (including related expenses) and market value.

4.4 Warranty of Material

The Operator does not warrant the Material charged to the Joint Account under paragraph 4.2 beyond the manufacturer's or supplier's guarantee, express or implied. In the case of any such Material which is defective a credit shall not pass to the Joint Account until an adjustment has been received by the Operator from the manufacturer or supplier. The Operator will promptly credit the Joint Account in respect of all other Material which is defective at the time when it is transferred from the Operator or any of its Affiliates, at the cost at which it was transferred.

5. TRANSPORT

The cost of transport to move personnel and Material necessarily incurred by the Operator or any of its Affiliates in connection with the Joint Operations, unless otherwise chargeable in this Section II.

6. SERVICES

6.1 Services Provided by Non-Operators and Third Parties

The cost of consultants and other services and facilities provided by Non-Operators and third parties for the Joint Operations, unless otherwise chargeable in this Section II.

6.2 Services Provided by the Operator or any of its Affiliates

6.2.1 Material, services and facilities for use on the Joint Operations, owned, partly owned or leased by the Operator or any of its Affiliates, at the following rates:

- i. water, fuel, power, compressor and other auxiliary services at rates commensurate with the cost, including interest, of providing and furnishing such services to the Joint Operations but not exceeding rates currently obtainable from third parties for like services and equipment on comparable terms in the area where the Joint Operations are located;
- ii. automotive equipment at rates commensurate with cost, including interest, of ownership and operation. Automotive rates shall include cost of oil, petrol, repairs, insurance and other operating expenses and normal depreciation. Charges to the Joint Account shall be based on actual cost of use in service on, or in connection with, the Joint Operations. Truck and tractor rates may include wages and expenses of a driver. All rates shall not exceed those currently prevailing for like services and equipment on comparable terms in the area where the Joint Operations are located;

- iii. a rate commensurate with the cost, including interest, of ownership and maintenance for the use of drilling and cleanout tools and any items of the Operator's or any of its Affiliates' machinery or equipment furnished for the Joint Operations including computer for routine applications which can be charged direct to individual operations provided that such charges shall not exceed those currently prevailing in the area where the Joint Operations are located. The rate for use of computer may include the salaries of personnel;
- iv. a fair rate, which may include the salaries of personnel, for laboratory services performed by the Operator or any of its Affiliates for the benefit of the Joint Operations, such as gas, water, core and any other analyses and tests, provided such charges shall not exceed those currently prevailing for like services on comparable terms if performed by outside service laboratories;
- v. a fair rate, which may include the salaries of personnel, and handling and storage charges (other than those charged under paragraph 11), for services rendered by the Operator or any of its Affiliates in the purchase of Material for the benefit of the Joint Operations, provided such charges shall not exceed those currently prevailing for like services on comparable terms if provided by outside purchasing agents; and
- vi. a rate commensurate with cost of salary, related benefits and associated administrative overhead costs for technical services provided by specialist staff employed by Affiliates. which the Operator or any of its Affiliates proposes to charge for the use of any other Material, services or facilities, such as drilling rig and computer (other than routine applications) owned, partly owned or leased by them to be used on the Joint Operations, shall be subject to the prior approval of the Joint Operating Committee.

7. DAMAGE AND LOSSES

All costs and expenses necessary for the repair or replacement of Joint Property because of fire, storm, theft, accident or any other cause except insofar as such costs and expenses are the liability of the Operator under the Agreement. The Operator shall furnish the Non-Operators with a notice of any damage or loss incurred in excess of fifty thousand pounds Sterling (£50,000) for each incident as soon as practicable after a report thereof has been received by the Operator. The Operator shall also furnish to any Non-Operator, in respect of any damage or loss, such information and documentation as may be reasonably requested.

8. LEGAL EXPENSES

All costs and expenses of litigation subject to Clause 7.3.1 and other legal

services necessary or expedient in connection with Joint Operations (other than those incurred in relation to claims made by the Non-Operators against the Operator or vice versa).

