

OFFSHORE PRODUCTION SHARING AGREEMENT

TABLE OF CONTENTS

ARTICLE I.....	7
DEFINITIONS	7
ARTICLE II.....	15
RIGHTS AND OBLIGATIONS	15
ARTICLE III.....	18
TERM AND EXPLORATION WORK PROGRAMME	18
ARTICLE IV	22
RELINQUISHMENT	22
ARTICLE V	24
DISCOVERY AND DEVELOPMENT	24
ARTICLE VI	29
PRODUCTION SHARING.....	29
ARTICLE VII	35
ASSIGNMENT AND TERMINATION OF	35
AGREEMENT	35
ARTICLE VIII	41
VALUE FOR ROYALTY AND PRODUCTION SHARING PURPOSES	41
ROYALTY AND RENTALS	42
ARTICLE X	43
RIGHT OF ACQUISITION OF PETROLEUM	43
ARTICLE XI	46
DISPOSAL OF PETROLEUM	46
ARTICLE XII	47
FOREIGN CURRENCY.....	47
ARTICLE XIII	49
IMPORTS, EXPORTS AND LOCAL PROCUREMENT.....	49
ARTICLE XIV	51
TAXATION.....	51
ARTICLE XV.....	52
MANAGEMENT COMMITTEE.....	52
ARTICLE XVI.....	56

MANAGEMENT AND OPERATIONS	56
ARTICLE XVII	60
INFORMATION, DATA, CONFIDENTIALITY, INSPECTION AND SECURITY	60
ARTICLE XVIII	63
TITLE TO PETROLEUM, DATA AND ASSETS	63
ARTICLE XIX	64
TRAINING AND EMPLOYMENT	64
ARTICLE XX	65
DEVELOPMENT FINANCING	65
ARTICLE XXI	66
PIPELINES, PROCESSING FACILITIES AND REFINERIES	66
ARTICLE XXII	69
OTHER MINERALS	69
ARTICLE XXIII	70
ACCOUNTS AND AUDITS	70
ARTICLE XXIV	73
PRODUCTION BONUSES	73
ARTICLE XXV	74
INSURANCE AND INDEMNIFICATION	74
ARTICLE XXVI	76
PERFORMANCE GUARANTEE	76
ARTICLE XXVII	78
EFFECTIVENESS AND DURATION	78
ARTICLE XXVIII	79
FORCE MAJEURE	79
ARTICLE XXIX	81
SETTLEMENT OF DISPUTES	81
ARTICLE XXX	83
PROTECTION OF THE ENVIRONMENT	83
ARTICLE XXXI	87
APPLICABLE LAW AND MISCELLANEOUS MATTERS	87
ARTICLE XXXII	89
NOTICES	89

ANNEX-I	91
ACCOUNTING PROCEDURE	91
GENERAL PROVISIONS	93
SECTION 2	97
COSTS AND EXPENDITURE.....	97
SECTION 3	102
CHART OF ACCOUNTS	102
SECTION 4	104
VALUATION OF MATERIALS	104
SECTION 5	106
RECEIPTS	106
SECTION 6	107
NON-RECOVERABLE COSTS	107
SECTION 7	109
INVENTORIES AND INVENTORY STATEMENT	109
SECTION 8	111
PRODUCTION STATEMENT	111
SECTION 9	112
VALUE OF PRODUCTION STATEMENT	112
SECTION 10	113
COST RECOVERY AND PROFIT SHARING STATEMENT	113
SECTION 11	114
STATEMENT OF BUDGET AND EXPENDITURE	114
SECTION 12	115
CONTROL STATEMENT AND OTHER ACCOUNTS	115
SECTION 13	116
BUDGET STATEMENT	116
QUARTERLY STATEMENT	117
SECTION 15	118
AUDITS AND ADJUSTMENTS	118
SECTION 16	119
TERMINATION	119
ANNEX-II	120

DESCRIPTION OF THE AREA	120
ANNEX-III	121
ANNEX TO THE MODEL OFFSHORE PRODUCTION SHARING AGREEMENT	121
ANNEX-IV	126
BANK GUARANTEE	126
EXHIBIT-1 TO BANK GUARANTEE	128
EXHIBIT-II TO BANK GUARANTEE	129
ANNEX-VI	130
<u>(WATER DEPTH ZONE MAP)</u>.....	130
ANNEX-VII	131
(CUSTOMS/SALES TAX).....	131
ANNEX-VIII	137
LIST OF MACHINERY AND EQUIPMENT REQUIRED	137
FOR PETROLEUM OPERATIONS.....	137
ANNEX-IX	140
<u>REPORTS/INFORMATION TO BE SUBMITTED BY CONTRACTOR</u>.....	140
ANNEX-X(I).....	144
WELL HEAD GAS PRICE ILLUSTRATION AS PER PRICING PROVISIONS OF POLICY 2012 FOR ZONE O (SHALLOW)	144
ANNEX-X(II).....	145
WELL HEAD GAS PRICE ILLUSTRATION AS PER PRICING PROVISIONS OF POLICY 2012 FOR ZONE O (DEEP).....	145
ANNEX-X(III).....	146
WELL HEAD GAS PRICE ILLUSTRATION AS PER PRICING PROVISIONS OF POLICY 2012 FOR ZONE O (ULTRADEEP)	146

OFFSHORE PRODUCTION SHARING AGREEMENT

THIS AGREEMENT made and entered into between:

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

- and -

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

-and -

ABC, existing under the Laws of _____ and having its principal office at ----- (hereinafter referred to as "--"which term shall include its successors and assigns), of the Third Part

-and-

XYZ, a company under the laws of -- and having a principal office at ----- (hereinafter referred to as "-----") which term shall include its successors and assigns)

(**ABC AND XYZ** hereinafter collectively referred to as "Contractor" and each individually a "Contracting Company")

WITNESSETH:

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

WHEREAS, the President, in accordance with Section 3A of *the Regulation of Mines and Oilfields and Mineral Development (Government Control) Act, 1948* and the Rules (as hereinafter defined) made thereunder, has granted a Licence (as hereinafter defined) to the GHPL for Block "-----".

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

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

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

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

NOW THEREFORE, the President, GHPL and Contractor agree as follows:

ARTICLE I DEFINITIONS

Any term defined in the Rules shall have the same meaning whenever used in this Agreement. In addition, whenever used in this Agreement, the following terms shall have the meanings set forth below:

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

interest as is reasonably likely to influence selling prices and shall, inter alia, exclude the value of sales (whether direct or indirect, through brokers or otherwise) involving Affiliates, Parties to this Agreement, sale between Government to Government entities, counter trades, restricted or distress sales, sales involving barter arrangements and generally any transactions motivated in whole or in part by considerations other than normal commercial practices.

- 1.8 "Associated Gas" means Natural Gas associated with Crude Oil and produced by separation at surface from a Liquid Reservoir.
- 1.9 "Available Gas" means the volume of Natural Gas defined for production sharing in Article 6.1 hereof.
- 1.10 "Available Oil" means the volume of Crude Oil including Condensate and LPG defined for production sharing in Article 6.1 hereof.
- 1.11 "Barrel" or "BBL" means a quantity equivalent in volume to forty-two (42) United States Gallons adjusted to sixty degrees (60°) Fahrenheit after correction for basic sediments and water.
- 1.12 "Barrel of Oil Equivalent" or "BOE" means the volume of Crude Oil, Condensate, Natural Gas or LPG determined in Million British Thermal Units (MMBTU's) on heat content basis in accordance with the good international Petroleum industry practices.
- 1.13 "Calendar Month" or "Month" means any of the twelve months of the Calendar Year.
- 1.14 "Calendar Year" means the period from January 1 to December 31, both inclusive, according to the Gregorian Calendar.
- 1.15 "Commencement of Commercial Production" means the first occurrence of Commercial Production in a Contract Area.
- 1.16 "Commercial Discovery" means a commercial discovery of Petroleum as defined in the Rules.
- 1.17 "Commercial Production" means commercial production of Petroleum as defined in the Rules.
- 1.18 "Condensate" means liquid Petroleum, excluding Crude Oil and LPG, produced at surface by processing or separation of Natural Gas from a Gaseous Reservoir and which for the purposes of this Agreement shall also include natural gas liquids.
- 1.19 "Contract Area" means the entirety of the area or areas outlined and more particularly described in Annex-II, less any portion thereof which may be relinquished or Surrendered under the terms of this Agreement.

- 1.20 "Contract Year" means a period of one Year from the Effective Date or any anniversary thereof.
- 1.21 "Contracting Company" means any company described as constituting Contractor in the recital of Parties to this Agreement or their respective permitted successors and assignees of interest pursuant to Article VII to this Agreement.
- 1.22 "Contractor" means all the companies described as constituting Contractor in the recital of Parties to this Agreement or their respective permitted successors and assignees of interest pursuant to Article VII of this Agreement.
- 1.23 "Cost Recovery Gas" means the Natural Gas available to Contractor for the recovery of its Expenditure pursuant to Article 6.2 hereof.
- 1.24 "Cost Recovery Oil" means the Crude Oil, Condensate and LPG available to Contractor for the recovery of its Expenditure pursuant to Article 6.2 hereof.
- 1.25 "Crude Oil" means the liquid Petroleum, other than Condensate and LPG produced by separation at surface from a Liquid Reservoir in its natural state before the same has been refined but after extraction of water and foreign substances, and "Crude Oil/LPG/Condensate" means Crude Oil or LPG or Condensate or a mixture of any two or more of them.
- 1.26 "Date of Commercial Discovery" means the date when Contractor formally notifies the Director General, Petroleum Concessions in accordance with Article 5.4 hereof that a Commercial Discovery has been made.
- 1.27 "Date of Significant Gas Discovery" means the date when Contractor formally notifies the Director General, Petroleum Concessions in accordance with Article 5.4 hereof that a Significant Gas Discovery has been made.
- 1.28 "Day" means a continuous period of twenty-four (24) hours beginning at 8 A.M. Pakistan Standard Time or such other time as may be mutually agreed by the Parties.
- 1.29 "Designated Area" means the area pertaining to a Discovery that does not merit Appraisal or is not a Commercial Discovery or a Significant Gas Discovery, as provided for in Article 5.2.
- 1.30 "Development" or "Development Operations" means the preparation of a Development Plan, in accordance with the Rules the building and installation of facilities for Production and drilling of Development Wells, construction and installation of equipment, pipelines, facilities, plants and systems, in and outside the Contract Area, which are required for achieving production, treatment, transport, storage and lifting of Petroleum, and preliminary production and testing activities carried out prior to the commencement of Commercial Production; all of which includes related planning and administrative work, and the construction and installation of secondary and tertiary recovery systems.

- 1.31 "Development Area" means the portion of the Contract Area as defined by Contractor pursuant to Article 5.6 covering a Commercial Discovery.
- 1.32 "Development Plan" means the plan submitted to DGPC for approval pursuant to Article 5.7(b) hereof and the Rules.
- 1.33 "Development Well" means a well drilled in accordance with the approved Development Plan for the purpose of producing Petroleum or injecting fluids into the reservoirs.
- 1.34 "Director General, Petroleum Concessions" or "DGPC" means any officer or authority appointed by the Government to exercise the powers and perform the functions of the Director General, Petroleum Concessions, under the Rules.
- 1.35 "Discovery" means the finding of a deposit of petroleum from an exploratory effort in a licence or lease area not previously known to have existed within the area held by a Contractor which produces a flow of petroleum and is measurable by the petroleum industry testing methods including Modular Dynamic Tester (MDT) surveys.
- 1.36 "Dollar" or "\$" or "US\$" means the lawful currency of the United States of America.
- 1.37 "Effective Date" means the date on which the Licence has been granted and this Agreement has been executed by the President and the Parties hereto.
- 1.38 "Expenditure" means, for the purpose of defining Cost Recovery Oil and Cost Recovery Gas, capital and operating costs and expenditures, both recoverable and non-recoverable, incurred in connection with or incidental to the conduct of Petroleum Operations, as more particularly classified, identified and set forth in the Accounting Procedure attached hereto as Annex-I.
- 1.39 "Exploration" or "Exploration Operations" means the search for Petroleum in the Contract Area previously not known to have existed, using geological, geophysical and other methods and the drilling of Exploration Well(s) more particularly defined in the Rules and includes any activity in connection therewith or in preparation therefor and any relevant processing and Appraisal work, including technical and economic feasibility studies.
- 1.40 "Exploration Period" means the Initial Term plus any renewals or extensions granted pursuant to Article 3.1.
- 1.41 "Exploration Well" " means a well drilled within the Contract Area for search of petroleum, which test clearly a separate geological entity, be it of structural, lithologic or facies of pressure nature, penetrating all prospective intervals at the particular location.
- 1.42 "First Renewal" means renewal of the Licence as defined in Article 3.1 hereof.

- 1.43 "Fiscal Year" means period starting from 1st July of each calendar year to 30th June in the next following Calendar Year, both dates inclusive.
- 1.44 "Foreign Contracting Company" means any Contracting Company the Parent Guarantor of which is incorporated outside Pakistan.
- 1.45 "Gaseous Reservoir" means a Petroleum reservoir which under reservoir conditions of original temperature and pressure is predominantly in the gaseous phase.
- 1.46 "Grid Area" means an area of five (5) minutes longitude by five (5) minutes latitude, based on a general block system as per the Rules.
- 1.47 "Government" means the Federal Government of the Islamic Republic of Pakistan and shall exclude GHPL.
- 1.48 "Initial Term" means the initial period of the Licence not exceeding five (5) Contract Years from the Effective Date.
- 1.49 "Lease" means a lease for the Development and Production of Petroleum granted pursuant to Article 5.8 of this Agreement and in accordance with the Rules.
- 1.50 "Licence" means a licence granted in respect of the Contract Area in accordance with the Rules.
- 1.51 "Liquid Reservoir" means a Petroleum reservoir which under reservoir conditions of original temperature and pressure is predominantly in the liquid phase.
- 1.52 "Liquefied Petroleum Gas" or "LPG" means a mixture of Propane and Butane separated from Natural Gas by compression, extraction or other processes and marketed in conformity with the quality and specifications established by Pakistan Standard Specification No. 1705-1976 for Commercial Butane - Propane Mixture as amended from time to time.
- 1.53 "Local Contracting Company" means a company incorporated in Pakistan, with more than 50% shares held by Pakistani citizens.
- 1.54 "Low BTU Gas" shall be as defined in the Low BTU Policy.
- 1.55 "Low BTU Policy" means the Low BTU Gas Pricing Policy applicable at the date of signing of this Agreement.
- 1.56 "Management Committee" means the Committee constituted pursuant to Article XV of this Agreement.
- 1.57 "Measurement Point" means the point or points where all Crude Oil, Condensate, Natural Gas and LPG are measured, as more specifically defined in Article 8.4.

- 1.58 "Minimum Work" means the minimum work programme referred to in Article 3.3 in respect of the Initial Term or First or Second Renewal thereof.
- 1.59 "Natural Gas" means Petroleum which at standard atmospheric conditions of pressure and temperature is in a gaseous phase including non-hydrocarbon gas which is in association with and produced at the surface together with such gaseous hydrocarbons.
- 1.60 "Offshore" means the area consisting of all Sections which are located completely seawards from the high water mark along the coast of Pakistan and within the Territorial Waters, Historic Waters, Contiguous Zones, Continental Shelf or Exclusive Economic Zone, as those terms are more specifically defined in the Territorial Waters and Maritime Zones Act, 1976 (Act No. LXXXII of 1976).
- 1.61 "Operator" means the Contracting Company designated as such in accordance with this Agreement and the Rules.
- 1.62 "Original Contract Area" means the entirety of the area or areas as outlined and more particularly described in Annex-II on the Effective Date.
- 1.64 "Participating Interest" means for each Contracting Company the undivided percentage interest held by it from time to time in all rights duties and obligations of Contractor under this Agreement.
- 1.65 "Party" means a party to this Agreement, and "Parties" means all the parties to this Agreement.
- 1.66 "Petroleum" means all liquid and gaseous hydrocarbons existing in their natural condition in the strata, as well as all substances, including sulfur, produced in association with such hydrocarbons, but excluding basic sediments and water.
- 1.67 "Petroleum Operations" means all activities conducted by Contractor under this Agreement related to Petroleum Exploration, Appraisal, Development and Production activities that occur upstream of the Measurement Point and any ancillary activities reasonably related thereto. But it does not include any gas processing, pipeline and other transportation, storage or other ancillary activities necessary to facilitate the Production, processing, storage, transportation and disposal of Petroleum which occur downstream of the Measurement Point.
- 1.68 "Petroleum Policy" means the Petroleum Exploration and Production Policy 2012.
- 1.69 "Production" or "Production Operations" means activities, not being Development Operations, undertaken in order to extract, save, treat, measure, handle, store and

transport Petroleum to storage or loading points or both and to carry out any type of primary and secondary operations, including recycling, recompression, maintenance of pressure and water flooding and all related activities such as planning and administrative work and shall also include maintenance, repair and replacement of facilities, and well workovers, conducted after the commencement of Commercial Production of the respective Development Area upstream of the Measurement Point.

- 1.70 "Profit Gas" means the Natural Gas to be shared between GHPL and Contractor pursuant to Article VI hereof.
- 1.71 "Profit Oil" means the Crude Oil, Condensate and LPG to be shared between GHPL and Contractor pursuant to Article VI hereof.
- 1.72 "Retention Period" means the period during which a Significant Gas Discovery can be retained pursuant to Article 5.9 hereof.
- 1.73 "Royalty" means the payment to the Government pursuant to Article 9.1 hereof and the Rules.
- 1.74 "Rules" means the Pakistan Offshore Petroleum (Exploration and Production) Rules, 2020, including all schedules in effect on the Effective Date.
- 1.75 "Rupee" or "Rs." means the lawful currency of Pakistan.
- 1.76 "Section" means an area of thirty (30) seconds latitude by thirty (30) seconds longitude, based on a general block system as provided for in the Rules.
- 1.77 "Second Renewal" means the renewal of the Licence as provided for in Article III hereof.
- 1.78 "Significant Gas Discovery" means a Discovery of Natural Gas from an Exploration Well in the Contract Area which has tested significant flow rates of Natural Gas from one or more reservoirs, and which is estimated to be capable of continuous Production from the said reservoir(s) over a reasonable period and which in the opinion of the Contractor could be declared a Commercial Discovery in the future, provided inter-alia that:
 - (a) adequate gas pipeline transportation facilities are installed, or
 - (b) markets have been sufficiently developed for sale of Natural Gas on a commercial basis, or
 - (c) the requirements of both (a) and (b) have been met.
- 1.79 "Significant Gas Discovery Area" means the portion of the Contract Area defined by Contractor pursuant to Article 5.6 covering a Significant Gas Discovery.

- 1.80 "Subcontractor" means any company or person contracted by the Contractor to provide services with respect to Petroleum Operations.
- 1.81 "Surrender" means the termination of rights with respect to the whole or any part of the Contract Area.
- 1.82 "Surrendered Area" means whole or a part of the Contract Area with respect to which the rights of the Contractor stand terminated by Surrender.
- 1.83 "Term" means the duration of this Agreement as defined in Article 3.1 hereof.
- 1.84 "Tight Gas" shall be as defined in the Tight Gas Policy.
- 1.85 "Tight Gas Policy" means the Tight Gas Policy applicable at the date of signing of this Agreement.
- 1.86 "Value" means the well-head value of the Petroleum as defined in the Rules and elaborated in Article VIII hereof.
- 1.87 "Work Unit" has the meaning given in Annex-III to this Agreement.
- 1.88 "Year" means a period of twelve consecutive Months according to the Gregorian calendar.

ARTICLE II RIGHTS AND OBLIGATIONS

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

- 2.9 Contractor shall be responsible to GHPL for the execution of the Petroleum Operations in accordance with the provisions of this Agreement. Without prejudice to Contractor's position hereunder, the Petroleum Operations to be conducted pursuant to this Agreement by Contractor shall be subject to the general supervision and review by GHPL through the Management Committee in accordance with this Agreement.
- 2.10 Contractor is obligated to bear the expenses on all Petroleum Operations under this Agreement. Contractor shall not receive compensation for its services or any reimbursement of its Expenditure under this Agreement except for the Petroleum to which Contractor is entitled to under Article VI of this Agreement. If there is no Commercial Discovery in the Contract Area or if the Production achieved by Contractor is insufficient, Contractor shall bear its own losses.
- 2.11 Where Contractor is comprised of more than one entity, it shall appoint one of such entities, subject to prior written approval of GHPL, as Operator to manage the Petroleum Operations. In such a case Operator shall promptly provide a copy of the operating agreement and any amendment thereto to GHPL. However, nothing contained in this Article shall absolve Contractor from its obligations towards the Government or GHPL for which Contractor will be solely and exclusively responsible. As from the Effective Date **ABC** is hereby appointed as Operator.
- 2.12 Contractor shall in addition to its obligations under other provisions of the Agreement be obliged to:
- (a) establish within 90 days of the Effective Date a branch or representative office within the territory of Pakistan in accordance with the relevant provisions of applicable law;
 - (b) designate a representative residing in Pakistan who shall have full authority to represent it in respect of matters related to the Agreement in respect of the Contract Area and to receive notices addressed to Contractor;
 - (c) provide all necessary funds for Petroleum Operations, including but not limited to funds required for purchase or lease of all assets, materials and supplies to be purchased or leased pursuant to work programme and such other funds for the performance of work programme including payment to third parties who may perform any contractual services and to provide technical services, technology and such expatriate personnel as may be required for the performance of the work programme;
 - (d) conduct all Petroleum Operations in a diligent, conscientious and workmanlike manner, in accordance with the applicable laws and the Agreement, and generally accepted standards of the international Petroleum industry designed to achieve efficient and safe Exploration, Development and Production of Petroleum and prevent loss or waste of Petroleum above or below the surface and to maximize the ultimate economic recovery of Petroleum from the Contract Area;

- (e) ensure that all materials, equipment, technologies and facilities used in Petroleum Operations comply with generally accepted engineering standards in the international Petroleum industry, and are kept in good working order;
- (f) while conducting Petroleum Operations, take necessary measures for consideration, safety of life, property, crops, fishing and fisheries, navigation, protection of environment, prevention of pollution and safety and health of personnel;
- (g) unless otherwise instructed by GHPL, ensure that any Exploratory or Appraisal Well technically capable of production, is left in a condition that it may be reentered for further testing and/or completion.

