

**PETROLEUM RESOURCES AGREEMENT**

**FOR  
THE EXPLORATION AND PRODUCTION  
OF  
OIL AND NATURAL GAS  
IN  
THE MANNAR BASIN**

**BLOCK NO SL 2007-01- 001**

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THIS CONTRACT made on this Seventh (07<sup>th</sup>) day of July Two Thousand and Eight (2008).

**BETWEEN:**

- (i) 1. **THE GOVERNMENT OF SRI LANKA**, acting through A.H.M. Fowzie, the Minister of Petroleum and Petroleum Resources Development (hereinafter referred to as the **"Government"**) of the **FIRST PART**; and
- (ii) 2. **CAIRN LANKA (PVT) LTD** a company incorporated under the laws of Sri Lanka (hereinafter referred to as **"Contractor"**) having its registered office at 291/37, Havelock Gardens, Colombo 5, Sri Lanka, which expression shall include its successors and such assigns as are permitted under Article 28 hereof, of the **SECOND PART**;

**WITNESSETH.:**

**WHEREAS**

- (1) By virtue of the Petroleum Resources Act, No. 26 of 2003 of the Democratic Socialist Republic of Sri Lanka, as amended from time to time, (the **"Act"**), Petroleum Resources occurring naturally within the sub-surface of the land area and the internal waters, historic waters, territorial sea, contiguous zone, continental shelf, continental margin and the exclusive economic zone of Sri Lanka is vested in the State.
- (2) The Act makes provision for the establishment of a Petroleum Resources Development Committee (**"PRDC"**) and a Petroleum Resources Development Secretariat (**"PRDS"**).
- (3) The Act makes provisions for the regulation of Petroleum Operations and grant of licenses for exploration, development and production of Petroleum in Sri Lanka.
- (4) The Act provides for the grant of a license by the PRDC to explore for and exploit the petroleum resources of Sri Lanka.
- (5) The Act provides for an agreement between the Government and the licensee containing terms and conditions with respect to the license.
- (6) The Government desires that the petroleum resources which may exist in the internal waters, historic waters, territorial sea, contiguous zone, continental shelf, continental margin and the exclusive economic zone of Sri Lanka be discovered and exploited with the utmost expedition in the overall interest of Sri Lanka and in accordance with modern oilfield/gasfield and petroleum industry practices.

- (7) The Contractor has committed that it has, or will acquire and make available, the necessary financial and technical resources and the technical and industrial competence and experience necessary for proper discharge and/or performance of all oilfield/gasfield and petroleum industry practices and will provide guarantees as required in Article 29 for the due performance of its obligations hereunder; and
- (8) As a result of discussions between representatives of the Government and the Contractor on the proposal of the Contractor, the Government has agreed to enter into this Contract with the Contractor with respect to the Contract Area identified as block SL 2007-01-001 and detailed in Appendix A and Appendix B, on the terms and conditions herein set forth.

**NOW THEREFORE**, in consideration of the premises and covenants and conditions herein contained, **IT IS HEREBY AGREED** between the Parties as follows:

## ARTICLE 1

### 1. DEFINITIONS

1.1 In this Contract, unless the context requires otherwise, the following terms shall have the meaning ascribed to them hereunder:

**“Accounting Procedure”** means the principles and procedures of accounting set out in Appendix C.

**“Act”** has the meaning attributed to it in Recital (1).

**“Affiliate”** means a company or a body;

- (a) which directly or indirectly controls or is controlled by a Company which is a Party to this Contract; or
- (b) which directly or indirectly controls or is controlled by a company that directly or indirectly controls or is controlled by a Company that is a Party to this Contract.

For the purpose of this definition it is understood that **“control”** means:

- (i) ownership by one company of more than fifty percent (50%) of the voting securities of the other company; or
- (ii) the power to direct, administer and dictate policies of the other company even where the voting securities held by such company exercising such effective control in that other company is less than fifty percent (50%)

and the term “**controlled**” shall have a corresponding meaning.

“**Allowable Expenditure**” has the meaning given in Article 17.2.

“**Appendix**” means an appendix attached to this Contract.

“**Appraisal Programme**” means an Approved Work Programme carried out following a Discovery in the Contract Area for the purpose of appraising the Discovery and delineating the Petroleum Reservoirs to which the Discovery relates in terms of thickness and lateral extent and determining the characteristics thereof and the quantity of recoverable Petroleum therein.

“**Appraisal Well**” means a well that is so located in relation to another well penetrating an accumulation of Petroleum that there is a reasonable expectation that another portion of that accumulation will be penetrated by the first mentioned well and that the drilling is necessary to determine the commercial value of the accumulation.

“**Approved Work Programme**” and “**Approved Budget**” mean a Work Programme or a Budget that has been approved by the Management Committee and the PRDS pursuant to the provisions of this Contract.

“**Arms Length Sales**” means sales made freely in the open market, in freely convertible currencies, between willing and unrelated sellers and buyers 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 sales (whether direct or indirect, through brokers or otherwise) involving Affiliates, sales between companies which are Parties to this Contract, sales between governments and government-owned 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.

“**Article**” means an article of this Contract and the term “**Articles**” means more than one Article.

“**Assignee**” has the meaning attributed to it in Article 29.7.1.

“**Assignor**” has the meaning attributed to it in Article 29.7.1.

“**Associated Natural Gas**” or “**ANG**” means Natural Gas produced in association with Crude Oil either as free gas or in solution, if such Crude Oil can by itself be commercially produced.

**“Barrel”** means a quantity or unit equal to 158.9074 litres (forty two (42) United States gallons) liquid measure, at a temperature of sixty (60) degrees Fahrenheit (15.56 degrees Celsius) and under one atmosphere pressure (14.70 psia).

**“Basement”** means any igneous or metamorphic rock, or rocks or any stratum of such nature, in and below which the geological structure or physical characteristics of the rock sequence do not have the properties necessary for the accumulation of Petroleum in commercial quantities and which reflects the maximum depth at which any such accumulation can be reasonably expected in accordance with the knowledge generally accepted in the international petroleum industry.

**“Budget”** means a budget formulated in relation to a Work Programme.

**“Business Day”** means any of the Calendar Days excluding days that are a Saturday, Sunday or public holidays in Sri Lanka. For the avoidance of doubt, where the Contract cites days without the qualification of “Business Day” or “Calendar Day”, for 10 days or less than 10 days, the Contract means Business Days and for more than 10 days the Contract means Calendar Days.

**“Cabinet of Ministers”** means the cabinet of ministers of the Government.

**“Calendar Day”** means any of the seven (7) days of a week.

**“Calendar Month”** means any of the twelve (12) months of the Calendar Year.

**“Calendar Quarter”** or **“Quarter”** means a period of three (3) consecutive Calendar Months commencing on the first day of January, April, July and October of each Calendar Year.

**“Calendar Year”** means a period of twelve (12) consecutive Months according to the Gregorian calendar, commencing with the first (1st) day of January and ending with the thirty-first (31st) day of December.

**“Commercial Discovery”** means a Discovery of Petroleum reserves which has been declared as a Commercial Discovery in accordance with the provisions of Article 10 and/or Article 21.

**“Commercial Production”** means production of Crude Oil or Condensate or Natural Gas or any combination of these from the Contract Area (excluding production for testing purposes) and delivery of the same at the relevant Delivery Point under a programme of regular production and sale.



**“Company”** means the Contractor.

**“Companies”** shall mean all such Companies collectively, including their respective successors and permitted assigns under Article 28.

**“Condensate”** means those low vapour pressure hydrocarbons obtained from Natural Gas through condensation or extraction and refers solely to those hydrocarbons that are liquid at normal surface temperature and pressure conditions provided that in the event Condensate is produced from a Development Area and is segregated at the Delivery Point or transported, then the provisions of this Contract shall apply to such Condensate as if it were Crude Oil.

**“Contract”** means this Petroleum Resources Agreement and the appendices mentioned herein and attached hereto and made an integral part hereof and any amendments made thereto pursuant to the terms thereof.

**“Contract Area”** means, on the Effective Date, the area described in Appendix A and delineated on the map attached as Appendix B or any portion of the said area remaining after relinquishment or surrender from time to time pursuant to the terms of this Contract (including any additional area as provided under Article 11.2).

**“Contract Costs”** means Exploration Costs, Development Costs and Production Costs as provided in Section 2 of Appendix C and allowed to be cost recoverable in terms of Section 3 of Appendix C.

**“Contract Year”** means a period of twelve (12) consecutive months counted from the Effective Date or from the anniversary of the Effective Date.

**“Contractor”** means any person or body corporate, local or foreign, authorized to conduct petroleum operations under a Petroleum Resources Agreement, and shall include joint venture operations.

**“Cost Petroleum”** means the portion of the total value of Petroleum Produced and Saved from the Contract Area that the Contractor is entitled to take in a particular period, for the recovery of Contract Costs as provided in Article 15.

**“Crude Oil”** or **“Oil”** or **“Crude”** means all kinds of hydrocarbons and bitumen, both in solid and in liquid form, in their natural state or obtained from Natural Gas by condensation or extraction, including distillate and Condensate when commingled with the heavier hydrocarbons and delivered as a blend at the Delivery Point but excluding Natural Gas.

**“Data”** has the meaning attributed to it in Article 26.1.

**“Deepwater Area”** means an area falling beyond the four hundred (400) metre isobath.

**“Defaulting Party”** has the meaning attributed to it in Article 30.3.

**“Delivery Facility”** means the facility at which petroleum is delivered to the buyer or to the Government as the case maybe.

**“Delivery Period”** has the meaning attributed to it in Article 19.2.

**“Delivery Point”** means, except as otherwise herein provided or as may be otherwise agreed between the Parties having regard to international practice, the point at which Petroleum reaches the outlet flange of the delivery facility. The Management Committee shall approve Delivery Point (s). For avoidance of doubt the Delivery Point(s) need not necessarily be within the Contract Area.

**“Development Area”** means part of the Contract Area in respect of which a Development License has been issued that encompasses one or more Commercial Discovery (ies) and any additional area that may be required for proper development of such Commercial Discovery (ies) and established as such in accordance with the provisions of this Contract.

**“Development Costs”** means those costs and expenditures incurred in carrying out Development Operations, as classified and defined in Section 2 of Appendix C and allowed to be recovered in terms of Section 3 thereof.

**“Development License”** means an instrument that confers with respect to the portions of the Contract Area to which the License applies, the right to explore for and the exclusive right to drill and test for petroleum and the exclusive right to develop and produce petroleum from those portions of the offshore area.

**“Development Operations”** means operations conducted in accordance with the Development Plan and shall include, the purchase, shipment or storage of equipment and materials used in developing Petroleum accumulations, the drilling, completion and testing of Development Wells, the drilling and completion of Wells for Gas or water injection, the laying of gathering lines, the installation of offshore platforms and installations, the installation of separators, tanks, pumps, artificial lift and other producing and injection facilities required to produce, process and transport Petroleum into main Oil storage or Gas processing facilities, either onshore or offshore, including the laying of pipelines within or outside the Contract Area, storage at Delivery

Point(s), the installation of said storage or Gas processing facilities, the installation of export and loading facilities and other facilities required for the development and production of the said Petroleum accumulations and for the delivery of Crude Oil and/or Gas at the Delivery Point and also including incidental operations not specifically referred to herein but required for the most efficient and economic development and production of the said Petroleum accumulations in accordance with modern oilfield/gasfield and petroleum industry practices.

**“Development Plan”** means a plan submitted by the Contractor for the development of a Commercial Discovery, which has been reviewed by the Management Committee and approved by the PRDS pursuant to Article 10 or Article 21.

**“Development Well”** means a well that is so located in relation to another well penetrating an accumulation of petroleum that it is considered to be a well or part of a well drilled for the purpose of production or observation or for the injection or disposal of fluid into or from the accumulation.

**“Discovery”** means the finding during Petroleum Operations, of a deposit of Petroleum, which is confirmed by flow testing, formation testing, shows or log evaluation.

**“Discovery Area”** means that part of the Contract Area about which, based upon Discovery and the results obtained from an Appraisal Programme, the Contractor is of the opinion that Petroleum exists and is likely to be produced in commercial quantities and the PRDS agrees.

**“Effective Date”** means the later of the date on which the Parties execute this Contract or the date of issue of the Exploration License or date from which the Exploration Licence has been made effective by the Government.

**“Environmental Damage”** means soil erosion, removal of vegetation, destruction of wildlife, pollution of groundwater or surface water, land contamination, air pollution, noise pollution, bush fire, disruption to water supplies to natural drainage or natural flow of rivers or streams, damage to archaeological, palaeontological and cultural sites and shall include any damage or injury to, or destruction of, soil or water in their physical aspects together with vegetation associated therewith, aquatic or terrestrial mammals, fish, avi-fauna or any plant or animal life whether in the sea or in any other water or on, in or under land.

**“Environmental Fund”** has the meaning attributed to it in Article 14.1.4.

**“Excess ANG”** has the meaning attributed to it in Article 21.4.1.

**“Exploration Costs”** means those costs and expenditures incurred in carrying out Exploration Operations, as classified and defined in Section 2 of Appendix C and allowed to be recovered in terms of Section 3 thereof.

**“Exploration License”** means an instrument that confers to the holder of such license the right to explore for and the exclusive right to drill and test for Petroleum in the Contract Area.

**“Exploration Operations”** means operations conducted in the Contract Area pursuant to this Contract in searching for Petroleum or in the course of an Appraisal Programme and shall include but not be limited to aerial, geological, geophysical, geochemical, palaeontological, palynological, topographical and seismic surveys, analysis, studies and their interpretation, investigations relating to the subsurface geology including structural test drilling, stratigraphic test drilling, drilling of Exploration Wells and Appraisal Wells and other related activities such as surveying, drill site preparation and all work necessarily connected therewith that is conducted in connection with Petroleum exploration.

**“Exploration Period”** means the period mentioned in Article 3 during which the Contractor as may carry out Exploration Operations.

**“Exploration Phase”** or **“Phase”** means any of the periods specified in Article 3 in which the Contractor is required to complete a Minimum Work Programme specified therein.

**“Exploration Well”** means a well drilled on a geological feature on which a commercial discovery has not been made.

**“Field”** means an Oil Field or a Gas Field or combination of both as the case may be.

**“Financial Year”** means the period from the first (1st) day of April to the thirty-first (31st) day of March of the following Calendar Year.

**“First Exploration Phase”** has the meaning attributed to it in Article 3.3

**“Foreign Company”** means any Company (ies) constituting the Contractor and its successors and approved assigns, excluding the NOC.

**“Gas”** means Natural Gas.

**“Gas Field”** means, within the Contract Area, a Natural Gas Reservoir or a group of Natural Gas Reservoirs within a common geological structure or feature.

**“Government”** means the Government of Sri Lanka unless otherwise stated.

**“Income Tax Act”** means the Inland Revenue Act, No. 10 of 2006 and any amendment thereto.

**“Investment”** shall have the meaning attributed to it in Section 3 of Appendix D.

**“Investment Multiple”** means the ratio of accumulated Net Cash Income to accumulated Investment by the Contractor as determined in accordance with Appendix D.

**“Joint Operating Agreement”** means the joint operating agreement entered by the constituents of the Contractor in accordance with Article 7, with respect to the conduct of Petroleum Operations.

**“LIBOR”** means the London Inter-Bank Offer Rate for six-month maturates of United States Dollars as quoted by the International Swaps and Derivative Association or such other bank being a BBA LIBOR contributor panel bank as the Parties may agree.

**“License”** means an Exploration License or a Development License, as the context so requires.

**“Licensee”** means the Contractor to whom a License is issued for the purpose of carrying out Petroleum Operations in the Contract Area.

**“LMS”** has the meaning attributed to it in Article 5.2.

**“Minimum Work Programme”** means with respect to each Exploration Phase, the Work Programme specified in Article 5 with respect to such Phase.

**“Management Committee”** means the committee constituted pursuant to Article 6.

**“Month”** means Calendar Month.

**“Natural Gas”** means wet gas, dry gas, all other gaseous hydrocarbons, and all substances contained therein, including sulphur, carbon dioxide and nitrogen but excluding extraction of helium, which are produced from Oil or Gas Wells, excluding those condensed or extracted liquid hydrocarbons that are liquid at normal temperature and pressure conditions, and including the residue gas remaining after the condensation or extraction of liquid hydrocarbons from gas.

**“Net Cash Income”** shall have the meaning attributed to it in Section 2 of Appendix D.

**“NOC”** means the national oil company of Sri Lanka.

**“Non Associated Natural Gas”** or **“NANG”** means Natural Gas which is produced either without association of Crude Oil or in association with such quantities of Crude Oil which by itself cannot be commercially produced.

**“Oil Field”** means, within the Contract Area, an Oil Reservoir or a group of Oil Reservoirs within a common geological structure or feature.

**“Operator”** means one of the Parties comprising the Contractor, appointed as the Operator pursuant to Article 7.

**“Operating Committee”** means the committee established by that name in the Joint Operating Agreement pursuant to Article 7.

**“Participating Interest”** means, in respect of each Party constituting the Contractor, the undivided share expressed as a percentage of such Party’s participation in the rights and obligations under this Contract.

**“Parties”** means the parties signatory to this Contract including their successors and permitted assigns under this Contract and the term **“Party”** means any of the Parties.

**“Performance Guarantee”** has the meaning attributed to it in Article 29.

**“Petroleum”** means Crude Oil and/or Condensate and/or Natural Gas existing in their natural condition but excluding helium occurring in association with Petroleum or shale.

**“Petroleum Operations”** means, as the context may require, Exploration Operations, Development Operations or Production Operations or any combination of two or more of such operations, including construction, operation and maintenance of all necessary facilities, plugging and abandonment of Wells, safety, environmental protection, transportation, storage, sale or disposition of Petroleum to the Delivery Point, Site Restoration and Decommissioning and any or all other incidental operations or activities as may be necessary.

**“Petroleum Produced and Saved”** means gross Petroleum produced minus (a) impurities such as water or solids produced along with Petroleum, (b) Petroleum recycled to the reservoir, and (c) Petroleum used in Petroleum Operations or flared, or otherwise unavoidably lost under the provisions of the Contract.

**“Petroleum Resources Development Committee (PRDC)”** and **“Petroleum Resources Development Secretariat (PRDS)”** means those organisations as defined in the Petroleum Resources Act, No.26 of 2003.

**“Platt’s”** has the meaning attributed to it in Article 19.5.

**“Production Bonus”** has the meaning attributed to it in Article 17.13.

**“Production Costs”** means those costs and expenditures incurred in carrying out Production Operations as classified and defined in Section 2 of Appendix C and allowed to be recovered in terms of Section 3 thereof.

**“Production Operations”** means all operations conducted for the purpose of producing Petroleum from the Development Area after the commencement of production from the Development Area including the operation and maintenance of all necessary facilities.

**“Profit Petroleum”** means the total value of Petroleum Produced and Saved from the Contract Area in a particular period, as reduced by Cost Petroleum and calculated as provided in Article 16.

**“Programme Quantity”** has the meaning attributed to it in Article 10.12.

**“Reasonable and Prudent Operator”** means a person seeking in good faith to perform its contractual obligations and, in so doing and in the general conduct of its undertaking, exercising that degree of skill, diligence, prudence and foresight which would reasonably and ordinarily be expected from a skilled and experienced operator engaged in the same type of undertaking under the same or similar circumstances or conditions, and the expression **“standard of a Reasonable and Prudent Operator”** shall be construed accordingly.

**“Recompletion”** means an operation whereby a completion in one zone is abandoned in order to attempt a completion in a different zone within an existing Well bore.

**“Reservoir”** means a naturally occurring discrete accumulation of Petroleum.

**“Second Exploration Phase”** has the meaning attributed to it in Article 3.4.

**“Self-sufficiency (Oil)”** means when the total availability to the Government of Crude Oil and Condensate from all Petroleum production activities in Sri Lanka meets the total national demand.

**“Shallow Water Area”** means an area with water depths of less than four hundred (400) metres.

**“Signature Bonus”** has the meaning attributed to it in Article 17.12.

**“Site Restoration and Decommissioning”** shall mean all activities required to return a site to its state as of the Effective Date pursuant to the Contractor’s environmental impact study and approved by the Government or to render a site compatible with its intended after-use (to the extent reasonable) after cessation of Petroleum Operations in relation thereto and shall include, where appropriate, the proper decommissioning and/or removal and making safe of all property used as part of the Petroleum Operations (including platforms, pipelines, plant, machinery, wells, facilities, debris and all other offshore and onshore installations and structures), establishment of compatible contours and drainage, replacement of top soil, re-vegetation, slope stabilisation, in-filling of excavations or any other appropriate actions in the circumstances.

**“Sri Lanka”** means the Democratic Socialist Republic of Sri Lanka.

**“State”** means the state of Sri Lanka.

**“Statement”** or **“Statements”** refers to the statements required to be furnished in accordance with Appendix C of this Contract.

**“Subcontractor”** means any company or person contracted by the Contractor or Operator to provide goods or services with respect to Petroleum Operations.

**“TD”** means the total depth reached by the drilling of a Well.

**“Test hole”** means any hole, other than a well or seismic shot hole, drilled through sedimentary rock to a depth of more than 30m.

**“Third Exploration Phase”** has the meaning attributed to it in Article 3.5.

**“Trigger Date”** has the meaning attributed to it in Article 17.9.

**“US \$”** or **“USD”** or **“US Dollar”** or **“United States Dollar”** means the currency of the United States of America.

**“Well”** means a hole made by drilling in the course of Petroleum Operations, but does not include a seismic shot hole or a Test hole.