9 TAXES

All taxes and other governmental levies of every kind and nature (other than those on profits or income of the Participants) assessed or levied upon or in connection with the Joint Operations which have been paid by the Operator for the benefit or on behalf of the Participants and which are not recoverable by the Operator. If the Operator demonstrates that any tax which is normally recoverable cannot be so recovered, such tax will be chargeable under this paragraph.

10 INSURANCE AND CLAIMS

10.1 Premiums paid for insurance carried for the benefit of all the Participants in connection with the Joint Operations pursuant to Clauses 7.1 and 7.2.

10.2 Expenditures made in settlement of any claims, damages, judgements and other such expenses, in connection with the Joint Operations.

11 FIELD EXPENSES

The cost including salary and related benefits of personnel employed by the Operator or by any of its Affiliates and including the cost of personnel seconded to the Operator or any of its Affiliates from any Non-Operator or hired from any third party agency, of establishing and maintaining shore bases, warehouses, camps and other field facilities used in connection with the Joint Operations. If such facilities are used in connection with other operations the cost charged to the Joint Account shall be a proportion calculated on an equitable basis and approved by the Joint Operating Committee. The cost of establishing and maintaining any shore base, warehouse, camp or other field facility used in connection with Joint Operations shall not include any allocation of costs in respect of any other location of the Operator or any of its Affiliates.

12 OTHER TYPES OF EXPENDITURE

Any type of expenditure not covered by the types of expenditure described in paragraphs 1 to 11 incurred by the Operator which is necessary and proper for the Joint operations provided it is approved by the Joint Operating Committee.

SECTION III - RECEIPTS

1. GENERAL

The Operator shall promptly credit to the Joint Account all sums received in connection with the Joint Operations as a result of:

- i. sale of Material and other Joint Property as provided in paragraphs 2 and 3;
- ii. services provided to third parties or individual Participants by the Operator on behalf of the Participants whether using Material, other Joint Property, facilities, expertise or otherwise as provided in paragraph 4;
- iii. reimbursement by third parties of any sums expended by the Operator on behalf of the Participants;
- iv. insurance claims made by the Operator in respect of insurance carried for the benefit of all the Participants;
- v. claims made by the Operator on behalf of the Participants;
- vi. Material returned to the Operator or any of its Affiliates from the Joint Operations as provided in paragraph 5; and
- vii. any other event giving rise to a receipt (including interest) by the Operator on behalf of the Participants.

2. DISPOSAL OF MATERIAL

2.1 General

If the Operator shall consider that any items of Material having an original unit cost to the Joint Account of more than twenty five thousand pounds Sterling (£25,000) or aggregate of original unit costs totalling more than one hundred thousand pounds Sterling (£100,000) ("Major Surplus Items") are no longer needed or suitable for the Joint Operations it shall give notice to the Participants accompanied by details of the Major Surplus Items and the applicable price under paragraph 2.2.3 and obtain the prior approval of the Joint Operating Committee before disposing of the same in the manner hereinafter provided.

2.2 Material Purchased by the Participants

2.2.1 The Operator shall have a prior right to purchase any surplus Material, other than Major Surplus Items, but is under no obligation to do so. In the case of Major Surplus Items, the disposal of which has been approved by the Joint Operating Committee, each of the Participants (including the Operator) shall be entitled for a period of thirty (30) days from the date of such approval to purchase such Major Surplus

Items by giving notice to the Operator.

2.2.2 If more than one Participant has indicated within the said period of thirty (30) days its wish to acquire the same Major Surplus Items, then the Operator shall promptly, in respect of each such item, give notice to each such Participant of the name of the other Participants which wish to acquire that item. The Participants concerned shall be allowed fourteen (14) days from the date of such notification to agree upon a division or allocation of each such item between themselves. If the Participants concerned are unable to agree upon the division or allocation of any Major Surplus Item the Operator shall request competitive bids from the Participants concerned in respect of that item and shall accept the highest bid. Where the Operator bids in competition with other Participants it shall arrange the bidding procedure so that it gains no advantage from acting as the Operator.