**ARTICLE III
TERM AND EXPLORATION WORK PROGRAMME**

- 3.1 The following provisions establish the term (the "Term") of this Agreement, the Licence and any Lease that is granted pursuant to this Agreement in accordance with the Rules:
- (a) this Agreement and the Licence shall be valid for an Initial Term of five (5) Contract Years, and subject to Article 3.1(b) and Contractor meeting the requirements under this Agreement and the Rules, shall be renewed, for two (2) renewal periods of one Contract Year each (hereinafter called the First Renewal and the Second Renewal respectively or Renewal(s) collectively) provided Contractor requests such a renewal in writing at least ninety (90) Days prior to expiry of the Initial Term or the First Renewal period. The Initial Term shall be divided into two phases (each referred to as a "Phase"), the first having a duration of three Contract Years and the second having a duration of two Contract Years.
 - (b) Contractor shall be entitled to First Renewal or Second Renewal if Contractor:
 - (i) has complied with the Minimum Work during the Initial Term or First Renewal as the case may be, and all other obligations under this Agreement;
 - (ii) has committed himself to the Minimum Work for the subsequent period as per the Rules;
 - (iii) has provided the related guarantees contemplated by Article XXVI of this Agreement; and
 - (iv) has made the mandatory relinquishments contemplated by this Agreement and the Rules.
 - (c) this Agreement and the Licence may be extended as it relates to an Appraisal Area for the purpose of carrying out an Appraisal Programme for a period of one (1) Contract Year as provided in the Rules provided the Contractor has complied with the Minimum Work and other obligations under this Agreement.
 - (d) the Initial Term or First Renewal or Second Renewal may be extended for drilling an Exploration Well in progress for a period as may be approved by the DGPC, in accordance with the Rules. Upon completion of such Exploration Well, credit will be given to the Minimum Work obligation related to the Phase or Renewal that was extended.

- (e) pursuant to Article 5.9 hereof, the duration of this Agreement and the Licence for any Significant Gas Discovery Area shall be extended up to a period equal to the applicable Retention Period.
 - (f) if a Commercial Discovery is made during the Initial Term, First Renewal, Second Renewal or the extension contemplated under Article 3.1(c) for which a Lease has been granted, this Agreement shall remain valid for a period not exceeding twenty-five (25) Contract Years with effect from the date of grant of such Lease provided the duration of this Agreement shall, in accordance with the Rules, be extended by a period equal to the Retention Period, if applicable, in respect of any part of Contract Area which has been declared a Significant Gas Discovery Area.
 - (g) this Agreement, the Licence and any Lease granted pursuant to this Agreement are subject to earlier termination pursuant to Article VII and in accordance with the provisions of the Rules.
- 3.2 At the expiry of the Term, this Agreement and any Lease may be renewed for a further five (5) Contract Years as per the Rules.
- 3.3 The minimum work (the "Minimum Work") to be carried out shall be as follows:

(a) INITIAL TERM:

- (i) **Phase One:** Contract Years 1, 2 and 3: ___*___ Work Units plus 3 Work Units per Grid Area in the Original Contract Area, for each of Contract Years 1, 2 and 3.

* Work Unit offered as Bid Obligation at the time of award.

- (ii) **Phase Two :** Contract Years 4 and 5: Minimum 10 Work Units per Grid Area in the Contract Area, for each of Contract Years 4 and 5.

The above Work Units shall be accomplished at any time prior to the end of the Initial Term.

(b) FIRST RENEWAL:

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

(c) SECOND RENEWAL:

Contract Years 7: Minimum 30 Work Units per Grid Area in the Contract Area.

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

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

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

- 3.4 Contractor hereby agrees to pay to GHPL as compensation for non-performance an amount of Ten Thousand Dollars (\$10,000) for every Work Unit not accomplished during relevant Phase of the Initial Term or during the First Renewal or Second Renewal. GHPL, after collection of such compensation from Contractor(s), shall pay the amounts so collected to the President in the manner as prescribed by DGPC. In addition, if Contractor does not carry out the Minimum Work during any Phase of the Initial Term or the First Renewal or Second Renewal, this Agreement shall automatically terminate upon the termination of the respective Phase or Renewal in which the Minimum Work was not carried out and Contractor shall not have any right to further extensions or Renewals provided however, this Agreement will continue to be valid for any Commercial Discovery(ies) pursuant to Article 3.1(f).
- 3.5 Operator shall keep the DGPC informed of the progress of each well and shall:
- (a) promptly or forthwith inform DGPC of their proposals for testing;
 - (b) test as per good international Petroleum industry practices, potentially productive horizons indicated by wireline recording or otherwise; and
 - (c) promptly undertake the technical evaluation of the test results and of all other relevant subsurface data and submit the same to the DGPC as soon as possible.
- 3.6 Where the number of Work Units accomplished during any Period (a Period being any Phase of the Initial Term and any Renewal) exceeds the Minimum Work for that Period, the amount of such excess shall be carried forward and credited against the Minimum Work obligation of the next succeeding Period.
- 3.7 Neither Appraisal Wells nor seismic surveys carried out, as part of an Appraisal Programme drawn up pursuant to Article V shall discharge the Minimum Work set out in Article 3.3.
- 3.8 (a) On the Effective Date and prior to the first Day of commencement of each Phase, and where this Agreement has been renewed pursuant to Article 3.1, prior to the first Day of commencement of each Renewal, each Contracting

Company shall provide a legal opinion pursuant to Article XXVI along with an irrevocable and unconditional bank guarantee or escrow account. The aggregate amount of the unconditional bank guarantees shall be equal to the twenty five percent (25%) of the product of US \$10,000 and Work Units and:

- (i) for the Initial Term, the total number of Work Units included in the relevant Phase as specified in Article 3.3(a) and
 - (ii) for the First Renewal or Second Renewal, the total number of Work Units as specified in 3.3(b) and (c) respectively.
- (b) The amount of the bank guarantees submitted pursuant to Article 3.8(a) shall be proportionately reduced at the request of the concerned Contracting Company, provided that the requirements set forth in Article 26.2 are met.
- (c) For Escrow Account, the aggregate amount to be deposited in the bank account will be equal to 25% of the product of US \$10,000 and Work Units, in a bank of international repute acceptable to the Government. Subject to satisfaction of the Government, the amount of deposit in Escrow Account will be allowed to be proportionately reduced/withdrawn at the request of Contracting Company upon completion of work units at the end of each contract year.
- (d) GHPL should seek special permission from SBP for opening of special foreign currency account, to retain any foreign currency funds as security from contractors, alongwith the Ministry of Finance's recommendations to do the same.
- (e) Contractor shall not issue foreign currency denominated guarantees without permission from State Bank of Pakistan and ensuring observance of all SBP/Government rules and regulations.
- (f) As long as the Government holds a majority shareholding in any Working Interest Owner, such Working Interest Owner will not be required to provide performance guarantee.
- 3.9 Contractor shall commence Petroleum Operations within ninety (90) Days of the Effective Date.

ARTICLE IV RELINQUISHMENT

- 4.1 On or before the end of the Phase-I of Initial Term of the Licence, Contractor shall relinquish Sections representing not less than 30% of the Original Contract Area.
- 4.2 Contractor shall relinquish further Sections representing not less than 20% of the remaining Contract Area, on or before the end of the Phase-II of Initial Term of the Licence subject to Article 3.1(d) hereof.
- 4.3 Contractor shall relinquish further Sections representing to not less than 10% of the remaining Contract Area on or before the start of the Second Renewal period of the Licence subject to Article 3.1(d) hereof.

Provided that the DGPC may on the request of the Contractors allow retention of the licence area required to be relinquished under Article 4.1, 4.2 and 4.3, subject to the commitment by the Contractors to undertake additional work units equivalent to ten (10) percent of the applicable percentage in Article 4.1, 4.2 and 4.3 respectively of the Phase-I committed work units.

- 4.4 Except as otherwise provided herein, Contractor shall relinquish the remainder of the Original Contract Area, on or before the expiration of the Exploration Period.
- 4.5 The configuration of the Sections to be relinquished shall be determined by Contractor, provided, however, that:
 - (a) Contractor shall inform the DGPC in writing at least ninety (90) Days in advance of the date of relinquishment, of the description and the portion or portions of the Original Contract Area to be relinquished; and
 - (b) the Sections to be relinquished shall form not more than two (2) separate groups. Each group shall be a contiguous area of a compact nature whereby all Sections shall be connected and have in common at least on one of their sides of thirty (30) seconds longitude or latitude, subject to the configuration of the Original Contract Area, and the longest east/west and north/south dimensions of a relinquished area are such as to establish a viable possible future Contract Area.
- 4.6 During the Initial Term and any renewal thereof, Contractor shall not be obliged to relinquish any part of the Contract Area which has been made subject to an Appraisal Area or Development Area or Significant Gas Discovery Area.
- 4.7 Upon at least ninety (90) Days written notice to the DGPC, Contractor shall have the right to Surrender any portion of the Contract Area. Such surrender shall comply with the requirements of Article 4.5(b). Any acreage relinquished in excess of the relinquishments made pursuant to Articles 4.1, 4.2 and 4.3 may be credited against the relinquishment obligations for the next Phase or Renewal as the case may be.

4.8 No relinquishment or Surrender made in accordance with this Article shall relieve Contractor of:

(a) any obligations to make payments due prior to such relinquishment or Surrender, and

(b) any other obligations under in this Agreement,

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

ARTICLE V DISCOVERY AND DEVELOPMENT

- 5.1 In the event of a Discovery of Petroleum in the Contract Area, Operator shall promptly inform the DGPC in accordance with Rule 59 of the Rules and by further notice in writing within three (3) Months from the date of termination of drilling and testing of the respective Exploration Well inform the DGPC whether or not the Discovery, in the opinion of Contractor, merits Appraisal.
- 5.2 If Contractor notifies the DGPC that the Discovery does not merit Appraisal, DGPC shall have the option, on six (6) Months written notice, to require Contractor to immediately relinquish the Designated Area unless the Contractor has provided valid justification to retain the area covering the Discovery. The Designated Area shall:
- (a) not exceed 150 Sections;
 - (b) not comprise more than the vertical projection to the surface of the geological structure on which the Discovery Well was drilled; and
 - (c) be determined based on geophysical and other technical information obtained from the Discovery.
- 5.3 If Contractor notifies DGPC that the Discovery merits Appraisal, Contractor shall submit to the DGPC for approval within six (6) Months from the date of the notice referred to in Article 5.1, an Appraisal Programme which highlights the Appraisal Area and provides for the Appraisal of the Discovery within a period of one (1) Year from the date of approval of such Appraisal Programme, which may consist drilling of an Appraisal Well to the estimated depth of the reservoir discovered in the Discovery well.
- 5.4 Not later than six (6) Months from the date on which the Appraisal Programme has been completed, or within such further period as the DGPC may reasonably allow (taking into account the relevant technical and economic conditions), Contractor shall by notice in writing inform the DGPC, whether or not, in the opinion of Contractor, the Discovery is a Commercial Discovery or a Significant Gas Discovery.
- 5.5 Where Contractor has informed the DGPC that the Discovery is not a Commercial Discovery or Significant Gas Discovery, the DGPC may, by notice in writing, require Contractor to immediately relinquish the Designated Area. The Designated Area shall be determined as specified in Article 5.2 unless the Contractor has provided valid justification to retain the area covering the Discovery.
- 5.6 Where Contractor has informed the DGPC that the Discovery is a Commercial Discovery or a Significant Gas Discovery, Contractor will select the Development Area or Significant Gas Discovery Area, as the case may be, in the following manner :

- (i) it will not exceed the geological entity covering the Commercial Discovery or a Significant Gas Discovery; and
 - (ii) the Development Area or the Significant Gas Discovery Area shall be an area of no more than 150 contiguous Sections selected by Contractor, subject to the limitations of the Contract Area, whereby the Sections are connected and have in common at least one side of thirty (30) seconds latitude or longitude and. If Contractor can provide conclusive evidence based on geological, geophysical and other data that 150 Sections are not sufficient to cover the vertical projection to the surface of the discovered reservoirs, then DGPC may at its discretion approve a Development Area covering more than 150 Sections to account for the vertical projection to the surface of the discovered reservoirs within the boundaries of the Licence.
- 5.7 Where Contractor has by written notice informed the DGPC that the Discovery is a Commercial Discovery, Contractor shall, no later than twelve (12) Months from the date of such notice or within such time period as may be allowed by DGPC, present:
- (a) a detailed report on each Commercial Discovery as provided for in Article 5.10 to DGPC; and
 - (b) a Development Plan for the Commercial Discovery for approval by DGPC.
- 5.8 Upon the approval of each Development Plan, the Government shall subject to the terms of this Agreement and the Rules grant a Lease to GHPL for a period not exceeding twenty-five (25) Years covering the Development Area within three (3) Months of the approval of the Development Plan.
- 5.9 Contractor shall subject to the terms of this Agreement and the Rules be entitled to the Retention Period of each Significant Gas Discovery Area of a Significant Gas Discovery for a maximum period of up to five (05) Years following the Date of a Significant Gas Discovery. A further period of up to five (05) years will be available subject to justification acceptable to the Authority. No such retention period shall be allowed for an oil discovery. The application for the Retention Period in respect of the Significant Gas Discovery Area shall be submitted for approval of DGPC in accordance with the Rules. If the Contractor does not declare a Significant Gas Discovery as a Commercial Discovery during the Retention Period, the Contractor shall relinquish the significant Gas Discovery Area and the Licence shall terminate automatically upon the termination of the Retention Period. If Contractor declares a Commercial Discovery during the Retention Period, Contractor will select the Development Area out of the Significant Gas Discovery Area, and the provisions of Articles 5.6, 5.7 and 5.8 shall apply.
- 5.10 The report on each Commercial Discovery referred to in Article 5.7 shall cover all the relevant factors including, but not be limited to:

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

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

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

- (v) particulars of equipment required for the Petroleum Operations;
 - (d) estimate of the rates of Production to be established and projection of the possible sustained rate of Production in accordance with good international Petroleum industry practices under proposed Development proposal and/or alternative Development proposals;
 - (e) cost estimates under such Development proposed and alternative Development proposals, if any;
 - (f) proposals related to the establishment of processing facilities (if any);
 - (g) safety measures to be adopted in the course of the Petroleum Operations, including a contingency plan and measures to deal with emergencies;
 - (h) anticipated adverse impact on environment and measures proposed to be taken for prevention thereof and for general protection of the environment;
 - (i) a description of the organizational set up of Contractor/Operator in Pakistan;
 - (j) an estimate of the time required to complete each phase of the proposed Development;
 - (k) a description of the measures to be taken regarding the employment and training of Pakistani personnel;
 - (l) a description of the abandonment plan, to be implemented whenever a piece of equipment, facility or a platform needs to be abandoned prior to or on termination of this Agreement;
 - (m) a map or maps of the outline of the discovered reservoir(s) together with technical or other back up justification; and
 - (n) a plan for utilization of local goods and services.
- 5.12 Each Development Plan requires approval of the DGPC in accordance with the Rules. Such approval will not be unreasonably withheld or delayed. The DGPC may only disapprove of the Development Plan, where such plan is not materially in accordance with the terms and conditions of this Agreement and the Rules.
- 5.13 After approval of a Development Plan, Contractor shall carry out the Petroleum Operations substantially in accordance with this plan, subject to such modifications which may be necessary from time to time which are approved by the DGPC in accordance with the Rules.
- 5.14 Contractor shall with the approval of DGPC amend the Development Plan as required or where a new Commercial Discovery is made as a result of further Exploration in the Development Area.

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

Contractor shall, within sixty (60) Days of DGPC notification under Article 5.17(b) relinquish such Sections unless Contractor disputes such notification in writing to DGPC in which case dispute resolution proceedings may be initiated by Contractor through a sole expert in accordance with Article 29.2 unless mutually agreed otherwise.

ARTICLE VI PRODUCTION SHARING

- 6.1 All Crude Oil/LPG/Condensate and Natural Gas produced and saved from the Contract Area and not used in the Petroleum Operations (hereinafter referred to as "Available Oil" or "Available Gas") shall be measured at the applicable Measurement Point and allocated as set forth hereinafter. Test or experimental production shall require approval in accordance with the Rules and all Available Oil and all Available Gas produced therefrom shall be allocated as set forth herein.
- 6.2 Contractor shall recover Expenditure not excluded by the provisions of this Agreement or the Accounting Procedure in respect of all Petroleum Operations hereunder to the extent of and out of a maximum of 85% of all Available Oil and all Available Gas (hereinafter referred to as "Cost Recovery Oil" and "Cost Recovery Gas" respectively). Available Oil and Cost Recovery Oil shall include LPG and Condensate. Any Royalty payments as well as any payment referred to in Article IX shall be part of the Expenditure and shall be recoverable as Cost Recovery Oil or Cost Recovery Gas.
- 6.3 All Expenditure permitted for cost recovery under this Agreement shall be treated as an expense (and not capitalized) for purposes of cost recovery, shall be allocated to Cost Recovery Oil or Cost Recovery Gas on the date such costs are incurred in accordance with the Accounting Procedure and shall be determined in US\$.
- 6.4 The cost recovery shall be determined on a Quarterly basis and any Expenditure in excess of the limit established in Article 6.2 shall be carried forward for cost recovery during the following Quarter, and such procedure shall be repeated until the Expenditure is fully recovered.
- 6.5 The Crude Oil, LPG and Condensate remaining after the deduction of the Cost Recovery Oil from the Available Oil (subject to the limit provided for in Article 6.2) shall be considered Profit Oil. The Natural Gas remaining after the deduction of the Cost Recovery Gas from the Available Gas (subject to the limit provided for in Article 6.2) shall be considered Profit Gas.
- 6.6 Profit Oil and Profit Gas from the Contract Area shall be allocated on a Monthly basis between GHPL and Contractor in accordance with a sliding scale based on the cumulative Available Oil and Available Gas produced from the Contract Area during the term of this Agreement as follows:
 - (a) where Petroleum is produced from a Shallow Grid Area(s) (description of which is given in Annex-VI) from geological formation(s) encountered at less than 200m water depth and depth to reservoir shallower than 4000 meters below sea level:

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

- (b) where Petroleum is produced from geological formation(s) encountered at wells in deep grid area of more than or equal to 200m and less than 1,000m water depth or deeper than 4000 meters to reservoir below sea level in a Shallow Grid Area(s) or where Petroleum is produced from geological formation(s) from Deep Grid Area(s) (description of which is given in Annex-VI) irrespective of the depth of the geological formation(s):

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

- (c) where Petroleum is produced from geological formation(s) from Ultra Deep Grid Area(s) of more than or equal to 1000m water depth (description of which is given in Annex-VI) irrespective of the depth of the geological formation(s):

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

(d) where Crude Oil/LPG/Condensate and Natural Gas is produced from different parts of the Contract Area or from different depths, and a portion of the Petroleum produced from the Contract Area meets the requirements of Article 6.6(a) above and a portion meets the requirements of Article 6.6 (b) above, the Profit Oil share of GHPL will be determined by the following three steps:

- (i) first determine cumulative Profit Oil Share ("PS_{OS}") the total cumulative Available Oil production (Q_S + Q_D as defined hereunder) from Contract Area as if it meets the criteria set forth in Article 6.6 (a) above ;
- (ii) then, determine the cumulative Profit Oil share (PS_{OD}) based on the total cumulative Available Oil production (Q_S + Q_D as defined hereunder) from the Contract Area as if it meets the criteria set forth in Article 6.6 (b) above;
- (iii) finally the weighted average Profit Oil share of GHPL will be determined on the basis of following formula:

$$((Q_S * PS_{OS}) + (Q_D * PS_{OD})) \div (Q_S + Q_D)$$

in which

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

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

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

The principle outlined above, shall also be applicable to the portion of the Petroleum produced from different parts or different depths of the Contract Area that meets the requirements of Article 6.6(a) above or Article 6.6 (b) or Article 6.6 (c) or combination thereof.

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

- (a) for Crude Oil/ Condensate Production:

$$WLO = 0.4 \times (P.R) \times (SCO)$$

where:

WLO is the Windfall Levy on share of Crude Oil /Condensate, expressed in \$;

P is the Market Price of Crude Oil /Condensate Production allocated to Contractor under Article 6.6, expressed in BBLs;

SCO is the Share of Crude Oil and Condensate allocated to Contractor; and

R is the base price of \$40 per BBL which will be increased each calendar year by US\$ 0.50 per BBL starting from the date of first commercial production in the Contract Area.

(b) for Natural Gas Production:

$$WLG = 0.4 \times (PG-BR) \times V$$

where:

WLG is the windfall Levy on share of Natural Gas, expressed in \$;

PG is the Third Party Sale Price of Natural Gas, expressed in \$ per MMBtu;

BR is the Base Price of Natural Gas, expressed in \$ per MMBtu which will be equal to the gas price for applicable Zone; and

V is the volume of gas sold to third party excluding royalty

Where the Value is less than or equal to the base price, the windfall price share shall be zero. The windfall price share shall not apply to sales of Natural Gas made under Article X to Government, Provincial Government, GHPL or its designee.

GHPL, after collection of WLO and WLG from Contractor(s), shall pay the amounts so collected to the President in the manner as prescribed by DGPC.

6.10 Subject to Article X and XI, each Contracting Company shall have the right to export freely its share of Petroleum.

6.11 The volume and quality of Petroleum produced and saved from the Contract Area shall be measured by methods and measurement devices complying with good international Petroleum industry practices, approved by the DGPC and in compliance with the Rules. Contractor shall not make any alteration in the agreed method or procedures for measurement or to any of the approved measurement devices used for that purpose without the prior written consent of the DGPC.

6.12 GHPL and the DGPC may, at all reasonable times, inspect and test the measurement devices used for measuring the volume and determining the quality of Petroleum produced, provided that any such inspection or testing shall be carried out in such a manner so as not to unduly interfere with Petroleum Operations.