**“Work Programme”** means a work programme formulated for the purpose of carrying out Petroleum Operations.

1.2 Reference to the singular includes a reference to the plural and vice versa.



- 1.3 The headings used in this Contract are for convenience only and shall not be used to construe or interpret this Contract.
- 1.4 Any law, statute or regulation referred to in this Contract shall mean the law, statute or regulation as it exists on the date of execution of this Contract and any subsequent laws, statutes, regulations or amendment (s) thereto.

## ARTICLE 2

### **2. PARTICIPATING INTERESTS**

- 2.1 The initial Participating Interest of the Parties comprising the Contractor shall be as follows:

Cairn Lanka (Pvt) Ltd.                      100%

- 2.2 Except as provided in this Article or elsewhere in this Contract, the rights and obligations of the Parties comprising the Contractor shall include but not be limited to:

- 2.2.1 the right to take Cost Petroleum in accordance with the provisions of Article 15;
- 2.2.2 the right to take its Participating Interest share of Profit Petroleum in accordance with the provisions of Article 16;
- 2.2.3 the right to receive its Participating Interest share of any incidental income and receipts arising from Petroleum Operations; and
- 2.2.4 the obligation to contribute its Participating Interest share of costs and expenses including Contract Costs.

- 2.3 Notwithstanding any other provisions in this Contract, the parties constituting the Contractor shall be liable to indemnify the Government to the full extent of any loss or damage that may be caused by a breach of any provisions of this Contract regardless of the Participating Interests held by them.

## ARTICLE 3

### **3. EXPLORATION LICENSE AND EXPLORATION PERIOD**

- 3.1 The Contractor shall submit an application for grant of an Exploration License in respect of the Contract Area, as early as possible, but not later

than fifteen (15) Business Days from the date of execution of this Contract.

- 3.2 The Exploration Period shall begin on the Effective Date and shall, except as otherwise provided in this Contract, not exceed a total of eight (8) consecutive Contract Years and shall consist of three consecutive Exploration Phases.
- 3.3 Except as otherwise provided in this Contract, the term of the first Exploration Phase shall not exceed three (3) consecutive Contract Years (hereinafter referred to as the "**First Exploration Phase**").
- 3.4 Except as otherwise provided in this Contract, the term of the second Exploration Phase shall not exceed two (2) consecutive Contract Years from the end of the First Exploration Phase (hereinafter referred to as the "**Second Exploration Phase**").
- 3.5 Except as otherwise provided in this Contract, the term of the third Exploration Phase shall not exceed three (3) consecutive Contract Years from the end of the Second Exploration Phase (hereinafter referred to as the "**Third Exploration Phase**").
- 3.6 At the expiry of any Exploration Phase of the Exploration Period, provided that the Contractor has completed the Minimum Work Programme for that Exploration Phase, the Contractor shall have the option, exercisable by giving a written notice to the Government at least thirty (30) days prior to the expiry of the relevant Phase, either:
  - 3.6.1 to proceed to the next Exploration Phase on presentation of the requisite guarantees as provided for in Article 29; or
  - 3.6.2 to relinquish the entire Contract Area except for any Discovery Area and any Development Area and to conduct Development Operations and Production Operations in relation to any Commercial Discovery in accordance with the terms of this Contract, and the Contractor shall have no further obligation in respect of the Minimum Work Programme under Article 5 for any subsequent Exploration Phases of the Exploration Period.

If neither of the options provided for in Article 3.6.1 and Article 3.6.2 is exercised by the Contractor, this Contract shall terminate at the end of the then current Exploration Phase and the Exploration License shall be automatically cancelled.

- 3.7 If at the end of an Exploration Phase, any Work Programme that is in progress and is being diligently pursued, the time for completion of the said Work Programme shall be extended for a period necessary to enable

completion thereof but not exceeding six (6) months, provided that the Contractor

submits his request by giving a written notice to the PRDC and the PRDS at least thirty (30) days prior to the expiry of the relevant Phase and the Management Committee and PRDC give their consent to the said extension and provided further that the period of such extension shall be subtracted from the next succeeding Exploration Phase, if any.

- 3.8 If the Minimum Work Programme of any particular Exploration Phase is completed before the stipulated time then the time so saved will be added to the next Exploration Phase, if so requested by the Contractor giving a notice in writing to the PRDC and the PRDS thirty (30) days prior to such early completion of the Phase and in that event the provision of Article 3.6.1 shall apply immediately after such early completion of the Phase.
- 3.9 Where sufficient time is not available prior to the expiry of the Exploration Period to complete an Appraisal Programme, at the request of the Contractor, the PRDC shall extend the Exploration Period for such period, not exceeding twenty four (24) months as may be mutually agreed between the Parties for the Appraisal Programme to be carried out and for the Contractor to comply with the provisions of Article 10 and Article 21.
- 3.10 Subject to the provisions of Article 3.9, if no Commercial Discovery has been made in the Contract Area by the end of the Exploration Period, this Contract shall terminate.
- 3.11 If this Contract is terminated in accordance with its terms, the Exploration License shall be automatically cancelled.
- 3.12 If at the expiry of the Exploration Period a Development Plan for development of a Commercial Discovery or an application for a Development License is under consideration by the Management Committee or the PRDC pursuant to Articles 10, 11 and 21 respectively, the Exploration License shall continue in force with respect to that part of the Contract Area to which the application relates, pending a decision on the proposed Development Plan and the application for the Development Licence, but shall cease to be in force and effect with respect to the remainder of the Contract Area.

#### **ARTICLE 4**

#### **4. RELINQUISHMENT**

- 4.1 If at the end of the Second Exploration Phase, the Contractor elects, pursuant to Article 3.6, to continue Exploration Operations in the Contract Area in the

Third Exploration Phase, the Contractor shall relinquish a part of the Contract Area in simple geometrical shape of not less than thirty percent (30%) of the original Contract Area. The Contractor shall be entitled to retain the balance area including any Development Area and Discovery Area in not more than three (3) areas of simple geometrical shapes. Notwithstanding the provision of this Article 4.1, the Contractor shall be permitted to retain the Development Areas and Discovery Areas in accordance with Article 3.6.

- 4.2 At the end of the Third Exploration Phase all of the Contract Area shall be relinquished, apart from any extensions granted under Article 3.9 and Article 3.12 and the Contractor shall retain only Development Areas and Discovery Areas in accordance with Article 10 and Article 21.
- 4.3 If the Contractor exercises the option provided for in Article 3.6.2, the Contractor shall, after any Discovery Areas or Development Areas have been designated, relinquish all of the Contract Area not included within the said Discovery Areas or Development Areas.
- 4.4 As and when this Contract is terminated in accordance with any provisions of this Contract, the entire Contract Area remaining with the Contractor shall be deemed to have been relinquished by the Contractor as on the date on which the Contract is terminated.
- 4.5 Relinquishment of all or part of the Contract Area or termination of this Contract shall not be construed as absolving the Contractor of any liability undertaken or incurred by the Contractor in respect of the Contract Area during the period between the Effective Date and the date of such relinquishment or termination.

## ARTICLE 5

### **5. WORK PROGRAMME**

- 5.1 The Contractor shall commence Petroleum Operations not later than six (6) months from the Effective Date.
- 5.2 During the currency of the First Exploration Phase the Contractor shall complete the following Minimum Work Programme (with details of the likely monetary spend (“LMS”) in respect of each item being detailed):

**(I) SEISMIC**

(a) 3-D (API) in Sq.Km.	1000 km <sup>2</sup>	\$24MM
(b) 2-D (API) in Line .Km.	5000 lkm	\$15MM
(c) Reprocessing	5700 lkm 1000 km <sup>2</sup>	\$1.14MM \$1.0MM

<b>(II) GRAVITY &amp; MAGNETIC (API) in line kms.</b>	5000 lkm	\$0.3MM
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**(III) ANY OTHER SURVEYS (API)**

(a) Magneto-Telluric (MT) LKM		
(b) Transient Electro Magnetic (TEM) LKM		
(c) EM Pulse LKM		
(d) Geochemical Survey		
(e) Bathymetric Survey	Bathymetric Survey	\$ 0.04MM
(f) Seabed Sampling		
(g) Satellite Gravity Survey/Data Access	Whole block	\$0.04MM
(h) Environmental Baseline Survey and Environmental Impact Assessment	EIA	\$0.35MM

**(IV) EXPLORATORY DRILLING**

**Water Depth (in metres)**

	WD less than 400 m	Drilled section below sea floor(metres )	WD deeper than 400m	Drilled section below sea floor (metres)	
(a) 1 <sup>st</sup> Well			450m	1100m	\$15MM
(b) 2 <sup>nd</sup> Well			1100m	1200m	\$20MM
(c) 3 <sup>rd</sup> Well			1100m	2550m	\$35.5MM
Total Estimated Expenditure					\$112.1MM

5.3 During the currency of the Second Exploration Phase the Contractor shall complete the following Minimum Work Programme (with details of the LMS in respect of each item being detailed).

**(I) SEISMIC**

- (a) 3-D (API) in Sq.Km.
- (b) 2-D (API) in Line .Km.
- (c) Reprocessing

**(II) GRAVITY & MAGNETIC (API) in stations/ line kms.**

**(III) ANY OTHER SURVEYS (API)**

- (a) Magneto-Telluric (MT) in stations
- (b) Transient Electro Magnetic (TEM) in stations
- (c) Geochemical Survey
- (d) Bathymetric
- (e) Seabed Sampling
- (f) Satellite Gravity Survey/Data Access
- (g) Environmental Baseline Survey and Environmental Impact Assessment

**(IV) EXPLORATORY DRILLING**

**Water Depth (in metres)**

	WD less than 400m	Drilled section below sea floor(met res)	WD deeper than 400m	Drilled section below sea floor (metres)		
(a) 1 <sup>st</sup> Well			500m	1200m	1 Well	\$25MM
(b) 2 <sup>nd</sup> Well						
(c) 3 <sup>rd</sup> Well						
So on ---						
Total Estimated Expenditure						\$25MM

5.4 During the currency of the Third Exploration Phase the Contractor shall complete the following Minimum Work Programme (with details of the LMS in respect of each item being detailed):

**(I) SEISMIC**

(a) 3-D (API) in Sq.Km.	300 km <sup>2</sup>	\$ 9.9MM
(b) 2-D (API) in Line .Km.		
(c) Reprocessing Line Km	1000 lkm	\$ 0.20MM

**(II) GRAVITY & MAGNETIC (API) in stations/ line kms.**

**(III) ANY OTHER SURVEYS (API)**

- (a) Magneto-Telluric (MT) in stations
- (b) Transient Electro Magnetic (TEM) in stations
- (c) Geochemical Survey
- (d) Bathymetric
- (e) Seabed Sampling
- (f) Satellite Gravity Survey/Data Access
- (g) Environmental Baseline Survey and Environmental Impact Assessment

**(IV) EXPLORATORY DRILLING**

**Water Depth (in metres)**

	WD less than 400m	Drilled section below sea floor(met res)	WD deeper than 400m	Drilled section below sea floor (metres)		
(a) 1 <sup>st</sup> Well			500m	1200m	1 Well	\$25MM
(b) 2 <sup>nd</sup> Well						
(c) 3 <sup>rd</sup> Well						

**Total Estimated Expenditure** **\$35.1MM**

5.5 The actual depth objective for each of the Wells shall be determined by the Contractor in the light of the advice of the Management Committee before the commencement of the drilling. Each Well that reaches the geological objective for which the depth objective was determined shall be deemed to have been drilled to the depth objective or to actual total depth, whichever is greater. The Contractor shall ensure that all relevant subsurface, geological, geochemical and geophysical information necessary for the attainment of the exploration objectives in accordance with modern oilfield/gasfield and petroleum industry practices is obtained during exploratory drilling. The well evaluation, testing and abandonment programmes must be submitted to the PRDS in a timely manner for approval. The Wells shall be drilled to at least one of the following depths, (i) to the geological objectives identified or

(ii) to Basement or (iii) to that point below which further drilling becomes impracticable due to geological conditions encountered and drilling would be abandoned by a Reasonable and Prudent Operator in the same or similar circumstances. Abandonment of drilling by the Contractor requires the review of the Management Committee and approval of the PRDS.

- 5.6 If the depth/geological objective of the Well is not achieved for any reason, a substitute Well shall be drilled of the same specifications as stipulated in and subject to Articles 5.2, 5.3 and 5.4, as the case may be.
- 5.7 Subject to Article 31, the Contractor undertakes to complete the Minimum Work Programme in accordance with Articles 5.2, 5.3, 5.4, 5.5 and 5.6, as the case may be. In the event that the Contractor fails to fulfil the said Minimum Work Programme by the end of the relevant Exploration Phase or early termination of the Contract by the PRDC for any reason whatsoever, each Company constituting the Contractor shall pay to the Government, within sixty (60) days following the end of the relevant Exploration Phase or early termination of the Contract, as may be the case, its Participating Interest share for an amount equating to the balance between the outstanding monetary value of Minimum Work Programme and the Performance Guarantee which shall also be forfeited. For determination of this amount, reference to the likely monetary spend referred to in Articles 5.2, 5.3 and 5.4, available relevant information including the Budget and modern oilfield/gasfield and petroleum industry practices will be taken into account.
- 5.8 Any amount which is paid to the Government under the terms of Article 5.7 subsequent to the period of sixty (60) days referred to above will bear interest compounded daily at the applicable LIBOR plus two (2) percentage points.
- 5.9 If the Minimum Work Programme for the Third Exploration Phase has been completed earlier than eighteen months from the end of the Phase, the Contractor shall meet with the PRDS to discuss the possibility of early relinquishment, unless the Contractor undertakes further work with the approval of the Management Committee.
- 5.10 In the event that the Contractor has carried out work in excess of the Minimum Work Programme during the First Exploration Phase, the excess exploration work done shall (where analogous) be set off against the Minimum Work Programme for the Second Exploration Phase, apart from appraisal and development activities.
- 5.11 In the event that the Contractor has carried out work in excess of the Minimum Work Programme during the Second Exploration Phase, the excess exploration work done shall (where analogous) be set off against the Minimum Work Programme for the Third Exploration Phase.



- 5.12 As soon as possible after the Effective Date and thereafter within ninety (90) days before commencement of each following Financial Year, the Contractor shall submit to the Management Committee and the PRDS the Work Programme and the Budgets relating to Petroleum Operations to be carried out during the relevant Financial Year. Work Programme and Budgets for the Exploration Period shall include work sufficient to meet the relevant Minimum Work Programme with respect to each Exploration Phase specified in this Article 5.
- 5.13 The Contractor may propose modifications or revisions to the details of a reviewed or an approved Work Programme and Budget, as the case may be, in the light of the then existing circumstances and shall submit to the Management Committee and the PRDS modifications or revisions to the Work Programme and Budget referred to in Article 5.12.
- 5.14 Work Programmes and Budgets and any modifications or revisions thereto relating to Exploration Operations shall be submitted to the Management Committee for review and advice as provided in Article 6.5. Work Programmes and Budgets related to Development Operations and Production Operations and any modifications or revisions thereto shall be submitted to the Management Committee and the PRDC for approval as provided in Article 10 and Article 21. No modification or revision to the Work Programmes and Budgets may be made without the prior approval of the PRDC.

## ARTICLE 6

### **6. MANAGEMENT COMMITTEE**

- 6.1 There shall be constituted a committee to be called the Management Committee with functions as stated herein below. The Management Committee shall consist of six (6) persons nominated by the Parties as follows:

Government 3

Operator (on behalf of the Contractor) 3

If the Companies exceed three (3), the number of members on the Committee shall increase proportionately to a maximum of 10 only.

- 6.2 The Government and the Operator may nominate alternate members with full authority to act in the absence and on behalf of the members nominated under Article 6.1.

- 6.3 The Government and the Operator shall, within thirty (30) days of the Effective Date, nominate by notice in writing to the other the names of its representatives and alternates to serve as members of the Management Committee. Such notice shall give the names, titles and addresses of the designated members and alternates. Either the Government or the Operator may change any of its respective members or alternates from time to time by notifying the other in writing not less than ten (10) days in advance of the effective date of such change.
- 6.4 One representative of the Government shall be designated as the Chairman of the Management Committee and a second representative of the Government shall be designated as the Deputy Chairman. A member designated by the Operator shall be designated as the Secretary of the Committee.
- 6.5 The Operator on behalf of the Contractor with the approval of Operating Committee, if constituted under Article 7 or in the case of a single Party constituting the Contractor, then that Party shall submit the following matters to the Management Committee for review and it shall have advisory functions:
- 6.5.1 the annual Work Programmes and Budgets in respect of Exploration Operations and any revisions or modifications thereto;
  - 6.5.2 annual work progress and costs incurred thereon;
  - 6.5.3 proposals for surrender or relinquishment of any part of the Contract Area by the Contractor;
  - 6.5.4 proposals for an Appraisal Programme or revisions or additions thereto and the declaration of a Discovery as a Commercial Discovery;
  - 6.5.5 any other matter required by the terms of this Contract to be submitted to it for review or advice; and
  - 6.5.6 any other matter which the Contractor decides to submit for review or advice including matters concerning inter-Party relationships.
- 6.6 The following matters shall be submitted by the Operator on behalf of the Contractor with the approval of the Operating Committee, if constituted under the Article 7, or in case of a single Party constituting the Contractor, then by that Party to the Management Committee for approval (other than a Development Plan in respect of which the Management Committee will review and give advice):

- 6.6.1 Annual Work Programmes and Budgets in respect of Development Operations and Production Operations and any modifications or revisions thereto;
- 6.6.2 proposals for the approval of Development Plans as may be required under this Contract, or modifications or revisions to a Development Plan;
- 6.6.3 determination of a Development Area;
- 6.6.4 appointment of auditors along with scope of audit, approval and adoption of audited report submitted under Article 25.4;
- 6.6.5 collaboration with licensees or contractors of other areas;
- 6.6.6 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;
- 6.6.7 proposals about Site Restoration and Decommissioning to be submitted under Article 14.12;
- 6.6.8 any other matter required by the terms of this Contract to be submitted for the approval of the Management Committee;
- 6.6.9 any other matter which the Contractor decides to submit to it for approval; and
- 6.6.10 any matter that the Government refers to the Management Committee for its consideration and reasoned opinion.

6.7 Unless agreed otherwise by all the members of the Management Committee, the Management Committee shall meet at least once in every three (3) months or more frequently at the request of any member. The Secretary, with the approval of the 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 by the Secretary at least ten (10) days prior to the date fixed for the meeting. The Secretary shall forward the agenda to the members at least seven (7) Business Days prior to the date fixed for the meeting. Any member with the unanimous consent of all the members may take up matters not included in the agenda at the meeting whether present or not present at the meeting.

- 6.8 The Chairman or the Deputy Chairman, as may be the case, shall preside over the meetings of the Management Committee and, in their absence, any other member representing the Government and present shall preside over the meetings.
- 6.9 The Secretary to the Management Committee shall be responsible, 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 (2) copies of the minutes approved by the Chairman within three (3) Business Days of the meeting. Unless agreed otherwise by all the members of the Management Committee, the minutes of a meeting shall be finalised by the Management Committee within three (3) Business Days thereafter. 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. Members may suggest any modification to the minutes while returning the signed copy. Members may also communicate with the Chairman through facsimile or any other effective mode of communication agreed by all the members of the Management Committee. If the Chairman or any other member does not agree with the modification to the minutes suggested by any member, the matter shall be brought to the attention of the other members and resubmitted to the Management Committee at the next meeting and the minutes shall stand approved as to all other matters. If a member fails to respond within the aforesaid three (3) Business Day period, unless agreed otherwise by the Management Committee as herein provided, the minutes shall be deemed to be approved by such member.
- 6.10 Any member shall be entitled, if either he/she or his/her alternate is unable to attend a meeting, to cast his/her vote by facsimile transmission or any other effective mode of communication agreed by all the members of the Management Committee and received by the Chairman prior to the date on which the vote is taken in the course of the meeting or by giving a prior written notice to all other members, appoint a member, with his/her prior consent, representing another member in the Management Committee as his/her proxy to attend a meeting and to exercise the appointing member's right to vote at the meeting whether as directed by the appointing member or otherwise.
- 6.11 In any case of urgency, where the Operating Committee has made a recommendation together with reasons to the Chairman requiring consideration of a matter by the Management Committee without delay, the Chairman, after being satisfied of the need, may waive the requirements of notice period for the meeting and circulation of agenda to such extent as would be consistent with the urgency and consideration of the matter by the

Management Committee. Alternatively, the Chairman may approve submission of notice and agenda to members by facsimile transmission or any other effective mode of communication agreed by all the members of the Management Committee, receipt of which shall be confirmed by telephone by the Chairman requiring the members to confirm their decision by these modes of communication not later than three (3) Business Days from confirmation of receipt of notice and agenda by the member. Any member failing to convey the decision within the time limits of three (3) Business Days shall be deemed to have voted in favour of the proposal. The result of any such vote shall be notified by the Chairman to all the members as soon as all votes are cast or deemed cast.

- 6.12 The meetings of the Management Committee shall be held in Sri Lanka, unless otherwise mutually agreed by the members of the Management Committee. All expenses of the members of the Management Committee attending meetings shall be borne by the respective party, being the Government or the Operator, and shall in no event be cost recoverable.
- 6.13 All matters requiring the approval of the Management Committee shall be generally approved by a unanimous vote of the members of the Management Committee present as well as the votes of the members received by some other mode of communication. In case unanimity is not achieved in the decision making process within a reasonable period as may be required under the circumstances, the decision of the Management Committee shall be approved by the majority of the members nominated by the Operator provided that the members nominated by the Government vote in favour of the decision.
- 6.14 The quorum for any meeting of the Management Committee shall consist of a minimum of two (2) representatives of the Government one of whom shall be the Chairman or his alternate and two (2) representatives of the Operator one of whom shall be the Secretary or his alternate all present in person. If there is no quorum in a meeting, the meeting shall stand postponed to the same day and time in the next week and if a quorum is not present or represented even in the next meeting and subject to a Government member being present, the members present and represented will constitute the quorum and take decisions and decisions taken by such quorum shall be final and binding on all the absenting members not represented.
- 6.15 The Management Committee, if it considers necessary, may appoint legal, financial or technical sub-committees comprised of such representatives as may be agreed by the Management Committee to consider any matter requiring approval or decision of the Management Committee. Such sub-committee expenses shall form part of Contract Costs with relevant cost

classification as decided by the Management Committee pursuant to the Section 2 of the Accounting Procedure and will be cost recoverable.