2.2.3 Unless otherwise agreed by the Joint Operating Committee, all items of surplus Material to be sold under paragraph 2.2.1 or 2.2.2 shall be so sold at prices determined by the Operator in accordance with the following bases, except that any Major Surplus Items sold in consequence of a competitive bid by any Participant may be at higher but not lower prices:

i. New Material

New Material (condition A), being new Material never used, at one hundred per cent (100%) of the cost thereof to the Joint Account;

ii. Good Used Material

Good Used Material (condition B), being used Material in sound and serviceable condition, suitable for re-use without reconditioning, at seventy five per cent (75%) of the cost thereof to the Joint Account;

iii. Other Used Material

Other Used Material (condition C), being used Material which is not in sound and serviceable condition but suitable for re-use after reconditioning, at fifty per cent (50%) of the cost thereof to the Joint Account;

iv. Bad Order Material

Bad Order Material (condition D), being used Material which is no longer suitable for its original purpose without excessive repair but usable for some other purpose, at an appraised value; and

v. Junk Material

Junk Material (condition E) being obsolete and scrap Material, at prevailing prices.

2.3 Material Purchased by the Participants and Others

If no Participant has advised the Operator of its wish to purchase any or all Major Surplus Items within thirty (30) days after the said approval of the Joint Operating Committee or if the Operator does not exercise its options to purchase any other items of surplus Material, then the Operator shall, unless the nature or value of an item makes tendering impracticable or uneconomic, prepare a list of the items for sale and competitive bids shall be requested from third parties and from the Participants. The Operator will ordinarily accept the highest bid but shall reserve the right to accept or refuse any offer. In the event that the highest offer is not accepted, the Operator will inform the Participants in advance of refusing such offer giving its reasons therefor. All documentation concerned with such competitive bids and all subsequent sales shall be retained as part of the records available for audit.

2.4 Alternative Methods of Disposal

In the event that no such bids for items of surplus Materials are received or if the nature or value of an item makes tendering impracticable or uneconomic, the Operator shall dispose of the same as it thinks fit, other than to itself or its Affiliates provided that, if any Major Surplus Item is involved, the Operator shall make a recommendation to the Joint Operating Committee for an alternative method of disposal and shall obtain the approval of the Joint Operating Committee thereto prior to implementation.

3 DISPOSAL OF JOINT PROPERTY OTHER THAN MATERIAL

If the Operator shall consider that any item of Joint Property other than Material is no longer needed or suitable for the Joint Operations it shall inform the Joint Operating Committee and the Joint Operating Committee shall decide whether such item shall be disposed of and, if so, the terms and conditions of disposal.

4 SERVICES PROVIDED TO THIRD PARTIES OR INDIVIDUAL PARTICIPANTS BY THE OPERATOR ON BEHALF OF THE PARTICIPANTS

4.1 General

Services using Material, other Joint Property, facilities, expertise or other resources available to the Joint Operations may be rendered to third parties or individual Participants as provided in this paragraph 4, except that in no instance shall the provision of such services jeopardise, hinder or unreasonably interfere with the Joint Operations or any Sole Risk Project.

4.2 Major Service

If the Operator shall consider that the Material, other Joint Property,

facilities, expertise or other resources available to the Joint Operations which is required to fulfil any request for a service made by a third party or a Participant has an original cost to the Joint Account of more than fifty thousand pounds Sterling (£50,000) ("Major Service"), the Operator shall give notice to the Participants accompanied by details of the Major Service requesting the identity of the third party or Participant making such request and the Operator's recommendation as to the terms and conditions on which the Major Service should be provided and obtain the prior approval of the Joint Operating Committee before rendering such Major Service to such third party or Participants.

4.3 Services other than a Major Service

Unless otherwise agreed by the Joint Operating Committee, services other than a Major Service shall be provided at rates which are not less than those charged by third parties for like services on comparable terms in the area where the Joint Operations are located. Where applicable the rates shall include interest and depreciation.

4.4 Priorities

The Joint Operating Committee shall decide any necessary order of priority when several conflicting requests for the same service are made.

5 MATERIAL RETURNED TO THE OPERATOR'S WAREHOUSE FROM THE JOINT OPERATIONS

Material returned to the Operator or any of its Affiliates from the Joint Operations shall be priced in accordance with paragraphs 2.2.3 i to v inclusive.