- 6.13 Before commencement of Commercial Production from the Contract Area, the Parties shall mutually agree on the precise location of the point at which Petroleum produced shall be measured in accordance with Article 8.4.
- 6.14 GHPL shall have the option to take its entitlement to Profit Oil and Profit Gas either in cash or in kind subject to the following:
- (a) if the GHPL elects to take all or part of Profit Oil in kind, it shall initially so notify Contractor in writing not less than one hundred eighty (180) Days prior to the commencement of deliveries of such Profit Oil, and thereafter, not less than one hundred eighty (180) Days prior to the commencement of each Calendar Year specifying the quantity and designating the grade and quality of Profit Oil that it elects to take, based upon Contractor's estimates of Production. Final adjustments shall be made within ninety (90) Days of the end of each Calendar Year on the basis of actual quantities. Such notice shall be effective for the ensuing Calendar Year. Failure to give such notice shall be deemed to be the election by the GHPL not to take any Profit Oil in kind.
 - (b) if the GHPL elects to take all or part of Profit Gas in kind, it shall so notify Contractor within one hundred eighty (180) Days after approval of Development Plan under Article 5.7. Failure to give such notice shall be deemed to be the election by the GHPL not to take any Profit Gas in kind.

**ARTICLE VII
ASSIGNMENT AND TERMINATION OF
AGREEMENT**

7.1 As of the Effective Date, the Contracting Companies hold Participation Interest as indicated below:

<u>CONTRACTING COMPANIES</u>	<u>PARTICIPATING INTEREST</u>
ABC	--%
XYZ	--%

7.2.1 Subject to Article 7.2.2 below any Contracting Company shall not sell, assign, transfer, convey or otherwise dispose of all or any part of its rights and obligations under this Agreement, to a third party or any of its Affiliates without the previous consent in writing of the Government, which shall not be unreasonably withheld provided that:

- (a) the prospective assignee or transferee has sound financial standing and technical competence and the capacity or ability to meet obligations hereunder and is willing to provide an unconditional undertaking to assume the obligations of the assignor and to provide guarantees in respect thereof as provided in this Agreement;
- (b) the assignment or transfer will not adversely affect the performance or obligations under this Agreement or be contrary to the best interests of Pakistan;
- (c) as a condition to any assignment, such Contracting Company shall provide to the Government an unconditional undertaking of the assignee to assume all rights, privileges and obligations of this Agreement. In the case of a partial assignment, notwithstanding such undertaking, the Contracting Company remains jointly and severally liable with the assignee for performance of its obligations; and
- (d) The prospective assignee or transferee should not be a company incorporated in a country with which the Government for national security or policy reasons has restricted economic relations or which is known to be hostile or unfriendly.

7.2.2 Any Contracting Company may sell, assign, transfer, convey or otherwise dispose of all or part of its rights and obligations under this Agreement:

- a) to any of its Affiliates with the prior consent in writing of the Government, such consent not to be withheld if (i) the assignee is incorporated in a country with which the Government has not officially restricted its

international relationship for national security or policy reasons; and (ii) the assignment does not result in a loss of fiscal revenues for the Government.

- b) to any other Contracting Company with the prior consent in writing of the Government, such consent not to be withheld if as a condition precedent to the assignment the assignee:
 - (i) procures and delivers to the Government a revised guarantee corresponding to its revised Participating Interest under this Agreement, in accordance with Articles 3.8 and XXVI hereunder;
 - (ii) demonstrates to the satisfaction of the Government that it has requisite technical and financial capacity to satisfy its obligations as per its revised Participating Interest.

7.2.3 Any purported assignment made in breach of the provisions of this Article 7.2 shall be null and void.

7.3 The Government may establish a Government-owned entity other than GHPL that will hold its production sharing rights granted under this Agreement; in this event the Government shall promptly notify Contractor and advise that the rights of the Government in respect thereof under this Agreement have been assigned to such entity. Promptly upon receiving such notice, Contractor will deal with such new entity in the place and stead of GHPL under this Agreement.

7.4 Pursuant to Rule 78 of the Rules the Government shall have the right to terminate this Agreement and to take without payment all property of whatever nature of Contractor in Pakistan that are cost recoverable under this Agreement if any of the following events shall occur:

- (a) Contractor fails to make any payments required by law or under this Agreement within a specified period after the due date.
- (b) subject to the provisions of Article 29.3, Contractor fails to conform to the provisions of an arbitration award under Article XXIX hereof within the period stipulated in such award;
- (c) Contractor has knowingly provided false information to the Government which was in any manner a material consideration in the execution of this Agreement;
- (d) Contractor has intentionally and knowingly extracted or authorized the extraction of any mineral not authorized to be extracted by this Agreement or without the authority of the Government, except such extraction as may be unavoidable as a result of Petroleum Operations conducted hereunder in accordance with good international Petroleum industry practices, which when so extracted was immediately notified to the Government;

- (e) each Contracting Company makes an arrangement or composition with its creditors or a receiver is appointed, or each Contracting Company goes into liquidation whether compulsory or voluntary; or is adjudged bankrupt by a competent court or enters into any agreement or scheme of composition with its creditors or takes advantage of any law for the benefit of debtors provided that in case other joint venture partners decide not to acquire his working interest;
- (f) Contractor fails to fulfill the obligations under Article III hereof;
- (g) each Contractor fails to deliver the guarantees contemplated by Article XXVI; or
- (h) Contractor commits any other breach of material nature to this Agreement, license, lease(s) and/or the Rules.

The rights of the Government under this Article 7.4 are subject to the provisions of Article 7.5.

7.5 If either the President or GHPL or Contractor (the defaulting Party) commits a material breach of this Agreement, the other Party(ies) (the non-defaulting Party(ies)) shall have the right to terminate this Agreement based on the following procedure:

- (a) in the event that the non-defaulting Party(ies) declares its intention to terminate this Agreement pursuant to this Article 7.5, it shall give to the defaulting Party notice in writing specifying the particular material breach complained of and requiring such defaulting Party, within three (3) Months of such notice or within such extended time as the Party giving notice deems fair having regard to the circumstances of the particular case (the period of time specified in the notice hereinafter referred to as the "Specified Period"), to remedy the same or pay reasonable compensation to the complaining Party, as the case may be, in a manner acceptable to that Party;
- (b) if the Party receiving the notice shall fail to comply with said notice, the complaining Party may, after the expiration of the Specified Period, terminate this Agreement provided, however, that such termination will not take effect where there is any dispute between the defaulting Party and the non-defaulting Party as to:
 - (i) whether there has been any material breach by the Party to which notice was given, of any term, obligation, or condition of this Agreement, or
 - (ii) whether any breach was remediable or as to the manner in which it should be remedied,

and either the President or GHPL or Contractor has, within the Specified Period, referred such dispute to arbitration under Article XXIX; neither the President nor GHPL nor Contractor shall exercise its power of termination until the result of the arbitration is known, provided, however, that the Party which elects to refer the dispute to arbitration shall be diligent in pursuing its claim in the arbitration proceedings.

- 7.6 Contractor may terminate this Agreement on thirty (30) Days' written notice provided that Contractor has satisfied all its pending obligations under this Agreement in accordance with Rule 32 of the Rules.
- 7.7 If the circumstance or circumstances that would otherwise result in termination under Articles 7.4 or 7.5 are the result of *force majeure*, then termination shall not take place so long as such *force majeure* continues or for such period as the Parties may determine to be reasonable except as provided in Article 28.6 hereof.
- 7.8 This Agreement shall automatically and immediately terminate, where:
- (a) Contractor has not declared a Significant Gas Discovery or a Commercial Discovery during the Initial Term of this Agreement or the First Renewal or the Second Renewal or any extensions thereof, or
 - (b) Contractor has not established Commercial Production from at least one of the Commercial Discoveries within seven (7) Years of the first declaration of a Commercial Discovery, or
 - (c) Contractor has only declared one or more Significant Gas Discoveries, and has not made a Declaration of Commercial Discovery for at least one (1) of such Significant Gas Discoveries during the Retention Period, or
 - (d) Contractor has not requested or has not been granted a extension of the Initial Term or First Renewal in accordance with this Agreement and has not made a declaration of Commercial Discovery or a Significant Gas Discovery.
- 7.9 The termination of this Agreement, for whatever reason shall be without prejudice to the obligation(s) or liability(ies) incurred and not discharged by any Party prior to the date of termination.
- 7.10 Within 90 Days of termination of this Agreement or within such a period as may be agreed with the Government, Contractor shall take and complete all reasonable and necessary action at Contractor's own cost:
- (a) to avoid environmental damage or hazard to human life or third party property, and
 - (b) remove such installations and equipment as are no longer required for the Petroleum Operations.

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

- 7.11 Assets purchased by Contractor for use in the Petroleum Operations shall be owned by Contractor who shall be responsible for proper maintenance, insurance and supply of all machinery, equipment and facilities acquired for Petroleum Operations and for keeping them in good repair, order and working condition at all times. Except as provided for in this Agreement Contractor shall have the exclusive right to use free of charge and for the entire duration of this Agreement and any extension thereto all machinery, equipment and facilities mentioned in this Article 7.10 if required for the conduct of Petroleum Operations under this Agreement, provided that GHPL shall have the right to require vesting of full title and ownership in it, free of charge and encumbrance of any or all assets, whether fixed or moveable acquired and owned by Contractor for use in Petroleum Operations inside or outside the Contract Area, such right to be exercisable at the option of GHPL upon expiry or earlier termination of this Agreement. Upon expiry or earlier termination of this Agreement, the title and ownership of all assets purchased by Contractor including but not limited to machinery, equipment and facilities in the Contract Area necessary for the Production and transportation of Petroleum shall be transferred to GHPL, together with the abandonment funds provided for in Article 7.14 without compensation and with automatic cancellation of any security for debt related to such assets(s).
- 7.12 At least one (1) Year prior to termination of Production from any Lease, Contractor shall submit to the GHPL a plan for the smooth transfer of Petroleum Operations to GHPL if Commercial Production is likely to continue.
- 7.13 Where any Gaseous or Liquid Reservoir is capable of continued Commercial Production upon the termination of this Agreement, GHPL may at its sole discretion elect to: (a) negotiate a new production sharing agreement with respect to Contract Area, or (b) take over Petroleum Operations of the Contract Area. If a new production sharing agreement is negotiated on the basis of a bidding process, Contractor shall have the right to participate in such bidding process unless this Agreement has been terminated due to breach of its provisions by Contractor. Where GHPL is of the opinion that the continuation of Commercial Production is no longer possible and there is no other likely use of those facilities then Contractor shall abandon Petroleum Operations in accordance with the good international Petroleum industry practices and applicable laws of Pakistan pursuant to an abandonment plan approved by the Government (Abandonment Plan) which shall be submitted for approval after exhaustion of 50% of cumulative expected production or seven (7) Years before the likely termination of production from the Development Area whichever is later.
- 7.14 For abandonment of any well, platform, facility or other asset related to Petroleum Operations in the Contract Area, Contractor shall establish an escrow account for the estimated cost of implementing Abandonment Plan (Abandonment Costs). Unless otherwise agreed by GHPL and Contractor, the full amount of the Abandonment Costs shall be placed in the escrow account as per this Article 7.14

on a yearly basis over seven years from the approval of abandonment plan in proportion to annual production. Any escrow account so approved shall be opened in a reputable international bank agreed upon by the Parties. This escrow account shall be titled "Abandonment Fund" and administered and disbursed as agreed by the Parties. When Abandonment Costs are incurred, they will be paid first out of any amounts available in the Abandonment Fund. Amounts contributed to the Abandonment Fund shall be recoverable for Cost Recovery Gas and Cost Recovery Oil purposes, but disbursements from the Abandonment Fund shall not be so recoverable. Any amounts contributed to the Abandonment Fund but not ultimately expended on Abandonment Costs will result in an appropriate recalculation of Cost Recovery Oil, Cost Recovery Gas, Profit Oil and Profit Gas utilizing a "first in, first out" basis for amounts contributed to the Abandonment Fund, and appropriate payments of Profit Oil and Profit Gas shares shall be made to GHPL reflecting that calculation.

**ARTICLE VIII
VALUE FOR ROYALTY AND PRODUCTION SHARING PURPOSES**

- 8.1 For the purposes of determination of Royalty, Cost Recovery Oil and Cost Recovery Gas, the Value of Petroleum shall be established at the Measurement Point in accordance with the Rules and this Agreement. The Value shall not be reduced for the costs of any operations downstream of the Measurement Point. Where the Government requires Contractor to meet the internal Petroleum requirements in Pakistan pursuant to Article X, then the Value shall be determined in accordance with Article X. For avoidance of doubt, in the case of LPG, the value for payment of royalty shall be its realized market value.

- 8.2 To facilitate computations, the Value of Crude Oil, Natural Gas, LPG and Condensate shall be determined as of the last Day of each Month as the weighted average value of all such transactions that took place during the Month.

- 8.3 Contractor is expressly permitted the reasonable use upstream of the Measurement Point of Petroleum produced hereunder for the Petroleum Operations free of all costs, excise duty and Royalty, provided that Contractor shall not be entitled to include any notional cost of Petroleum so used for Cost Recovery Oil or Cost Recovery Gas purposes.

- 8.4 Except as provided in Article 21.3 the Measurement Point shall be at the outlet flange of the offshore platform within the Contract Area where Crude Oil/LPG/Condensate or Natural Gas are being processed in order to make this Crude Oil, Condensate or Natural Gas suitable for transportation from the Contract Area. This shall not preclude the establishment of several Measurement Points in a Contract Area, each related to a specific Production facility. Where Production does not take place on an offshore platform, the Parties shall mutually agree to an appropriate Measurement Point.

**ARTICLE IX
ROYALTY AND RENTALS**

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

PERIOD AFTER COMMENCEMENT OF COMMERCIAL PRODUCTION	Royalty Percentage
First 48 Calendar Months	0.0%
Calendar Months 49 to 60 inclusive	5.0%
Calendar Months 61 to 72 inclusive	10.0%
Calendar Months 73 and greater	12.5%

- 9.2 The royalty will be paid in cash or kind at the option of Federal Government in consultation with Province in case if it is in kind to the extent of their share only if the block falls within the territorial waters on liquid and gaseous hydrocarbons (such as LPG, NGL, Solvent oil, gasoline and others) as well as all substances including sulphur, produced in association with such hydrocarbon. The lease rent paid during the year shall not be deductible from the royalty payment. This option for cash or kind shall be exercised by the Federal Government at the time of approval of Field Development Plan.
- 9.3 The Royalty in cash shall be payable Monthly, within ten (10) Days of the expiry of the Calendar Month in which Production occurs. Payment shall be accompanied by detailed statements from Contractor setting forth the basis for computation of the Royalty. Such statements shall contain the details as may be notified by the Government in accordance with the Rules.
- 9.4 For the purposes of determining the amount of Royalty due, Petroleum shall be valued in accordance with the Rules and Article VIII hereof.
- 9.5 Royalty in kind shall not be subject to the reimbursement by Contractor of the gathering, processing, treatment and transport costs incurred by Contractor upstream of the Measurement Point.
- 9.6 Contractor shall pay annual acreage rental as provided in Rules.
- 9.7 Where the Royalty is to be provided in kind, the Royalty shall be transferred directly at the Measurement Point to GHPL or its designated entity and Contractor shall only retain the remaining Cost Recovery Oil and Cost Recovery Gas.
- 9.8 Royalties will be treated as an expense for the purpose of determination of income tax liability.

ARTICLE X
RIGHT OF ACQUISITION OF PETROLEUM

10.1 If the Government requires Contractor to meet the internal Petroleum requirements of Pakistan, the following provisions shall apply. If the Government does not require Contractor to meet the internal Petroleum requirements of Pakistan, then Contractor is entitled to sell Contractor's share of Petroleum produced from the Contract Area in Pakistan or elsewhere at Contractor's election. The provisions set out below regarding the price for Petroleum delivered in Pakistan apply only where the Government has required Contractor to meet the internal Petroleum requirements of Pakistan.

- (a) if, in any Calendar Year, there is domestic demand in excess of Crude Oil available to GHPL as its share and Royalty, Government may require Contractor to sell Crude Oil in Pakistan on a pro-rata basis with other producers in Pakistan, according to the Crude Oil Production of each producer in a Calendar Year, provided that Contractor shall have available for export (or such other disposition as it may decide upon) in any one Year not less than sixty percent (60 %) of its share of Crude Oil produced from the Contract Area. Government shall give Contractor at least three (3) Months written notice in advance of such requirement (such requirement being specified in the notice on a monthly basis) and the term of the supply will be on an annual basis.
- (b) Government may require Contractor to provide the Natural Gas Production from a Lease area to meet Pakistan's internal requirements in accordance with L-15 principle as laid down in the Petroleum Policy, provided, however, such requirement be notified in writing to Contractor in accordance with the Rules and not later than six (6) months after completion of the appraisal program as per Article 5.4 so that Contractor can take into account this requirement when evaluating the commerciality of the Discovery.
- (c) whenever Contractor is selling pipeline quality Natural Gas of acceptable specifications to the GHPL or its designee to meet Pakistan's internal requirements, it shall receive a price of Natural Gas at the Measurement which will be indexed to the C&F price of a basket of Arabian/Persian crude oil import in Pakistan during the first six months period of the seven months period immediately preceding the relevant price notification period (import Basket) as published in an internationally recognized publication acceptable to the parties. The C&F Price will be arrived at on the basis of FOB price of imported crude oils into Pakistan plus freight on AFRA, which is deemed chartered rates.
 - a. The price of pipeline quality Natural Gas shall be computed and notified in United States Dollars per MMBTU according to the following formula:

$$P_g = P_m * D_z / C_f$$

Where P_g is the Gas Price in USD per MMBTU.

P_m is the Applicable Marker Price in USD per barrel determined as follows:

When RCP is USD10/barrel or below, P_m equals USD10.

When RCP is higher than USD10/barrel and not over USD 30/barrel, P_m equals RCP;

When RCP is higher than USD 30/barrel and not over USD 50/barrel, P_m equals 30 plus 50% of the incremental RCP above USD 30/barrel;

When RCP is higher than USD50/barrel and not over USD 70/barrel, P_m equals 40 plus 30% of the incremental RCP above USD 50/barrel;

When RCP is higher than USD 70/barrel and not over USD 110/barrel, P_m equals 46 plus 20% of the incremental RCP above USD 70/barrel;

The RCP ceiling of USD 110/barrel would be reviewed after every five years after the award of Contract or as and when the pricing dynamics significantly change in the international market.

D_z is the zonal index which shall have the value of 73.88% for Zone 0 (Shallow); 84.44% for Zone 0-(Deep), 95% for Zone 0(Ultra-deep).

C_f is the Applicable Conversion Factor, the weighted average of the heating values expressed in MMBTU per barrel for the basket of Arabian/Persian Gulf Crude Oils imported in Pakistan.

Contractor shall be entitled to a, bonanza of US \$ 1/MMBTU over and above the price calculated above provided the gas discovery made under the Contract falls under first three gas discoveries in Pakistan offshore area.

Illustration of the gas price workings are attached as Annex-X(i), X(ii) and X(iii).

- (d) the Contractor's Price for crude oil delivered at the nearest refinery gate shall be equal to C&F price of a comparable crude oil or a basket of Arabian/Persian Gulf crude oils (Reference Crude or RC) plus or minus a quality differential between the RC and the local crude oil. No other adjustment or discount will apply other than Windfall Levy. C&F price will be

arrived at on the basis of FOB price of imported crude oils into Pakistan plus freight on AFRA, which is deemed chartered rate. Contractor's Price for condensate will be the FOB price of internationally quoted comparable condensate delivered at the nearest refinery gate plus or minus a quality yield differential, based on the value in the Arabian Gulf spot products market of the crude oil/condensate. No other adjustment or discount will apply other than Windfall Levy.

- 10.2 If GHPL or its designee purchases Crude Oil, Condensate, LPG and Natural Gas at the Measurement Point, title to and risk of loss of Petroleum purchased by GHPL or its designee shall pass at the Measurement Point as provided for in Article 2.6.
- 10.3 In the event that GHPL or its designee is unwilling to purchase all or a portion of Contractor's share of Crude Oil, Condensate, LPG or Natural Gas to which GHPL is entitled pursuant to Article 10.1 hereof, Contractor shall have the right to export or otherwise dispose of such Petroleum in accordance with this Agreement.
- 10.4 Government shall have the right to purchase, in accordance with Article 10.1 above, all or any portion of the Petroleum produced in case of war or emergency.
- 10.5 The GHPL or its designee shall pay to a Local Contracting Company upto 30% of their sale proceeds in foreign exchange for all petroleum purchases in accordance with the provision of this article to meet their day to day operational requirements. The GHPL or its designee shall make the payment in US\$ for Petroleum purchased from Foreign Contracting Company, within sixty (60) Days of receiving invoice from the Contractor to the bank designated by the Contractor. In case the designated bank is closed on the due date, the payment shall be made on the next business Day. In the event payments for all amount due are not timely made, the Contractor shall have no further obligation to sell and deliver Petroleum to the GHPL or its designee until such time as all past due amounts are paid. Any past due payment shall bear interest after the due date at the rate per annum of 1.5 percent (1.5%) above the London Interbank Offer Rate ("LIBOR") for one Month deposits of US Dollars as reported in the London Financial Times, or any other agreed publication.

**ARTICLE XI
DISPOSAL OF PETROLEUM**

- 11.1 Contractor hereby agrees to refrain from exporting Petroleum produced from the Contract Area to countries with which the Government for national security or policy reasons has officially restricted its international relationship.
- 11.2 Subject to the Rules, the Natural Gas which is not used in Joint Operations, and the processing and utilization of which, in the opinion of the Contractor, is not economical, shall be returned to the subsurface structure or may be flared with the approval of the DGPC, or may be utilized as per Rules and Utilization of Flare Gas Guidelines, applicable mutatis mutandis, as amended from time to time.

ARTICLE XII FOREIGN CURRENCY

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

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

12.10 The Government shall have the right to verify any statements and reports submitted by Contractor pursuant to this Article 12.9 and Contractor shall promptly respond to any query made to the reasonable satisfaction of the State Bank of Pakistan or the designated Government office.

12.11 After commercial discovery, Local Contracting Companies shall be paid up to 30%, at the discretion of the Local Contracting Company, of their sale proceeds in foreign currency to meet their day to day operation requirements.