- 6.16 In the event a Party to the Contract is not entitled to vote in the Operating Committee meetings being in default under the Joint Operating Agreement, and Operator notifies the Chairman of the default by the Party, then the issue of exercising voting right by any member of the Management Committee nominated by such Defaulting Party in the Management Committee meetings shall be discussed by the Management Committee (excluding such nominated member of such Defaulting Party). The Management Committee may exclude the nominated member of such Defaulting Party, after duly hearing the views of the Defaulting Party on the matter of their default under the Joint Operating Agreement. The Management Committee (excluding the nominated member in question) shall take unanimous decisions on exclusion or otherwise of the nominated member of such Defaulting Party from voting in the Management Committee meetings. For the avoidance of any doubt, a unanimous decision by the Management Committee referred to in this Article 6.16 excludes the Defaulting Party from participating in the Management Committee meetings. Accordingly, if the Management Committee decides to exclude the Defaulting Party from voting in the Management Committee, then the said nominated member of such Defaulting Party shall not be entitled to vote in the meetings of the Management Committee under this Contract. In that event, notwithstanding the provisions of Article 6.13, decisions of the Management Committee shall be made by vote of the members of the Management Committee excluding the member nominated by the said Party in default and any vote or purported vote by such member in the Management Committee shall be ignored. The said Party in default shall be bound by all decisions of the Management Committee. The non-defaulting Parties and the Operator under the Joint Operating Agreement shall indemnify the Government against any claims of whatsoever nature that may arise due to exclusion of the Defaulting Party from voting in the Management Committee.

## ARTICLE 7

- 7. OPERATORSHIP, JOINT OPERATING AGREEMENT AND OPERATING COMMITTEE**
- 7.1 Contractor shall be the Operator for the purpose of carrying out Petroleum Operations pursuant to this Contract during the term of this Contract.
- 7.2 No change in the Operator shall be effected without the consent of the PRDC and such consent shall not be unreasonably withheld.

- 7.3 The Management Committee giving not less than ninety (90) days notice to it may remove the Operator at the end of any Month. Such notice may only be given if the Operator has, in the opinion of the Management Committee, committed a material breach of or failed to observe or perform any material obligation on its part under this Contract and such breach or failure has not been remedied to the satisfaction of the Management Committee within twenty-eight (28) days of receipt by the Operator of a notice from the Management Committee requiring the Operator to remedy the same or within such longer period as may be specified in the said notice. The Chairman of the Management Committee need only to sign a notice from the Management Committee.
- 7.4 In the event there is only one Contractor, who shall be the Operator as per Article 7.1, removal of the Operator could result in the termination of the Contract.
- 7.5 The functions required of the Contractor under this Contract shall be performed by the Operator on behalf of each Company constituting the Contractor subject to, and in accordance with, the terms and provisions of this Contract and generally accepted modern oilfield/gasfield and petroleum industry practices, provided, however, that this provision shall not be construed as relieving each Company constituting the Contractor from any of its obligations or liability under the Contract.
- 7.6 Within forty five (45) days of the Effective Date or such longer period as may be agreed to by the Government, each Company constituting the Contractor shall execute a Joint Operating Agreement. The said agreement shall be consistent with the provisions of this Contract and shall provide for, among other things:
- 7.6.1 the appointment, resignation, removal and responsibilities of the Operator;
  - 7.6.2 the establishment of an Operating Committee comprising of an agreed number of representatives of the Companies chaired by a representative of the Operator;
  - 7.6.3 functions of the said Operating Committee taking into account the provisions of the Contract, procedures for decision making, frequency and place of meetings; and
  - 7.6.4 contribution to costs, default, sole risk, disposal of Petroleum and assignment as between the parties to the Joint Operating Agreement.

- 7.7 The Operator shall provide to the Government a copy, certified as a true and accurate copy, of the duly executed Joint Operating Agreement within thirty (30) days of its execution date or such longer period as may be agreed to by the Government.
- 7.8 In case a single Company constitutes the Contractor, the provisions of Articles 7.6 and 7.7 shall not be applicable. However, in case of an increase in the number of constituents of the Contractor, the provisions of Article 7.6 and 7.7 shall apply from the date of such increase in the number of the constituents.
- 7.9 The Operator shall provide the Management Committee and the PRDS with any such information and documentation relating to the carrying out of Petroleum Operations as the Management Committee and the PRDS may from time to time require.
- 7.10 The Operator shall at all times carry out Petroleum Operations with a view to minimize cost petroleum and maximize profit petroleum.
- 7.11 All Petroleum Operations shall be carried out in accordance with good oilfield practices.

## ARTICLE 8

### **8. GENERAL RIGHTS AND OBLIGATIONS OF THE PARTIES**

- 8.1 Subject to the provisions of this Contract, the Contractor shall have the following rights:
- 8.1.1 subject to the provisions of Article 12, the exclusive right to carry out Petroleum Operations to recover costs and expenses as provided in this Contract;
  - 8.1.2 the right to use, free of charge, such quantities of Petroleum produced as are reasonably required for conducting Petroleum Operations in the Contract Area in accordance with generally accepted modern oilfield/gasfield and petroleum industry practices; and
  - 8.1.3 the right to lay pipelines and build communication and infrastructure facilities and exercise other ancillary rights as may be reasonably necessary for the conduct of Petroleum Operations subject to such approvals as may be required and the applicable laws in force from time to time for the regulation and control thereof.



- 8.2 The Government reserves the right to itself, or to grant to others the right, to prospect for and mine minerals or substances other than Petroleum within the Contract Area; provided, however, that if after the Effective Date, others are issued rights, or the Government proceeds directly to prospect for and mine in the Contract Area any minerals or substances other than Petroleum, the Contractor shall use its best efforts to avoid obstruction to or interference with such operations within the Contract Area and the third parties and/or the Government, as the case may be, shall use best efforts to ensure that operations carried out do not obstruct or unduly interfere with Petroleum Operations in the Contract Area.
- 8.3 The Contractor shall, having due regard to modern oilfield/gasfield and petroleum industry practices and laws, statutes and regulations:
- 8.3.1 except as otherwise expressly provided in this Contract, conduct all Petroleum Operations at its sole risk, cost and expense and provide all funds necessary for the conduct of Petroleum Operations including funds for the purchase or lease of equipment, materials or supplies required for Petroleum Operations as well as for making payments to employees, agents and Subcontractors;
  - 8.3.2 conduct all Petroleum Operations within or related to the Contract Area diligently, expeditiously, efficiently and in a safe and workmanlike manner pursuant to the Work Programme formulated in accordance with this Contract;
  - 8.3.3 ensure provision of all information, data, samples etc. which may be required to be furnished under the applicable laws or under this Contract;
  - 8.3.4 ensure that all equipment, materials, supplies, plant and installations used by the Contractor, the Operator, and Subcontractors comply with generally accepted standards and are of proper construction and kept in safe and good working order;
  - 8.3.5 ensure that all Subcontractors have a valid licence issued by the Government under section 16 of the Act;
  - 8.3.6 in the preparation and implementation of Work Programmes and in the conduct of Petroleum Operations, follow modern oilfield/gasfield and petroleum industry practices with such degree of diligence and prudence reasonably and ordinarily exercised by experienced parties engaged in a similar activity under similar circumstances and conditions;

- 8.3.7 follow the procedure for acquisition of goods and services detailed in Appendix E of this Contract. Based on economic considerations and generally accepted practices in the international petroleum industry with the objective of ensuring cost and operational efficiency in the conduct of Petroleum Operations, the Appendix E to this Contract may be modified or changed with the approval of the PRDC when circumstances so justify;
- 8.3.8 after the designation of a Development Area, pursuant to this Contract, forthwith proceed to take all necessary action for prompt and orderly development of the Development Area and for the production of Petroleum in accordance with the terms of this Contract;
- 8.3.9 appoint a technically competent and sufficiently experienced representative, and, in his/her absence, a suitably qualified replacement who shall be resident in Sri Lanka and who shall have full authority to take such steps as may be necessary to implement this Contract and whose name shall, on appointment within ninety (90) days after commencement of the first Contract Year, be made known to the Government;
- 8.3.10 provide acceptable working conditions, living accommodation and access to medical attention and nursing care for all personnel employed in Petroleum Operations;
- 8.3.11 carry out such other obligations as are specified in this Contract, in particular those specified in Article 14; and
- 8.3.12 be always mindful of the rights and interests of Sri Lanka in the conduct of Petroleum Operations.

## ARTICLE 9

### **9. GOVERNMENT ASSISTANCE**

- 9.1 Upon application by the Contractor in the prescribed manner, and subject to compliance with applicable laws and relevant procedures, the Government or its nominee shall assist:
  - 9.1.1 in providing the right of ingress and egress from the Contract Area and any facilities used in Petroleum Operations, wherever located provided such right is within their control;

- 9.1.2 the Contractor when necessary in procurement or commissioning of facilities required for execution of Work Programmes (including necessary approvals, permits, consents, authorisations, visas, work permits, licenses, rights of way, easement, surface rights and security protection) at the Contractor's cost, required pursuant to this Contract and which may be available from resources within its control; and
- 9.1.3 the Contractor to obtain as required, in the event that onshore facilities are required outside the Contract Area for Petroleum Operations including storage, loading and processing facilities, pipelines and offices, such facilities at the Contractor's cost.

## ARTICLE 10

### **10. OIL DISCOVERY, DEVELOPMENT AND PRODUCTION**

- 10.1 If, and when, a Discovery is made within the Contract Area, the Contractor shall:
  - 10.1.1 forthwith inform within twenty four (24 hours) the Management Committee, PRDC and the PRDS of the Discovery;
  - 10.1.2 promptly thereafter, but in no event later than a period of seven (7) days from reaching Well total depth, furnish to the Management Committee, PRDC and the PRDS particulars, in writing, of the Discovery; and
  - 10.1.3 promptly run tests within ninety (90) days from reaching Well total depth to determine whether the Discovery is of potential commercial interest and, within a period of sixty (60) days after completion of such tests, submit a report to the Management Committee and the PRDS containing data obtained from such tests and its analysis and interpretation thereof, together with a written notification of whether, in the Contractor's opinion, such Discovery is of potential commercial interest and merits appraisal.
- 10.2 If the Contractor determines to conduct a drill stem or production test, in open hole or through perforated casing, with regard to any Well, it shall notify the PRDS of the time of such test at least forty eight (48) hours prior to the proposed test, and the PRDS shall have the right to have a representative present during such test.

10.3 If, pursuant to Article 10.1.3, the Contractor notifies the Management Committee and the PRDS that the Discovery is of potential commercial interest, the Contractor shall prepare and submit to the Management Committee and the PRDS within ninety (90) days of such notification, a proposed Appraisal Programme with a Work Programme and Budget to carry out an adequate and effective appraisal of such Discovery designed to achieve both the following objectives:

10.3.1 determine without delay, and, in any event, within the period specified in Article 10.5, whether such Discovery is a Commercial Discovery; and

10.3.2 determine, with reasonable precision, the boundaries of the area to be delineated as the Development Area.

Up to six (6) months before the end of the Exploration Period, the Contractor has the ability to submit Appraisal Programmes for Discoveries encountered in its Contract Area but not considered commercial at the time of discovery.

If, pursuant to Article 10.1.3, the Contractor does not notify the Management Committee and the PRDS that the Discovery is of potential commercial interest and the Management Committee and the PRDS are reasonably of the view that the Discovery merits appraisal the Contractor may be required to produce an Appraisal Programme with a Work Programme and Budget to carry out an adequate and effective appraisal of such Discovery designed to achieve the objectives set out in Articles 10.3.1 and 10.3.2.

10.4 The Management Committee and the PRDS shall review the proposed Appraisal Programme within thirty (30) days after submission thereof pursuant to Article 10.3. Following the review, the Contractor will be required within fifteen (15) days to submit the Appraisal Programme, complete with any revisions, to the PRDS for final approval. The PRDS will approve the Appraisal Programme within thirty (30) days provided that any such revisions have been incorporated to the satisfaction of PRDS, PRDS being the sole judge of the existence of such satisfaction. The said Appraisal Programme, together with the Work Programme and Budget submitted by the Contractor, which may be revised or modified or amended by the Contractor in light of the Management Committee and PRDS review shall be adopted as the Appraisal Programme and the Contractor shall promptly commence implementation thereof; and the annual Budget for the Exploration Period, adopted pursuant to Article 5, shall be revised accordingly.

10.5 The Contractor shall in respect of a Discovery of Crude Oil advise the Management Committee and the PRDS by notice in writing within a period of twenty four (24) months from the date on which the notice provided for in Article 10.1.3 was delivered, whether such Discovery should be declared a Commercial Discovery or not. Such notice shall be accompanied by a report on the Discovery setting forth all relevant technical and economic data including estimated recoverable reserves, sustainable production levels, estimated development and production expenditures, prevailing and forecasted prices, and other pertinent technical and economic factors according to modern oilfield/gasfield and petroleum industry practices as well as all evaluations, interpretations and analyses of such data and feasibility studies relating to the Discovery prepared by or for the Contractor, with respect to the Discovery and any other relevant information. If the Contractor is of the opinion that Crude Oil has been discovered in commercial quantities, it shall submit the proposal to the Management Committee and the PRDS for review that the Discovery be declared a Commercial Discovery. In the case of a Discovery of Gas, the provisions of Article 21 shall apply.

10.6 The Management Committee and the PRDS shall, within thirty (30) days of the date of the notice referred to in Article 10.5, review the proposal of the Contractor and request any other additional information it may reasonably require so as to complete the review of the proposal made by the Contractor. The Contractor shall furnish the additional information within thirty (30) days from the date of the request. The review by the Management Committee and the PRDS shall be made and conveyed to the Contractor within the later of:

10.6.1 ninety (90) days from the date of notice referred to in Article 10.5; or

10.6.2 sixty (60) days of receipt of such other information as may be required under this Article.

If the Management Committee and the PRDS agree that the Discovery should be declared a Commercial Discovery, the Contractor shall be required to submit an application in fifteen (15) days for the declaration of Commercial Discovery to the PRDC but will not be required to do so if the Management Committee and the PRDS do not so agree. The declaration of Commercial Discovery shall then be made by the PRDC within thirty (30) days after the receipt of the application.

10.7 Within one hundred and eighty (180) days of the declaration of the Discovery as a Commercial Discovery, the Contractor shall submit to the Management Committee, PRDC and the PRDS a comprehensive Development Plan of the Commercial Discovery which shall:

- 10.7.1 relate to the Discovery Area and contain a Reservoir or part thereof and the boundaries of the proposed Development Area;
- 10.7.2 be designed to ensure the most efficient, beneficial and timely extraction of the Petroleum resources discovered; and
- 10.7.3 be prepared in accordance with sound engineering, economic, safety and environmental principles recognised in the generally accepted modern oilfield/gasfield and petroleum industry practices.

Such plan shall contain detailed proposals by the Contractor for the construction, establishment and operation of all facilities and services for and incidental to the recovery, storage and transportation of the Petroleum from the proposed Development Area to the Delivery Point together with all data and supporting information including:

- (a) description of the nature and characteristic of the Reservoir, data, statistics, interpretations and conclusions on all aspects of the geology, geophysics, reservoir evaluation, petroleum engineering factors, reservoir models, estimates of hydrocarbons both in place and recoverable, possible production levels, the nature and ratio of petroleum fluids and analysis of producible Petroleum;
- (b) outlines of the development project and/or alternative development projects, if any, describing the production facilities to be installed and the number of Wells to be drilled under such development project and/or alternative development projects, if any;
- (c) estimate of the rate of production to be established and projection of the possible sustained rate of production in accordance with modern oilfield/gasfield and petroleum industry practices under such development project and/or alternative development projects, if any, which will ensure that the area does not suffer an excessive rate of decline of production or an excessive loss of Reservoir pressure;
- (d) estimates of Development Costs and Production Costs under such development project and/or alternative development projects;

- (e) the Contractor's recommendations as to the particular project that it would prefer;
- (f) Work Programme and Budget for development proposals relating to the proposed Development Area;
- (g) anticipated adverse impact on the environment and measures to be taken for prevention or minimisation thereof and for general protection of the environment in conduct of operations;
- (h) measures to be taken for the health and safety of persons employed in Petroleum Operations;
- (i) the information required in Article 21; and
- (j) an abandonment plan with costs.

10.8 A proposed Development Plan submitted by the Contractor pursuant to Article 10.7 will be reviewed by the Management Committee, PRDC and the PRDS within one hundred and twenty (120) days of submission thereof or sixty (60) days following the receipt of any additional information requested by the Management Committee, PRDC and PRDS.

If the Management Committee, PRDC and PRDS require any reasonable additional information, the same shall be requested within sixty (60) days from the submission of the proposed Development Plan. The Contractor shall provide such additional information within thirty (30) days of the request.

Following the review of the proposed Development Plan by the Management Committee, PRDC and PRDS, the Contractor will be required within forty five (45) days to submit the Development Plan, complete with any revisions, to the PRDC for final approval. The PRDS will approve or reject the Development Plan within ninety (90) days.

If the PRDC refuses to approve the Development Plan, it shall convey the reasons for such refusal and the Contractor shall be given one opportunity to make appropriate modifications to meet the concerns of the PRDC and re-submit the plan within ninety (90) days from the date of receipt of such refusal. The PRDC will approve or reject the revised Development Plan within one hundred and fifteen days (115) days.

If the Development Plan is approved the Contractor will be required to submit within sixty (60) days an application for a Development License to the PRDC. The Development License will be issued by the PRDC within sixty (60) days after the receipt of the application.

- 10.9 A Development Plan approved by the PRDC shall commit the Contractor to the obligations stipulated in Articles 10.10 to 10.12.
- 10.10 Work Programmes and Budgets for Development Operations and Production Operations shall be submitted to the Management Committee and PRDS as soon as possible after the approval of a Development Plan under Article 10.8 and thereafter not later than 31st December in each Financial Year in respect of the Financial Year immediately following.
- 10.11 The Management Committee and the PRDS, when considering any Work Programme and Budget, may require the Contractor to prepare an estimate of potential production to be achieved through the implementation of the said Work Programme and Budget for each of the three (3) Financial Years following the Financial Year to which the Work Programme and Budget relate. If major changes in yearly estimates of potential production are required, these shall be based on evidence necessitating such changes.
- 10.12 Not later than the fifteenth (15<sup>th</sup>) of January each Financial Year, in respect of the Financial Year immediately following commencement of Commercial Production, the Contractor shall determine the “**Programme Quantity**” with the approval of the Management Committee and the PRDS. The Programme Quantity for any Financial Year shall be the maximum quantity of Petroleum based on the Contractor’s estimates, as reviewed by the Management Committee and approved by the PRDS, which can be produced from a Development Area consistent with modern oilfield/gasfield and petroleum industry practices and minimising unit production cost, taking into account the capacity of the producing Wells, gathering lines, separators, storage capacity and other production facilities available for use during the relevant Financial Year, as well as the transportation facilities up to the Delivery Point.
- 10.13 Proposed revisions to the details of a Development Plan or an annual Work Programme or Budget in respect of Development and Production Operations shall, for good cause and if the circumstances so justify, be submitted for approval to the Management Committee and the PRDC.



- 10.14 In the event that the area encompassing the Commercial Discovery extends beyond the Development Area designated in the Development Plan, either within the original Contract Area but subsequently relinquished or, outside the original Contract Area, the Contractor shall submit a request with all necessary information to the Management Committee, PRDC and the PRDS concerning enlargement of the Development Area, provided the same was not awarded to any other company by the PRDC or is not held by any other party or not on offer by the Government and no application for a License is pending with the Government. However, in case the area is held by any other party or on offer by the Government or an application for License is pending with the PRDC, the Contractor shall notify the same to the Management Committee and the PRDS for further action on the matter and the PRDC may consider such request for extension at its sole discretion and on terms and conditions which it considers fit.
- 10.15 The Contractor shall use all reasonable endeavours within a two (2) year period, from the date of approval of the Development Plan by the PRDC, to enter into agreements for the sale of Crude Oil.
- 10.16 In the event the Contractor does not commence development of such Discovery within ten (10) years from the date of Discovery, the Contractor shall relinquish its right to develop such Discovery and the area relating to such Discovery shall be excluded from the Contract Area.

## **ARTICLE 11**

### **11. DEVELOPMENT LICENSE**

- 11.1 Upon approval of a Development Plan of a Commercial Discovery pursuant to Article 10.7, the Contractor shall submit an application appropriately to the PRDC for a Development License in respect of the proposed Development Area.
- 11.2 Where a part of a Reservoir in respect of which a Commercial Discovery has been declared extends beyond the Contract Area, subject to Article 10.14 such area shall be included in the proposed Development Area, in relation to which application for a Development License is made, on terms and conditions as decided by the Cabinet of Ministers and the PRDC; provided that such area is:
- 11.2.1 not subject to a License granted to any other person;
- 11.2.2 not the subject of negotiations/bidding for an Exploration License or Development License; and

- 11.2.3 available for licensing (i.e. is not an area over which Petroleum Operations are excluded).
- 11.3 Where a Development Plan has been approved pursuant to Article 10 and the Contractor has complied with the terms and conditions of the Exploration License and this Contract and is not in breach of any of the terms thereof, or the provisions of any law and subject to normal Government clearances/approvals being obtained by the Contractor as applicable before grant/issue of the Development License, the PRDC shall, subject to the Act and in particular section 10 of the Act, grant to the Contractor a Development Licence over the Development Area as agreed, subject to Article 11.4 to enable the Contractor to carry out Petroleum Operations in the Development Area in accordance with the Development Plan.
- 11.4 The Development License shall be granted for an initial period of twenty (20) years from the date of grant thereof subject to:
- 11.4.1 the Cabinet of Ministers amending or varying the conditions of the Development Licence from time to time in accordance with the Act and in particular section 11(1);
- 11.4.2 the exercise by PRDC of the powers granted by section 11(3) of the Act;
- 11.4.3 cancellation in accordance with its terms or for termination of this Contract in accordance with its terms;
- 11.4.4 extension by mutual agreement between the Contractor and the Cabinet of Ministers for five (5) years or such period as may be agreed after taking into account the balance recoverable reserve and balance economic life of the Field/Development Area; and
- 11.4.5 the terms of this Contract and other terms and conditions as set forth in such License being consistent with the relevant legislation.