SECTION IV - BUDGETARY, FORECASTING AND REPORTING PROCEDURE

1 BUDGET PREPARATION

1.1 Exploration, Appraisal and Production Budgets

Each exploration, appraisal and production Budget required under Clauses 9 and 11 shall include:

- i. an estimate in Sterling of the total cost of the relevant Programme and a subdivision of such total into each main classification and subclassification of cost as provided in paragraph 5. The estimates for each such classification and subclassification of cost shall be phased on an Accrual Basis for each of the Quarters of the relevant Year or Years, and the Accruals for each such main classification in each Year shall be separately identified;
- ii. an estimate of the amount of each currency in which such total cost is to be paid. Such estimate shall be phased for each of the Quarters of the relevant Year or Years;
- iii. a schedule of estimated Joint Property warehouse stock movement;
- iv. the amount of any escalation allowance added in accordance with the statement provided under paragraph 3 iii of Section V;
- v. the amount of any contingency allowance added in accordance with the statement provided under paragraph 3 ii of Section V;
- vi. a statement indicating which budget items, if any, are contingent upon the outcome of other budget items such as the testing of exploration wells and related salaries and overheads;
- vii. an estimate of the timing and value of the commitments (being contracts or other orders placed or goods purchased) to be made under the Budget, identifying main commitments separately; and
- viii. an estimate of the cost and number of all employees and contract personnel (such details to include the total number of man days budgeted) analysed by function.

1.2 Development Budgets

Each development Budget required under Clause 10 shall include:

- i. an estimate in Sterling of the total cost of the development and a subdivision of such total into each main classification and subclassification of cost as provided in paragraph 5. The estimate for each such classification and subclassification of cost shall be phased on an Accrual Basis and shall be shown by Quarter for the first Year and by Year for each subsequent Year of the development, and the Accruals for each such main classification in each Year shall be separately identified;

ii the items detailed in paragraphs 1.1 ii to vi inclusive;

iii an estimate of the Accruals outstanding at the end of each Year;

iv an estimate of the timing and value of the AFEs and commitments to be made under the Budget identifying the total commitments under each main classification of cost as provided in paragraph 5 in each Quarter of the first Year and in each of the subsequent Years;

v an estimate of annual operating costs for the first five Years of production subdivided into appropriate classification of cost; and

vi an estimate of the cost and number of all employees and contract personnel (such details to include the total number of man days budgeted) analysed by function.

2 BUDGET APPROVAL

The procedure for approval of exploration, appraisal, development and production Budgets is provided in Clauses 9, 10 and 11.

3 BUDGET REVIEW AND AMENDMENT

Each review of or amendment to an exploration, appraisal, development or production Budget as provided in Clauses 9, 10 and 11 shall include:

I actual cash payments, net of receipts and Accruals to date;

II actual commitments to date; and

III full revised estimates of all items detailed in paragraph 1.1 i to viii inclusive or paragraph 1.2 i to vi inclusive as the case may be.

4 BUDGET APPROVAL AND AFE APPROVAL

Approval of Budgets for exploration, appraisal, development and production provides the Operator with general approval of the proposals but does not, subject to Clause 5.9.2, permit the Operator to enter into commitments or incur any expenditures for any item included in the said Budgets until an AFE is approved by the Joint Operating Committee as provided in Clauses 9.2, 10.2 and 11.2 or deemed to be approved under Clauses 9.4 and 10.2.

5 SUBDIVISION OF BUDGETS FOR APPROVAL BY AFE AND FOR CONTROL

- 5.1 Exploration, appraisal, development and production Budgets shall be divided into separately numbered classifications and subclassifications of cost to provide a breakdown of the Project into work elements in sufficient detail to allow adequate cost allocation and control. AFEs will be required for each such classification or subclassification. Where individual items of expenditure are attributable to more than one such classification or subclassification such items shall be apportioned on an equitable basis.
- 5.2 Notwithstanding the above, AFEs for wells included in an exploration or an appraisal Budget shall be issued on a dry hole basis.
- 5.3 The Operator may not, without the prior approval of the Joint Operating Committee, transfer sums between Budget classifications or subclassifications after Budgets have been approved.