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

- 13.1 The Operator engaged in Petroleum Operations under this Agreement shall be permitted to import, export, transfer and dispose the machinery, equipment, materials, specialized vehicles, accessories, spares, chemicals and consumable etc. in accordance with the provisions of this Agreement and SRO 678(I)/2004 dated 7th August 2004 as amended till the date of execution of the Agreement (Annex-VII) and provisions of the applicable Customs General Order (CGO). No licence or import-cum-export authorization fee shall be levied on such imports /exports in accordance with Import Fee Order, 1993 as amended by SRO 336 (I) / 94 dated 26th April, 1994 as amended till the date of execution of the Agreement (Annex-VIII).
- 13.2 In the conduct of Petroleum Operations, Contractor shall:
- (a) give preference to the purchase and use of goods manufactured and produced in Pakistan provided that such goods are of acceptable specifications and are available on comparable terms;
 - (b) employ Pakistani Subcontractors having the required skills or expertise, to the maximum extent possible, insofar as their services are available on comparable standards with those obtained elsewhere on competitive terms; provided that where no such Subcontractors are available, preference shall be given to non-Pakistani Subcontractors who will use Pakistani goods to the maximum extent possible;
 - (c) co-operate with domestic companies in Pakistan to enable them to develop skills and technology to service the Petroleum industry; and
 - (d) conduct all Petroleum Operations in a diligent, conscientious and workmanlike manner, in accordance with the applicable laws and the Agreement, and generally accepted standards of the international Petroleum Industry designed to achieve efficient and safe Exploration, Development & Production of Petroleum and prevent loss or waste of Petroleum above or below the surface and to maximise the ultimate economic recovery of Petroleum from the Contract Area;
 - (e) ensure that all materials, equipment, technologies and facilities used in Petroleum Operations comply with generally accepted engineering standards in the international Petroleum industry, and are kept in good working order;
 - (f) ensure that provisions in terms of paragraphs (a) to (e) above are contained in contracts between Contractor and its Subcontractors.

- 13.3 Contractor shall establish appropriate procedures, including tender procedures in consultation with GHPL, for the acquisition of goods and services which shall ensure that suppliers and Subcontractors in Pakistan are given adequate opportunity to compete for the supply of such goods and services. The tenders shall be awarded on the basis of open competitive bidding and the procedures for such bidding and the exceptions to bidding in cases of emergency shall meet, and be subject to, all other requirements for tenders set out in this Agreement.
- 13.4 Within one hundred and twenty (120) Days after the end of each Calendar Year, Contractor shall submit to the Government with a report containing its Local Procurement Statement outlining its achievements in utilizing Pakistani goods and services during that Calendar Year.
- 13.5 The prevalent schemes meant for privileged persons as dealt under clauses 38 and 39 of SRO 450(I)/2001 dated 18th June 2001 as well as concessions granted to expatriate employees in clause 22 of CGO 12/2002 shall be applicable to foreign employees and consultants of Operator and secondees of the other Contracting Companies.
- 13.6 Operator, acting on behalf of Contractor, shall be entitled, subject to provisions of this Agreement, to export such of their items as have been imported into Pakistan and are not required for the Petroleum Operations without restriction and without the payment of any fee, tax or export duty. Draw backs if admissible will be available as per relevant rules. Operator shall ensure that equipment/material imported by it under this Article 13.7 against its import-cum-export authorization are exported if all the Petroleum Operations under this Agreement are terminated unless otherwise provided for or permitted in accordance with this Agreement.
- 13.7 Subject to the rights granted under the provisions of this Agreement and particularly those granted under this Article XIII, any items banned for import into Pakistan under the import or trade policy in force from time to time shall not be permitted without specific permission to be obtained from the Government before shipment of goods from abroad.
- 13.8 Contractor shall not be liable to pay any tax, assessment, levy, octroi or charge imposed or levied on the transportation or movement of the scheduled goods to and from the Contract Area or on any item imported under this Article XIII.
- 13.9 Imports/exports under this Article XIII except as provided in Article 13.4 shall be affected in accordance with the import/export or trade policy in force from time to time.
- 13.10 At least ten percent (10%) of the computer software contracts shall be awarded by the Contractor to use the local software capabilities, subject to such software capabilities being available at a competitive price.

**ARTICLE XIV
TAXATION**

- 14.1 The profits or gains of each Contracting Company from the Petroleum Operations under the Agreement shall be computed in accordance with the provisions of the *Income Tax Ordinance, 2001* (No. XLIX of 2001) read with the applicable Schedule of the Ordinance as in force on the Effective Date (the Ordinance). The sum of payments to the Government and taxes on income shall be forty percent (40%) of the profit and gains in accordance with the Ordinance.
- 14.2 With respect to the application to this Agreement of the Fifth Schedule of the Ordinance (hereinafter "Fifth Schedule"), the following principles shall apply:
- (a) this Agreement shall be construed as an "agreement" for the purpose of the Fifth Schedule;
 - (b) the term "payments to Government" shall have the same meaning as ascribed to it in the Ordinance;
 - (c) "Petroleum" shall mean Petroleum as defined in this Agreement;
 - (d) "surrender" shall mean Surrender as defined in this Agreement;
 - (e) "surrendered area" shall mean Surrendered Area as defined in this Agreement; and
 - (f) "well-head value" shall mean the Value established pursuant to the Rules and Article 8.1 of this Agreement.

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

**ARTICLE XV
MANAGEMENT COMMITTEE**

- 15.1 Within sixty (60) Days from the Effective Date, a committee shall be constituted to be called the Management Committee (MC) with functions as stated herein below.
- 15.2 GHPL shall nominate two (2) members and two (2) alternate members on the Management Committee whereas Contractor shall nominate three (3) members and three alternate members on the Management Committee among which at least two (2) members will be appointed by the Operator and if Contractor comprises more than one entity at least another one (1) member will be coming from a Contracting Company other than the Operator. GHPL and Contractor shall as soon as possible after the Effective Date give notice in writing to the other of the name and address of their respective members and alternate members to serve on the Management Committee.
- 15.3 GHPL and Contractor shall nominate alternate members with full authority to act in the absence of the members nominated under Article 15.2 and may at any time, nominate another member or alternate member to replace any member nominated earlier by notice to the other members of the Management Committee.
- 15.4 A member appointed by the Operator in the Management Committee shall be designated as the Chairman of the Management Committee. One of the representatives of the GHPL shall be designated as the Deputy Chairman of the Management Committee.
- 15.5 Contractor shall submit the following matters to the Management Committee for review and approval:
- (a) annual work programme and budgets together with employment plan for Petroleum Operations and any modification or revisions thereto;
 - (b) procurement procedures in accordance with Article 13.3 and terms of contracts with Subcontractors;
 - (c) determination of a Development Area and proposals for the approval of Development Plans, or revisions or additions to a Development Plan.
 - (d) progress of Contractors' work
 - (e) proposed Production levels and allocation mechanism.
 - (f) appointment of auditors, approval and adoption of audited accounts;
 - (g) claims or settlement of claims for or on behalf of or against the Contractor in excess of limits fixed by the Management Committee from time to time;
 - (h) proposal about abandonment plan/site restoration as required to be submitted under Article 7.14;

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

- 15.10 All matters requiring the approval of the Management Committee shall be approved by a unanimous vote of the members of the Management Committee present. There shall be a quorum of the Management Committee comprising at least two members, one being a representative of the GHPL and one being the representative of the Contractor appointed by the Operator, for holding a meeting and taking decisions.
- 15.11 Any member shall be entitled, if either he or his alternate is unable to attend a meeting, to cast his vote by telex or transmission received by the Chairman prior to the date on which the vote is taken in the course of the meeting. Such vote shall have the same effect as if that member was present and so voted at the meeting.
- 15.12 A member of the Management Committee who is unable to attend a meeting may by giving prior written notice to all other members appoint a member representing another Party who consents to such appointment as its proxy to attend a meeting and to exercise the appointing member's right to vote at that meeting. A member appointed as a proxy and attending a meeting shall be present in two separate capacities and vote accordingly.
- 15.13 Where the Contractor has agreed that a recommendation be made to the Management Committee, the Chairman and Deputy Chairman may, when in their reasonable opinion it is not practical or appropriate to incur a delay in convening a meeting, submit the recommendation (together with the reasons for the recommendation) for consideration by the Management Committee by giving each member notice by telex or facsimile transmission, receipt of which shall be confirmed by telephone by the Chairman (or, in case of an emergency, by telephone confirmed by telex or facsimile transmission not later than the next Day on which official business is transacted).
- 15.14 In the case of any recommendation submitted to the members for decision pursuant to Article 15.13:
- (i) The members shall subject to paragraph (ii) of this Article 15.14 vote by letter or fax to the Chairman, with a copy to the other members:
 - (a) Within 48 hours of service of notice in the case of an emergency or
 - (b) In any other case, within a time nominated in the notice being reasonable in the circumstances but not less than five (5) Days on which official business is transacted, from the date of service of the notice.
 - (ii) Except in the case of an emergency, a member may, within 48 hours of the service of the notice of the proposal, require by further notice that the proposal be submitted for consideration of the Management Committee pursuant to Article 15.6.
 - (iii) Any member failing to vote within the time limits set out in Article 15.14(i)

shall be deemed to have voted in favour of the proposal.

- (iv) The result of any such vote shall be notified by the Chairman to all the members.

15.15 The Management Committee may, if it considers necessary, appoint legal, financial or technical subcommittees comprising such representatives as may be decided by it to consider any matter requiring its approval or decision. The expense of such sub-committees shall be cost recoverable except as decided by the Management Committee in accordance with the Accounting Procedure.

**ARTICLE XVI
MANAGEMENT AND OPERATIONS**

- 16.1 All Petroleum Operations conducted by Contractor through Operator hereunder and all costs incurred in connection therewith, shall be conducted and incurred only pursuant to an approved work programme and budget.
- 16.2. Contractor through Operator shall submit to the Management Committee the proposed work programme and budget for each Calendar Year prepared in such detail as required by the Management Committee and in accordance with the Accounting Procedure. The initial budget shall be submitted as soon as possible after activities hereunder have commenced. All budgets thereafter shall be submitted not later than sixty (60) Days prior to the beginning of each Calendar Year. The work programme and budget requires the approval of the Management Committee before it becomes effective. The Management Committee shall use all reasonable efforts to meet and consider the work programme and budget therefor within thirty (30) Days prior to the beginning of each such Calendar Year. Contractor is hereby authorized to conduct all work and to incur all costs to the extent that such work and costs are included within a work programme and budget, which has been approved by the Management Committee. The approved budget shall be the basis for the determination of costs, which are eligible for recovery in accordance with the provisions of the Accounting Procedure and this Agreement.
- 16.3. Contractor shall not undertake any Petroleum Operations, which are not included in an approved work programme, or make any Expenditure in excess of an approved budget therefor except as follows:
- (a) if necessary to carry out an approved work programme Contractor is authorized to make Expenditure in excess of the budget adopted therefor upto but not exceeding ten percent (10%) of such budget, provided that such actual or foreseen excess Expenditure shall be reported promptly to the Management Committee, giving the details and justification for such excess Expenditure; and
 - (b) notwithstanding other provisions hereof, in case of explosion, fire, flood or other emergency, Contractor may take all action deemed advisable by Contractor to protect and safeguard life and property. Contractor shall immediately report to the Management Committee a full description of the emergency, the action taken, the damage (if any) suffered and the Expenditure incurred.
- 16.4 Contractor shall have the right to lift and transport Petroleum from the Contract Area, either through transportation facilities owned wholly or partly by Contractor or through transportation facilities owned by a third party or parties. In the case Contractor is of the opinion that new pipelines or terminals are required for the transport of Petroleum, Contractor must submit an application for the proposed transport system as per applicable rules.

- 16.5 The Government may, while according its approval for a pipeline or terminal stipulate such conditions as are reasonable and necessary to secure a rational system for transportation of Petroleum. The Government may in accordance with applicable rules, for example, but without limitation:
- (a) require that Contractor and any other contractor under a production sharing agreement with the Government install jointly owned transportation facilities; and
 - (b) grant to GHPL or its nominee or any third party access to transportation capacity at approved tariffs on a non-discriminatory basis.

The Government may decide in accordance with and subject to the provisions of Rule 70(2) of the Rules that production, processing and transportation facilities owned by Contractor shall be available for utilization by others, if this is deemed to be desirable for the purpose of efficient Petroleum Operations, or if required by the public interest. The user shall pay to Contractor fair compensation in accordance with Rule 70(2) of the Rules.

- 16.6 (a) Contractor undertakes to abide by and comply with the instructions issued by the Government from time to time in relation, inter alia, to the matters set out below:
- (i) foreign nationals employed by Contractor before arriving in Pakistan shall possess complete and authorized travel documents for their stay in Pakistan. In case they wish to extend their stay in Pakistan beyond the specified period, they shall obtain prior permission from the appropriate authorities. Foreign nationals will be security cleared prior to their arrival in Pakistan. Foreign nationals working in the Contract Area will be cleared by the concerned security agencies and should be registered with Foreigners Registration Office under the *Foreigners Act, 1946* and full particulars including photographs shall be supplied to the relevant Government agencies. Instructions issued by the Ministry of the Interior from time to time regarding work in the area, employment of foreign nationals and movement of local/foreign nationals shall be strictly followed.
 - (ii) foreign nationals shall be employed in accordance with a plan prepared by the Contractor and approved by DGPC;
 - (iii) the employees of Contractor shall refrain from taking photographs of prohibited and restricted sites;
 - (iv) all mapping information including sketches and photography prepared by Contractor concerning the Contract Area shall not be released to any person except as permitted under this Agreement and the Rules, and all data and test results shall not be exported outside Pakistan without prior written clearance from the DGPC;

- (v) the program of visits and movements of field survey parties shall be forwarded to appropriate authorities, local civil administration, GHPL and DGPC well in advance;
 - (vi) the employees of Contractor shall not visit prohibited areas, and will ensure that no border violations occur, and Contractor will ensure that no activity is carried out within 4000 meters of the International Border (Zero Line/Maritime Boundary);
 - (vii) flying over the Contract Area shall not be allowed without the prior permission of concerned security agencies; and
 - (viii) investment in social welfare schemes and training will be made in accordance with the provisions of the Petroleum Policy and guidelines issued by DGPC as amended from time to time. Contractor will provide the manpower requirements (Category-wise) during different phases of Petroleum Operations to DGPC for approval.
- (b) Contractor will ensure to include in any contract for the Petroleum Operations with any Subcontractor a provision requiring the employees of such Subcontractors to abide by and comply with the instructions contained in this Article.
- 16.6 In performing Petroleum Operations, Contractor shall provide all financial requirements and employ advanced scientific methods, procedures, technologies and equipment generally utilised and accepted as per good international Petroleum industry practices.
- 16.7 Subject to the provisions of this Agreement, Contractor through Operator shall have the sole authority and responsibility for the direct management and supervision of all Petroleum Operations and shall have sole custody and control of all property under its care.
- 16.8 In order to carry out or perform any Petroleum Operations as aforesaid, and in connection therewith, Contractor shall have the following exclusive rights, duties and obligations:
- (a) to conduct all Petroleum Operations by its duly authorized officers, employees or agents, or by such independent and qualified Subcontractors, consultants or service companies as Contractor may engage in accordance with this Agreement and to make every reasonable effort to obtain such required goods, materials, equipment and services on most favourable terms and conditions;
 - (b) to enter into contracts including services and purchases of goods, materials and equipment which are necessary to carry out the Petroleum Operations. Contractor shall subject to Article 13.3, let for bid any contract which will

require Expenditure of more than Five Hundred Thousand Dollars (\$500,000); and

- (c) to acquire any surface rights.
- 16.9 Petroleum Operations will in no way affect or abridge the rights of owners of private property, and Contractor will comply with necessary procedures relating to private property rights according to relevant laws of Pakistan.
- 16.10 Any damage claim caused by or arising out of Petroleum Operations shall be handled by Contractor and its attorneys and may be settled by Contractor in the best interest of the Parties, provided that no such claim shall be settled for an amount exceeding Three Hundred Thousand Dollars (\$300,000) without first obtaining the approval of the Management Committee.

ARTICLE XVII
INFORMATION, DATA, CONFIDENTIALITY, INSPECTION AND SECURITY

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

- (c) to banks or other financial institutions, in connection with Petroleum Operations;
 - (d) to bonafide intending assignees or transferees of the rights of a Party under this Agreement or in connection with the sale of stock or shares of a Contracting Company or GHPL;
 - (e) to the extent required by any applicable law or in connection with any legal proceedings or by the regulations of any stock exchange upon which the shares of a Contracting Company are quoted;
 - (f) to Government departments for, or in connection with, the preparation by or on behalf of the Government of statistical reports with respect to Petroleum Operations, or in connection with the administration of this Agreement or any relevant law or for any purpose connected with Petroleum Operations;
 - (g) by a Party with respect to any Data or information which, without disclosure by such Party, is generally known to the public.
- 17.6 Any Data, information or reports disclosed by any Contracting Company or GHPL to any other person pursuant to Article 17.5 (a) to (d) shall be disclosed on the terms that such Data, information or reports shall be treated as confidential by the recipient. Prompt notice of disclosures made by Contractor pursuant to Article 17.5 shall be given to the Government.
- 17.7 Where an area ceases to be part of the Contract Area, the Contractor shall deliver to the Government copies and originals of all Data and information in its possession with respect to the said area. The Government shall, however, have the right to freely use the said Data and information in accordance with the Rules.
- 17.8 The Government shall, at all reasonable times, through its duly authorized representatives, be entitled to observe Petroleum Operations and to inspect all assets, books, records, reports, accounts, contracts, samples and Data kept by the Contractor in respect of Petroleum Operations covering the Contract Area, provided, however, that the Contractor shall not be required to disclose any proprietary technology. The duly authorized representatives of the Government shall be given reasonable assistance by the Contractor for such functions and the Contractor shall afford such representatives reasonable use of all facilities and privileges as afforded to its own personnel in the field including the use of office space and housing for a period not exceeding 30 Days and thereafter such facilities will be provided at the cost of Government. The said representatives of the Government shall be entitled to make a reasonable number of surveys, measurements, drawings, tests and copies of documents, take samples, and make reasonable use of the equipment and instruments of the Contractor provided that such functions shall not unduly interfere with the Contractor's Petroleum Operations.
- 17.9 Contractor shall after obtaining necessary approvals and on reasonable advance

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

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

ARTICLE XVIII
TITLE TO PETROLEUM, DATA AND ASSETS

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

**ARTICLE XIX
TRAINING AND EMPLOYMENT**

-
- 19.1 Operator on behalf of Contractor agrees to employ to the maximum extent possible qualified nationals of Pakistan in its Petroleum Operations and to provide their schooling and training for staff positions, including administrative and executive management positions. Operator will require Subcontractors operating in Pakistan to do the same. Operator undertakes to gradually replace its expatriate staff with qualified nationals as they become available. An annual programme for employment and training of nationals of Pakistan shall be established by Contractor and submitted for approval to the DGPC. Such programme shall be included in the annual work programme and budget. Within thirty (30) Days of the end of each Calendar Year, Contractor shall submit a written report to DGPC describing, *inter alia*, the number of personnel employed, their nationality and positions and the status of training programmes for nationals of Pakistan.
 - 19.2 Operator on behalf of Contractor shall also be required to establish a programme, satisfactory to the Government to train personnel of the DGPC, GHPL and the Government locally and abroad to develop the capability of such personnel to effectively perform their duties. Such training programme shall cover both technical and management disciplines (including but not limited to geology, geophysics, engineering, project management, accounting, economics and legal) and shall include on-the-job training and participation in in-house seminars.
 - 19.3 From the Effective Date and up to the date of Commercial Discovery the Contractor shall, subject to the guidelines issued by the Government from time to time, spend a minimum of fifty thousand United States Dollars (U.S. \$50,000) per year during exploration phase and during development and production phase a minimum of two hundred fifty thousand United States Dollars (US\$ 250,000) per year on training. This Expenditure will be subject to upward review from time to time. The unspent training amount during a year, unless agreed otherwise, shall be deposited into a special account maintained for the purpose by the DGPC.
 - 19.4 Contractor shall associate and involve a mutually agreed number of GHPL personnel in the technological aspects of the then ongoing Petroleum Operations without charging any fee for such association or involvement.

**ARTICLE XX
DEVELOPMENT FINANCING**

- 20.1 Any interest payment or other financing cost for Petroleum Operations shall not be a cost recoverable expense for Cost Recovery Oil or Cost Recovery Gas purposes.
- 20.2 Any funds borrowed by Contractor shall not constitute income for purposes of the determination of Profit Oil or Profit Gas and any repayments of principal amount shall not constitute Expenditure.
- 20.3 The Contractor or any Contracting Company may create a security interest in respect to its Participating Interest with the approval of the Government in accordance with Rule 72 of the Rules. Any contracting company which creates a security interest in favour of foreign entity shall require prior approval of SBP under Foreign Exchange Regulations Act, 1947.

**ARTICLE XXI
PIPELINES, PROCESSING FACILITIES AND REFINERIES**

- 21.1 Contractor is entitled to construct and operate pipelines, storage and terminal facilities, processing facilities and refineries downstream of the Measurement Point in accordance with the relevant policies and the laws of Pakistan then in effect.
- 21.2 Contractor renounces any claim to participate, on grounds of Production of Crude Oil in Pakistan, in a refinery which may be set up by the Government.
- 21.3 In order to accelerate the Development of first Commercial Discovery in the Contract Area where sufficient pipeline capacity or other infrastructure is not available, Contractor may propose a plan as part of the Development Plan to the Government that pipelines or other infrastructure be included under the purview of this Agreement as cost recoverable. The Government may at its discretion, approve such a plan on such terms and conditions as set out in the approval which may at least include the following:
- (a) the obligation to locate the Measurement Point at the shore exit of a pipeline or infrastructure and to determine Value of Petroleum at such Measurement Point; and
 - (b) rights of a third party or parties to access any available pipeline or processing capacity under conditions set out in the Government approval. Any income from such third Party(ies) access shall be credited by the Contractor against Cost Recovery Oil or Cost Recovery Gas.
 - (c) notwithstanding any other provision of this Agreement, the GHPL will have right to require vesting in it of full title and ownership of such pipeline or infrastructure owned by Contractor free of charge and encumbrances. Such right shall however be exercisable at the GHPL' option upon expiry or earlier termination of this Agreement or , provided it does not prejudice any security interest created by Contractor or any Contracting Company in accordance with Rule 71 of the Rules, after cost recovery of Expenditure on such pipeline or infrastructure and Contractor shall have the right to use such pipeline or infrastructure for the duration of this Agreement subject to payment of (i) operating costs proportionate to the use of such assets by Contractor ; and (ii) capital costs provided they are for Contractor's direct benefit , and under terms and conditions to be agreed upon.
 - (d) Contractor will be allowed to construct and operate pipelines for local requirements and for exports of their share of Petroleum which shall be regulated by the regulator concerned in accordance with applicable laws, rules, regulations and the Petroleum Policy based on an open-access (third party) regime. Contractor constructing such pipelines would be allowed priority access based on a firm utilization plan.