## ARTICLE 12

### **12. UNIT DEVELOPMENT**

- 12.1 If a Reservoir that exists in a Discovery Area is situated partly within the Contract Area and partly in an area in Sri Lanka over which other parties have a contract to conduct Petroleum Operations the Contractor shall notify the PRDC and the PRDS and provide such information as the PRDC or the PRDS may reasonably request in connection therewith. If a Reservoir in a Discovery Area is situated partly within the Contract Area and partly in an

area in Sri Lanka over which other parties have a contract to conduct Petroleum Operations and both parts of the Reservoir can, in the reasonable opinion of the PRDC and the PRDS, be more efficiently developed together on a commercial basis, on receiving information in writing from any party to these contracts or any information on this from any bona fide source, the PRDC may, for securing the more effective recovery of Petroleum from such Reservoir, by notice in writing to the Contractor, require that the Contractor:

- 12.1.1 collaborate and agree with such other parties on the joint development of the Reservoir with such collaboration and agreement being set out in a unit development agreement;
  - 12.1.2 submit such agreement between the Contractor and such other parties to the PRDC for approval within one hundred and eighty (180) days; and
  - 12.1.3 prepare a plan for such joint development of the said Reservoir, within one hundred and eighty (180) days of the approval of the agreement referred to in Article 12.1.2.
- 12.2 If no plan is submitted within the period specified in Article 12.1.3 or such longer period as the PRDC and the Contractor and the other parties referred to in Article 12.1 may agree, or, if such plan, as submitted, is not acceptable to the PRDC and the parties cannot agree on amendments to the proposed joint development plan, the PRDC may cause to be prepared, at the expense of the Contractor and such other parties a plan for such joint development consistent with generally accepted modern oilfield/gasfield and petroleum industry practices which shall take into consideration any plans and presentations made by the Contractor and the aforementioned other parties.
- 12.3 If the parties are unable to agree on the proposed plan for joint development, the PRDC may call for a joint development plan from an independent agency, which agency may make such a proposal after taking into account the position of the parties in this regard. Such a joint development plan, if approved by the PRDC, shall be binding on the parties, notwithstanding their disagreement with the plan. However, the Contractor may in case of any disagreement on the issue of joint development or the proposed joint development plan, prepared in accordance with Article 12.2 or within forty five (45) days of the plan approval as aforesaid in this Article, notify the PRDC that it elects to surrender its rights in the Reservoir/Discovery in lieu of participation in a joint development.

- 12.4 If a proposed joint development plan is agreed and adopted by the parties, or adopted following determination by the PRDC, the plan, as finally adopted, shall be the approved joint development plan and the Contractor shall comply with the terms of the said joint development plan as if the Commercial Discovery is established.
- 12.5 The provisions of Articles 12.1, 12.2 and Article 12.3 shall apply mutatis mutandis to a Discovery of a Reservoir located partly within the Contract Area, which, although not equivalent to a Commercial Discovery if developed alone, would be a Commercial Discovery if developed together with that part of the Reservoir which extends outside the Contract Area to the areas subject to contract for Petroleum Operations by other parties.

### ARTICLE 13

#### **13. MEASUREMENT OF PETROLEUM**

- 13.1 Petroleum used for internal consumption for Petroleum Operations, flared, saved and sold from the Contract Area shall be measured by methods and appliances generally accepted and customarily used in modern oilfield/gasfield and petroleum industry practices and approved by the Management Committee and the PRDS.
- 13.2 The PRDS may, at all reasonable times inspect and test the appliances used for measuring the volume and determining the quality of Petroleum, provided that any such inspection or testing shall be carried out in such a manner so as not to unduly interfere with Petroleum Operations.
- 13.3 Before commencement of production from the Contract Area, the Parties shall mutually agree on:
- 13.3.1 methods to be employed for measurement of volumes of Petroleum production;
  - 13.3.2 the point or points at which Petroleum shall be measured and the respective shares allocated to the Parties in accordance with the terms of this Contract;
  - 13.3.3 the frequency of inspections and testing of measurement appliances and relevant procedures relating thereto; and
  - 13.3.4 the consequences of a determination of an error in measurement.

If the Parties cannot agree on the items set out at Articles 13.3.1 to 13.3.4 (inclusive) then any Party may refer the matter in issue for final determination by a sole expert or arbitrator as provided in Article 33.

- 13.4 The Contractor shall undertake to measure the volume and quality of the Petroleum Produced and Saved from the Contract Area at the agreed measurement point consistent with generally accepted modern oilfield/gasfield and petroleum industry practices with the frequency and according to procedures agreed pursuant to Article 13.3. The Contractor shall not make any alteration in the agreed method or procedures for measurement or to any of the approved appliances used for that purpose without the written consent of the Management Committee and the PRDS.
- 13.5 The Contractor shall give the Government timely notice of its intention to conduct measuring operations or any agreed alteration for such operations and the PRDS shall have the right to be present at and supervise, either directly or through authorised representatives, such operations.
- 13.6 The Contractor shall keep all the records of analysis and measurement of hydrocarbons calibrations and proving of the measurement systems and make available to the PRDS or its authorized agency such records on request.

#### **ARTICLE 14**

#### **14. PROTECTION OF THE ENVIRONMENT**

- 14.1 The PRDS and the Contractor recognise that Petroleum Operations will cause some impact on the environment. Accordingly, in performance of this Contract, the Contractor shall conduct its Petroleum Operations with due regard to concerns with respect to protection of the environment and conservation of natural resources and shall in particular;
  - 14.1.1 employ modern oilfield/gasfield and petroleum industry practices and standards including advanced techniques, practices and methods of operation for the prevention of Environmental Damage in conducting its Petroleum Operations;
  - 14.1.2 take necessary and adequate steps to:
    - (a) prevent Environmental Damage and, where some adverse impact on the environment is unavoidable, to

minimise such damage and the consequential effects thereof on property and people;

- (b) ensure adequate compensation for injury to persons or damage to property caused by the effect of Petroleum Operations;

14.1.3 comply with the requirements of applicable laws and the reasonable requirements of the PRDS from time to time; and

14.1.4 contribute an annual amount to an environmental fund (the "Environmental Fund"). The Environmental Fund will support environmental research by the Government.

Fund contributions shall be as follows:

US\$ 25,000.00 per Contract Year, per Exploration Block;

US\$ 50,000.00 per Development Area, per Contract Year during development phase; and

US\$ 100,000.00 per Development Area, per Contract Year during production phase.

The annual contribution shall be deposited by the Contractor in a fund to be established in accordance with the scheme notified by the Government with the annual contribution and the times for the making of such contributions and all related matters being detailed in the scheme to be notified by the Government.

14.2 If the Contractor fails to comply with the provisions of Article 14.1.2(a) or contravenes any relevant law, 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.

14.3 If the PRDS in accordance with the laws has good reason to believe that any works or installations erected by the Contractor or any operations conducted by the Contractor are endangering or may endanger persons or any property of any person, or are causing or may cause pollution, or are harming or may harm fauna or flora or the environment to a degree which the PRDS deems unacceptable, the PRDS may require the Contractor to take remedial measures within such reasonable period as may be determined by the PRDS and to repair any such damage. If the PRDS 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.

14.4 The measures and methods to be used by the Contractor for the purpose of complying with the terms of Article 14.1.2(a) shall be determined in timely consultation with the PRDS upon the commencement of Petroleum Operations or whenever there is a significant change in the scope or method of conducting Petroleum Operations and shall take into account the international standards applicable in similar circumstances and the relevant environmental impact study carried out in accordance with Article 14.5 below. The Contractor shall notify the PRDS, 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.

14.5

14.5.1 The Contractor shall cause a person or persons with special knowledge on environmental matters, to carry out an environmental impact study in order:

- (a) to determine at the time of the studies the prevailing situation relating to the environment, human beings and local communities, the flora and fauna 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 flora and fauna in the Contract Area and in the adjoining or neighbouring areas in consequence of the relevant phase of Petroleum Operations to be conducted under this Contract, and to submit, for consideration and approval by the PRDS, methods and measures contemplated in Article 14.4 for minimising Environmental Damage and carrying out Site Restoration and Decommissioning activities.

The scope of the environmental impact study required to be approved by the PRDS.

14.5.2 The aforementioned study shall be carried out before commencement of any field work relating to a seismographic or other survey or exploratory/appraisal drilling. The study shall be approved by the PRDS before the authorization of such operations.

- 14.5.3 An environmental impact assessment study shall be completed before commencement of Development Operations and shall be submitted by the Contractor as part of the Development Plan, with specific approval of the PRDS being obtained before commencement of Development Operations.
- 14.5.4 The studies mentioned in Article 14.5 above shall contain proposed environmental guidelines to be followed in order to minimize Environmental Damage and shall include, but not be limited to, the following, to the extent appropriate to the respective study taking into account the phase of operations to which the study relates:
- (a) wildlife and habitat protection;
  - (b) fuel storage and handling;
  - (c) use of explosives;
  - (d) liquid and solid waste disposal;
  - (e) cultural and archaeological sites;
  - (f) selection of drilling sites;
  - (g) protection of freshwater horizons;
  - (h) blowout prevention plan;
  - (i) flaring during completion and testing of Wells;
  - (j) abandonment of Wells and all associated facilities;
  - (k) laying of pipelines;
  - (l) rig dismantling and site completion;
  - (m) reclamation for abandonment;
  - (n) noise control;
  - (o) cuttings disposal;
  - (p) drilling fluids; and
  - (q) debris disposal.



- 14.5.5 Subject to the provision of all applicable laws and notifications on protection of environment, any new project or expansion or modernization projects for Petroleum Operations for which a proposal is submitted by the Contractor, the PRDS shall complete the assessment of the project within a period of ninety (90) days from the receipt of the requisite documents and data from the project authorities and completion of public hearing(s). The decision of the PRDS on the proposal of the Contractor for environmental clearance shall be conveyed within thirty (30) days thereafter.
- 14.6 The Contractor shall ensure that:
- 14.6.1 Petroleum Operations are conducted in an environmentally acceptable and safe manner consistent with modern oilfield/gasfield and petroleum industry practices and that such Petroleum Operations are properly monitored;
- 14.6.2 the pertinent completed environmental impact studies are made available to its employees and to its contractors and 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
- 14.6.3 the contracts entered into between the Contractor and its contractors 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 Contract.
- 14.7 The Contractor shall, prior to conducting any drilling activities, prepare and submit for review and approval by the PRDS contingency plans for dealing with oil spills, fires, accidents and emergencies, designed to achieve rapid and effective emergency response. The plans referred to above shall be discussed with the PRDS and concerns expressed shall be taken into account.
- 14.8 In the event of an emergency, accident, oil spill or fire arising from Petroleum Operations affecting the environment, the Contractor shall forthwith notify the PRDS and shall promptly implement the relevant contingency plan and perform such Site Restoration and Decommissioning as may be necessary in accordance with modern oilfield/gasfield and petroleum industry practices.

- 14.9 In the event of any other emergency or accident arising from the Petroleum Operations affecting the environment, the Contractor shall notify the PRDS within twenty four (24) hours and take such action as may be prudent and necessary in accordance with modern oilfield/gasfield and petroleum industry practices in such circumstances.
- 14.10 In the event that the Contractor fails to comply with any of the terms contained in this Article 14 within a period specified by the PRDS, the PRDS, after giving the Contractor reasonable notice in the circumstances, may take any action which may be necessary to ensure compliance with such terms and to recover from the Contractor, immediately after having taken such action, all costs and expenditures incurred in connection with such action together with such interest as may be determined in accordance with Section 1.7 of Appendix C of this Contract.
- 14.11 On expiry or termination of this Contract or relinquishment of part of the Contract Area, the Contractor shall:
- 14.11.1 subject to Article 27, remove all equipment and installations from the relinquished area or former Contract Area in a manner agreed with the PRDS pursuant to an abandonment plan; and
  - 14.11.2 perform all necessary Site Restoration and Decommissioning in accordance with modern oilfield/gasfield and petroleum industry practices and take all other action necessary to prevent hazards to human life or to the property of others or the environment.
- 14.12 The Contractor shall prepare a proposal for Site Restoration and Decommissioning including the requirement for funds for this and an annual contribution to be made by the Contractor during the term of this Contract. This will be submitted along with the annual Budget for the consideration and approval of the Management Committee and the PRDS. The annual contribution shall be deposited by the Contractor in a fund that will be established, in accordance with the scheme notified by the PRDS with the annual contribution and the times for the making of such contributions and all related matters being detailed in the scheme notified by the PRDS.
- 14.13 Subject to Section 3.2 of Appendix C, the annual contribution to be made by the Contractor pursuant to Article 14.12 shall be cost recoverable.

- 14.14 Where the Contract Area is partly located in areas forming part of certain national parks, sanctuaries, mangroves, wetlands of national importance, biosphere reserves and other biologically sensitive areas passage through these areas shall generally not be permitted. However, if there is no passage, other than through these areas to reach a particular point of operation beyond these areas, or operations are required within these areas, then permission from the appropriate authorities shall be sought.

## ARTICLE 15

### **15. RECOVERY OF COST PETROLEUM**

- 15.1 The Contractor shall be entitled to recover Contract Costs out of a percentage of the total value of Petroleum Produced and Saved from the Contract Area in the Financial Year in accordance with the provisions of this Article.
- 15.2 Exploration Costs incurred by the Contractor in the Contract Area up to the date of first Commercial Production shall be aggregated, and the Contractor shall be entitled to recover the aggregate of such Exploration Costs out of the Cost Petroleum at the rate of one hundred percent (100%) per annum of such Exploration Costs beginning from the date of such Commercial Production.
- 15.3 The Contractor shall be entitled to recover out of the Cost Petroleum from the Contract Area the Exploration Costs relating to the original exploration block from which the Development License was derived that it has incurred in any Financial Year after the date of first Commercial Production at the rate of one hundred percent (100%) per annum of such Exploration Costs beginning from the date such Exploration Costs are incurred.
- 15.4 Development Costs incurred by the Contractor in the Contract Area up to the date of first Commercial Production shall be aggregated, and the Contractor shall be entitled to recover out of the Cost Petroleum the aggregate of such Development Costs at the rate of one hundred percent (100%) per annum of such Development Costs beginning from the date of such Commercial Production.
- 15.5 The Contractor shall be entitled to recover out of the Cost Petroleum from the Contract Area the Development Costs that it has incurred after the date of first Commercial Production at the rate of one hundred percent (100%) per annum of such Development Costs beginning from the date such Development Costs are incurred.

- 15.6 The Contractor shall be entitled to recover in full during any Financial Year the Production Costs incurred in that Financial Year out of the Cost Petroleum.
- 15.7 The Contractor shall be entitled to recover in full during any Financial Year the royalty payments to the Government in that Financial Year out of the Cost Petroleum.
- 15.8 If during any Financial Year the Cost Petroleum is not sufficient to enable the Contractor to recover in full the Contract Costs due for recovery in that Financial Year in accordance with the provisions of Articles 15.1 to 15.7 then, subject to the provisions of Article 15.12:
- 15.8.1 recovery shall first be made of royalty payments; and
- 15.8.2 recovery shall next be made of the Production Costs and Production Bonus; and
- 15.8.3 recovery shall next be made of payments into the Site Restoration and Decommissioning fund; and
- 15.8.4 recovery shall next be made of the Exploration Costs and Signature Bonus; and
- 15.8.5 recovery shall then be made of the Development Costs.
- The un-recovered portions of Contract Costs shall be carried forward to the following Financial Year and the Contractor shall be entitled to recover such Contract Costs in such Financial Year or the subsequent Financial Years as if such Contract Costs were due for recovery in that Financial Year, or the succeeding Financial Years, until the un-recovered Contract Costs have been fully recovered out of Cost Petroleum from the Contract Area.
- 15.9 The maximum amount of Cost Petroleum to which the Contractor shall be entitled, in accordance with the provisions of this Article, shall be 70% of the total value of the Petroleum Produced and Saved from the Contract Area.
- 15.10 For the purposes of this Article, as well as Article 16, costs, receipts and income shall be converted into production unit equivalents, both in physical (Metric Units and Barrels) and monetary (US \$) terms, using the relevant prices established pursuant to Article 19 for Crude Oil and Article 21 for Natural Gas.

- 15.11 Pending completion of the calculations required to establish definitively the Contractor's entitlement to Cost Petroleum from the Contract Area in any Financial Year, the Contractor shall take delivery, provisionally, of volumes of Crude Oil or Natural Gas representing its estimated Cost Petroleum entitlement calculated with reference to estimated production quantities, costs and prices as established by the Contractor and accepted by the Management Committee and approved by the PRDS. Such provisional determination of Cost Petroleum shall be made every Quarter on an accumulative basis. Within ninety (90) days of the end of each Financial Year, a final calculation of the Contractor's entitlement to Cost Petroleum, based on actual production quantities, costs and prices for the entire Financial Year as reflected in audited accounts under Article 25.4, shall be undertaken and any necessary adjustments to the Cost Petroleum entitlement shall be agreed upon between the PRDS and the Contractor within thirty (30) days and made within thirty (30) days thereafter.
- 15.12 Where more than one Company constitutes the Contractor, the percentage of the total Cost Petroleum from the Contract Area which shall be available to each such Company in any Financial Year for recovery of its share of Contract Costs shall be determined on the basis of the respective Participating Interest of each such Company.

## ARTICLE 16

### **16. PRODUCTION SHARING OF PETROLEUM**

- 16.1 The Parties to this Contract shall share in the Profit Petroleum in each Financial Year in accordance with the provisions of this Article. A Party's share of Profit Petroleum in any Financial Year shall be calculated on the basis of the Investment Multiple actually achieved by the Contractor at the end of the preceding Financial Year for the Contract Area as provided in Appendix D.
- 16.2 When the Investment Multiple of the Contractor at the end of any Financial Year is less than one and one half (1.5), the Government shall be entitled to take and receive Fifteen percent (15%) and the Contractor shall be entitled to take and receive Eighty Five percent (85%) of the total Profit Petroleum from the Contract Area with effect from the start of the succeeding Financial Year.
- 16.3 When the Investment Multiple of the Contractor at the end of any Financial Year is equal to or more than one and one half (1.5) but is less than two (2.0) the Government shall be entitled to take and receive Seventeen Decimal Five percent (17.5%) and the Contractor shall be entitled to take and receive Eighty

Two Decimal Five percent (82.5%) of the total Profit Petroleum from the Contract Area with effect from the start of the succeeding Financial Year.

- 16.4 When the Investment Multiple of the Contractor at the end of any Financial Year is equal to or more than two (2.0) but is less than two and one half (2.5), the Government shall be entitled to take and receive Twenty percent (20%) and the Contractor shall be entitled to take and receive Eighty percent (80%) of the total Profit Petroleum from the Contract Area with effect from the start of the succeeding Financial Year.
- 16.5 When the Investment Multiple of the Contractor at the end of any Financial Year is equal to or more than two and one half (2.5) but is less than three (3.0), the Government shall be entitled to take and receive Forty percent (40%) and the Contractor shall be entitled to take and receive Sixty percent (60%) of the total Profit Petroleum from the Contract Area with effect from the start of the succeeding Financial Year.
- 16.6 When the Investment Multiple of the Contractor at the end of any Financial Year is equal to or more than three (3.0) but is less than three and one half (3.5), the Government shall be entitled to take and receive Sixty percent (60%) and the Contractor shall be entitled to take and receive Forty percent (40%) of the total Profit Petroleum from the Contract Area with effect from the start of the succeeding Financial Year.
- 16.7 When the Investment Multiple of the Contractor at the end of any Financial Year is equal to or more than three and one half (3.5), the Government shall be entitled to take and receive Eighty Five percent (85%) and the Contractor shall be entitled to take and receive Fifteen percent (15%) of the total Profit Petroleum from the Contract Area with effect from the start of the succeeding Financial Year.
- 16.8 Any balance left to the credit of the Parties in any fund, established pursuant to the provision of Article 14.12, after Site Restoration and Decommissioning has been completed by the Contractor in accordance with the provisions of this Contract and the laws in this regard, shall be shared between the PRDS and the Contractor as per the Investment Multiple reached at the time of ceasing of production from the Contract Area.
- 16.9 The PRDS shall have the option to take its entitlement to Profit Petroleum either in cash or in kind in any Financial Year.
- 16.10 In accordance with Article 16.9, the PRDS shall exercise such option by giving a written notice to the Contractor not later than thirtieth (30<sup>th</sup>) June in the preceding Financial Year in which the entitlement is due. Once the PRDS has

exercised its option, the same shall continue unless the PRDS informs the Contractor otherwise.