6 AUTHORITY FOR EXPENDITURE

- 6.1 The Operator shall request approval of an AFE at a time when the main details of the relevant commitment of expenditure can be ascertained but consistent with giving the Participants at least twenty eight (28) days to consider the matter. In circumstances beyond its control the Operator may give the Participants less than twenty eight (28) days notice to consider the matter.
- 6.2 The AFE will be prepared in the detail shown in Form A of Section VI and will describe the project, give the estimate of the items of expenditure necessary to complete the project, give the estimated timings of such expenditure and show the Operator's internal approvals. Each AFE shall show separately the Base Cost, (being the Operator's estimate of the likely cost at prices current at the time of preparation of the AFE) and Escalation (being the Operator's provision for increases in expenditure due to increases in unit cost of labour, materials or services arising from factors not foreseeable at the time of preparation of the AFE, if any). The total of the Base Cost and Escalation shall be the "Estimated Target Cost". Necessary further details to support the Estimated Target Cost of the project will be included as attachments to the extent required by the Joint Operating Committee.
- 6.3 i Any Participant which has voted in favour of an AFE which has been approved by the Joint Operating Committee shall sign an AFE Form indicating its authorisation thereof. After approval by the Joint Operating Committee, the Operator shall promptly notify the Participants indicating the identity of those Participants whose authorisations have formed part of such approval.
- ii. The Operator shall notify the Participants of a deemed approval of an AFE by the Joint Operating Committee as soon as such has become effective and shall promptly distribute copies of the relevant AFE Form which shall give full details thereof and be clearly marked to the effect that approval has been deemed to have been

given.

6.4 Approval, or where permitted deemed approval, of an AFE by the Joint Operating Committee constitutes, subject to Clause 5.4.2, authority for the Operator to enter into any commitment or incur any expenditure properly made in relation to any approved AFE whether or not payments in respect of such commitments and expenditure will result in the final cost of such commitments and expenditure exceeding the Estimated Target Cost of the AFE, provided that if at any time it becomes apparent that:

- i. commitments yet to be made will or are likely to cause the Estimated Target Cost to be exceeded; or
- ii. expenditure to be incurred under commitments already made will cause the Estimated Target Cost to be exceeded by more than ten per cent (10%) or one million pounds Sterling (£1,000,000) (whichever is the lower);

the Operator shall immediately notify the Participants and shall without delay prepare a revised AFE giving the reasons for the increased cost, and shall request approval of the revised AFE and shall not enter into any new commitment in relation to such AFE until the revised AFE has been approved, or where permitted deemed to be approved, by the Joint Operating Committee.

7 COMMITMENT REPORT

The Operator shall furnish the Participants on the twenty fifth (25th) day of the last month of each Quarter with a statement of the timing and value of the commitments that it has made or intends to make over the period of each approved Budget (a "Commitment Forecast"). The Operator shall also furnish the Participants on or before the twenty fifth (25th) day of each Month with an estimate of major commitments (being two million pounds Sterling (£2,000,000) or more or such other amount as may from time to time be Determined) to be made during each of the following three months under an approved development Budget (a "Commitment Report").

8 CASH FORECASTS

The Operator shall furnish the Participants on or before the twenty fifth (25th) day of each Month with a revised and updated forecast of cash requirements analysed by AFE and by currency for each approved Budget (a "Cash Forecast").

9 COST CONTROL REPORTS

The Operator will closely control all costs for each approved Budget and will

furnish the Participants on or before the twenty fifth (25th) day of each Month with a Cost Control Report, being a comparison of the latest estimated final cost for each AFE with the approved Budget cost for such AFE. In the case of an approved development Budget, where any major contract (being a contract of two million pounds Sterling (£2,000,000) or more or such other amount as may be Determined) is not separately identifiable on a Cost Control Report, it shall be added as a memorandum item on such AFE Cost Control Report with a comparison being made between the latest estimated final cost for such contract and the appropriate proportion of the approved Budget cost of the relevant AFE or AFEs. In the Cost Control Report the Operator shall report its estimate of the consequential effect on physical progress of the cost of the Budget items for which contracts remain to be placed.