- (e) whether a connecting pipeline from outlet flange to the nearest transmission system, is constructed and operated by a Contractor or Operator, a third party or a government nominated entity; such a pipeline shall be regulated pursuant to the Article 9.5.1 of Petroleum Policy, unless the regulator concerned decides that the pipeline shall be a non-regulated pipeline.
- (f) if an inter-connecting pipeline is proposed to be constructed by a third party or the buyer, Contractor will be required to confirm the requisite gas supply volumes, pressures, reserves and other technical parameters on standard supply term contract basis for a period to be agreed between the parties.
- (g) subject to Article 9.5.8 of Petroleum Policy, the basis of the tariff allowed and paid monthly for delivery from outlet flange into the transmission system will be determined by the regulator based upon a 'rate of return on equity' basis at the rate of 12% with the capital cost being amortized over a minimum of 15 years. Allowable costs will include operating cost and interest payable on the initial capital over the minimum 15 year amortization period. Post the repayment period the Operator will be able to make a 12% margin over operating costs. If such pipeline is used by more than one shipper, the calculation basis for each year shall be done on an overall pipeline volume nomination basis at the start of each year, through the aggregation of all shippers nomination. Any shortfall or excess of volume delivered from the nomination in the year shall be deducted/ received from the tariff payment of that year or charged to the party responsible for such a shortfall.
- (h) unless a pipeline is specifically constructed in order to facilitate a third party access agreement agreed between Operator/Contractor and a third party duly approved by the regulator; all pipelines from field to outlet flange, in case of offshore, shall be constructed with an excess capacity equal to thirty percent, depending upon projected plateau rates unless otherwise allowed by DGPC based on an objective assessment of future likely use of such capacity.
- (i) Contractor is expected to exhaust options to make efficient use of the current transmission system and may co-operate in the construction and operation of pipelines upstream of the outlet flange or transmission system. Shared ownership and spare capacity shall be based upon the combined planned coincidental shared plateau of the Operators unless otherwise agreed by DGPC or the regulator concerned. Contractor is encouraged to co-operate in any extension of an initial system to ensure economies of scale, maximum utilization and to ensure that the overall pipeline stays below the tariff limit as specified in para 9.5(8) of Petroleum Policy read with relevant provisions of this Article 21.3.
- (j) in the event such pipeline is located in Offshore area and the excess capacity is subsequently utilized by a third party, the tariff will be charged by the party providing access to such pipeline as approved by DGPC and revenues generated therefrom will be treated as a part of profit oil/profit gas for its production sharing purposes.

- (k) the tariff payable to any third party or the producer for pipeline connecting the outlet flange to the transmission system shall not exceed \$0.5/MMBTU in aggregate. Any tariff in excess of this limit will be determined by the regulator on a case to case basis but only in exceptional circumstances, and subject to the approval of GOP. The indexation of the tariff limit will be based on recommendation by the regulator concerned and approved by Government. The public utility companies will continue receiving tariff under a separate tariff regime within the frame work of relevant law.
- (l) ownership/operation of the pipeline connecting field to the outlet flange and the outlet flange to the transmission system shall pass to the Government consequent upon the expiry or early termination of the Lease that initiated the pipeline unless such pipeline is not used for shipment of gas from another adjacent area for which specific approval of the Government and/or the regulator concerned will be required. The transfer shall be free of any lien or encumbrance or other liabilities.

**ARTICLE XXII
OTHER MINERALS**

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

**ARTICLE XXIII
ACCOUNTS AND AUDITS**

- 23.1 Contractor shall maintain at Operator's registered office in Pakistan accounts, books, reports, and records of all its activities for and in connection with Petroleum Operations so as to present a clear and accurate record of actual Expenditure and receipts in accordance with this Agreement. Such accounts (the "Accounts") will also include all revenues obtained from and Expenditure incurred for Petroleum Operations, of all Production obtained from the Contract Area and of all property acquired and sold in accordance with good international Petroleum Industry practices and the Accounting Procedure. The Accounts shall be audited for the period from the Effective Date to the end of the corresponding Calendar Year, and thereafter annually each Calendar Year through an internationally recognised firm of qualified independent chartered accountants as will be selected in accordance with Article 23.5. Copies of the audit reports shall be delivered to the President and GHPL within six (6) Months of the end of each Calendar Year to which the Accounts pertain. If neither the President nor the Auditor General of Pakistan on his behalf, or GHPL takes written exception to any such audited Accounts within six (6) Months after the receipt of copies of the report relating thereto, the same shall be final and binding on Contractor, GHPL and the President, provided however, that the Accounts and support vouchers and documents, together with such reasonable facilities as may be required for the audit under this Article XXIII, shall be made available to the Auditor General of Pakistan (with notification to DGPC that this has been done) who may request such further information to Contractor in writing as he deems fit within two (2) Years from the date of receipt of the said report. Contractor shall provide the Auditor General of Pakistan with the related explanations within three (3) months of receipt of the Auditor General's request. Notwithstanding the above provision regarding finality after six (6) Months, the President, GHPL and Contractor shall, where necessary, take appropriate action with regard to any matter arising out of the Auditor General's request
- 23.2 GHPL shall have the right, at the expense of Contractor which will be recoverable as Cost Recovery Oil or Cost Recovery Gas, to audit the Accounts and related records for any Calendar Year or portion thereof up to five (5) Years from the date of submission of relevant audit report submitted under Article 23.1 to the GHPL, at any time provided forty five (45) Days advance notice is given to the Operator.
- 23.3 The accounting and auditing provisions and procedures specified in this Agreement are without prejudice to any other requirements imposed by any statute in Pakistan, including, without limitation, any specific requirements of the statutes relating to taxation of companies.

- 23.4 For the purpose of any audit referred to above, Operator shall make available to the auditor(s) all such books, records, accounts, accounting vouchers and other documents and information prepared and maintained in accordance with this Agreement as may be reasonably required by the auditor(s). Auditing shall be made in accordance with this Agreement and generally accepted good accounting practices used in the international petroleum industry.
- 23.5 In accordance with Article 23.1 of this Agreement, the internationally recognised independent firm of chartered accountants with the appropriate level of Petroleum auditing experience shall be selected by Contractor with the approval of the Management Committee. The selected firm will submit a detailed audit plan for approval of Management Committee before commencement of the aforementioned audit. The cost of audit shall be borne by Contractor and shall be recoverable as Cost Recovery Oil or Cost Recovery Gas as the case may be.
- 23.6 An audit committee will be appointed through the authority of the Management Committee comprising an equal number of representatives of GHPL and of Contractor. The function of such committee shall be to establish recommendations for the selection of the auditor and approval of the audit plan per Article 23.5 above. In addition, it shall receive a copy of the audit reports, make recommendations to the Management Committee for the resolution of exceptions resulting from the audit and the presentation of the final audit reports to the Management Committee.
- 23.7 Any claims of discrepancies disclosed by the audits from GHPL under Articles 23.1 and 23.2 shall be made in writing to Contractor by same Party, with a copy of such report to the audit committee within two (2) Months of the completion of the audit unless the Contractor has consented in writing to a reasonable time extension, which consent shall not unreasonably withheld.
- 23.8 Contractor shall respond in writing to any claims of discrepancies within six (6) Months of the receipt of any claims arising from the afore-mentioned audits under Articles 23.1 and 23.2. If Contractor is unable to respond the claims during the six (6) Months period, an adjustment to the account for the full amount of the unanswered queries shall be processed unless a request for a time extension supported by a clear work plan and a definite date for resolution is submitted and agreed upon, with approval shall not be unreasonably withheld. If Contractor does not agree with the claim, then Contractor shall include with its response a detailed and relevant explanation. If Contractor agrees with the claim, then adjustment shall be made by Contractor to the Accounts in the Month following such agreement and evidence of such adjustment shall be reflected in the following quarterly Statement of Expenditure.

23.9 The status of all claims of discrepancies shall be reported by the audit committee to the Parties every six (6) months. Contractor and GHPL (and Auditor General of Pakistan as the case may be) shall in good faith using all reasonable efforts seek to settle audit claims, with the assistance of the audit committee. Claims reported by the audit committee as unresolved after a six (6) month period following Contractor's reply as mentioned in Article 23.8 above shall be submitted forthwith to the Management Committee for resolution. In the event the Management Committee fails to reach an agreement within such period as the Management Committee may determine, the matter shall be settled in accordance with the provisions of this Agreement for resolution of disputes. All necessary adjustments resulting from the audit resolution shall be reported by Contractor to the audit committee and adjustments processed according to the provisions of Article 23.8.

**ARTICLE XXIV
PRODUCTION BONUSES**

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

Cumulative Production	Amount (US\$)
Within 90 Days of start of Commercial Production	600,000
Upon reaching 60 MMBOE	1,200,000
Upon reaching 120 MMBOE	2,000,000
Upon reaching 160 MMBOE	5,000,000
Upon reaching 200 MMBOE	7,000,000

24.2 Payments due under Article 24.1 shall be made within thirty (30) Days of the date on which the respective Production bonus becomes payable. Production taken during test and/or early product period will be accounted for the purposes of calculating cumulative production.

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

**ARTICLE XXV
INSURANCE AND INDEMNIFICATION**

- 25.1 Contractor shall comply with all applicable workmen compensation and employers liability laws and insurance laws of Pakistan.
- 25.2 Contractor shall, during the term of this Agreement, obtain insurance coverage for and in relation to Petroleum Operations for such amounts and against such risks as are customarily or prudently insured in the international Petroleum industry in accordance with good international Petroleum industry practices provided however that in each case such insurance coverage is available in the international insurance market. Contractor shall furnish to the Government certificates evidencing that such coverage is in effect. Such insurance policies shall include DGPC, the Government and GHPL as additional insured and underwriters of such insurance coverage for and on behalf of the Contractor, shall waive subrogation against DGPC, the Government and GHPL. The said insurance shall, without prejudice to the generality of the foregoing, cover:
- (a) loss or damage to all installations, equipment and other assets for so long as they are used in or in connection with Petroleum Operations; provided, however, that if Contractor fails to insure any such installation, equipment or assets, it shall replace at its own cost any loss thereof or repair any damage caused thereto;
 - (b) loss, damage or injury caused by pollution or adverse environmental impact in the course of or as a result of Petroleum Operations;
 - (c) loss of property or damage or bodily injury suffered by any third party in the course of or as a result of Petroleum Operations;
 - (d) any claim for which the Government may be liable on account of the loss of property or damage or bodily injury suffered by any third party in the course of or as a result of Petroleum Operations for which Contractor is liable to indemnify DGPC, the Government and GHPL under Article 25.4;
 - (e) the cost of removing wrecks and cleaning up operations following any accident in the course of or as a result of Petroleum Operations; and
 - (f) Contractor's liability to its employees engaged in Petroleum Operations,

To the extent that third party liability insurance referred to under Article 25.2 (d) is not available, or is not obtained, or does not cover part or all of any claims or damage caused by or resulting from Petroleum Operations, Contractor shall remain fully responsible and shall defend, indemnify and hold the Government harmless against all such claims, losses and damages of any nature whatsoever as set forth in Article 25.4.

- 25.3 Contractor shall be entitled to designate insurers that are Affiliates of any Contracting Company as primary insurers and/or reinsurers of all insurances policies required under Article 25.2, provided that the identity of such insuring Affiliate as well as terms and conditions of the insurance cover provided by such insuring Affiliate may be from time to time agreed by the Management Committee.
- 25.4 Contractor shall indemnify, defend and hold harmless, GHPL, DGPC, the Government and the President at all times against all proceedings, costs, charges, claims, losses, damages and demands whatsoever, including, without limitation, claims for loss or damage to property or injury or death to persons, caused by or resulting from any Petroleum Operations conducted by or on behalf of Contractor by any third party, or anything done or purporting to be done in pursuance thereof provided that in accordance with Rule 79 of the Rules Contractor shall not be held responsible to GHPL, DGPC, the Government or the President for any indirect or consequential damages or loss, including loss of profit and for any loss, claim, damage or injury caused by or resulting from any negligent action of any of their concerned personnel.
- 25.5 For the purposes of this Article XXV, each reference to the "Government" includes the concerned "Provincial Government".
- 25.6 Contractor shall require its Subcontractors to obtain and maintain insurance against the risks referred to in Article 25.2 and 25.4 and the provisions of this Article shall apply *mutatis mutandis* to such Subcontractors.

**ARTICLE XXVI
PERFORMANCE GUARANTEE**

- 26.1 Subject to Article 3.8(a) and 3.8(c), each Contracting Company, shall procure and deliver to the Government on or prior to the Effective Date of this Agreement and thereafter before the first day of any subsequent Phase or Renewal:
- (a) one or more of the following guarantees acceptable to the DGPC, in its sole discretion:
 - i. an irrevocable, unconditional bank guarantee from a reputable bank of good standing in Pakistan acceptable to the DGPC for such Contracting Company's share of non-performance compensation as specified in Article 3.4; or
 - ii. an escrow account equal to 25% of the minimum financial obligations in a bank of international repute acceptable to the DGPC.
- 26.2 All bank guarantees shall provide:
- (a) that the amount referred to in Article 26.1(a) shall be reduced on pro-rata basis at the end of each Contract Year in an amount equal to 25% of the share of Work Units completed in the Area upon presentation to the bank of a certificate signed by DGPC on behalf of the Government that the said guarantee may be reduced in accordance with its terms; and
 - (b) that, at the end of each Phase, the guarantee will be released in favour of Working Interest Owner on presentation to the bank a certificate from the Government that the Minimum Work obligation of Working Interest Owner for that Phase has been fulfilled and the guarantee may be released.
- 26.3 If Contractor elects to proceed to the next Phase or to the Renewal(s) of the Exploration Period outlined in Article 3.2 hereof, a bank guarantee for the succeeding Phase or Renewal as the case may be, shall be delivered to the DGPC prior to entering into subsequent phase or renewal as per Article 3.8(a) and 26.1 with the notice of such election.

26.4 If the documents referred to in Article 26.1 are not delivered within the period specified, this Agreement may be terminated by the Government in accordance with the Rules.

**ARTICLE XXVII
EFFECTIVENESS AND DURATION**

- 27.1 This Agreement shall be and remain in full force, application and effect from the Effective Date in accordance with the terms of this Agreement, until the expiration, Surrender of the entire Contract Area, or termination of this Agreement or till a final settlement has been made.
- 27.2 Any termination or expiration of this Agreement shall be without prejudice to any accrued liabilities, obligations and rights of the Parties and the provisions of this Agreement with respect to confidentiality, indemnification, arbitration and applicable law shall continue to have effect notwithstanding such termination or expiration.

**ARTICLE XXVIII
FORCE MAJEURE**

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

- 28.7 Notwithstanding anything contained herein above, if an event of *force majeure* occurs and is likely to continue for a period in excess of sixty (60) Days, the Parties shall meet to discuss the consequences of the *force majeure* and the course of action to be taken to mitigate the effects thereof or the course to be adopted in the circumstances.
- 28.8 Notwithstanding any other provision of this Article, the Parties may agree under mutually acceptable the conditions to continue Petroleum Operations in a part of the Contract Area other than a certain specific part affected by the *force majeure* event.

ARTICLE XXIX SETTLEMENT OF DISPUTES

- 29.1 Any question or dispute arising out of or in connection with the terms of this Agreement or the Licence or any Lease (regardless of the nature of the question or dispute) shall, as far as possible, be settled amicably through mutual negotiations between the Parties in good faith within thirty (30) Days after the date the disputing Parties deliver return notice of the dispute to the other Parties. Failing an amicable settlement within a reasonable period, if the dispute is of technical nature, the same may be referred by mutual agreement of the Parties to a sole expert. The sole expert shall be an independent and impartial person of international standing with relevant qualifications and experience, and shall be appointed by agreement between the Parties and who shall not, by virtue of nationality, personal connection or commercial interest, have a conflict between his/her own interest and his/her duty as a sole expert. In the event that the Parties fail or are unable to agree on a sole expert within thirty (30) Days or such longer period as may be mutually agreed by the Parties, the sole expert shall be appointed by a body or an institution or an agency or a person, mutually agreed by the Parties. In case, there is no agreement on the body or an institution or an agency or a person for appointing sole expert or such institution or agency or body fails to appoint a sole expert within thirty (30) Days or such longer period as may be mutually agreed by the Parties, the matter shall be referred to arbitration. Any sole expert appointed shall be acting as an expert and not as an arbitrator and the decision of the sole expert if not accepted by a Party shall be subject to arbitration as prescribed below within 90 Days thereof.
- 29.2 Subject to Article 29.3, any dispute which cannot be settled in accordance with Article 29.1, shall be referred to and finally resolved by arbitration under the Permanent Court of Arbitration's (PCA) Arbitration Rules, 2012 which Rules are deemed to be incorporated by reference into this Article. The number of arbitrators shall be three, who shall be appointed by the PCA, provided that if the amount of a claim is less than Ten (10) Million USD, only one arbitrator shall be appointed by PCA. The seat of arbitration shall be Islamabad, Pakistan or elsewhere as mutually agreed between the President and Foreign Contracting Company. If such mutual agreement cannot be reached, the seat of arbitration shall be decided by the PCA. The language to be used in the arbitral proceedings shall be English.
- 29.3 The Article 29.2 is only applicable in case of a dispute between Foreign Contracting Companies *inter se*, or between Foreign Contracting Companies and the President or GHPL, or between Foreign Contracting Companies and Local Contracting Companies. In the event of a dispute between the Local Contracting Companies *inter se*, or between the Local Contracting Companies and the President or GHPL, the arbitration shall be conducted in accordance with the Arbitration Act, 1940. If the amount of a claim is less than Ten (10) Million USD, one arbitrator shall be appointed by mutual agreement of the Parties, however, in case the amount in dispute is more than Ten (10) Million USD, then each Party shall appoint one arbitrator and the two arbitrators shall appoint the third arbitrator,

who shall be a retired judge of a High Court or Supreme Court of Pakistan and shall be designated as the president of the arbitration tribunal. The seat of arbitration shall be Islamabad, Pakistan.

- 29.4 Notwithstanding the above, the Foreign Contracting Companies may opt to hold arbitration in relation to a particular dispute according to the Arbitration Act, 1940 inter se or between Foreign Contracting Companies and the President or GHPL, or between Foreign Contracting Companies and the Local Contracting Companies, provided that in case of exercise of this option, that particular dispute shall not be amenable to international arbitration as provided under Article 29.2, provided further that the conditions as prescribed in Article 29.3 shall also be applicable on exercise of this option.

ARTICLE XXX
PROTECTION OF THE ENVIRONMENT

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

30.5 In addition to any requirements under the laws of Pakistan, the Contractor shall cause a person or persons with special expertise and knowledge on environmental matters, approved by the Government, to carry out two environmental impact studies in order:

- (a) to determine at the time of the studies the prevailing situation relating to the environment, human beings and local communities, the wildlife and marine life in the Contract Area and in the adjoining or neighbouring areas; and
- (b) to establish the likely effect on the environment, human beings and local communities, the wildlife and marine life in the Contract Area and in adjoining or neighbouring areas in consequence of the relevant Petroleum Operations to be conducted under this Agreement, and to submit, for consideration of the Parties, methods and measures contemplated in Article 30.4 for minimising environmental damage and carrying out site restoration activities.

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

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

- a. proposed access cutting;
- b. clearing and timber salvage;
- c. wildlife and habitat protection;
- d. fuel storage and handling;
- e. use of explosives;
- f. camps and staging;
- g. liquid and solid waste disposal;
- h. cultural and archaeological sites;
- i. selection of drilling sites;
- j. terrain stabilization;

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

30.6 The Contractor shall ensure that:

- (a) Petroleum Operations are conducted in an environmentally acceptable and safe manner consistent with good international Petroleum industry practices and are properly monitored;
- (b) the pertinent completed environmental impact studies are made available to its employees and to its Subcontractors to develop adequate and proper awareness of the measures and methods of environmental protection to be used in carrying out the Petroleum Operations; and
- (c) the contracts entered into between the Contractor and Subcontractors relating to its Petroleum Operations shall include the provisions stipulated herein and any established measures and methods for the implementation of the Contractor's obligations in relation to the environment under this Agreement.

30.7 (a) The Contractor shall, prior to conducting any drilling activities, prepare and submit contingency plans for dealing with oil spills, fires, accidents and emergencies, designed to achieve rapid and effective emergency response for review by the Government. The plans referred to above shall be discussed with the Government and concerns expressed shall be taken into account.

- (b) In the event of an emergency, accident, oil spill or fire arising from Petroleum Operations affecting the environment, the Contractor shall forthwith notify the Government and shall promptly implement the relevant contingency plan and perform such site restoration and damage control activities as may be necessary in accordance with good international Petroleum industry practices.
- (c) In the event of any other emergency or accident arising from the Petroleum Operations affecting the environment, the Contractor shall take such action as may be prudent and necessary in accordance with good international Petroleum industry practices in such circumstances.