- 16.11 Where the PRDS has informed the Contractor of its intention to take its share in kind, the Parties shall mutually agree on a procedure for delivery of the PRDS's share of Profit Petroleum and, where relevant, the composition of the Petroleum which is to be delivered.
- 16.12 The value of the Contractor's Investment Multiple at the end of any Financial Year in respect of the Contract Area shall be calculated in the manner provided for, and on the basis of the net cash flows specified in Appendix D to this Contract. However, the amount of Profit Petroleum to be shared between the PRDS and the Contractor shall be determined for each Quarter on an accumulative basis. Pending finalisation of accounts, Profit Petroleum shall be shared between the PRDS and the Contractor on the basis of provisional estimated figures of Contract Costs, production, prices, receipts, income and any other income or allowable deductions and on the basis of the value of the Investment Multiple achieved at the end of the preceding Financial Year. All such provisional estimates shall be accepted by the Management Committee and approved by the PRDS. When it is necessary to convert monetary units into physical units of production equivalents or vice versa, the price or prices determined pursuant to Articles 19 and 21 for Crude Oil, Condensate and Natural Gas respectively shall be used. Within ninety (90) days of the end of each Financial Year, a final calculation of Profit Petroleum based on actual costs, quantities, prices and income for the entire Financial Year shall be completed and any necessary adjustments to the sharing of Petroleum shall be agreed upon between the PRDS and the Contractor within thirty (30) days and made within thirty (30) days thereafter.
- 16.13 The Profit Petroleum due to the Contractor in any Financial Year from the Contract Area shall be divided amongst the Companies constituting the Contractor, in proportion to their respective Participating Interest.

## ARTICLE 17

### **17. TAXES, ROYALTIES, DUTIES ETC.**

- 17.1 All legal and natural persons, their employees providing any materials, supplies, services or facilities or supplying any ship, aircraft, machinery, equipment or plant (whether by way of sale or hire) to the Contractor in connection with Petroleum Operations or for any other purpose and the employees of the Contractor shall be subject to all fiscal legislation in Sri Lanka except where, pursuant to any authority granted under any applicable

law, they are exempted wholly or partly from the application of the provisions of a particular law.

- 17.2 The expenditure incurred in respect of Petroleum Operations and Production Operations will be allowable as per the provisions of the Inland Revenue Act No.10 of 2006 (“Allowable Expenditure”).
  - 17.2.1 The profits and gains of the business of the parties comprising the Contractor consisting of Petroleum Operations shall, for the purpose of levy of income tax under the Income Tax Act, be computed on the basis of the value, determined in accordance with Article 19, of its Participating Interest share of Crude Oil produced and saved and sold, or otherwise disposed of, from the Contract Area and from any revenue realised on the sale of Associated Gas or Non Associated Natural Gas referred to in Article 21.
- 17.3 Contractor shall be required to pay royalty monthly before the seventh day of the succeeding month to the PRDC at the rate of ten percent (10%) of the value/volume of Crude Oil and Natural Gas from the date of commencement of Commercial Production in the Field. The valuation of Crude Oil and Natural Gas shall be as per the Article 19 and Article 21, respectively. The royalty amount due to the PRDC shall be payable latest by the end of the succeeding Month. Where the PRDS has informed the Contractor of its intention to take Royalty in kind, the Parties shall mutually agree on a procedure for delivery of the Royalty.
- 17.4 Machinery, plant, equipment, materials and supplies imported by the Contractor and its Subcontractors solely and exclusively for use in Petroleum Operations under this Contract or similar contracts with the Government where customs duty has been exempted may be exempted from customs duties and export duties or other charges on re-exportation of the said items to the extent provided in applicable legislation.
- 17.5 The PRDS shall have the right to inspect the records and documents of the physical item or items for which an exemption has been provided pursuant to Article 17.4 to determine that such item or items are being or have been imported solely and exclusively for the purpose for which the exemption was granted. The PRDS shall also be entitled to inspect such physical items wherever located to ensure that such items are being used for the purpose herein specified and any item not being so used shall immediately become liable to payment of the applicable customs duties.



- 17.6 Subject to Article 27, the Contractor and its Subcontractors may sell or otherwise transfer in Sri Lanka all imported items which are no longer required for Petroleum Operations, subject to applicable laws including rules, regulations, procedures, notifications etc. governing customs duties and sale or disposal of such items.
- 17.7 Subject to the provisions herein above provided, the Contractor shall be liable for the payment of all taxes due in accordance with the Act and the Inland Revenue Act.
- 17.8 If any change in or to any Sri Lankan law, rule or regulation dealing with income tax or other corporate tax, export/import tax, excise, customs duty or any other levies, duties or taxes imposed on Petroleum or dependent upon the value of Petroleum or results in a material change to the expected economic benefits accruing to any of the Parties after the date of execution of this Contract, the Parties shall consult promptly in good faith to make necessary revisions and adjustments to this Contract in terms of Section 23 of the Act.
- 17.9 As of the Effective Date the Government, through its wholly owned subsidiary (hereinafter the “NOC”), at its option may (or may not) hold a Fifteen percent (15%) Participating Interest in the total rights and obligations of the Contractor under this Contract. The Government shall exercise the right to participate by giving 90 days notice to the Contractor of its intention to participate at any time up to one year following approval of the Development Plan. Such notice shall specify the Participating Interest that the NOC has elected and the date of this notice shall be known as the “Trigger Date”. If the Government exercises its option to participate, the Contractor (or each entity constituting the contractor pro-rata) shall transfer to the NOC that percentage interest specified above.

The Government in exercise of its right to participate shall:

- 17.9.1 have a right to a vote in proportion to its Participating Interest with respect to all decisions taken under the Joint Operating Agreement
- 17.9.2 own and separately take and dispose of its share in the Petroleum produced and saved to which the Contractor is entitled under this Contract, corresponding to its Participating Interest. The Contractor shall not be obliged to market the NOC’s share of Petroleum.
- 17.9.3 own a Participating Interest share in assets acquired for Petroleum Operations in or related to the Contract Area.

- 17.10 All expenditure incurred by Contractor in performance of this Contract on and from the Effective Date to the Trigger Date shall be borne by the Company (ies) other than the NOC. If the Government gives the notice of intention to participate referred to above, such share of expenditures shall be reimbursed to the Company (ies) in accordance with the following provisions:
- 17.10.1 as to NOC, its share of all Allowable Expenditure incurred by the Contractor under this Contract up to the Trigger Date, NOC agrees that when the first Commercial Production starts the Company (ies) shall be entitled to 100 percent (100%) of NOC share of the Contractor's entitlement to Cost Petroleum minus the amount of Cost Petroleum needed by the NOC to cover its share of Royalty and Production Costs and Development Costs under the terms of this Contract until the Company (ies) have been fully reimbursed without interest;
- 17.10.2 as to NOC, its share of all expenditures incurred by the Contractor under this Contract after the date of the Government's notice of intention to participate, NOC shall make payment, on a current cash basis, in accordance with the Joint Operating Agreement.
- 17.11 If the Government gives the notice of intention to participate as referred to above, the Companies and the NOC agree to execute such other documents and do all such other acts and things as may reasonably be required, in order to effect and to implement the participation of the NOC referred to above including anything which requires to be done to adjust the Participating Interests of the Parties under this Contract to accommodate the exercising of the option referred to above by the Government.
- 17.12 Simultaneously with the execution of this Contract, the Contractor will make a payment to the PRDC equal to US\$ One Million (US\$1,000,000) to recompense the PRDC in respect of the cost of the extensive preparatory work which the PRDC has incurred in establishing and conducting the bidding round from which this Contract has resulted (the "**Signature Bonus**").
- 17.13 Within twenty (20) Business Days from the date of first Commercial Production from the Contract Area the Contractor will make a payment to the PRDC equal to US\$ Fifty Million (US\$50,000,000) (the "**Production Bonus**")

## ARTICLE 18

### **18. DOMESTIC SUPPLY, SALE, DISPOSAL AND EXPORT OF CRUDE OIL AND CONDENSATE**

- 18.1 Until such time as the total availability to the PRDS of Crude Oil and Condensate from all Petroleum production activities in Sri Lanka meets the total national demand, each Company comprising the Contractor shall be required to sell in the domestic market in Sri Lanka all of the Company's entitlement to Crude Oil and Condensate from the Contract Area in order to assist in satisfying the national demand. Such obligation to sell Crude Oil and Condensate in the domestic market in Sri Lanka shall not oblige any company to sell at less than the price derived in accordance with Article 19. In case no willing buyer is available in the domestic market to buy the Crude Oil and the Condensate at the price derived in accordance with Article 19, each company is free to sell the same in the international market.
- 18.2 If, during any Financial Year, Sri Lanka attains Self-sufficiency (Oil), the PRDS shall promptly thereafter, but in no event later than the end of the first Quarter of the following Financial Year, so advise the Company (ies) by written notice. In such event, as from the end of the second Quarter of the following Financial Year, or such earlier date as the Parties may mutually agree, domestic sale obligation shall be suspended and the Company shall have the right to lift and export its Participating Interest share of Crude Oil and Condensate until such time, if any, as Self-sufficiency (Oil) shall have ceased to exist. If Self-sufficiency (Oil) ceases to exist during a Financial Year, the PRDS shall recover its position to ask Company (ies) under Article 18.1 in respect of the following Financial Year by giving ninety (90) days notice thereof to the Company (ies) to sell Crude Oil and Condensate in the Sri Lankan domestic market.
- 18.3 Upon Sri Lanka achieving Self-sufficiency (Oil) and giving notice to the Contractor thereof pursuant to Article 18.2, the Company (ies) shall be entitled to freely lift and export any Crude Oil and Condensate pursuant to this Article 18, subject to the Government's generally applicable destination restrictions to countries with which the Government, for policy reasons, has severed or restricted trade.
- 18.4 No later than sixty (60) days prior to the commencement of production in a Field, and thereafter no less than sixty (60) days before the commencement of each Financial Year, the Contractor shall cause to be prepared and submitted to the Parties a production forecast setting out the total quantity of Crude Oil that it estimates can be produced from a Field during the succeeding Financial Year, based on a maximum efficient rate of recovery of Crude Oil from that Field in accordance with modern oilfield/gasfield and petroleum industry

practices. No later than thirty (30) days prior to the commencement of each Quarter, the Contractor shall inform its estimate of production for the succeeding Quarter and shall endeavour to produce the forecast quantity for each Quarter.

- 18.5 Subject to Clause 18.1, each Company comprising the Contractor shall, throughout the term of this Contract, have the right to separately take in kind and dispose of all its share of Cost Petroleum and Profit Petroleum and shall have the obligation to lift the said Petroleum on a current basis and in such quantities so as not to cause a restriction of production or inconvenience to the other Company (ies).
- 18.6 The PRDS shall, throughout the term of this Contract, have the right to separately take in kind and dispose of its share of Crude Oil and shall have the obligation to lift the said Crude Oil on a current basis and in such quantities so as not to cause a restriction of production or inconvenience to the Contractor.
- 18.7 For the purpose of implementing the provisions of this Article, a crude lifting procedure and crude sales agreement based on generally acceptable international terms shall be agreed upon by the Contractor with buyer(s) no later than six (6) months or such shorter period as may be mutually agreed between the Contractor and buyer(s) with the consent of the Management Committee and approval of the PRDS prior to the commencement of production in a Field. Such lifting procedure shall be made available to all the Parties to this Contract.

## ARTICLE 19

### **19. VALUATION OF PETROLEUM**

- 19.1 For the purpose of this Contract, the value of Crude Oil, Condensate and Natural Gas (refer Article 21) shall be based on the price determined as provided herein.
- 19.2 A price for Crude Oil shall be determined for each Month or such other period as the Parties may agree (hereinafter referred to as the “**Delivery Period**”) in terms of United States Dollars per Barrel, on import parity basis (with marine freight being determined on the basis of nearest port to the Contract Area) for Crude Oil produced and sold or otherwise disposed of from the Contract Area, for each Delivery Period, in accordance with the appropriate basis for that type of sale or disposal specified below. Subject to the provisions of this Article 19, it is clearly understood that the actual prices

received by the Company (ies) from the sales will form the basis for the purposes of cost recovery, Profit Petroleum sharing and payment of royalty as provided in the Articles 15, 16 and 17 respectively. The basis of valuation given in this Article for the purpose of Article 15, 16 and 17 shall apply only where the Management Committee and the PRDS are of the view that sale prices realised by the Company (ies) are not consistent with the price realisable at Arms Length Sales and upon the Management Committee and the PRDS being of such a view they will give a notice confirming this view to the relevant Company (ies).

- 19.3 In the event that some or all of a Company's or Contractor's total sales of Crude Oil during a Delivery Period are made to third parties at Arms Length Sales, all sales so made shall be valued at the weighted average of the prices actually received by a Company, calculated by dividing the total receipts from all such sales at the Delivery Point by the total number of Barrels of the Crude Oil sold in such sales.
- 19.4 Each Company constituting the Contractor shall separately submit to the PRDS, within fifteen (15) days of the end of each Delivery Period, a report containing the actual prices obtained in their respective Arms Length Sales for any Crude Oil. Such reports shall distinguish between term sales and spot sales and itemize volumes, customers, prices received and credit terms, and a Company shall allow the PRDS to examine the relevant sales contracts.
- 19.5 For the purpose of determining price at Arms Length Sales, the price of the Crude Oil at which sale takes place will generally be based on per Barrel of one or more crude oils which, at the time of calculation, are being freely and actively traded in the international market and are similar in characteristics and quality to the Crude Oil in respect of which the price is being determined, selling price to be ascertained from Platt's Crude Oil Market Wire daily publication ("**Platt's**"), or the spot market for the same crude oils ascertained in the same manner, whichever price more truly reflects the current value of such crude oils. For any Delivery Period in which sales take place, the price shall be the arithmetic average price per Barrel determined by calculating the average for such Delivery Period of the mean of the high and low FOB prices for each day of the crude oils selected for comparison adjusted for differences in the Crude Oil and the crude oils being compared for quality, transportation costs, delivery time, quantity, payment terms and other contract terms to the extent known and other relevant factors. In the event that Platt's ceases to be published or is not published for a period of thirty (30) consecutive days, the Parties shall agree on an alternative daily publication. The Contractor shall make available all the data pertaining to pricing of Crude Oil to enable the PRDS to decide that the proposed sale price by the Contractor/each Company constituting the Contractor reflects a fair market price for the Crude Oil.

- 19.6 In the event that, at the relevant time, no crude oils of similar quality to the Crude Oil to be sold are being actively traded in the international markets where prices can be ascertained by international publication, or the official FOB selling prices and the international spot market price vary widely between producers, the Parties shall meet in good faith to determine an appropriate pricing basis.
- 19.7 The Contractor shall throughout the term of this Contract on an annual basis and otherwise as required determine the relevant prices in accordance with this Article and the calculation, basis of calculation and the price determined shall be supplied to the PRDS and shall be subject to agreement by the PRDS.
- 19.8 In the event that the Parties fail to reach agreement on any matter concerning selection of the crude oils for comparison, the calculation, the basis of, or mechanism for the calculation of the prices, the prices arrived at, the adjustment of any price or generally about the manner in which the prices are determined according to the provisions of this Article within thirty (30) days, or such longer period as may be mutually agreed between the Parties, from the date of commencement of Commercial Production or the end of each Delivery Period thereafter, any Party may refer the matter or matters in issue for final determination by a sole expert or arbitrator appointed as provided in Article 33, with the following applying:
- 19.8.1 If the matter is referred to the sole expert, within ten (10) days of the said appointment, the Parties shall provide the expert with all information they deem necessary or as the expert may reasonably require.
- 19.8.2 Within fifteen (15) days from the date of his appointment, the Parties shall procure that the expert shall report to the Parties on the issue(s) referred to him for determination, applying the criteria or mechanism set forth herein and indicate his decision thereon to be applicable for the relevant Delivery Period for Crude Oil and such decision shall be accepted as final and binding by the Parties.
- 19.9 Any price or pricing mechanism agreed by the Parties pursuant to the provisions of this Article shall not be changed retroactively.
- 19.10 In the event that all sales of Crude Oil in a Delivery Period by a Company constituting the Contractor are to be made to an Affiliate, the Parties may agree on an alternative method of valuing the Crude Oil for the purposes of this Contract, provided that such alternative method results in an internationally competitive fair market valuation for that Delivery Period. In

case of disagreement, the decision of the PRDS on determining a Crude Oil price in case of sales to an Affiliate shall be final and binding.

- 19.11 In the event that in any Delivery Period there is more than one type of sales referred to in Articles 19.3 and 19.10, then, for the purpose of calculating Cost Petroleum and Profit Petroleum entitlement and royalty payments pursuant to Articles 15, 16 and 17 respectively, a single price per Barrel of Crude Oil for all the sales for the relevant Delivery Period shall be used. Such single price shall be the weighted average of the prices determined for each type of sale, weighted by the respective volumes of Crude Oil sold in each type of sale in the relevant Delivery Period.
- 19.12 The provisions specified above for the determination of the price of sales of Crude Oil shall apply mutatis mutandis to Condensates.
- 19.13 The price of Natural Gas shall be determined as provided in Article 21.

## ARTICLE 20

### **20. CURRENCY AND EXCHANGE CONTROL PROVISIONS**

- 20.1 Subject to the provisions herein, and provisions of the laws of general application in Sri Lanka governing currency and foreign exchange and related administrative instructions and procedures issued thereunder on a non-discriminatory basis, each Foreign Company comprising the Contractor shall, during the term of this Contract, have the right to:
  - 20.1.1 repatriate abroad, in United States Dollars or any other freely convertible currency acceptable to the Government and the Foreign Company, the net proceeds of sales of Petroleum in Sri Lanka;
  - 20.1.2 receive, retain and use abroad the proceeds of any export sales of Petroleum under this Contract;
  - 20.1.3 open, maintain and operate bank accounts with reputable banks, both inside and outside Sri Lanka, for the purpose of this Contract;
  - 20.1.4 freely import, through normal banking channels, funds necessary for carrying out the Petroleum Operations;
  - 20.1.5 convert into foreign exchange and repatriate sums imported pursuant to Article 20.1.4 in excess (if any) of its requirements; and

- 20.1.6 make payments outside of Sri Lanka for purchases, services and loans obtained abroad without the requirement that funds used in making such payments must come from or originate in Sri Lanka. Provided, however, that repatriation pursuant to Articles 20.1.1 and 20.1.5 and payments pursuant to this Article 20.1.6 shall be subject to the provisions of any treaties and bilateral arrangements between the Government and any country with respect to payments to or from that country.
- 20.2 The rates of exchange for the purchase and sale of currency by the Companies shall be the prevailing rates of general application determined by the Central Bank of Sri Lanka or such other financial body as may be mutually agreed by the Parties and, for accounting purposes under this Contract, these rates shall apply as provided in Section 1.6 of Appendix C.
- 20.3 The Parties shall be governed by the relevant currency and foreign exchange laws and related administrative instructions and procedures issued thereunder, subject to any exceptions created by law.
- 20.4 Sri Lankan Companies shall have right to remit their portion of expenditure in foreign currency (ies) in accordance with the exchange control provisions.

## **ARTICLE 21**

### **21. NATURAL GAS DISCOVERY, DEVELOPMENT AND PRODUCTION**

- 21.1 Subject to Article 21.2, the Sri Lankan domestic market shall have the first call on the utilisation of Natural Gas discovered and produced from the Contract Area. Accordingly, any proposal by the Contractor relating to Discovery and production of Natural Gas from the Contract Area shall be made in the context of the Government's policy for the utilisation of Natural Gas and shall take into account the objectives of the Government to develop its resources in the most efficient manner and to promote conservation measures. In the event of the Government not exercising the first call on the utilization of natural gas the Contractor may propose to the Government to sell Natural Gas outside Sri Lanka.
- 21.2 The Contractor shall have the right to use Natural Gas produced from the Contract Area for the purpose of Petroleum Operations including reinjection for pressure maintenance in Oil Fields, gas lifting and power generation required for Petroleum Operations.



- 21.3 For the purpose of sales in the domestic market pursuant to this Article 21, the Contractor shall, subject to applicable laws, have freedom to market the Gas and sell its entitlement.
- 21.4 Associated Natural Gas (ANG)
- 21.4.1 In the event that a Discovery of Crude Oil contains ANG, the Contractor shall declare in the proposal for the declaration of the said Discovery as a Commercial Discovery as specified in Article 10, whether (and by what amount) the estimated production of ANG is anticipated to exceed the quantities of ANG which will be used in accordance with Article 21.2 (such excess being hereinafter referred to as the “Excess ANG”). In such an event the Contractor shall indicate whether, on the basis of the available data and information, it has reasonable grounds for believing that the Excess ANG could be commercially exploited in accordance with the terms of this Contract along with the Commercial Production of the Crude Oil from the Contract Area, and whether the Contractor intends to so exploit the Excess ANG.
- 21.4.2 Based on the principle of full utilisation and minimum flaring of ANG, a proposed development plan for an Oil Discovery shall, to the extent practicable, include a plan for utilisation of the ANG including estimated quantities to be flared, reinjected, and to be used for Petroleum Operations; and, if the Contractor proposes to commercially exploit the Excess ANG for sale in the domestic market in accordance with Government’s policy, or elsewhere, the proposed plans for such exploitation.
- 21.4.3 If the Contractor wishes to exploit the Excess ANG, subject to Article 21.1, the Contractor shall be free to explore markets for the commercial exploitation of the said Excess ANG and submit its proposals for such exploitation to the PRDC in accordance with Article 21.4.2.
- 21.4.4 Where the Contractor is of the view that the Excess ANG cannot be commercially exploited and chooses not to exploit the said Excess ANG, or is unable to find a market for the Excess ANG pursuant to Article 21.4.3, the PRDS shall be entitled to take and utilise such Excess ANG free of any cost/charge.
- 21.4.5 If the PRDS elects to take the Excess ANG as provided in Article 21.4.4:

- (a) the Contractor shall deliver such Excess ANG to the PRDS (or its nominee) free of any cost/charge, at the downstream flange of the Gas/Oil separation facilities;
- (b) the Contractor shall, based on sound petroleum engineering practices, install such facilities as would facilitate, insofar as practicable, uninterrupted delivery of such Excess ANG to the PRDS or its nominee, the nature and construction of such facilities being subject to acceptance by the Management Committee and the approval of the PRDS;
- (c) the cost of all facilities installed pursuant to paragraph (b) above shall be borne by the PRDS (or its nominee);
- (d) the PRDS or its nominee shall bear all costs including gathering, treating, processing and transporting costs beyond the downstream flange of the Gas/Oil separation facilities; and
- (e) the delivery of such Excess ANG shall be subject to procedures to be agreed between the PRDS or its nominee and the Contractor prior to such delivery, such procedures to include matters relating to timing of off-take of such Excess ANG. The Parties shall endeavour to ensure that such procedures do not restrict Oil production.