10 BILLING STATEMENT AND BILLING SCHEDULE

The Billing Statement and the Billing Schedules shall be in the detail shown in Forms B and C of Section VI.

11 CASH RECONCILIATIONS

The Cash Reconciliations shall be in the detail shown in Form D of Section VI.

12 PRODUCTION REPORT

The Operator shall send a report to the Participants within twenty five (25) days following the end of each Month on the production during the Month. The report shall detail as a minimum, the following:

- i. total wellhead production, by category, of all hydrocarbons;
- ii. Reconciliation of production showing:
 - a. opening stock (if any)
 - b. production
 - c. consumption on platform (eg re-injection or power generation)
 - d. liftings or exports
 - e. closing stock (if any); and
- iii. Reconciliation of Participants equity share of production/offtake.

13 REVIEW AND AMENDMENT

After a development decision has been made, the Joint Operating Committee shall review the Budgetary Forecasting and Reporting Procedures

specified in this Section and with the agreement of all Participants
make such amendments as are appropriate for the particular development.

SECTION V - COST CONTROL PROCEDURES

1. Cost control procedures will be employed by the Operator on the Joint Operations with the objectives of:
 - i. developing revisions to Budgets for presentation to the Joint Operating Committee;
 - ii. providing the Participants with accurate up to date information to enable management decisions to be made with regard to economic viability;
 - iii. developing approved projections for a defined purpose at an economical cost within the sum appropriated;
 - iv. providing cost trend information to forewarn management of and obtain approval for any change from approved Budgets;
 - v. promoting cost consciousness throughout the Operator's project team.

2. The cost control system employed by the Operator will include the following:

- i. approved Budgets in sufficient detail to form a basis for comparison with actual costs and cost trends;
- ii. advance notice of possible cost variations to allow appropriate considerations and approval;
- iii. provision for relating by agreed Budget classifications and subclassifications actual costs with the approved Budgets and provision for analysis and prediction of cost trends, in particular identifying cost trends attributable to:
 - a. changes of design and scope
 - b. changes of work scheduling
 - c. changes due to cost escalation, and
 - d. changes due to currency rate fluctuations;
- iv. a means of compiling information on Monthly summarised cost control reports for management to review and determine where and how to apply corrective measures; and
- v. data and information using computerised techniques in order to reduce time lags between reports and any corrective action which may be required.

3. Prior to the first exploration Budget and the first development Budget under the Agreement the Operator will furnish the Participants with statements as to the following (except that for exploration Budgets

only i, ii, iii, v and vi shall be furnished):

- i. cost estimating procedure;
- ii. treatment of contingency allowance;
- iii. treatment of escalation allowance;
- iv. organisation chart of cost control employees;
- v. forms to be used in the presentation of Budgets;
- vi. a cost code list of the numbers allocated to the separate classifications of cost for the purpose of establishing cost centres. (Actual expenditure will be recorded and reported to the Participants in the same coding pattern so that billings prepared by the Operator will enable amounts charged to the project during the applicable Month to be compared with the sum included in the Budget therefor by AFE, by project and by other cost classifications);
- vii. a procedure for advance notice of cost variations; and
- viii. internal employee liaison and control procedures including responsibilities of cost engineers and internal audit employees and routines for site visits.

Subsequent amendments to the above procedure, lists, forms and charts shown on such statements shall be notified by the Operator to the Participants.

SECTION VI - REPORTING FORMS

Reporting forms shall be prepared by the Operator pursuant to the provisions of this Schedule. The format set out below is indicative of the information which shall be contained in the forms and may be amended from time to time by the Joint Operating Committee.

Frequency

Form Report Title of IssueDue Date

(Days after end of relevant period)*

AAFEAs required Normally 28 days prior to commitment

B. Billing Statement Monthly 30 Days

C. Billing Schedule Monthly 25 Days

D. Cash Reconciliation Monthly 30 Days.

*except as otherwise specified for Form A.