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

**ARTICLE XXXI
APPLICABLE LAW AND MISCELLANEOUS MATTERS**

- 31.1 This Agreement sets forth the entire agreement reached between the Contractor, GHPL and the President and it shall remain and continue in force and shall be binding upon each of them throughout its duration without any amendment, revision or alteration thereto except as may hereafter be mutually agreed by the Contractor, GHPL with the approval of and the President. The Rules, Income Tax Ordinance 2001, Regulations of Mines and Oilfields and Mineral Development (Government Control) Act, 1948 and other laws that are in force on the Effective Date shall remain applicable for purposes hereof , whether or not the same are subsequently amended or revised; provided that where any matter is not specifically dealt with in this Agreement or where there is any conflict between the provisions of this Agreement and the laws, such matter shall be governed in accordance with the applicable provisions of the Rules, Income Tax Ordinance 2001, Regulations of Mines and Oilfields and Mineral Development (Government Control) Act, 1948 and other laws as are in force on the Effective Date. The Government has the right to amend the percentage share of Profit Oil and Profit Gas in the Agreement after ten (10) years of Commercial Production from the Contract Area in accordance with the Policy in vogue at that time on prospective basis.
- 31.2 This Agreement shall be governed by and shall be given effect in accordance with the laws of Pakistan. Nothing in this Agreement shall entitle any person, natural or legal, to exercise the right, privileges and powers conferred upon it by this Agreement in a manner which will contravene the laws of Pakistan.
- 31.3 All headings used herein are for the purpose of reference only and shall not be construed as in any way defining or limiting the meaning of any provision.
- 31.4 Contractor shall utilize the following minimum amounts during the term of this Agreement for the purposes of marine research in accordance with the guidelines issued by the Government from time to time:

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

- 31.5 The English language shall be the language of this Agreement. All communications, hearing or visual materials or documents relating to this Agreement shall be written or prepared in English.
- 31.6 Each Contracting Company shall furnish, prior to execution of this Agreement, a duly authorised copy of a resolution properly and legally passed by the Board of Directors of its ultimate parent company authorising an executive officer of such Contracting Company to execute this Agreement along with a certificate duly signed by the Secretary or an Assistant under its seal in this regard and to the effect that the Contracting Company has the powers and authority to enter into this Agreement and to perform its obligations thereunder and has taken all necessary action to authorize the execution, delivery and performance of this Agreement.
- 31.7 If there are two or more persons or companies comprising the Contractor, they shall be liable jointly and severally to the other Parties for all of the obligations and liabilities resulting from their activities carried out pursuant to this Agreement.
- 31.8 The Contractor shall be required to undertake social welfare programmes and shall spend during the exploration phase till the commencement of Commercial Production not less than thirty thousand Dollars (US\$ 30,000) per annum. After the commencement of Commercial Production in the Area, the following minimum amounts shall be spent during each year:

(BOE/d)	Amount/Lease Year (US\$)
Less than 2,000	50,000
2,000 - 5,000	100,000
5,000 - 10,000	200,000
10,000 - 50,000	400,000
More than 50,000	700,000

The Government will issue necessary guidelines for social welfare programs as deemed appropriate from time to time.

These amounts will be subject to review from time to time by mutual agreement of the Parties. Any amounts so spent shall be treated for Pakistani Income Tax purposes as wholly and exclusively incurred for the purpose of the business of the Contractor and shall be allowed against income under rule 2(5) of the Fifth Schedule.

**ARTICLE XXXII
NOTICES**

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

The Secretary Petroleum Division, Ministry of Energy
3rd Floor, Secretariat Block 'A', Islamabad (Pakistan).
Telephone: 92-51-9211220
Fax 92-51-9201770
 - (b) in the case of DGPC to:

The Director General (Petroleum Concessions),
Petroleum Division, Ministry of Energy,
3rd Floor, Petroleum House, Ataturk Avenue, G-5/2
Islamabad (Pakistan)

Attention: Director General, Petroleum Concessions,
Telephone: 92-51-9204176
Fax 92-51-9213245
 - (c) in the case of Government Holdings (Pvt) Limited to:

Attention:
Telephone:
Fax:
 - (d) in the case of Contractor to:

Attention:

Telephone:
Fax:

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

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

WITNESS:

1. _____
2. _____

For and on behalf of
THE GOVERNMENT HOLDINGS (PVT) LIMITED

WITNESS:

1. _____
2. _____

For and on behalf of
THE CONTRACTOR

WITNESS:

1. _____
2. _____

ACCOUNTING PROCEDURE
(ANNEXED AND MADE PART OF THE
OFFSHORE PRODUCTION SHARING
AGREEMENT)

TABLE OF CONTENTS

ARTICLE 1	GENERAL PROVISIONS
ARTICLE 2	COSTS AND EXPENDITURE.....
ARTICLE 3	CHARTS OF ACCOUNTS
ARTICLE 4	VALUATION OF MATERIALS.....
ARTICLE 5	RECEIPTS
ARTICLE 6	NON-RECOVERABLE COSTS.....
ARTICLE 7	INVENTORIES AND INVENTORY STATEMENT.....
ARTICLE 8	PRODUCTION STATEMENT.....
ARTICLE 9	VALUE OF PRODUCTION STATEMENT.....
ARTICLE 10	COST RECOVERY STATEMENT
ARTICLE 11	STATEMENT BUDGET AND OF EXPENDITURE.....
ARTICLE 12	CONTROL STATEMENTS AND OTHER ACCOUNTS.....
ARTICLE 13	BUDGET STATEMENT.....
ARTICLE 14	QUARTERLY STATEMENT.....
ARTICLE 15	AUDITS AND ADJUSTMENTS
ARTICLE 16	TERMINATION

SECTION 1 GENERAL PROVISIONS

1.1 Purpose

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

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

This Accounting Procedure is intended to apply to the provisions of the Agreement and is without prejudice to the computation of income tax under applicable provisions of *Income Tax Ordinance 2001*.

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

1.2 Definitions

The definitions of Article I of the Production Sharing Agreement (hereinafter referred to as "Agreement") shall apply to this Accounting Procedure and have the same meaning when used herein. References herein to Articles refer to Articles of the Agreement.

In addition, the following terms will have the meaning given below:

- (a) "*Abandonment Costs*" means, subject to Article 7.13 of PSA and expressly includes a cost, expense or other amount incurred in closing down, decommissioning, abandoning, or wholly or partly removing assets in the Contract Area, keeping assets in the Contract Area in a safe condition following cessation of production pending abandonment and restoration of land or seabed in the Contract Area. A cost, expense or other amount shall constitute an Abandonment Cost only to the extent that it is a cost, expense

or other amount that is performed in accordance with good international Petroleum industry practice or expressly approved by the DGPC for inclusion as an Abandonment Cost of the Contractor for the Contract Area, and is incurred prior to, or within reasonable time after the cessation of Commercial Production as per approved Abandonment Plan and Budget;

- (b) "*Calendar Quarter*" means three consecutive Calendar Months ending on March 31, June 30, September 30 and December 31;
- (c) "*Credit*" means an amount of income associated with Petroleum Operations that is not resulting from the sale of Petroleum, and is to be applied as a reduction of recoverable costs; and "*Credited*" or other variations of that term shall have similar meanings; and
- (d) "*Included Risk*" means a risk relating to Petroleum Operations, other than political risks, abandonment, business interruption or any other risks that do not affect or result from the ongoing Petroleum Operations.
- (e) "Section" means an article of this Accounting Procedure.

1.3 Precedence of Documents

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

1.4 Statements

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

- (a) a Statement of Expenditure classified in accordance with Sections 2, 3 and 5 hereof containing the information required by Section 11;
- (b) a Cost Recovery and Profit Sharing Statement pursuant to Section 10 hereof;
- (c) a Production Statement pursuant to Section 8 hereof;
- (d) a Value of Production Statement pursuant to Section 9; and
- (e) Each Calendar Year, the Contractor shall supply a Budget Statement pursuant to Section 13 not later than sixty (60) days before the start of that Calendar Year.

Further, the Contractor shall provide to GHPL each Calendar Quarter an Inventory Statement containing the information required by Section 7.3 and a Quarterly Statement containing the information required by Section 14.

1.5 Books of Account

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

1.6 Revision of Accounting Procedure

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

1.7 Detailed Outline of Accounting System

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

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

1.8 Procurement Procedure

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

1.9 Basis for all Charges and Revenues

Subject to Articles VIII and X of the Agreement, all transactions, purchases or sales, giving rise to charges, Credits, revenues, costs, Expenditure, prices and values which will be charged or Credited to the accounts prepared, maintained or submitted hereunder, for the purpose of determining the value of the Available Oil and Available Gas and the value of the Cost Recovery Oil and Cost Recovery Gas, shall be on the basis of fair market value as would apply in transactions among independent "arm's length" third parties in the framework of a free market system or on such other basis as will ensure that Contractor will not incur any gain or loss as a result of its activities under the Agreement and that all such revenues, costs or Expenditure will be charged or Credited at the true value obtained by Contractor for procuring works and services to the Petroleum Operations or such as resulting from any provision set forth in the Agreement, the Accounting Procedure or the Rules (including as a matter of illustration the price paid to Contractor for domestic supplies in accordance with Article 10.1 (e)). Notwithstanding any provision to the contrary in the Accounting Procedure, it is the intention that there shall be no duplication of charges or Credits to the accounts under the Agreement.

SECTION 2 COSTS AND EXPENDITURE

2.1 Classification of Costs and Expenditure

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

(a) Surface Use Rights

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

(b) Labour

(i) Actual salaries and wages of Contractor's employees directly engaged within the Contract Area in Pakistan in the Petroleum Operations under the Agreement. Salaries and wages paid to employees temporarily assigned to and employed in such activities shall be allocated on the basis of time sheets or such other equitable methods approved by GHPL. (This clause should be used to allow for charging of first level supervision, technical services and Production engineering for employees located on site).

(ii) Actual salaries and wages of employees of Contractor's Affiliates, whose services are not covered by paragraph (i) or (f)(ii) hereof, attributable to time for which they worked within or outside of Pakistan on Petroleum Operations under the Agreement and documented by time sheets or other methods such as approved by GHPL. In accordance with Section 2.1 (f) hereunder off-site technical work should be subject to approval in writing by the GHPL.

(iii) Cost of overseas service premiums, living and housing allowances, and other customary allowances if applicable to salaries and wages of expatriate employees chargeable under paragraph (b)(i) hereof.

(iv) Paid bonuses, overtime and other customary allowances if applicable to salaries and wages of national employees chargeable under paragraph (b)(i) hereof.

(v) Expenditure or contributions made pursuant to law or assessments imposed by Government which are applicable to labour costs chargeable under paragraph (b)(i) hereof.

(c) Employee Benefits

(i) Cost of Contractor's established plans and policies (copies of which will be made available if required by GHPL) for employee group life

insurance, social security, hospitalization, pension, retirement, stock purchase, thrift, expatriate tax equalization, dependent education and other benefits of a like nature attributable to salaries and wages chargeable under paragraphs (b)(i) or (b)(ii) hereof.

- (ii) Severance pay to national employees charged at a fixed rate applied to the national payroll, which will equal an amount equivalent to the maximum liability for such severance payments under applicable Pakistan law.
- (d) Materials, Equipment and Supplies
- (i) Material, equipment and supplies purchased or furnished by Contractor which should be valued in accordance with Section 4 of this Accounting Procedure
 - (ii) Material and equipment rented.
- (e) Transportation
- (i) Transportation of equipment, materials, and supplies necessary for the conduct of Contractor's activities under the Agreement, whether outside or within the Contract Area.
 - (ii) Business travel and transportation expenses to the extent covered by established policies of Contractor, as incurred and paid by or for expatriate and national employees in the conduct of Contractor's business for employees chargeable pursuant to sub-clause 2.1 (b), (f) (ii), and f (iii)
 - (iii) Employee relocation costs for expatriate and national employees to the extent covered by established policy of Contractor; for expatriates, this will include all travel and relocation costs of such employees and their families to and from the employee's point of origin at the time of employment, at time of separation and for vacations, and travelling expenses for employees and their families incurred as a result of transfer from one location to another within Pakistan. Transportation costs chargeable for employees and their families incurred as a result of a transfer from Pakistan to a location other than the point of origin shall not be charged as a cost under the Agreement, unless the new location is connected with an assignment or service necessary for conducting Petroleum Operations.

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

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

Cost of professional and administrative services provided by Affiliates for the direct benefit of Petroleum Operations, including but not limited to services related to exploration, production, legal, financial, insurance, accounting and computer which the Contractor may use if approved by Management Committee.

(g) Damages and Losses

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident or any other cause not controllable by Contractor through the exercise of reasonable diligence and not resulting through Contractor's failure to file timely claims and to diligently pursue such against the insurers. Contractor shall furnish GHPL written notice of damages or losses incurred in excess of fifty thousand Dollars (\$50,000).

(h) Insurance and Claims

The cost of insurance against Included Risks, including public liability, property damage and other insurance, as may be carried by Contractor or required by the Agreement. The proceeds of any such insurance or claim collected shall be Credited against the appropriate Expenditure account and reduce recoverable costs. If no insurance is carried for a particular Included Risk, all related actual Expenditure incurred and paid by Contractor in settlement of any and all losses, claims, damages, judgements and any other expenses, including legal services, shall be charged to the appropriate Expenditure account, provided such loss, claim or damage did not result from Contractor's failure to operate in accordance with the standards required by the Agreement.

(i) Field Offices, Camps, Warehouses, Miscellaneous Facilities

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

(j) Legal Expenses

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

(k) Administration and Overhead

(i) Contractor's administrative overhead for functions which shall be those set forth in Section 6.1 (d) below shall be charged in accordance with the following rates except that if lower rates are provided for in any joint operating agreement, then the same would be applicable:

➤ with respect to all Exploration Operations Expenditure:

Three per cent (3%) of each Calendar Year Expenditure

➤ with respect to all Appraisal and Development Operations Expenditure:

(a) Two per cent (2%) of the first ten million (\$10,000,000) Dollars incurred during each Calendar Year;

(b) One per cent (1%) of amounts exceeding ten million (\$10,000,000) Dollars but up to fifty million (\$50,000,000) Dollars incurred during each Calendar Year.

(c) One quarter per cent (0.25%) for any amounts over fifty million (\$50,000,000) Dollars incurred during each Calendar Year.

➤ with respect to all Production Operations Expenditure, including Abandonment Costs:

One per cent (1%) of each Calendar Year Expenditure

(ii) The basis of calculation of the above charges shall exclude the overhead charge itself.

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

(l) Taxes

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

(m) Bank Charges

Bank charges incurred for the everyday management of Petroleum Operations and routine bank charges for transfers of funds and currency exchange.

(n) Audits

The audit expenses of GHPL and independent qualified auditors pursuant to Article XXIII of the Agreement.

(o) Escrow

Amounts paid to the escrow account maintained for the Abandonment Fund contemplated in Article 7.13 of the Agreement.

(p) Other Expenses

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

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

SECTION 3 CHART OF ACCOUNTS

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

- (a) The costs shall be allocated in the following manner:
 - (i) Exploration Operations;
 - (ii) Appraisal Operations;
 - (iii) Development Operations;
 - (iv) Production Operations; and
 - (v) costs that cannot be related to any of the above.

- (b) The costs shall be allocated according to the nature of Petroleum Operations in the following manner:
 - (i) Exploration Operations and Appraisal Operations, sub-divided further into:
 - (A) aerial, geological, geochemical, geophysical and other surveys;
 - (B) each individual seismic survey;
 - (C) each individual Exploration Well;
 - (D) infrastructure (roads, airstrips, etc.);
 - (E) support facilities (Warehouses, etc), including an allocation of common service costs (costs related to various Petroleum Operations);
 - (F) an allocation of the administrative overhead and general expenses; and
 - (G) other costs.
 - (ii) Development Operations, sub-divided further into:
 - (A) geological, geochemical, geophysical, and other surveys;
 - (B) each individual Development Well and other wells;
 - (C) gathering lines;

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

SECTION 4 VALUATION OF MATERIALS

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

4.2 Purchases

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

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

- (a) "Material" means equipment or supplies acquired or held for use in the conduct of Petroleum Operations and to which the following shall apply:
 - (i) Condition "A" means that which is new;
 - (ii) Condition "B" means that which has been used but is sound and is suitable for its original function without reconditioning;
 - (iii) Condition "C" means that which has been used and would be suitable for its original function after reconditioning or that which cannot be reconditioned for, but has a limited service in, its original functions;
 - (iv) Condition "D" means that which is not suitable for its original function but is usable for another function; and
 - (v) Condition "E" means that which is junk.
- (b) All Material furnished for Petroleum Operations from Contractor's warehouse or staging areas, unless otherwise agreed to by GHPL, shall be priced on the following basis and charged or credited as recoverable costs:

- (i) Condition "A" Material at Current Price;
- (ii) Condition "B" Material at seventy-five (75%) percent of Current Price of Condition "A" Material;
- (iii) Condition "C" Material at fifty (50%) percent of Condition "A" Material; and
- (iv) Condition "D" and "E" Material at a value commensurate with its use at Current Prices.

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

- (c) Contractor shall only supply Material for Petroleum Operations from the Contractor's warehouse if the ultimate cost of such Material is equivalent to the most economical cost of the same or similar Material in terms of availability and quality currently prevailing in normal arm's length transactions in the open market or if deemed consistent with efficient operations and provisions for emergencies.

SECTION 5 RECEIPTS

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

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

SECTION 6 NON-RECOVERABLE COSTS

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

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

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

Treasury: financial and exchange problems and payment of invoices;

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

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

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

- (h) charges for goods in excess of the amount allowed by Section 4 hereof or which the condition of the material does not accord with their prices;
- (i) any costs not included in an approved work programme and budget for the Petroleum Operations unless otherwise authorised under the Agreement;
- (j) all costs including marketing, transportation and processing incurred downstream of the Measurement Point;
- (k) royalties, income taxes and other taxes, payments, levies (other than those referred to in Article 6.2 of the Agreement) incurred outside Pakistan;
- (l) amounts paid under Article XXIV of the Agreement;
- (m) costs and taxes of expert determination or arbitration pursuant to Article XXIX of the Agreement;
- (n) fines and penalties imposed by any authority or Court of Law in Pakistan;
- (o) donations or contributions, unless previously approved by GHPL;
- (p) costs involved in creation and management of any partnership or joint venture arrangement, or costs of acquisition of an interest in the Agreement or the Contract Area;
- (q) amounts paid with respect to non-fulfilment of a contractual obligation;
- (r) costs incurred which:
 - (i) are covered by insurance for Included Risks;
 - (ii) are a result of failure to insure where insurance is required pursuant to the Agreement; except as specified in Article 25.2 of the Agreement
 - (i) are receivable for any insured loss that is an Included Risk and which was not claimed by Contractor under its policies of insurance; or
 - (ii) would have been receivable by Contractor where Contractor has self insured with Management Committee approval
- (s) costs and Expenditure incurred as a result of willful misconduct or negligence of Contractor; and
- (t) Expenditure made from an escrow account maintained for the purpose of abandonment as provided for in Article 7.13 of the Agreement.

6.2 Costs in Emergencies

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

SECTION 7 INVENTORIES AND INVENTORY STATEMENT

7.1 Periodic Inventories, Notice and Representation

- (a) At reasonable intervals as agreed between GHPL and Contractor, but in any event at least once a year and on termination of the Agreement, inventories of the material shall be taken by Contractor, which shall include all material, physical assets and construction projects.
- (b) Written notice of intention to take an inventory shall be given by Contractor to GHPL at least thirty (30) days before any inventory is to begin so that GHPL may be represented when any inventory is taken.
- (c) Failure of GHPL to be represented at an inventory shall bind GHPL to accept the inventory taken by Contractor who shall, in that event, furnish GHPL with a copy.

7.2 Reconciliation and Adjustment of Inventories

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

7.3 Inventory Statement

- (a) Contractor shall maintain detailed records of property acquired for Petroleum Operations.
- (b) Within sixty (60) days of the end of each Calendar Quarter Contractor shall provide GHPL an Inventory Statement containing:
 - (i) description and codes of all controllable assets and materials;
 - (ii) amount charged to the accounts for each asset; and
 - (iii) date on which each asset was charged to the account.

7.4 Identification

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

7.5 Special Inventories

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

SECTION 8 PRODUCTION STATEMENT

- 8.1 Contractor's Production Statement shall contain details of the quantity of Crude Oil/LPG/Condensate and Natural Gas produced and saved, lost or flared during the Calendar Month, and the additions to and withdrawals from production inventory during the Calendar Month. The Production Statement shall be prepared in accordance with the following principles:
- (a) the production sharing shall be determined on the basis of all Crude Oil/LPG/ Condensate and Natural Gas produced and saved from the Contract Area and measured at the Measurement Point or Points during the respective Month;
 - (b) the production in BOE, for the purpose of applying the provision of Article 6.6 of the Agreement, shall be determined using the lower or net heating value of Crude Oil, Condensate, Natural Gas and LPG; and
 - (c) the volumes of Petroleum shall be corrected for water and sediments, and shall be determined on the basis of standard temperatures and pressures. The energy content, gravity, sulphur content, and other quality indicators of the Petroleum shall be determined and registered regularly.

**SECTION 9
VALUE OF PRODUCTION STATEMENT**

- 9.1 Contractor shall prepare a Statement providing calculations of the value of the Available Oil and Available Gas produced and sold at the Measurement Point(s) in accordance with the Agreement. This Value of Production Statement shall include:
- (a) the quantities and prices realized by the Contractor as a result of sales of Crude Oil, Condensate, LPG and Natural Gas, to third parties during the Calendar Month in question;
 - (b) the quantities and prices realized by the Contractor as a result of sales of Crude Oil, Condensate, LPG and Natural Gas, during the Calendar Month in question to parties other than third parties, including domestic supplies such as referred to in Article 10.1 (e);
 - (c) information available to the Contractor concerning the prices of Crude Oil, Condensate LPG and Natural Gas, produced by the main petroleum exporting countries of relevance for the determination of the value of those products, including contract prices, discounts and premiums and prices obtained in the spot market, in accordance with the Agreement; and
 - (d) the quantities and prices realized by the Contractor and GHPL as a result of the sales of Natural Gas.

**SECTION 10
COST RECOVERY AND PROFIT SHARING STATEMENT**

- 10.1 Contractor shall render to GHPL not later than thirty (30) days after each Calendar Month a statement for that Calendar Month showing:
- (a) recoverable costs carried from the previous Calendar Month if any;
 - (b) recoverable costs incurred during the Calendar Month;
 - (c) total recoverable costs for the Calendar Month;
 - (d) quantity and value of Cost Recovery Oil and Cost Recovery Gas taken and separately disposed of by Contractor during the Calendar Month;
 - (e) amount of costs recovered for the Calendar Month;
 - (f) total cumulative amount of costs recovered up to the end of the Calendar Month in question;
 - (g) amount of recoverable costs carried into the succeeding Calendar Month, if any;
 - (h) quantity of Profit Oil and Profit Gas taken and separately disposed of by Contractor and GHPL during the Calendar Month;
 - (i) the allocation of recoverable costs to Cost Recovery Oil and Cost Recovery Gas; and
 - (j) the amount of costs remaining to be recovered (if any).