21.4.6 The Excess ANG which is not commercially exploited by the Contractor, or taken by the PRDS or its nominee pursuant to this Article 21, shall be returned to the subsurface structure or flared or otherwise disposed of as approved by the PRDS in the context of the Development Plan, provided that flaring will be resorted to only for small quantities and as a last resort upon approval of the PRDS.

21.4.7 As soon as practicable after the submission of the proposed Development Plan, the Contractor and the PRDS or its nominee shall meet to discuss the sale and/or disposal of any ANG discovered with a view to giving effect to the provisions of this Article 21 in a timely manner.

## 21.5 Non Associated Natural Gas (NANG)

- 21.5.1 In the event of a Discovery of NANG in the Contract Area, the Contractor shall promptly report such Discovery to the Management Committee, PRDC and the PRDS and the provisions of Articles 10.1 and 10.2 shall apply. The remaining provisions of Article 10 would apply to the Discovery and development of NANG only insofar as they are not inconsistent with the provisions of this Article. Notwithstanding the provisions of Article 3, the Contractor shall be entitled to retain the Discovery Area subject to the provisions of this Article 21.
- 21.5.2 If, pursuant to Article 10.1, the Contractor gives notification that the Discovery is of potential commercial interest, the Contractor shall submit to the Management Committee and the PRDS, within one hundred and eighty (180) days from the date of notification of the above said Discovery, the proposed Appraisal Programme, including a Work Programme and Budget to carry out an adequate and effective appraisal of such Discovery, to determine:
- (a) without delay, whether such Discovery is a Commercial Discovery; and
  - (b) with reasonable precision, the boundaries of the area to be delineated as the Development Area.

Such proposed Appraisal Programme shall be supported by all relevant data such as Well data, the Contractor's best estimate of reserve range and production potential, and shall indicate the date of commencement of the proposed Appraisal Programme.

Up to six (6) months before the end of the Exploration Period, the Contractor may submit Appraisal Programmes for Discoveries encountered in its Contract Area but not considered commercial at the time of discovery.

If, pursuant to Article 10.1, the Contractor does not notify the Management Committee and the PRDS that the Discovery is of potential commercial interest and the Management Committee and the PRDS are reasonably of the view that the Discovery merits appraisal the Contractor may be required to produce an Appraisal Programme with a Work Programme and Budget to carry out an adequate and effective appraisal of such Discovery designed to achieve the objectives set out in Articles 21.5.2(a) and 21.5.2(b).

- 21.5.3 The proposed Appraisal Programme together with the Work Programme and Budget referred to in Article 21.5.2 shall be reviewed by the Management Committee and the PRDS within thirty (30) days of its submission by the Contractor. The Management Committee and the PRDS shall offer its comments within the said period. Following the review, the Contractor will be required within fifteen (15) days to submit the Appraisal Programme, complete with any revisions required by the Management Committee and/or the PRDS, to the PRDS for final approval. The PRDS will approve the Appraisal Programme within thirty (30) days provided that any such revisions have been incorporated to the satisfaction of the PRDS, PRDS being the sole judge of the existence of such satisfaction. The said Appraisal Programme together with the Work Programme and Budget submitted by the Contractor as revised or modified or amended in light of the Management Committee and PRDS review shall be adopted as the Appraisal Programme and the Contractor shall promptly proceed with implementation of the said Programme.
- 21.5.4 If on the basis of the results of the Appraisal Programme, the Contractor is of the opinion that NANG has been discovered in commercial quantities, it shall submit to the Management Committee and the PRDS as soon as practicable but not later than twenty four (24) months from the date of notification of the aforementioned Discovery, a proposal for the declaration of the Discovery as a Commercial Discovery. Such proposal shall take into account the Government's policies on Gas utilization and propose alternative options, if any for use or consumption of the NANG and be accompanied by a report on the Discovery supported by, inter alia, technical and economic data, evaluations, interpretations and analyses of such data and feasibility studies relating to the Discovery prepared by or on behalf of the Contractor, and other relevant information.
- 21.5.5 Where the Contractor has submitted a proposal for the declaration of a Discovery as a Commercial Discovery, the Management Committee and the PRDS shall consider the proposal of the Contractor with reference to commercial utilization or commercial development of the NANG in the domestic market or elsewhere and in the context of Government's policy on Gas utilization and the chain of activities required to bring the NANG from the Delivery Point to potential consumers in the domestic market or elsewhere. The Management Committee and the PRDS may, within thirty (30) days of the submission of the said proposal, request the Contractor to submit any

additional information on the Discovery, the anticipated markets or any other related matter that may reasonably be required to facilitate a review. The Contractor shall submit the required information within thirty (30) days of the request. The Management Committee and the PRDS will advise the Contractor of its review within the later of:

- (a) ninety (90) days from the submission of proposal, or
- (b) sixty (60) days from the receipt of additional information, as the case may be, on the proposal made by the Contractor to declare the Discovery as a Commercial Discovery.

If the Management Committee and the PRDS agree that the Discovery should be declared a Commercial Discovery, the Contractor shall be required to submit an application in fifteen (15) days for the declaration of Commercial Discovery to the PRDC but will not be required to do so if the Management Committee and the PRDS do not so agree. The declaration of Commercial Discovery shall then be made by the PRDC within thirty (30) days after the receipt of the application.

21.5.6 If the PRDC declares the Discovery a Commercial Discovery after taking into account the advice of the PRDS as referred to in the Article 21.5.5, the Contractor shall, within three hundred and sixty (360) days of the declaration of the Discovery as a Commercial Discovery, submit a Development Plan for the development of the Discovery to the Management Committee and PRDS for approval. Such plan shall be supported by all relevant information including the information required in Article 10.7.

21.5.7 Unless otherwise agreed, a proposed Development Plan submitted by the Contractor may be reviewed by the Management Committee, PRDC and the PRDS within one hundred and twenty (120) days of submission thereof or sixty (60) days following the receipt of any additional information requested by the Management Committee, PRDC and PRDS. In case the Management Committee, PRDC and PRDS require any reasonable additional information, they shall request the same within sixty (60) days from the submission of the Development Plan. The Contractor shall provide such additional information within thirty (30) days from the request by the Management Committee, PRDC and PRDS. Following the review of the proposed Development Plan by the Management Committee and PRDS, the Contractor will be required within forty five (45) days to submit the Development Plan, complete with any revisions, to the PRDC for final approval.

- 21.5.8 Where the Development Plan is submitted to the PRDC for approval pursuant to Article 21.5.7, the PRDC shall convey its decision within ninety (90) days from the date of receipt of the proposal from the Contractor.
- 21.5.9 If the PRDC refuses to approve the Development Plan, it shall convey the reasons for such refusal and the Contractor shall be given one opportunity to make appropriate modifications to meet the concerns of the PRDC and re-submit the plan within ninety (90) days from the date of receipt of such refusal. If no such plan is submitted to the PRDC within the above-specified period, the Contractor shall relinquish its right to develop such Gas Discovery and such Discovery shall be excluded from the Contract Area. The PRDC will approve or reject the resubmitted Development Plan within one hundred and fifteen days (115) days and if approved the Contractor will be required to submit within sixty (60) days an application for a Development License to the PRDC. The Development License will be issued by the PRDC within sixty (60) days after the receipt of the application.
- 21.5.10 A Development Plan approved by the PRDC shall commit the Contractor to promptly develop the Gas Discovery in accordance with the approved plan that shall be the Development Plan.
- 21.5.11 The Contractor will have a two (2) year period, from the date of approval of the Development Plan to enter into agreements for the sale of Non Associated Natural Gas.
- 21.5.12 In the event the Contractor does not commence development of such Discovery within ten (10) years from the date of Discovery, the Contractor shall relinquish its right to develop such Discovery and the area relating to such Discovery shall be excluded from the Contract Area.
- 21.6 Valuation of Natural Gas
- 21.6.1 The Contractor shall endeavour to sell all Natural Gas produced and saved from the Contract Area at arms-length prices to the benefit of the Parties to this Contract.
- 21.6.2 Notwithstanding the provision of Article 21.6.1, Natural Gas produced from the Contract Area shall be valued for the purposes of this Contract as follows:

- (a) Gas which is used as per Article 21.2 or flared with the approval of the PRDS or re-injected or sold to the PRDS pursuant to Article 21.4.5 shall be ascribed a zero value;
- (b) Gas which is sold to the PRDS or any other Government nominee shall be valued on the terms and conditions actually obtained including pricing formula and delivery; and
- (c) Gas which is sold or disposed of otherwise than in accordance with paragraphs (a) or (b) above shall be valued on the basis of competitive Arms Length Sales in the region for similar sales under similar conditions.

21.7 The formula or basis on which the prices shall be determined pursuant to Article 21.6 shall be approved by the PRDS prior to the sale of Natural Gas to the consumers/buyers, within sixty (60) days from the receipt of proposal or from the date of receipt of clarification/additional information, where asked for by the PRDS. For granting this approval, the PRDS shall take into account the prevailing Government policy, if any, on pricing of Natural Gas including any linkages with traded liquid fuels, and it may delegate or assign this function to a regulatory authority as and when such an authority is in existence and in place.

## ARTICLE 22

### **22. EMPLOYMENT, TRAINING AND TRANSFER OF TECHNOLOGY**

22.1 Without prejudice to the right of the Contractor to select and employ such number of personnel as, in the opinion of the Contractor, are required for carrying out Petroleum Operations in a safe, cost effective and efficient manner, the Contractor shall, to the maximum extent possible, employ, and require the Operator and Subcontractors to employ, citizens of Sri Lanka having appropriate qualifications and experience, taking into account experience required in the level and nature of the Petroleum Operations.

22.2 Not later than six (6) months after the Effective Date, the Operator shall, in consultation with the PRDS, establish and implement an annual training Programme for Sri Lankan Nationals in each phase and level of Petroleum Operations including skilled, technical, executive and management positions, with a view to ensuring employment of nationals of Sri Lanka and a gradual and progressive reduction of foreign personnel.

- 22.3 At the request of the PRDS, the Foreign Companies shall separately endeavour to negotiate, in good faith, technical assistance agreements with the PRDS or a company nominated by PRDS for this purpose setting forth the terms by which each Foreign Company constituting the Contractor may render technical assistance and make available commercially proven technical information of a proprietary nature for use in Sri Lanka by the PRDS or the company nominated by PRDS. The issues to be addressed in negotiating such technical assistance agreements shall include, but not be limited to, licensing issues, royalty conditions, confidentiality restrictions, liabilities, costs and method of payment.

### ARTICLE 23

#### **23. LOCAL GOODS AND SERVICES**

- 23.1 In the conduct of Petroleum Operations, the Contractor shall:

- 23.1.1 give preference to the purchase and use of goods manufactured, produced or supplied in Sri Lanka provided that such goods are available on terms equal to or better than imported goods with respect to timing of delivery, quality and quantity required, price and other terms;
- 23.1.2 employ Sri Lankan 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 and at competitive prices and on competitive terms; provided that where no such Subcontractors are available, preference shall be given to non-Sri Lankan Subcontractors who utilise Sri Lankan goods to the maximum extent possible, subject, however, to the proviso in Article 23.1.1; and
- 23.1.3 ensure that provisions in Articles 23.1.1 and 23.1.2 are contained in contracts between the Operator and its Subcontractors.
- 23.2 Subject to Article 8.3.6, the Contractor shall establish appropriate procedures, including tender procedures, for the acquisition of goods and services that shall ensure that suppliers and Subcontractors in Sri Lanka are given adequate opportunity to compete for the supply of goods and services. The tender procedures shall include, inter alia, the financial amounts or value of contracts that will be awarded on the basis of selective bidding or open competitive bidding, the procedures for such bidding, and the exceptions to bidding in cases of emergency, and shall be subject to the review of the Management Committee and approval of the PRDS.



- 23.3 The Contractor shall submit a benefits plan for acceptance and approval by the PRDS for all Petroleum Operations outlining the associated goods and services and education and training options earmarked for Sri Lankan nationals. Within sixty (60) days after the end of each Financial Year, the Contractor shall provide the Management Committee and the PRDS for acceptance and approval a report outlining its achievements in utilising Sri Lankan resources during that Financial Year in accordance with Section 10 of Appendix C to this Contract.
- 23.4 In this Article “**goods**” means equipment, materials and supplies.

## ARTICLE 24

### **24. INSURANCE AND INDEMNIFICATION**

#### 24.1 Insurance

24.1.1 The Contractor shall, during the term of this Contract, maintain and 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 modern oilfield/gasfield and petroleum industry practices, and shall furnish to the Government, certificates evidencing that such coverage is in effect. Such insurance policies shall include the Government as additional insured and shall waive subrogation against the Government. 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 for any reason the Contractor fails to insure any such installation, equipment or assets, it shall replace any loss thereof or repair any damage caused thereto;
- (b) loss, damage or injury caused by pollution in the course of or as a result of Petroleum Operations;
- (c) loss of property or damage or bodily injury suffered by any third party in the course of or as a result of Petroleum Operations for which the Contractor may be liable;

- (d) any claim for which the Government may be liable relating to 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 the Contractor is liable to indemnify the Government;
- (e) with respect to Petroleum Operations offshore, 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) the Contractor's and/or the Operator's liability to its employees engaged in Petroleum Operations.

24.1.2 The Contractor shall require its Subcontractors to obtain and maintain insurance against the risks referred to in Article 24.1.1 relating mutatis mutandis to such Subcontractors.

24.1.3 Subject to Article 23, all insurance affected pursuant to this contract shall be obtained from registered Sri Lankan insurers in accordance with Sri Lankan Insurance Law in so far as coverage is available and can be reinsured as appropriate with A-rated reinsurers or better or as may be specifically agreed by PRDS. Such insurances shall be for such amounts and on such terms and conditions as may be approved by the PRDS.

## 24.2 Indemnity

The Contractor shall indemnify, defend and hold the Government harmless against all claims, losses and damages of any nature whatsoever arising in respect of matters the subject of this Contract including 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 the Contractor irrespective of the negligence or breach of duty of the Minister, PRDC, PRDS and other nominees or employees of the Government or any third party.

## ARTICLE 25

### 25. RECORDS, REPORTS, ACCOUNTS AND AUDIT

25.1 The Contractor shall prepare and maintain in original at an office in Sri Lanka accurate and current books, records, reports and accounts of its activities for and in connection with Petroleum Operations so as to present a fair, clear and accurate record of all its activities, expenditures and receipts.

- 25.2 Based on generally accepted accounting practices and Sri Lankan accounting standards and modern petroleum industry practices, records, books, accounts and accounting procedures in respect of Petroleum Operations shall be maintained on behalf of the Contractor by the Operator, at its business office in Sri Lanka, in accordance with the Appendix C to this Contract.
- 25.3 The Contractor shall submit to the PRDS regular Statements and reports relating to Petroleum Operations as provided in Appendix C.
- 25.4 The annual audit of accounts shall be carried out on behalf of the Contractor by a qualified, independent firm of recognised chartered accountants, registered in Sri Lanka.
- 25.5 The appointment of auditor and the scope of audit should have prior acceptance of the Management Committee and approval of the PRDS.
- 25.6 The Contractor shall submit the audited accounts to the Management Committee for acceptance within sixty (60) days from the end of the Financial Year. The Management Committee shall consider and agree the auditor's report within thirty (30) days after the submission of such report.
- 25.7 A copy of the auditors report shall be submitted to the PRDS within thirty (30) days after the acceptance of the Management Committee.
- 25.8 The PRDS shall have the right to audit the accounting records of the Contractor in respect of Petroleum Operations as provided in Appendix C.
- 25.9 The accounting and auditing provisions and procedures specified in this Contract are without prejudice to any other requirements imposed by any statute in Sri Lanka including any specific requirements of the statutes relating to taxation of Companies.
- 25.10 For the purpose of any audit referred to in Articles 25.5, the Contractor shall make available in original to the auditor all such books, records, accounts and other documents and information as may be reasonably required by the auditor during normal business hours.

## ARTICLE 26

- 26. INFORMATION, DATA, CONFIDENTIALITY, INSPECTION AND SECURITY**
- 26.1 The Contractor shall promptly provide the PRDS, free of cost, with all data obtained as a result of Petroleum Operations under the Contract including

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 PRDS; however 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.

- 26.2 The Contractor may, for use in Petroleum Operations, retain copies or samples of material or information constituting the Data and, with the approval of the PRDS, original material, except that where such material is capable of reproduction and copies have been supplied to the PRDS, the Contractor may, subject to the right of inspection by the PRDS, export, subject to 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 PRDS.
- 26.3 The Contractor shall keep the PRDS currently advised of all developments taking place during the course of Petroleum Operations and shall furnish the PRDS with full and accurate information and progress reports relating to Petroleum Operations (on a daily, Monthly, Financial Yearly or other periodic basis) as the PRDS may reasonably require, provided that this obligation shall not extend to proprietary technology. The Contractor shall meet with the PRDS in Sri Lanka to present the results of all geological and geophysical work carried out as well as the results of all engineering and drilling operations as soon as such Data becomes available to the Contractor.
- 26.4 All Data, information and reports obtained or prepared by, for or on behalf of, the Contractor pursuant to this Contract shall be treated as confidential and, subject to the provisions herein below and the relevant petroleum regulations, the Parties shall not disclose the contents thereof to any third party without the consent in writing of the other Parties.
- 26.5 The obligation specified in Article 26.4 shall not operate so as to prevent disclosure:
- 26.5.1 to Affiliates, contractors, or Subcontractors for the purpose of Petroleum Operations;
- 26.5.2 to employees, professional consultants, advisers, data processing centres and laboratories, where required, for the performance of functions in connection with Petroleum Operations for any Party comprising the Contractor;

- 26.5.3 to banks or other financial institutions, in connection with Petroleum Operations;
  - 26.5.4 to bona fide intending assignees or transferees of a Participating Interest of a Party comprising the Contractor or in connection with a sale of the stock or shares of a Party comprising the Contractor;
  - 26.5.5 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 Party comprising the Contractor are quoted;
  - 26.5.6 to the 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 Contract or any relevant law or for any purpose connected with Petroleum Operations; and
  - 26.5.7 by a Party with respect to any Data or information which, without disclosure by such Party, is generally known to the public.
- 26.6 Any Data, information or reports disclosed by the Companies constituting the Contractor to any other person pursuant to Articles 26.5.1 to 26.5.4 (inclusive) shall be disclosed on the terms that the recipient shall treat such Data, information or reports as confidential. Prompt notice of disclosures made by the Companies pursuant to Article 26.5 shall be given to the PRDS.
- 26.7 Any Data, information and reports relating to the Contract Area which, in the opinion of the PRDS, might have significance in connection with offers by the PRDC of acreages, may be disclosed by the PRDS for such purpose. The PRDS may also disclose such Data or information for any exploration programme to be conducted by a third party in adjoining areas with the consent of the Contractor, for better understanding of the regional geology and drilling hazards such consent by the Contractor shall not be unreasonably withheld.
- 26.8 Where an area ceases to be part of the Contract Area, the Contractor shall hand over all the originals and copies of the Data and information (including any well material) with respect to that part to the PRDS within a period of one (1) year from the date of relinquishment or surrender. The Contractor shall, however, be allowed to retain one copy of the Data in its possession for its own use, where required, and shall not use the Data for sale or any other purposes. Subject to the provisions of this Article, the Contractor shall keep all Data/information confidential.

- 26.9 Pursuant to this Article 26 and notwithstanding any provisions in this Contract to the contrary, the PRDS shall have the right to disclose and freely use all Data and information at its sole discretion except for data of proprietary nature such as interpretation reports to any party on or after three (3) years from completion of the reports in order to promote exploration and production activities in the country. For any relinquished areas, the PRDS shall have the right to disclose and freely use all the Data immediately after such relinquishment.
- 26.10 The PRDS shall, at all reasonable times, through duly authorised representatives, be entitled to observe Petroleum Operations and to inspect all assets, books, records, reports, accounts, contracts, samples and Data kept by the Contractor or the Operator in respect of Petroleum Operations in the Contract Area, provided, however, that the Contractor shall not be required to disclose any proprietary technology. The duly authorised representatives 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 afforded to its own personnel in the field including the use of office space and housing for a period not exceeding thirty (30) man days in a Financial Year and thereafter at the cost of PRDS. The said representatives 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 Petroleum Operations. All Petroleum Operations will be subject to the prior approval of the PRDS and the basis for such approvals will be outlined in petroleum regulations to be issued.

## ARTICLE 27

### **27. TITLE TO PETROLEUM, DATA AND ASSETS**

- 27.1 The State is the sole owner of Petroleum underlying the Contract Area and shall remain the sole owner of Petroleum produced pursuant to the provisions of this Contract except as regards that part of Crude Oil, Condensate or Gas the title whereof has passed to the Contractor or any other person in accordance with the provisions of this Contract.
- 27.2 Title to Petroleum to which the Contractor is entitled under this Contract shall pass to the Contractor at the relevant Delivery Point but the Contractor assumes the risk in the Petroleum at all times prior to it reaching the Delivery Point. Title to Petroleum sold by the Companies shall pass to the relevant buyer party at the Delivery Point. Each buyer party shall be responsible for all costs and risks associated with such buyer party's share after the Delivery Point.

- 27.3 Title to all Data specified in Article 26 shall be vested in the PRDS and the Contractor shall have the right to use thereof as therein provided.
- 27.4 Assets purchased by the Contractor for use in Petroleum Operations shall be owned by the Companies constituting the Contractor in proportion to their Participating Interest provided that the State shall have the right to require vesting of full title and ownership in it, for zero consideration, free of charges 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 PRDC's option upon expiry or earlier termination of the Contract.
- 27.5 The 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 as Contract Costs in accordance with Appendix C.
- 27.6 Equipment and assets no longer required for Petroleum Operations during the term of the Contract shall be sold, exchanged or otherwise disposed of by the Contractor, provided however that the proceeds of sale shall be credited to Petroleum Operations as provided in Appendix C, provided that prior written consent of the Management Committee and the PRDS shall be obtained for each transaction in excess of US\$ 50,000 (Fifty thousand United States Dollars) or such other value as may be agreed from time to time by the Management Committee and the PRDS.

## **ARTICLE 28**

### **28. ASSIGNMENT OF PARTICIPATING INTEREST**

- 28.1 Subject to the terms of this Article and other terms of this Contract, any Company constituting the Contractor may assign, or transfer, a part or all of its Participating Interest, with the prior written consent of the PRDC provided that the PRDC is satisfied that:
- 28.1.1 the prospective assignee or transferee is of good standing, has the capacity and ability to meet its obligations hereunder, and is willing to provide an unconditional undertaking to the PRDC to assume its Participating Interest share of obligations and to provide guarantees in respect thereof as provided in this Contract;

- 28.1.2 the prospective assignee or transferee is not a company incorporated in a country with which the Government, for policy reasons, has restricted trade or business;
  - 28.1.3 the prospective assignor or transferor and assignee or transferee, respectively, are willing to comply with any reasonable conditions of the Cabinet, Minister, PRDC and PRDS as may be necessary in the circumstances with a view to ensuring performance under this Contract; and
  - 28.1.4 the assignment or transfer will not adversely affect the performance or obligations under this Contract or be contrary to the interests of Sri Lanka.
- 28.2 Subject to Article 28.7, nothing in this Article 28 shall prevent a Company constituting the Contractor from assigning or transferring a part or all of its Participating Interest to an Affiliate, with the support of the Management Committee and approval of the PRDC, provided that;
- 28.2.1 the assignee provides an irrevocable, unconditional bank guarantee from a reputed bank of good standing in Sri Lanka, acceptable to the PRDC, in favour of the PRDC, for the amount specified in Article 29.2, in a form provided at Appendix-G;
  - 28.2.2 the assignee provides guarantees pursuant to Article 29 in respect of the assignor Party's obligations under this Contract in favour of the PRDC, of the performance of such Affiliate assignee of its obligations under this Contract;
  - 28.2.3 the prospective assignee or transferee is not a company incorporated in a country with which the Government, for policy reason, has restricted trade or business; and
  - 28.2.4 the assignment will not adversely affect the performance or obligations under this Contract or be contrary to the interest of Sri Lanka.
- 28.3 In case of any change in the status of a Company or its shareholding resulting in a change in:
- 28.3.1 the control of the Company; or
  - 28.3.2 its relationship with the Company (ies) providing the guarantee under Article 29.1.1 and 29.1.2;

the Company shall seek the consent of the PRDC for assigning the Participating Interest under the changed circumstances and the provisions of



this Article 28 shall apply, mutatis mutandis, to the obtaining of such consent. If the Company fails to obtain the written consent to such changed circumstances in advance of them taking place the PRDC may serve a notice in writing on the Company stating that the Contract will terminate unless a further change in the control of the Company, as is specified in the notice, takes place within the period of three (3) months beginning with the date of service of the notice and pending such further change of control all of the Company (ies) rights under this Contract will no longer be exercisable. If the further change of control specified in such notice does not take place by the end of such three (3) month period then this Contract will immediately terminate on expiry of such period.

In this Article 28.3 "**control**" shall have the meaning given to it within the definition of "**Affiliate**" in this Agreement.

- 28.4 An application for consent to assign or transfer shall be accompanied by all relevant information concerning the proposed assignment or transfer including detailed information on the proposed assignee or transferee and its shareholding and corporate structure, as was earlier required from the Companies constituting the Contractor, the terms of the proposed assignment or transfer and the unconditional undertaking referred to in this Article.
- 28.5 The applicant shall also submit such information relating to the prospective assignee or transferee of the assignment or transfer as the PRDC may reasonably require enabling proper consideration and disposal of the application.
- 28.6 No assignment or transfer shall be effective until the approval of the PRDC is received or deemed to have been received. Approval may be given by the PRDC on such terms and conditions as it may deem fit. Provided that such terms and conditions may not increase the obligations of the Companies constituting the Contractor. Upon assignment or transfer of its interest in this Contract, the assignor or transferor shall be released and discharged from its obligations hereunder only to the extent that the assignee or transferee with the approval of the PRDC assumes such obligations.
- 28.7 An assignment or transfer shall not be made where the Participating Interest to be retained by the proposed assignor or the percentage interest of assignee shall be less than ten per cent (10%) of the total Participating Interest of all the Companies constituting the Contractor, except where the PRDC, in consideration of the recommendations of the Management Committee may, in special circumstances, so permit.

- 28.8 Nothing contained in this Article 28, shall prevent a Company constituting the Contractor from pledging, charging or otherwise encumbering at its own risk and cost all or part of its Participating Interest for the purposes of security relating to finance to the extent required for performing its obligation under the Contract, provided that:
- 28.8.1 such Party shall remain solely liable for all its obligations relating to its Participating Interest to the exclusion of the other participants thereto;
  - 28.8.2 the encumbrance shall be expressly subordinated to the rights of the other Parties under this Contract. The obligations occurring from the said encumbrance shall be the sole responsibility of the original Party and shall in no manner compromise the rights of other Parties to the Contract;
  - 28.8.3 such Party has given reasonable notice of such encumbrance and furnishes to all other Parties (including, for the avoidance of doubt, the PRDC) a certified copy of the executed instrument(s) evidencing the encumbrances;
  - 28.8.4 keeping in view the national interest of Sri Lanka, prior consent of the PRDC shall be required of the list of potential lenders with whom such Party can consider hypothecation;
  - 28.8.5 the Party creating the charge shall ensure that such charge shall not in any way affect the interest of other Parties or result in interference with Petroleum Operations. In the event of any claims or liabilities imposed on other parties because of the creation of such charges, the party having created charge on its Participating Interest shall indemnify the other parties in respect of such claims and liabilities; and
  - 28.8.6 in case of foreclosure or default by a borrowing party, the lending party shall not be deemed to have acquired a right to carry on either by itself or through an agent, the Petroleum Operation, without the written consent of the PRDC.
- 28.9 The security created shall not result in a transfer of ownership on a right of property in the Participating Interest. Notwithstanding any other terms of this Contract any assignment or transfer to a Company that is not a legal person will be null and void.

## ARTICLE 29

### **29. GUARANTEES**

- 29.1 The Contractor shall procure and deliver to the PRDC within thirty (30) days from the Effective Date of this Contract:
- 29.1.1 an irrevocable, unconditional, on demand bank guarantee from a reputed bank of good standing in Sri Lanka, acceptable to the PRDC, in favour of the Government, for the amount specified in Article 29.2, in a form provided at Appendix G;
  - 29.1.2 a company guarantee in favour of the Government from the parent company acceptable to the PRDC, in the form and substance set out in Appendix F1 or, where there is no such parent company, the company guarantee from the Company itself in the form and substance set out in Appendix F2; and
  - 29.1.3 a legal opinion from its legal advisors, in a form satisfactory to the PRDC, to the effect that the company guarantees have been duly signed and delivered on behalf of the guarantors with due authority and is legally valid and enforceable and binding upon them.
- 29.2 The amount of the guarantee referred to in Article 29.1.1 shall be an amount equal to twenty five percent (25%) of the Company's Participating Interest share of the total LMS in respect of the entire Minimum Work Programme as detailed in Article 5 to be undertaken by the Contractor in the Contract Area, subject to Article 29.3.
- 29.3 The guarantee referred to in Article 29.2 shall provide that after the completion and due performance of the Minimum Work Programme of a particular Exploration Phase, the guarantee will be released in favour of the Company on presentation to the bank of a certificate from the PRDS that the obligation of the Contractor has been fulfilled and the relevant guarantee may be released, subject to Article 29.4. Such certificate shall be provided within thirty (30) days from the completion of the Minimum Work Programme and fulfilment of obligations under this Contract to the satisfaction of the PRDS. The guarantee referred to in Article 29.2 shall further provide that at the end of every year and upon the completion and due performance of relevant activity in the Minimum Work Programme of a particular Exploration Phase, the applicable value of the guarantee will be reduced in favour of the Company on presentation to the bank of a certificate from the PRDS that relevant guarantee may be reduced.

- 29.4 If the Contractor elects to proceed to a subsequent Exploration Phase of the Exploration Period, a bank guarantee for the Phase in terms of Articles 29.1.1, 29.2 and 29.3 shall be delivered to the PRDS with the notice of such election, unless already provided, and if such guarantee is not so delivered, the provisions of Article 29.5 shall apply.
- 29.5 If any of the documents referred to in Article 29.1 is not delivered within the period specified herein, this Contract may be terminated by the PRDC upon ninety (90) days written notice of its intention to do so.
- 29.6 Subject to Article 29.7, notwithstanding any change in the composition or shareholding of the parent company furnishing a Performance Guarantee as provided herein, it shall, not under any circumstances, be absolved of its obligations contained in the guarantees provided pursuant to Article 29.1.2.
- 29.7 If:
- 29.7.1 a Party (“Assignor”) assigns all or a part of its Participating Interest to another (“Assignee”) in accordance with Article 28;
  - 29.7.2 the Assignee provides an irrevocable, unconditional bank guarantee from a reputed bank of good standing in Sri Lanka, acceptable to the PRDS, in favour of the Government, for an amount equal to the assignee’s Participating Interest share of the estimated expenditure of the Minimum Work Programme at the Effective Date of the assignment;
  - 29.7.3 the Assignee provides a Performance Guarantee and legal opinion in terms of this Article; and
  - 29.7.4 the addendum to the Contract giving effect to the assignment of Participating Interest is executed by all Parties;
- then the Government shall release the guarantee given by the Assignor under Article 29.1.1 to the extent of the amount of the guarantee provided by the Assignee and where relevant the guarantee under Article 29.1.2.
- 29.8 The contractor shall procure and deliver to the PRDC at the commencement of Commercial Production an irrevocable , unconditional and on demand company guarantee in the form and substance set out in Appendix H in favour of the Government for a value equal to one months’ Royalty payment.
- 29.8.1 In the event the Government having to call on the said guarantee, the Company will forthwith reinstate the company guarantee to the required value.

29.8.2 The guarantee may be invoked in the event of the Company not making the Royalty payment within the time specified in Article 17.3.

### ARTICLE 30

#### **30. TERM AND TERMINATION OF THIS CONTRACT**

- 30.1 The term of this Contract shall be for the period of the Exploration License and any Development Licenses, unless this Contract is terminated earlier in accordance with its terms, and shall be deemed to have been terminated, if for any reason, the Contractor ceases to hold such License. Where participating interest has been assigned only all the companies comprising the Contractor may terminate the Contract.
- 30.2 Subject to the provision of Articles 5, 14 and 30.6 and without prejudice to the provisions of Article 30.7 or any other provisions of this Contract, the Contractor shall have the right to terminate this Contract:
- 30.2.1 with respect to any part of the Contract Area other than a Development Area then producing, or that prior thereto had produced Petroleum, upon giving ninety (90) days written notice of its intention to do so; and
- 30.2.2 with respect to any Development Area in which Petroleum is being produced, or that prior thereto had produced Petroleum, upon giving at least one hundred and eighty (180) days written notice of its intention to do so.
- 30.3 This Contract may, subject to the provisions herein below and Article 31, be terminated by the PRDC upon giving ninety (90) days written notice with reasons to the Contractor of its intention to do so in the following circumstances, namely, that the Contractor (the **"Defaulting Party"**):
- 30.3.1 has knowingly submitted any false statement to the Cabinet, Minister, PRDC or PRDS in any manner which was a material consideration in the execution of this Contract;
- 30.3.2 has intentionally and knowingly extracted or authorised the extraction of hydrocarbons not authorized to be extracted by this Contract or without the authority of the PRDC except such extractions as may be unavoidable as a result of Petroleum Operations conducted hereunder in accordance with generally accepted modern oilfield/gasfield and petroleum industry practices which, when so extracted, were immediately notified to the PRDS;

- 30.3.3 is adjudged bankrupt by a competent court or enters into a scheme of composition with its creditors or takes advantage of any law for the benefit of debtors;
- 30.3.4 has passed a resolution to apply to a competent court for liquidation of the Company unless the liquidation is for the purpose of amalgamation or reconstruction of which the PRDC has been given notice and the PRDC is satisfied that the Company's performance under this Contract would not be adversely affected thereby and has given its approval thereto;
- 30.3.5 has assigned any interest in the Contract without the prior consent of the PRDC as provided in Article 28;
- 30.3.6 has failed to make any monetary payment required by law or under this Contract by the due date or within such further period after the due date as may thereafter be specified by the PRDC and PRDS including an annual contribution in respect of Site Restoration and Decommissioning into the scheme referred to in Article 14.12;
- 30.3.7 has failed to comply with or has contravened the provisions of this Contract in a material particular;
- 30.3.8 has failed to comply with any final determination or award made by a sole expert or arbitrators subject to Article 33;
- 30.3.9 has failed to carry out or observe any of the terms and conditions of the License or the provisions of the Acts in force thereunder, subject however, to Article 31; or
- 30.3.10 on notice of termination as provided in Article 29.5.

PROVIDED THAT

where the Contractor is constituted by two or more Companies, the PRDC shall not exercise its rights of termination pursuant to Article 30.3, on the occurrence, in relation to one or more, but not all, of the Companies constituting the Contractor, of an event entitling the PRDC to terminate the Contract,

- (a) if any other Company or Companies constituting the Contractor (the non-Defaulting Party (ies) satisfies the PRDC that it, or they, is/are willing and would be able to carry out the obligations of the Contractor.

- (b) where the non Defaulting Party (ies) with the consent of the PRDC has/have acquired the Participating Interest of the Defaulting Party pursuant to the provisions of the Joint Operating Agreement and has/have procured and delivered to the PRDC a guarantee or guarantees as referred to in Article 29.1 in respect of the Participating Interest of the Defaulting Party acquired by the non Defaulting Party (ies).
- 30.4 This Contract may also be terminated by the PRDC on giving the requisite notice specified above if the events specified in Articles 30.3.3 and 30.3.4 occur with respect to a company which has given a Performance Guarantee pursuant to Article 29 subject however to Article 30.5.
- 30.5 If the circumstance or circumstances that give rise to the right of termination under Articles 30.3.6 or 30.3.7 or 30.3.9 or Article 30.4 are remedied (whether by the Defaulting Party or by another party or parties on its behalf) within the ninety (90) day period, or such extended period as may be granted by the PRDC, following the notice of the PRDC's intention to terminate the Contract as aforesaid, such termination shall not become effective.
- 30.6 On termination of this Contract, for any reason whatsoever, the rights and obligations of the Contractor shall cease but such termination shall not affect any rights of any party which may have accrued or any obligations undertaken or incurred including obligations under Article 5.7, by the Contractor or any Company constituting the Contractor and not discharged prior to the date of termination.
- 30.7 In the event of termination pursuant to Articles 30.2, 30.3 or 30.4:
- 30.7.1 the PRDS may require the Contractor, for a period not exceeding one eighty (180) days from the date of termination, to continue, for the account and at the cost of the PRDS, Crude Oil or Natural Gas production activities until the right to continue such production has been transferred to another entity;
- 30.7.2 a Foreign Company, which is a constituent of the Contractor, shall have to remove and export all its property subject to Article 27 and the provisions hereof provided that in the event that ownership of any property is in doubt, or disputed, such property shall not be exported unless and until the doubt or dispute has been settled in favour of the Foreign Company.
- 30.8 Within ninety (90) days after the termination of this Contract, pursuant to Articles 30.2, 30.3, or 30.4, or such longer period as the PRDS may agree, the Contractor shall comply with Article 14.9 and any reasonably necessary action

as directed by the PRDS to avoid Environmental Damage or hazards to human life or to the property of others.

### ARTICLE 31

#### **31. FORCE MAJEURE**

- 31.1 Any non-performance or delay in performance by any Party hereto of any of its obligations under this Contract, or in fulfilling any condition of any License granted to such Party, or in meeting any requirement of the Act or any License, shall, except for the payment of monies due under this Contract or under the Act or any law, be excused if, and to the extent that, such non-performance or delay in performance under this Contract is caused by Force Majeure as defined in this Article.
- 31.2 For the purpose of this Contract, the term Force Majeure means any cause or event, other than the unavailability of funds, whether similar to or different from those enumerated herein, lying beyond the reasonable control of, and unanticipated or unforeseeable by, and not brought about at the instance of, the Party claiming to be affected by such event, or which, if anticipated or foreseeable, could not be avoided or provided for, and which has caused the non-performance or delay in performance. Without limitation to the generality of the foregoing, the term Force Majeure shall include earthquakes, typhoons, fires, wars declared or undeclared, hostilities, invasions, blockades, riots, strikes, insurrection and civil disturbances but shall not include the unavailability of funds.
- 31.3 Where a Party is claiming suspension of its obligations on account of Force Majeure, it shall promptly, but in no case later than seven (7) days after the occurrence of the event of Force Majeure, notify the Management Committee, the PRDC and the PRDS in writing giving full particulars of the Force Majeure, the estimated duration thereof, the obligations affected and the reasons for its suspension.
- 31.4 A Party claiming Force Majeure shall exercise reasonable diligence to seek to overcome the Force Majeure event and to mitigate the effects thereof on the performance of its obligations under this Contract. The Party affected shall promptly notify the Management Committee, the PRDC and the PRDS as soon as the Force Majeure event has been removed and no longer prevents it from complying with the obligations that have been suspended and shall thereafter resume compliance with such obligations as soon as possible.
- 31.5 The Party asserting the claim of Force Majeure shall have the burden of proving that the circumstances constitute valid grounds of Force Majeure



under this Article and that such Party has exercised reasonable diligence and efforts to remedy the cause of any alleged Force Majeure.

- 31.6 Where a Party is prevented from exercising any rights or performing any obligations under this Contract due to Force Majeure, the time for the performance of the obligations affected thereby and for performance of any obligation or the exercise of any right dependent thereon, and the term of any Exploration Phase of the Exploration Period or this Contract, may be extended to the extent of Force Majeure period or by such period as may be agreed by the Management Committee and the PRDC.
- 31.7 Notwithstanding anything contained herein above, if an event of Force Majeure occurs and is likely to continue for a period in excess of thirty (30) 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 to be adopted in the circumstances.

### **ARTICLE 32**

#### **32. APPLICABLE LAW AND LANGUAGE OF THE CONTRACT**

- 32.1 This Contract shall be governed and interpreted in accordance with the laws of Sri Lanka.
- 32.2 Nothing in this Contract shall entitle the Contractor to exercise the rights, privileges and powers conferred upon it by this Contract in a manner that will contravene the laws of Sri Lanka.
- 32.3 The English language shall be the language of this Contract and shall be used in arbitral proceedings. All communications, hearing or visual materials or documents relating to this Contract shall be written or prepared in English.
- 32.4 The laws will also include amendments, revisions and modifications.

### **ARTICLE 33**

#### **33. SOLE EXPERT, CONCILIATION AND ARBITRATION**

- 33.1 The Parties shall use their best efforts to settle amicably all disputes, differences or claims arising out of or in connection with any of the terms and conditions of this Contract or concerning the interpretation or performance thereof.
- 33.2 Matters which, by the terms of this Contract, the Parties have agreed to refer to a sole expert and any other matter which the Parties may agree to so refer, may be referred to a sole expert who shall be an independent and impartial

person of international standing with relevant qualifications and experience, appointed by a written 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 Parties, a body or an institution or an agency or a person shall appoint the sole expert, 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 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 on matters referred to him/her shall be final and binding on the Parties and shall not be subject to arbitration.

- 33.3 Subject to the provisions of this Contract, the Parties hereby agree that any controversy, difference, disagreement or claim for damages, compensation or otherwise (hereinafter in this Article referred to as a “**dispute**”) arising between the Parties, which cannot be settled amicably within ninety (90) days after the dispute arises, may (except for those referred to in Article 33.2, which may be referred to a sole expert) be submitted to conciliation or an arbitral tribunal for final decision as hereinafter provided.
- 33.4 The arbitral tribunal shall consist of three arbitrators. Each Party to the dispute shall appoint one arbitrator and the Party or Parties shall so advise the other Parties. The two arbitrators appointed by the Parties shall appoint the third arbitrator.
- 33.5 Any Party may, after appointing an arbitrator, request the other Party (ies) in writing to appoint the second arbitrator. If such other Party fails to appoint an arbitrator within thirty (30) days of receipt of the written request to do so, such arbitrator may, at the request of the first Party, be appointed in accordance with Sri Lankan legislation.
- 33.6 If the two arbitrators appointed by or on behalf of the Parties fail to agree on the appointment of the third arbitrator within thirty (30) days of the appointment of the second arbitrator and if the Parties do not otherwise agree, at the request of either Party, the third arbitrator shall be appointed in accordance with the Arbitration Act.
- 33.7 If any of the arbitrators fails or is unable to act, his successor shall be appointed by the Party or person who originally appointed such in the manner set out in this Article as if he was the first appointment.