SECTION 11
STATEMENT OF BUDGET AND EXPENDITURE

- 11.1 Contractor shall prepare each Calendar Month a Statement of Expenditure. This Statement shall show the following:
- (a) the Expenditure contemplated for the Contract Year in the budget, on the basis of the chart of accounts as provided for in this Accounting Procedure;
 - (b) the Expenditure (less Credits) accrued during the Calendar Month in question;
 - (c) the cumulative Expenditure (less Credits) for the Calendar Year under consideration;
 - (d) modifications to the budget agreed to in accordance with the Agreement by GHPL;
 - (e) the latest forecast of cumulative Expenditure for the year end; and
 - (f) variations between budget forecast (as amended by sub-paragraph (d) hereto, where applicable) and latest forecast and reasonable explanations thereof.

**SECTION 12
CONTROL STATEMENT AND OTHER ACCOUNTS**

12.1 Control Statements

Contractor will establish a cost recovery account statement and an off setting contract accounts therein the amount of costs remaining to be recovered and the amount of cost recovered, would be recorded.

12.2 Other Accounts

Revenue accounts shall be maintained by Contractor to the extend necessary for the control of costs and the treatment of Cost Recovery Oil and Cost Recovery Gas.

**SECTION 13
BUDGET STATEMENT**

- 13.1 The Contractor shall prepare a Budget Statement for each Calendar Year. This Statement shall distinguish between budgeted Exploration Costs, Development Costs and Production Costs and shall show the following:
- (a) forecast of total costs, Expenditure and receipts for the year in question; and
 - (b) a schedule showing the most important individual items of total costs, Expenditure and receipts for the said year.
 - (d) estimated amounts to be spent in the year on procuring goods and services in Pakistan and abroad separately.
- 13.2 The Budget Statement shall be submitted to GHPL in respect of each Calendar Year not less than -60 (sixty) days before the start of the said Calendar Year.

**SECTION 14
QUARTERLY STATEMENT**

- 14.1 The Contractor shall prepare a definitive Quarterly Statement for operations ending March 31, June 30, September 30 and December 31 of each Calendar Year. The Statement shall contain aggregated information in the same format as required in the Production Statement, Value of Production Statement, Statement of Expenditure and Cost Recovery Statement but shall be based on actual quantities of Petroleum produced, income received and Expenditure incurred. Based upon this Statement, any adjustments that are necessary shall be made to the transactions concerned under the Agreement.

- 14.2 The Quarterly Statements for each Calendar Year shall be submitted to GHPL within sixty (60) days of the end of such Calendar Quarter.

**SECTION 15
AUDITS AND ADJUSTMENTS**

- 15.1 Audits shall take place in accordance with Article XXIII of the Agreement.
- 15.2 GHPL may require Contractor to engage Contractor's parent company's auditors or such other auditors as it chooses to examine at Contractor's cost and in accordance with generally accepted auditing standards, the books and records of Contractor's Affiliates to verify the accuracy and compliance with the terms of the Agreement and the Accounting Procedure insofar as a charge from the Affiliate of Contractor or of any entity comprising Contractor is included directly or through Contractor as a recoverable cost under the Agreement. Whenever audit of an Affiliate's books is so requested, GHPL shall specify in writing the item or items for which it requires verification from such independent auditors. A copy of the independent auditor's findings shall be delivered to GHPL within ninety (90) days after completion of such audit.
- 15.3 All books, records and documents must be maintained by Contractor and made available for inspection until the later of:
- (a) five years following their date of issue;
 - (b) the time when the costs have been recovered;
 - (c) if any cost or amount is under dispute, the time at which that dispute has been resolved; and
 - (d) such longer period as may be legally required.
- 15.4 The scope and materiality requirements of the audit contemplated under Article XXIII of the Agreement shall be determined by the GHPL by written notice to Contractor from time to time.

**SECTION 16
TERMINATION**

- 16.1 As soon as practical after termination of this Agreement, or where applicable, after Abandonment Costs have been incurred, the accounts shall be finally settled and balanced by whatever cash payment between the Contractor and GHPL are necessary. Following presentation by the Contractor to GHPL of a final statement of the costs and Credits associated with Petroleum Operation, subject to any adjustment that may be required as a result of any final audit performed.

Description of the Area

(WORK UNITS)

**ANNEX TO THE MODEL OFFSHORE PRODUCTION SHARING
AGREEMENT**

ARTICLE 1

GENERAL PROVISIONS

1.1 Purpose

The purpose of this Annex regarding Work Units is to set out the principles and procedures whereby the work program under Article 3.3 of the Agreement shall be carried out on the basis of Work Units, as per Rules as hereinafter defined.

1.2 Definitions

The definitions of Article I of the Agreement shall apply to this Annex and have the same meaning except that references herein to Article refer to Articles hereof unless otherwise indicated. In addition, the following terms will have the meaning given below:

- (a) "*Well Depth*" means the well depth measured along the well bore from the rotary table to the total depth. In case the well is a deepening of an existing well, the well depth is measured from the deepest point in the existing well to the new total depth. In case a well is side-tracked, the depth shall not include any depth drilled below the kick off point of the side track, but shall include the redrilled part of the well from the kick off point to the total depth.
- (b) "*Work Unit*" means a unit of work for the purpose of measuring the compliance with the Minimum Work under Article 3.3 of the Agreement, as set out in more detail in Articles II and III of this Annex.

1.3 Precedence of Documents

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

1.4 Qualifying Work

The only work that qualifies for Work Units are new 2-D and 3-D seismic surveys and Exploration Wells carried out during the Exploration Period in the Contract Area. Work shall include any seismic surveys for the purpose of locating Exploration Well and Exploration Wells drilled in Development Areas during the Exploration Period. Any work

carried out as an Appraisal Program or as part of the development of a Commercial Discovery shall not qualify for Work Units.

ARTICLE II
VALUE OF WORK UNITS

2.1 Value of Work Units

The value of one Work Units is Ten Thousand (\$10,000) Dollars.

ARTICLE III
EQUIVALENCY OF WORK UNITS

3.1 Equivalency of Work Units

The following equivalency applies in order to equate work that has been carried out with Work Units:

(a) 2-D seismic surveys

One line-kilometer of 2-D seismic surveys which has been acquired, processed, interpreted and mapped 0.1 Work Unit.

(b) 3-D seismic surveys

One square kilometer of 3-D seismic surveys which has been acquired, processed, interpreted and mapped 1.0 Work Unit.

(c) Non-seismic geophysical survey

One Line-Kilometre of Airborne non-seismic geophysical survey which has been acquired, processed, interpreted and mapped 0.12 Work Units

One Line-Konometer of ground based non-seismic geophysical survey such as gravity and magnetic which has been acquired, processed, interpreted and mapped 0.10 Work Units

(d) One Exploration Well with a surface location in a Shallow Grid Area which is identified in Annex-VI:

Well Depth (in meters)	Work Units
1,000	300
2,000	550
3,000	1,000
4,000	1,800
5,000	3,200
6,000	5,800

7,000	10,000
-------	--------

- (e) One Exploration Well with a surface location in a Deep Grid Area which is identified in Annex-VI:

Well Depth (in meters)	Work Units
1,000	500
2,000	900
3,000	1,600
4,000	2,800
5,000	5,100
6,000	9,200
7,000 or greater	16,000

- (f) One Exploration Well with a surface location in a Ultra-Deep Grid Area which is identified in Annex-VI:

Well Depth (in meters)	Work Units
1,000	700
2,000	1,300
3,000	2,200
4,000	3,600
5,000	6,400
6,000	12,000
7,000 or greater	21,000

3.2 Interpolation

For Well Depths intermediate to the ones indicated in the tables of Article 3.1 (d), 3.1 (e) and 3.1(f), the Work Units shall be determined on the basis of linear interpolation.

ARTICLE IV

MINIMUM WORK UNITS DURING THE EXPLORATION PERIOD

4.1 Minimum Work Units

The minimum Work Units required by the Minimum Work programme will be set out in Article 3.3 of the Agreement with respect to Phase One and Phase Two of the Initial Term and the First and Second Renewal thereof in accordance with the Rules.

4.2 Work which does not Qualify

The following work does not qualify for Work Units:

- (a) work carried out prior to the Effective Date,
- (b) work carried out after the termination of the Exploration Period,
- (c) work carried out outside the Contract Area,
- (d) work which is not carried out in accordance with a work program approved by the Management Committee,
- (e) work which does not qualify as Petroleum Operations under the Agreement.
- (f) any Exploration Wells which are terminated less than 100 metres below the seabed, and
- (g) the portion of any Well Depth for which no well logs were obtained as a result of blow-outs, other accidents or drilling problems.

4.3 Completion of Work

The work in order to earn Work Units shall be considered completed where:

- (a) DGPC has received satisfactory proof from the Contractor that the work has been executed in accordance with the Agreement and the Rules, and
- (b) DGPC has received the minimum required information pursuant to the Agreement and the Rules.

4.4 Value of Work

The reduction of the irrevocable unconditional bank guarantee pursuant to Article 3.8 of the Agreement or the determination of the non-performance compensation/liquidated damages pursuant to Article 3.4 of the Agreement, shall be based on the value of the Work Units that have been completed or not completed by the Contractor, irrespective of whether the actual cost of the work has been more or less than the value of the Work Units.

4.5 Free Selection of Work

The Contractor is free to define the work that qualifies for Work Units, subject to approval of the work program by the Management Committee.

4.6 Crediting of Work Units

Any Work Units, executed in excess of the amounts required under the Agreement for each Phase of the Initial Term or the First Renewal can be carried forward to the next period in accordance with the provisions of the Agreement. The value of Work Units which

are being transferred to subsequent years shall be adjusted in accordance with Article 2.1 of this Annex-III.

4.7 Transferability of Work Units

Work Units may be transferred from one Contract Area to another in accordance with the Rules.

4.8 Allocation of Work Units

Where seismic and/or non seismic geophysical surveys are being carried out jointly by several Contractors in different Contract Areas and/or on open acreage, the Contractor shall only convert to Work Units the work which is carried out inside the Contract Area and shall allocate such work based on the line-kilometres or square kilometres carried out in the Contract Area.

Where a Contractor contributes to or shares in the costs of an Exploration Well drilled outside the Contract Area, the Contractor shall not claim such well or any portion of such well for the earning of Work Units.

BANK GUARANTEE

The President Islamic Republic of Pakistan, Through Director General Petroleum Concessions Ministry of Energy (Petroleum Division), Islamabad

Gentlemen:

Regarding: Our Irrevocable Bank Guarantee No

In compliance with the request of "name of contractor" ("the Contractor"), we, (Name of Bank), issue this unconditional irrevocable Bank Guarantee in your favour for a sum not exceeding United States Dollars (US\$ ____), which represents 25% of the Minimum Work commitments, financial commitments and other obligations such as social welfare, training, marine research fee and Contract Area rent for Phase-I of the initial exploration period for Block No ____ under the Production Sharing Agreement, dated ____ ("Agreement") among the Contractor, GHPL and THE PRESIDENT of the Islamic Republic of Pakistan ("THE PRESIDENT"), relating to Petroleum exploration, development and production in Pakistan to guarantee the Contractor's faithful performance of its Minimum Work commitments and financial commitments as provided for in the Agreement, the said sum of United States Dollars (US\$ ____) to be reduced annually by an amount proportionate to 25% of the discharge of Minimum Work commitment and financial obligations for that year as provided for in the said Agreement, as evidenced by a signed certificate from THE PRESIDENT or his designee (Director General Petroleum Concessions). The terms and conditions of this Bank Guarantee are as follows:

- 1) The said amount, or any part thereof, shall be paid to Director General Petroleum Concessions without recourse to any person on receipt of your first written demand that the amount claimed is duly payable under the Agreement.
- 2) We hereby waive any or all rights and demands (including but not limited to diligence, presentment, demand for payment & protest,) as guarantor, of first requiring the President to proceed against or enforce his contractual or legal right against the Contractor obligations hereunder are continuing, absolute and unconditional, and will not be in any way affected by giving of time or any forbearance by THE PRESIDENT the waiver or consent by THE PRESIDENT with respect to any provisions of the Agreement and irrespective of the validity, regularity, enforceability or value of the Agreement, or by any other circumstances which might otherwise constitute a legal or equitable discharge or defence of a surety or guarantor, all of which are hereby expressly waived.
- 3) Our obligations hereunder shall be paid in United States Dollars to the bank account designated by THE PRESIDENT or his designee (Director General Petroleum Concessions), free and clear of and without reduction by reason of any and all present and future taxes, levies, imposts, deductions, assessments, charges or withholdings whatsoever. We shall bear and pay any and all fees and expenses in relation to or in connection with this Bank Guarantee.
- 4) In order to give effect to this Bank Guarantee, we hereby declare that THE PRESIDENT or his designee (Director General Petroleum Concessions) shall be at liberty to act as though

we were the principal debtor, and we hereby waive all and any of the rights as surety which may at any time be inconsistent with any of the above provisions.

5) Any claim or demand under this Bank Guarantee shall be presented to us on or before the expiration of the date of the validity of this Bank Guarantee.

6) This Bank Guarantee shall be effective immediately and shall remain valid till dd/mm/yyyy (the date shall be 90 days after validity of exploration license) (hereinafter called the Expiry), and thereafter automatically, without any formality, become null and void for all its effects and this Bank Guarantee shall be returned to us immediately.

7) Notwithstanding anything contained hereinabove our maximum liability hereunder shall not exceed the sum of US\$ ____.

Yours very truly,

(Name of Bank)

EXHIBIT-1 TO BANK GUARANTEE

(name and address of issuing bank)
Gentlemen,

With reference to Bank Guarantee No._____ issued by your Bank in favour of Government of Pakistan, we hereby request you to deliver to US\$_____ (United States Dollars_____) to be drawn under the aforementioned Bank Guarantee, since the Contractor has not completed the Minimum Work for the exploration license period under the terms and conditions of Article-III of the Production Sharing Agreement dated _____.

The amount thus drawn by Government of Pakistan does not exceed the current available amount under the Bank Guarantee.

As a consequence of the foregoing, please pay to Government of Pakistan the amount stated above.(Add payment instructions).

Yours faithfully,

TITLE:

Government of Pakistan

(minimum of 2 signatories)

FORM OF EXHIBIT-II (two copies to be submitted)

EXHIBIT-II TO BANK GUARANTEE

(letterhead)

Government of Pakistan
(Address)

Dear Sirs,

**PRODUCTION SHARING AGREEMENT FOR BLOCK (“the Agreement”)
CERTIFICATE**

(Name of the Contractor) under the Agreement, hereby certifies that the Minimum Work required pursuant to the provisions of Article-III of the Agreement has been completed and that all other obligations in accordance with the Agreement have been met.

Contractor hereby requests Government of Pakistan to countersign this Certificate pursuant to the provisions of Article ____ of the Agreement.

Yours faithfully,

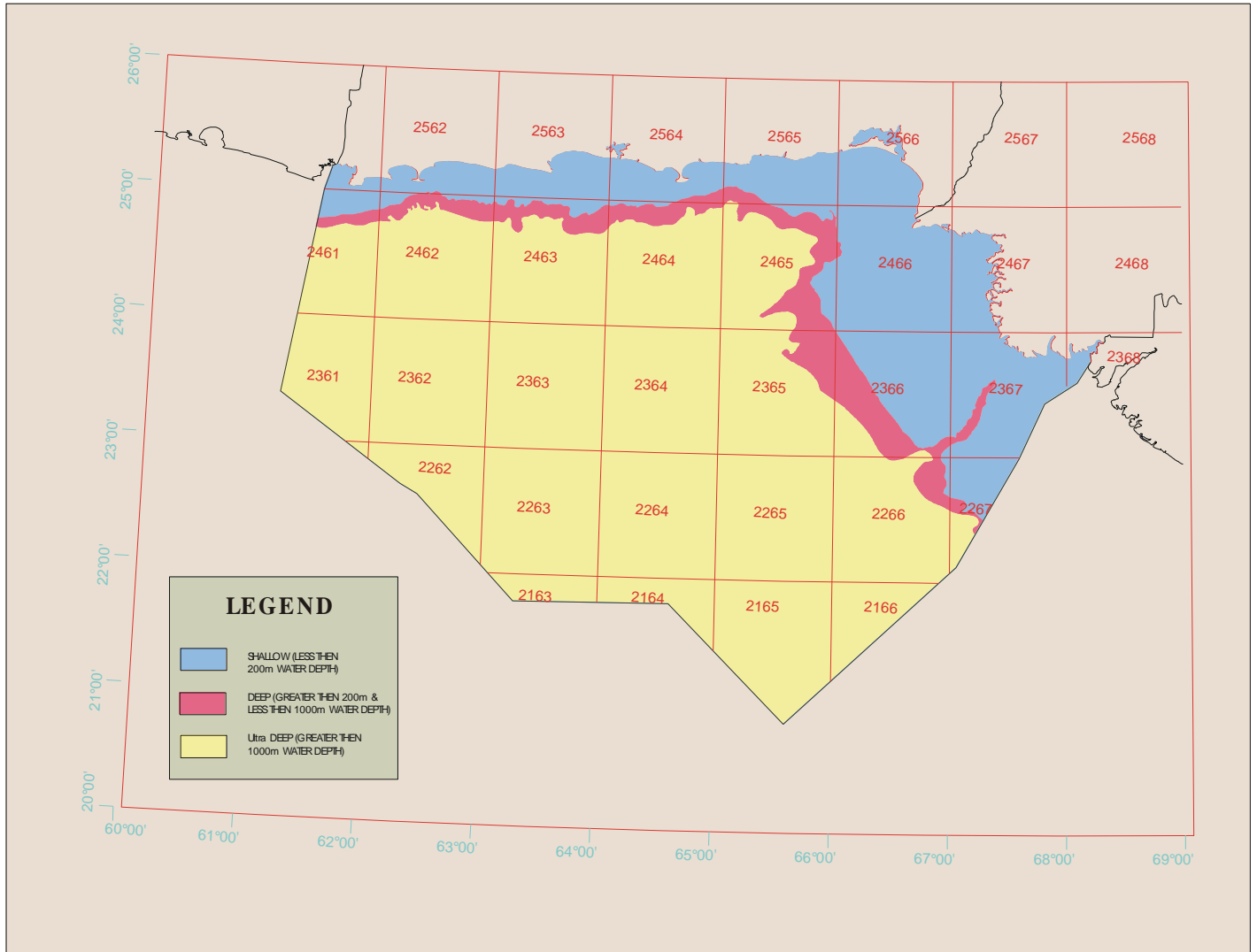
Counter-signed by

for and on behalf of
Contractor)

for and on behalf of (Name of the
Government of Pakistan

Annex-VI

(WATER DEPTH ZONE MAP)



Note: Updated copy of this SRO as on the date of signing of PSA will be included/replaced

**GOVERNMENT OF PAKISTAN
MINISTRY OF FINANCE, REVENUE AND ECONOMIC AFFAIRS
(REVENUE DIVISION)**

Islamabad, the 7th August, 2004.

**NOTIFICATION
(CUSTOMS/SALES TAX)**

S.R.O. 678(I)/2004. - In exercise of the powers conferred by section 19 of the Customs Act, 1969 (IV of 1969), and clause (a) of sub-section (2) of section 3 of the Sales Tax Act, 1990, and in supersession of its Notification No. S.R.O. 448(I)/2004, dated the 12th June, 2004, the Federal Government is pleased to exempt, --

- (1) machinery, equipment, materials, specialized vehicles or vessels, picks-ups (4x4), helicopters, aircraft, accessories, spares, chemicals and consumables, as are not manufactured locally, imported by the Exploration and Production (E&P) Companies, their contractors, sub-contractors and service companies, from customs- duty in excess of five per cent ad valorem leviable under the First Schedule to the Customs Act, 1969 (IV of 1969), and the whole of sales tax leviable under the Sales Tax Act, 1990, on their import and subsequent supply, subject to the conditions specified under the caption "CONDITIONS WITH REFERENCE TO CLAUSES (1), (2) ³[AND (2a)]";
- (2) machinery and equipment, as are not manufactured locally, imported by companies other than Exploration and Production Companies, from custom duty in excess of five per cent ad valorem leviable under the First Schedule to the Customs Act, 1969 (IV of 1969), subject to the conditions specified under the caption "CONDITIONS WITH REFERENCE TO CLAUSES (1), (2) ³[AND (2a)]";
- ³[(2a) plant, machinery and equipment ⁹[including Floating Storage and Regasification Unit], as are not manufactured locally, imported by LNG developers or LNG TO/O ⁸[and natural gas infrastructure importers and its developers], from customs-duty as is in excess of 5% ad valorem, leviable under the First Schedule to the Customs Act, 1969 (IV of 1969), and the whole of sales tax, subject to the conditions specified under the caption "CONDITIONS WITH REFERENCE TO CLAUSES (1), (2) and (2a)";;

⁹[**Explanation.-** For the purposes of this clause, Floating Storage and Regasification Unit shall be deemed to be considered as plant, machinery and equipment of a Floating LNG Terminal.]

- (3) goods as mentioned in CLAUSES (1) and (2) above, as are manufactured locally, imported by Exploration and Production Companies, their

contractors, sub-contractors and service companies, other petroleum and public sector companies as is in excess of ten per cent ad valorem leviable under the First Schedule to the Customs Act, 1969 (IV of 1969), ⁷[omitted] provided that goods imported by public sector companies shall be subject to provisions of Notification No. S.R.O. 827(I)/2001, dated the 3rd December, 2001, except for projects wherein an investor or multinational company has a blocking vote. Components and parts of wellhead and X-mass tree if imported for their otherwise utilization will be allowed on payment of 10% customs duty on the basis of certification of respective E&P Company. However, items not manufactured locally shall remain subject to 5% customs duty. All items falling under this serial No. (3) shall also be exempt from whole of the sales tax if these are plant, machinery, equipment and proprietary spares of parent equipment ¹[provided such spares are] not manufactured locally. ⁸[HR Coils, Line Pipe, Pylons/Piles, as are manufactured locally, imported by Natural Gas import projects/companies, their contractors, sub-contractors and service companies and LNG Development/LNG Terminal Owner/Operator (TO/O), their contractors, sub-contractors and service companies shall be exempt from whole of customs duty]

- (4) raw materials and components, as are not manufactured locally, and are imported for use in the manufacture of goods specified in clauses (1) and (2), to be supplied to the petroleum sector companies as specified in the said Notification from whole of customs duty leviable under the First Schedule to the Customs Act, 1969 (IV of 1969), ¹[and the whole of sales tax leviable under the Sales Tax Act,1990] subject to the conditions specified under the caption "CONDITIONS WITH REFERENCE TO CLAUSE (4)".

- ¹[(5) Two vehicles (Pajero/Toyota Land Cruiser etc), imported by Exploration and Production (E&P) Companies shall be exempt from whole of customs- duty while the 3rd and 4th vehicle shall be exempt from duty as is in excess of 10% and 25% respectively. Similarly one vehicle imported by Service Company shall be exempt from the whole of customs duty and their 2nd vehicle shall be exempt from duty as is in excess of 10% *ad valorem*; subject to the following conditions, namely:-

- (a) Life of the vehicle shall be five years unless sooner it is damaged to the extent that it cannot be used; and
- (b) for claiming replacement of any vehicle the vehicle required to be replaced shall be surrendered to the customs authority free of cost.";]

CONDITIONS WITH REFERENCE TO CLAUSES (1), (2)³[AND (2a)].

- (i) Only such goods shall be entitled to the exemption under this notification as have been certified, for clause (1), by an E&P Company, and for clause

(2), by a company other than an E&P company, for its own use or its contractors, sub-contractors and service companies for its projects of oil and gas exploration and production, refinery, oil and gas pipeline, liquefied petroleum gas (LPG), compressed natural gas (CNG) ⁸[and natural gas infrastructure importers and its developers],³[Liquefied Natural Gas (LNG)] petroleum terminals, energy conservation, environment and safety controls;

- (ii) the exemption available to E&P companies shall be admissible only to such E&P companies who hold permits, or licences, or leases or concession or production sharing agreement and who enter into supplemental agreements with Government of Pakistan;
- (iii) the importers shall maintain an account of all imports alongwith the relevant record as prescribed by the Customs Rules, 2001 and Sales Tax Act, 1990;
- (iv) in the event a dispute arises whether any item is entitled to exemption under this notification, the item will be immediately released by the Customs Department against a corporate guarantee valid for a period of nine months, extendable by the concerned Collector of Customs on time to time basis. A certificate from the relevant Regulatory Authority that the item is covered under this notification shall be given due consideration by the Customs Department towards finally resolving the dispute. Disputes regarding the local manufacturing only shall be resolved through the Engineering Development Board;
- (v) in the event that an emergency condition occurs in connection with operations by a petroleum sector company which seriously endangers life or property of the operations of the project, the relevant Regulatory Authority shall declare an emergency and the operating company shall be allowed to import any item or items considered necessary by the said company to deal with the emergency under intimation to the Regulatory Authority without fulfilling such formalities as are likely to cause delay. Payment of duties and taxes, if any, will be paid upfront based on the calculations by the respective E&P Company of the declared value. Such payment can be made at the time of clearance in cash or by opening a current account with customs or by pay order or by a cheque issued by the respective E&P Company.
- (vi) items imported at concessionary rates which become surplus, scrap, junk, obsolete or otherwise shall be disposed of in the following manner, namely:-
 - (a) in the event an item other than vehicles, is sold to another company in the petroleum sector no import duties shall be levied or charged. Otherwise, it shall be sold through a public tender and duties shall be recovered at the rate of ten per cent ad valorem of the sale proceeds;

- (b) for vehicles there would be a minimum retention period of five years after which the vehicles may be disposed of in the manner provided in (a) above except that the full rate of import duties, net of any import duties already paid, shall be charged subject to an adjustment of depreciation at the rate of two per cent per month up to a maximum of twenty four months;
 - (c) vehicles can be surrendered at any time to the Government of Pakistan without payment of any import duties under intimation to the ⁶[Federal Board of Revenue]; and
 - (d) items imported on payment of 5% customs duty ad valorem or above, which have been rendered scrap, with change in their physical status, composition or condition and PCT classification, will be dealt with as scrap and shall be chargeable to customs-duties and sales tax accordingly, at standard rates;
- (vii) all petroleum sector companies, corporations and organizations including their contractors and sub-contractors and service companies shall be entitled to import machinery, equipment, helicopters, aircrafts, drilling bits, drilling and seismic (on shore or off shore) vessels, drilling rigs, ⁵[6 X 6 trucks which fall under PCT heading 87.04] specialized vehicles which fall under PCT heading 87.05 including accessories and spares, ¹[excluding those for current use] that are part of such vehicles and vessels ⁵[omitted] for the purpose of construction, erection, exploration and production of petroleum projects on an import-cum-export basis without payment of duties and taxes against a corporate guarantee valid for a period of two years equal to the value of import duties and taxes exempted, extendable by the Collector of Customs on time to time basis, if the importer has a definite contract. Should the goods etc., not be exported on the expiry of the project or transferred with the approval of the Collector of Customs to another petroleum project, or the period of stay has been extended by the Collector of Customs, then the company or their contractors or sub-contractors or service companies, as the case may be, shall be liable to pay duties and taxes chargeable at the time of import as per clauses (1), (2) and (3) above.
- (viii) each importer or E&P company shall develop a software within a period of one year from the date of issuance of said Notification and shall establish an online connection with the customs authorities for regulating the imports made under this notification.
- (ix) any item imported under this notification may be exported for replacement or otherwise, repair, modification or renovation and may be re-imported by paying concessionary duty and taxes only as per serial (1) on the actual cost of repair, renovation or modification of the respective item(s).

CONDITIONS WITH REFERENCE TO CLAUSE (4) ABOVE

- (i) The manufacturer has suitable in-house facilities and registration with the Sales Tax Department for manufacture of such goods or the importer-cum-manufacturer is in possession of a firm contract for the manufacture of such goods with any other

manufacturer having suitable in-house facilities and registered with Sales Tax Department for the manufacture of such goods;

(ii) the manufacturer-cum-importer shall furnish to the Collector of Customs and Collector of Sales Tax the list of such goods that he is manufacturing or intends to manufacture alongwith the details of raw materials and components required for the manufacture of each item and the total ¹[anticipated] annual requirement of all such inputs;

(iii) ¹[Omitted;]

(iv) the clearance of inputs shall be allowed through ¹[Karachi Custom House or Port Muhammad Bin Qasim or a part] nearest to the manufacturing unit;

(v) the manufacturer-cum-importer shall, at the time of import of raw materials and components make a written declaration on the goods declaration to the effect that the raw materials and components have been imported for manufacturing of goods to be supplied to the petroleum sector companies as specified in condition (i) under the caption "CONDITIONS WITH REFERENCE TO CLAUSES (1) AND (2);

(vi) the manufacturer cum importer shall maintain record of the inputs and the goods manufactured out of them in such form as may be prescribed by the ⁶[Federal Board of Revenue] or required under any other law in force by the FBR;

¹[(vii) The manufacturer-*cum*-importer shall communicate to the concerned Collector of Customs in writing about the consumption of imported goods within one month of consumption. In case of non-consumption within a period of one year, extendable for another year by the concerned Collector, the importer shall pay the customs-duty and other taxes involved. The importer may however re-export the unconsumed portion during the validity period;]

(viii) in case the manufacturer-cum-importer does not provide information regarding consumption or otherwise of the imported goods within a period of one hundred eighty days of import or such extended period as allowed by the Collector or if otherwise deemed necessary, the records of importer cum manufacturer shall be audited by the Duty Suspension Audit Organization (DSAO) or by any other person duly appointed by the Collector. If upon audit consumption of goods is not found satisfactory the Collector of Customs shall initiate proceedings for the recovery of leviable customs duty and other taxes besides penal action under the relevant provisions of laws in force; and

¹[(ix) The manufacturer-cum-importer of goods shall furnish a delivery note duly supported with a corresponding purchase order from any petroleum sector companies as prescribed in clauses (1) and (2) of this notification.]

Explanation.1. The expression "not manufactured locally" shall mean the goods, which are not included in the list of locally manufactured goods, specified in the General Order,

issued by the ⁶[Federal Board of Revenue] ²[or, as the case may be, certified as such by the Engineering Development Board].

Explanation.2. Used and refurbished machinery, equipment, materials, specialized vehicles or vessels, their components and parts importable under this notification will be subject to the provisions of Import Trade and Procedures Order in effect.

Explanation.3. For the import of 4x4 single or double cabin pickup ⁴[6 x 6 trucks] a committee will be constituted for giving approval. It will comprise nominees of ⁶[FBR] and Pakistan Petroleum Exploration and Production Companies Association.

[C.No.1/10/Mach./2004]

(Muhammad Ramzan)
Additional Secretary

As Amended

1. S.R.O.571(I)/2005 - dated 06.06.2005
2. S.R.O.1064(I)/2005 - dated 20.10.2005
3. S.R.O.437(I)/2006 - dated 10.05.2006
4. S.R.O.____(I)/2007 - dated 17.05.2007
5. S.R.O.875(I)/2007 - dated 29.08.2007
6. S.R.O.558(I)/2008 - dated 11.06.2008(w.e.f.12.06.2008)
7. S.R.O.478(I)/2011 - dated 03.06.2011(04.06.2011)
8. S.R.O.878(I)/2012 - dated 10.07.2012
9. S.R.O.337(I)/2015 - dated 22.04.2015

ANNEX-VIII

**LIST OF MACHINERY AND EQUIPMENT REQUIRED
FOR PETROLEUM OPERATIONS**

The following items will be required for Petroleum Operations, and not for the personal use of employees:

1. Drilling rigs, vessels and machinery, including prefabricated derricks, draw-works, rotary tables, high pressure hoses, kelly stems, tongs, swivels, hooks, elevators, slips, boilers, bales, traveling blocks, crown blocks, wire lines, wellhead equipment, blow out preventers, control heads, drilling bits, reamers, thread dope, rope (wire and hemp) and well cementing equipment.
2. Machinery, including such items as steam, diesel, petrol and gas engines, electric motors and generators including electric arc welding and gas welding generators and welding torches, electrical power switch-gear, pumps of all types and sizes for drilling and producing Petroleum, machine tools as required in connection with exploration, drilling or production of Petroleum, including lathes, grinders, planners, power saws, presses, drills and hammers, power driven winches, air compressors, pneumatic tools, special cables including steel, electric and hemp, mechanical power transmitters.
3. Scientific and engineering instruments including surveyors transits, levels, Alidades, Brunton and prismatic compasses, seismic instruments, gravity meters, magnetometers, instruments and equipment required for well logging and surveying (including photographic recording), mud-treating and control, core analysis, and gas testing (in particular gaschromatograph, microscopes, ultra violet lamps, rock-saw), special photographic and such special instruments as will be required to establish geophysical, geological, engineering and chemical laboratories, radio telemetering, radio facilities and other electronic equipment and seismic energy sources (dynamite, etc.) and consumables.
4. Tools including drilling tools, oil well fishing and speciality tools, drill stem test, wire line test, well surveying and logging, well cementing tools and equipment, also oil well cement, drilling mud and admixtures, drilling equipment and all types of support equipment.
5. All forms of vessels, heavy hauling and oilfield service vehicles, four wheel drive single and double cabin pick-ups, jeeps, station wagons, trucks and general purpose vehicles built primarily for off-road/rough terrain transportation of staff and equipment (excluding saloon cars and luxury five door jeeps) and aircraft required to support the marine drilling units and onshore support operations, specialized transportation and earth moving equipment; trailers for field use, aircraft, boats, barges, swamp buggies, including tires, tubes, valves and valve stems for the above equipment. All

equipment and working material necessary for construction of exploration and exploitation facilities.

6. Steel pipe of all sizes, including drill pipe, drill collars, oil well casing, tubing and line pipe and all necessary control valves and fittings.
7. Special prefabricated steel structures, including but not limited to, marine production facilities fully outfitted all forms of sub-sea equipment for exploration, drilling and production, tanks and pressure vessels and all semi finished goods (steel plates etc. for their construction on location and all related instruments, regulating and measuring equipment, controllers, gauges, indicators, etc.)
8. Specialized fire fighting equipment for oil field use both, mounted and portable, fire and smoke detectors and all forms of precautionary devices to protect life and property.
9. Special Petroleum field designed electric communication and cooling equipment, computing hardware/software. [For software subject to Article 13.11].
10. Safety equipment of all kinds including items such as boots, coveralls, safety helmets, gloves, protection eyeglasses, H₂S equipment, life rafts, life boats, safety jackets, first aid kits, medical supplies, transport equipment, emergency lighting, radioactive monitoring tools, fresh water making equipment, gas detection systems, blow out preventers etc.
11. Replacement parts for the foregoing.

NOTE:

- I) The foregoing enumeration of items is not exhaustive and each category shall be deemed to include articles of similar nature required for the specific purpose of Petroleum Operations on land, sea, and air for on-shore and off-shore Petroleum Exploration, Production and Development projects.
- II) The foregoing list shall not include articles which are produced and available in Pakistan at the same delivery date, of the same quality, at comparable prices as certified by the Director General of Petroleum Concessions and which are banned for import under the Import/Trade Policy by the Government from time to time notwithstanding the fact that such items may be among those described above.
- III) No customs concessions will be allowed on spare parts, office equipment, stationery articles and other goods/items etc. which are locally manufactured and so certified by the Director General, Petroleum Concessions.
- IV) It is clarified that the Contractor or Sub-contractors can import on an import cum export basis the used equipment and machinery (such as seismic

acquisition equipment, drilling rigs and equipment, production testing equipment etc.) for the purposes of temporary operations on the recommendations of the Director General, Petroleum Concessions but the same will have to be either exported after the Petroleum Operations have been completed or the transfer of the said equipment to another company has been authorized by the appropriate Regulatory Authority in accordance with the Petroleum Policy and the notifications issued by the Central Board of Revenue.

ANNEX-IX

REPORTS/INFORMATION TO BE SUBMITTED BY CONTRACTOR

1. Monthly, quarterly and annual progress reports as per Rules.
2. Reports on magnetic and gravity surveys, including but not limited to:
 - (a) Flight path maps in 1:50,000 and 1:25,000 scales.
 - (b) Aerial magnetic recording tapes.
 - (c) Daily records of the earth's magnetic fields.
 - (d) Specifications of equipment used in the magnetic and gravity surveys.
 - (e) Reports on the interpretation of clause (a), (b) and (c) together with maps showing the intensity of magnetic and gravity and depth of basement, and structural maps both sepia and blue-prints in 1:250,000 scales.
3. Reports on surface geological surveys, to be submitted after completion of such survey, including but not limited to:
 - (a) Geological maps in 1:50,000 and 1:250,000 scales and maps showing the location of the collection of samples in 1:50,000 scale in both sepia and blue-prints.
 - (b) Analysis of Petroleum reservoirs specifying the rock types, petrology, permeability and porosity.
 - (c) Petroleum source rocks analysis, consisting of total organic carbon contents, types and maturity.
 - (d) Palaeontology analysis, stratigraphy and environment of deposition.
4. Reports on seismic data and interpretations thereof including the following in relation to seismic surveys:
 - (a) Source and receiver pattern diagrams.
 - (b) Specifications of equipment used in seismic surveys.
 - (c) Maps showing permanent marks used in the survey in 1:50,000 scale.
 - (d) Seismic shot point maps in 1:25,000 scales, and in areas of detailed coverage, shot point maps at 1:50,000 and 1:25,000, where applicable, both in sepia and blue-prints.
 - (e) Source wave form characteristic analysis.
 - (f) Weathering profile.
 - (g) Magnetic tape recordings of seismic survey and other processing tapes.
 - (h) Seismic sections of all seismic, data processing methods of every seismic line, in one second per 10 cm and 5 cm scale, sepia prints and 2 paper

prints, one interpreted and one re-interpreted (the same required to apply to the re-processed lines).

- (i) Root mean square velocity and interval velocity analysis of shot points carried out in each line.
- (j) Seismic interpretation of every horizon as well as the geological age of the horizons.
- (k) Structural contour maps prepared on the basis of the interpretations of clauses (i) and (j) in 1:25,000 scale.

5. Reports on drilling operations including the following:

- (a) A daily report which must contain the following details:
 - (1) Names of well and Contractor.
 - (2) Date and time of operation.
 - (3) Name of drilling rig.
 - (4) Days of previous operation on the particular well.
 - (5) Depth of well at time of report.
 - (6) Diameter of well.
 - (7) Type and size of drill bit.
 - (8) Deviation of well.
 - (9) Type, weight, & specification of drilling mud.
 - (10) Operation and problem during previous 24 hours.
 - (11) Lithology within previous 24 hours.
 - (12) Petroleum found.
 - (13) Type, size, weight and depth of casing.
 - (14) Cementing
 - (15) Pressure test of Petroleum blow-out preventer, casing and other related equipment.
 - (16) Well-logging, including type and depth of logging.
 - (17) Core sampling.
 - (18) Flow tests and the depth thereof.
 - (19) Well abandonment.
 - (20) Drilling rig, released.
 - (21) Conditions of weather.
- (b) Well completion reports on well test analysis and details of geology and lithology after completion of drilling.

- (c) One complete set of well logs at 1:1,000 spliced into continuous logs, both on sepia and on blue-print after the completion of well logging operations (in addition to well logs at scales received in the usual course from the logger). The well completion logs should include at least the following:
 - (i) Log curves
 - (ii) Lithologic plot and description
 - (iii) Formation tops
 - (iv) Velocity information
 - (v) Shows and tests
 - (vi) Casing and plugs
 - (vii) Cores
 - (viii) Paleo markers
 - (ix) Environment of deposition
 - (x) Any other information which Contractor has plotted on its own 1:100 logs and which contributes to an interpretation of the results of the well.
 - (d) Interpretation of well logging, including formulae and methods of calculation after completion of operations.
 - (e) Reports on sample analysis after completion of drilling.
 - (f) Well test reports after completion of operation, including the following details:
 - (1) Depth of test
 - (2) Hydrocarbon and water
 - (3) Analysis of hydrocarbon and water.
 - (4) Pressure analysis.
6. Reports on production of Petroleum including the following:
- (a) A daily report with following details:
 - 1) Amount of Petroleum produced.
 - 2) Amount of Petroleum stored, sold or disposed..
 - 3) Amount of Petroleum used as fuel.
 - 4) Amount of Petroleum flared.
 - 5) Gravity and viscosity.
 - 6) Vapour pressure.
 - 7) Pour point.

- 8) Dew-point and composition of Natural Gas.
 - 9) Impurities.
 - 10) Water produced and result of the analysis
 - 11) Tubing and casing pressure.
 - 12) Choke size
 - 13) Well test.
 - 14) Operation during the previous 24 hours.
- (b) Workover report, giving reasons, length and details of workover after the completion of the workover.
 - (c) Stimulation report, stating methods and details of materials used for the purpose after the completion of operations.
 - (d) Bottom hole pressure test report after the completion of the test.
 - (e) Production test report including details of calculation after completion of the test.
 - (f) Structural contour maps for all horizons together with well location, reserve assessment, and detailed calculation and reservoir simulation report, prior to production, and was six months during production in the event of charge.
7. Reports on investigation of Petroleum reserves field limits and economic evaluations.
 8. Safety programmes and reports on accidents.
 9. Procurement plans for goods and services, and copies of all contracts with Subcontractors.
 10. Design criteria, specifications, maps and construction records.
 11. Reports technical investigations relating to Petroleum Operations.
 12. Statements of Petroleum Costs.
 13. Reports on education and training programmes.
 14. Such other reports as may be required according to the Rules, Accounting Procedure or by GHPL or Government.

ANNEX-X(i)

WELL HEAD GAS PRICE ILLUSTRATION AS PER PRICING PROVISIONS OF POLICY 2012 FOR ZONE O (SHALLOW)

\$/BBL

A. Weighted average imported Crude Oil C & F Price (Assumed RCP)	140.00
Floor Price C & F	10.00
Ceiling Price	110.00

B. Apply sliding scale discounts to C&F crude oil price after floor & upto ceiling.

US\$/BBL	Applicable % of C&F Price	US\$/BBL
0 to 30	100%	30
Above 30 to 50	Plus 50% of incremental increase	10
Above 50 to 70	Plus 30% of incremental increase	6
Above 70 to 110	Plus 20% of incremental increase	8
Applicable C&F Price	(A+B+C+D)	54
Marker Price	73.88% of applicable C&F price	\$39.8952

Conversion Factor * assumed (MM Btu/bbl)

5.7

Zone 0 (Shallow) producer price for pipe line quality specification gas in US\$/MMBtu

ANNEX-X(ii)

**WELL HEAD GAS PRICE ILLUSTRATION AS PER PRICING PROVISIONS OF
POLICY 2012 FOR ZONE O (DEEP)**

	\$/BBL
C. Weighted average imported Crude Oil C & F Price (Assumed RCP)	140.00
Floor Price C & F	10.00
Ceiling Price	110.00

D. Apply sliding scale discounts to C&F crude oil price after floor & upto ceiling.

US\$/BBL	Applicable % of C&F Price	US\$/BBL
0 to 10	100%	10
Above 10 to 30	100%	20
Above 30 to 50	Plus 50% of incremental increase	10
Above 50 to 70	Plus 30% of incremental increase	6
Above 70 to 110	Plus 20% of incremental increase	8
Applicable C&F Price	(A+B+C+D+E)	54
Marker Price	84.44% of applicable C&F price	\$45.5976

Conversion Factor * assumed (MM Btu/bbl)	5.7
Zone 0 (Deep) producer price for pipe line quality specification gas in US\$/MMBtu	8

ANNEX-X(iii)

WELL HEAD GAS PRICE ILLUSTRATION AS PER PRICING PROVISIONS OF POLICY 2012 FOR ZONE O (ULTRADEEP)

	\$/BBL
E. Weighted average imported Crude Oil C & F Price (Assumed RCP)	140.00
Floor Price C & F	10.00
Ceiling Price	110.00

F. Apply sliding scale discounts to C&F crude oil price after floor & upto ceiling.

US\$/BBL	Applicable % of C&F Price	US\$/BBL
0 to 30	100%	30
Above 30 to 50	Plus 50% of incremental increase	10
Above 50 to 70	Plus 30% of incremental increase	6
Above 70 to 110	Plus 20% of incremental increase	8
Applicable C&F Price	(A+B+C+D)	54
Marker Price	95% of applicable C&F price	\$51.3

Conversion Factor * assumed (MM Btu/bbl) 5.7

Zone 0 (Ultradeep) producer price for pipe line quality specification gas in US\$/MMBtu 9