- 33.8 The decision of the arbitral tribunal shall be pronounced within four (4) months unless otherwise extended by the Parties, and, in case of difference among the arbitrators the decision of the majority shall be final and binding on the Parties.
- 33.9 The arbitration agreement contained in this Article 33 shall be governed by Sri Lankan legislation. Arbitration proceedings shall be conducted in accordance with UNCITRAL rules.
- 33.10 The right to arbitrate disputes under this Contract shall survive expiry or the termination of this Contract.
- 33.11 Prior to submitting a dispute to arbitration, the Parties may by mutual agreement submit the matter for conciliation. No arbitration proceedings shall be instituted while conciliation proceedings are pending provided that a Party may initiate arbitration proceedings in the event that the dispute has not been resolved by conciliation within sixty (60) days of the date of agreement by the Parties to submit such dispute to conciliation.
- 33.12 The venue of the sole expert, conciliation or arbitration proceedings pursuant to this Article, unless the Parties agree otherwise, shall be Singapore and shall be conducted in the English language. Insofar as practicable, the Parties shall continue to implement the terms of this Contract notwithstanding the initiation of proceedings before a sole expert, conciliator or arbitral tribunal and any pending claim or dispute.
- 33.13 The fees and expenses of a sole expert or conciliator appointed by the Parties shall be borne equally by the Parties. The cost and expenses of arbitrator appointed by a Party in accordance with the provision of this Article shall be borne by the respective Party and the cost and expenses of third arbitrator and other incidental expenditure in relation to arbitration and liability thereof shall be at the discretion of the arbitrators.

#### **ARTICLE 34**

##### **34. CHANGE OF STATUS OF COMPANIES**

- 34.1 The Contractor shall notify the PRDC and the PRDS of any change in the management or control of the Cairn Lanka (Pvt) Limited or the relationship with any guarantor of the Cairn Lanka (Pvt) Limited.
- 34.2 For the purposes of Clause 34.1, “**control**” shall have the meaning given within the definition of “**Affiliate**” in this Contract.

## ARTICLE 35

### 35. ENTIRE AGREEMENT, AMENDMENTS, WAIVER AND MISCELLANEOUS

- 35.1 This Contract supersedes and replaces any previous agreement or understanding between the Parties, whether oral or written, on the subject matter hereof, prior to the execution date of this Contract and each of the Parties hereby confirms and acknowledges that it has not relied on any representations in entering into this Agreement and that all liability for misrepresentation whether negligent or innocent (but expressly excluding liability for fraudulent misrepresentation) is hereby excluded.
- 35.2 This Contract shall not be amended, modified, varied or supplemented in any respect except by an instrument in writing signed by all the Parties, which shall state the date upon which the amendment or modification shall become effective.
- 35.3 No waiver by any Party of any one or more obligations or defaults by any other Party in the performance of this Contract shall operate or be construed as a waiver of any other obligations or defaults whether of a like or of a different character. For any waiver to be effective hereunder, it shall be made in writing.
- 35.4 The provisions of this Contract shall inure to the benefit of and be binding upon the Parties and their permitted assigns and successors in interest.
- 35.5 In the event of any conflict between any provisions in the main body of this Contract and any provision in the Appendices, the provision in the main body shall prevail.
- 35.6 The headings of this Contract are for convenience of reference only and shall not be taken into account in interpreting the terms of this Contract.
- 35.7 Reference to any law or regulation having the force of law includes a reference to that law or regulation as from time to time may be amended, extended or re-enacted.
- 35.8 A reference in this Contract to the word **“including”** shall also mean **“including but not limited to”**
- 35.9 Unless otherwise defined in the Contract the technical terms used herein have the meaning given by the American Petroleum Institute

## ARTICLE 36

### 36. CERTIFICATES

- 36.1 A Company shall furnish to the PRDC and the PRDS, prior to execution of this Contract, a duly authorised copy of a resolution properly and legally passed by the board of directors of the Company authorising its president or any vice-president or any other representative to execute this Contract along with a certificate duly signed by the secretary or an assistant secretary of the Company under its seal in this regard and to the effect that the Company has the power and authority to enter into this Contract and to perform its obligations thereunder and has taken all necessary action to authorise the execution, delivery and performance of this Contract.

## ARTICLE 37

### 37. NOTICES

- 37.1 All notices, statements, and other communications to be given, submitted or made hereunder by any Party to another shall be sufficiently given if given in writing in English language and sent by registered post, postage paid, or by telegram, telex, facsimile, radio or cable, to the address or addresses of the other Party or Parties as follows:

- (a) If to the Government:

Chairman  
Petroleum Resources Development Committee  
Ministry of Petroleum and Petroleum Resources  
Development  
80 Sir Ernest De Silva Mawatha,  
Colombo 7, Sri Lanka  
Fax: 94 11 2 564362  
Tel: 94 11 2 370130

Director General  
Petroleum Resources Development Secretariat  
Ministry of Petroleum and Petroleum Resources  
Development  
80 Sir Ernest De Silva Mawatha,  
Colombo 7, Sri Lanka  
Fax: 94 11 2 564352  
Tel: 94 11 2 375672

(b) If to Contractor

Cairn Lanka (Pvt) Limited,  
3rd & 4<sup>th</sup> Floors,,  
Vipul Plaza, Sun City,  
Sector - 54,  
Gurgaon - 122002,  
Haryana, India.

Fax: 00 91 124 2889 320

Tel: 00 91 124 2703 000 / 4593 000

37.2 Notices when given in terms of Article 37.1 shall be effective when delivered if offered at the address of the other Parties as under Article 37.1 during business hours and, if received outside business hours, on the next following Business Day.

37.3 Any Party may, by reasonable notice as provided hereunder to the other Parties, change its address and other particulars for notice purpose.

IN WITNESS WHEREOF, the representatives of the Parties to this Contract being duly authorised have hereunto set their hands and have executed these presents this the Seventh (7<sup>th</sup>) day of July Two Thousand and Eight (2008).

**Signed for and on behalf of  
the Government of Sri Lanka**

**By : A.H.M.Fowzie** .....

**Minister of Petroleum and Petroleum Resources Development**

**In the presence of Neil De Silva** .....

**Director-General - Petroleum Resources Development Secretariat**

**Signed for and on behalf of  
Cairn Lanka (Pvt) Ltd.**

**By : Indrajit Benerjee** .....

**Director -Cairn Lanka (Pvt) Ltd.**

And

**Ajay Gupta**  
**Head - Commercial & New Business** .....

**In the presence of Sunil Bharati** .....

**General Manager, Exploration Business**

**Date : July 07, 2008**

**APPENDIX A**  
**DESCRIPTION OF THE CONTRACT AREA**

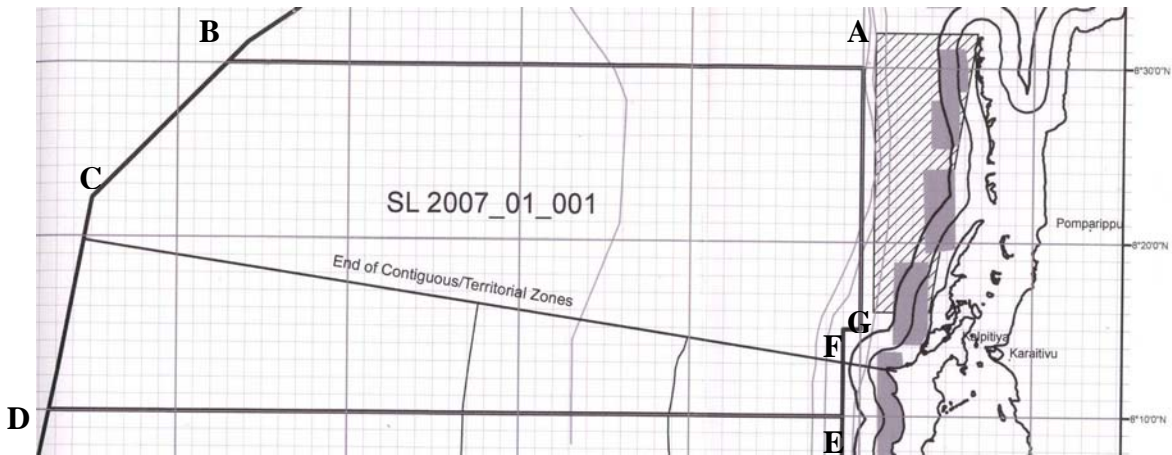
The area comprising approximately 3,000 Sq. Km., offshore Sri Lanka identified as Block SL 2007-01-001 described herein and shown on the map attached as Appendix B.

<b>Block No</b>	<b>Grid</b>	<b>Section</b>
	8°30'N, 79° 40'E	01 - 100
	8°30'N, 79° 30'E	01 - 100
	8°30'N, 79° 20'E	01 - 100
	8°30'N, 79° 10'E	All the sections east of the SIMB
<b>BLOCK SL 2007-01-001</b>	8°30'N, 79° 00'E	All the sections east of the SIMB
	8°20'N, 79° 40'E	06 - 100
	8°20'N, 79° 30'E	01 - 100
	8°20'N, 79° 20'E	01 - 100
	8°20'N, 79° 10'E	01 - 100
	8°20'N, 79° 00'E	All the sections east of the SIMB



**APPENDIX B  
MAP OF THE CONTRACT AREA**

**Including exclusion zones**



Between 80 10' and 80 30' N Latitudes and extending west from the Sri Lanka/India maritime boundary (SIMB) to a line 4km from the lowest low water mark(LLW)

Points	Longitude	Latitude
	(Degree Decimal)	(Degree Decimal)
A	79.660	8.50
B	79.048	8.50
C	78.918	8.37
D	78.877	8.17
E	79.642	8.17-
F	79.642	8.25
G	79.660	8.25

**APPENDIX C**  
**ACCOUNTING PROCEDURE TO THE CONTRACT BETWEEN THE**  
**GOVERNMENT OF SRI LANKA AND CAIRN LANKA (PVT) LTD WITH**  
**RESPECT TO BLOCK NO. SL 2007-01-001**

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## ACCOUNTING PROCEDURE

### 1. SECTION 1: GENERAL PROVISIONS

#### 1.1 Purpose

Generally, the purpose of this Accounting Procedure is to set out principles and procedures of accounting that will enable the PRDS to monitor effectively the Contractor's costs, expenditures, production and income so that the State entitlement to Profit Petroleum can be accurately determined pursuant to the terms of the Contract. More specifically, the purpose of the Accounting Procedure is to classify costs and expenditures and to define which costs and expenditures shall be allowable for cost recovery and profit sharing and participation purposes, specify the manner in which the Contractor's accounts shall be prepared and approved and address numerous other accounting related matters.

This Accounting Procedure is intended to apply to the provisions of the Contract and is without prejudice to the computation of income tax under applicable provisions of the Income Tax Act.

#### 1.2 Definitions

For purposes of this Accounting Procedure, the terms used herein that are defined in the Contract shall have the same meaning when used in this Accounting Procedure.

#### 1.3 Inconsistency

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

#### 1.4 Documentation and Statements to be Submitted by the Contractor

- 1.4.1 Within ninety (90) days of the Effective Date of the Contract, the Contractor shall submit to and discuss with the PRDS a proposed outline of charts of accounts, operating records and reports, which outline shall reflect each of the categories and sub-categories of costs and income specified in Sections 2 and 3 and shall be in accordance with generally accepted standards and recognized accounting systems and consistent with normal petroleum industry practice and procedures for joint venture operations. Within ninety (90) days of receiving the above submission, the PRDS shall either provide written notification of its approval of the proposal or request, in writing, revisions to the proposal.

Within one hundred and eighty (180) days from the Effective Date of the Contract, the Contractor and the PRDS shall agree on the outline of charts of accounts, records and reports which shall also describe the basis of the accounting system and procedures to be developed and used under the Contract. Following such agreement, the Contractor shall expeditiously prepare and provide the PRDS with formal copies of the comprehensive charts of accounts, records and reports and allow the PRDS to examine the manuals and to review procedures which are, and shall be, observed under the Contract.

1.4.2 Notwithstanding the generality of the foregoing, the Contractor shall make regular Statements relating to the Petroleum Operations as follows:

- (a) Production Statement (see Section 5 of this Accounting Procedure).
- (b) Value of Production and Pricing Statement (see Section 6 of this Accounting Procedure).
- (c) Statement of Costs, Expenditures and Receipts (see Section 7 of this Accounting Procedure).
- (d) Cost Recovery Statement (see Section 8 of this Accounting Procedure).
- (e) Profit Sharing Statement (see Section 9 of this Accounting Procedure).
- (f) Local Procurement Statement (see Section 10 of this Accounting Procedure).
- (g) End of Financial Year Statement (see Section 11 of this Accounting Procedure).
- (h) Budget Statement (see Section 12 of this Accounting Procedure).
- (i) Statement of Exploration Expenditure to Date versus Performance Guarantee With Respect to the Relevant Minimum Work Programme

1.4.3 All reports and Statements shall be prepared in accordance with the Contract and the laws of Sri Lanka and, where there are no relevant provisions in either of these, in accordance with generally accepted practices in the international petroleum industry.

1.4.4 Each of the Companies constituting the Contractor shall be responsible for maintaining its own accounting records in order to comply with all legal requirements and to support all returns or any other accounting reports required by any Government authority in relation to the Petroleum Operations. However, for the purposes of giving effect to this Accounting Procedure, the Company constituting the Contractor who is the Operator shall be responsible for maintaining, at its business office in Sri Lanka, on behalf of the Contractor, all the accounts of the Petroleum Operations in accordance with the provisions of the Accounting Procedure and the Contract.

## 1.5 Language and Units of Account

All accounts, records, books, reports and Statements shall be maintained and prepared in the English language using mercantile basis of accounting. The accounts shall be maintained in United States Dollars, which shall be the controlling currency of account for cost recovery, and profit sharing purposes. Metric units and Barrels shall be employed for measurements required under the Contract. Where necessary for clarification, the Contractor may also maintain accounts and records in other languages, currencies and units.

## 1.6 Currency Exchange Rates

1.6.1 For conversion purposes between United States Dollars and Sri Lankan Rupees or any other currency, the monthly average of the daily mean of the buying and selling rates of exchange as quoted by the Central Bank of Sri Lanka (or any other financial body as may be mutually agreed by the Parties) for the Month in which the revenues, costs, expenditures, receipts or income are recorded, shall be used. However, in the case of any single non-US Dollar transaction in excess of the equivalent of fifty thousand (50,000) US Dollars, the conversion into US Dollars shall be performed on the basis of the average of the applicable exchange rates for the day on which the transaction occurred.

1.6.2 Any realized or unrealized gains or losses from the exchange of currency in respect of Petroleum Operations shall be credited or charged to the accounts. A record of the exchange rates used in converting Sri Lankan Rupees or any other currencies into United States Dollars as specified in Section 1.6.1 shall be maintained by the Contractor and shall be identified in the relevant Statements required to be submitted by the Contractor in accordance with Section 1.4.2.

## 1.7 Payments

- 1.7.1 Subject to Article 20.3 of the Contract and the foreign exchange laws and regulations prevailing from time to time, all payments between the Parties shall, unless otherwise agreed, be in United States Dollars and shall be made through a bank designated by each receiving Party.
- 1.7.2 Unless otherwise specified, all sums due under the Contract shall be paid within forty five (45) days from the date on which the obligation to pay was incurred.
- 1.7.3 All sums due by one Party to the other under the Contract during any Month shall, for each day such sums are overdue during such Month, bear interest compounded daily at the applicable LIBOR plus two (2) percentage points.

## 1.8 Arms Length Transactions

Unless otherwise specifically provided for in the Contract, all transactions giving rise to revenues, costs or expenditures which will be credited or charged to the accounts prepared, maintained or submitted hereunder shall be conducted at arms length or on such a basis as will assure that all such revenues, costs or expenditures will not be lower or higher, as the case may be, than would result from a transaction conducted at arms length on a competitive basis with third parties.

## 1.9 Audit and Inspection Rights of the PRDS

- 1.9.1 Without prejudice to statutory rights, the PRDS, upon at least twenty (20) Business Days advance written notice to the Contractor, shall have the right to inspect and audit, during normal business hours, all records and documents supporting costs, expenditures, expenses, receipts and income, such as the Contractor's accounts, books, records, invoices, cash vouchers, debit notes, price lists or similar documentation with respect to the Petroleum Operations conducted hereunder in each Financial Year, within two (2) Financial Years (or such longer period as may be required in exceptional circumstances) from the end of such Financial Year.
- 1.9.2 The PRDS may undertake the conduct of the audit either through its own representatives or through a qualified firm of recognised chartered accountants, registered in Sri Lanka or a reputed consulting firm, appointed for the purpose by the PRDS and the costs of audit in case of PRDS auditor(s) shall be borne by the PRDS, where as for



outside auditor(s), this shall be borne by the Contractor as a General and Administrative Cost.

- 1.9.3 In conducting the audit, the PRDS or its auditors shall be entitled to examine and verify, at reasonable times, all charges and credits relating to the Contractor's activities under the Contract and all books of account, accounting entries, material records and inventories, vouchers, payrolls, invoices and any other documents, correspondence and records considered necessary by the PRDS to audit and verify the charges and credits. The auditors shall also have the right, in connection with such audit, to visit and inspect, at reasonable times, all sites, plants, facilities, warehouses and offices of the Contractor directly or indirectly serving the Petroleum Operations, and to physically examine other property, facilities and stocks used in Petroleum Operations, wherever located and to question personnel associated with those operations. Where the PRDS requires verification of charges made by an Affiliate, the PRDS shall have the right to obtain an audit certificate from an internationally recognized firm of public accountants acceptable to both the PRDS and the Contractor, which may be the Contractor's statutory auditor. Submission of the audit certificate shall in no way relieve or diminish the responsibility of the Contractor for the compliance with the obligations under the Contract.
- 1.9.4 Any audit exceptions shall be made by the PRDS in writing and notified to the Contractor within one hundred and twenty (120) days following completion of the audit in question.
- 1.9.5 The Contractor shall answer any notice of exception under Section 1.9.4 within one hundred and twenty (120) days of the receipt of such notice. Where the Contractor has, after the said one hundred and twenty (120) days, failed to answer a notice of exception, the exception shall prevail and deemed to have been agreed to by the Contractor.
- 1.9.6 All agreed adjustments resulting from an audit and all adjustments required by prevailing exceptions under Section 1.9.5 shall be promptly made in the Contractor's accounts and any consequential adjustments to the State's entitlement to Petroleum shall be made within thirty (30) days therefrom.
- 1.9.7 Notwithstanding any reference to a sole expert or arbitration in accordance with the provisions of the Contract, in case any amount is claimed as due to the Government resulting from the audit exception but not accepted or settled by the Contractor, then the Contractor shall

deposit such claimed amount in a escrow account to be opened with a financial institution, which failing mutual agreement will be at the Central Bank of Sri Lanka, within thirty (30) days from the date when the amount is disputed by the Contractor. The amount in escrow account along with any interest accumulated thereon shall be appropriated or adjusted in accordance with the decision or award of the sole expert or arbitral tribunal as may be or otherwise as mutually agreed to between the Parties.

1.9.8 If the Contractor and the PRDS are unable to reach final agreement on proposed audit adjustments, either Party may refer any dispute thereon to a sole expert as provided for in the Contract. So long as any issues are outstanding with respect to an audit, the Contractor shall maintain the relevant documents and permit inspection thereof until the issue is resolved.

#### 1.10 Revision of the Accounting Procedure

By mutual agreement between the PRDS and the Contractor, this Accounting Procedure may be revised from time to time, in writing, signed by the Parties, stating the date upon which the amendments shall become effective.

## 2. SECTION 2: CLASSIFICATION, DEFINITION AND ALLOCATION OF COSTS AND EXPENDITURES

### 2.1 Segregation of Costs

Costs shall be segregated in accordance with the purposes for which such expenditures are made. All costs and expenditures allowable under Section 3, relating to Petroleum Operations, shall be classified, defined and allocated as set out below in this Section.

### 2.2 Exploration Costs

Exploration Costs are all direct and allocated indirect expenditures incurred in the search for Petroleum in an area that is, or was at the time when such costs were incurred, part of the Contract Area, including expenditures incurred in respect of:

2.2.1 Aerial, geophysical, geochemical, palaeontological, geological, topographical and seismic surveys, analysis and studies and their interpretation;

2.2.2 Borehole drilling;

- 2.2.3 Labour, materials, supplies and services used in drilling Wells with the object of finding Petroleum or in drilling Appraisal Wells provided that if such Wells are completed as producing Wells or injection Well for enhancing Oil recovery, the costs of completion thereof shall be classified as Development Costs;
- 2.2.4 Facilities used solely in support of the purposes described in Sections 2.2.1 and 2.2.2;
- 2.2.5 Any Service Costs and General and Administrative Costs directly incurred on exploration activities and identifiable as such and a portion of the remaining Service Costs and General and Administrative Costs allocated to Exploration Operations determined by the proportionate share of total Contract Costs (excluding General and Administrative Costs and Service Costs) represented by all other Exploration Costs;
- 2.2.6 Geological and geophysical information purchased or acquired in connection with Exploration Operations; and
- 2.2.7 Any other expenditures incurred in the search for Petroleum not covered under Sections 2.3 or 2.4.

### 2.3 Development Costs

Development Costs are all direct and allocated indirect expenditures incurred with respect to the development of discoveries within the Contract Area including expenditures incurred on account of:

- 2.3.1 Geological and Geophysical information acquired in connection with Development Operations.
- 2.3.2 Drilling Development Wells, whether these Wells are dry or producing and drilling Wells for the injection of water or Gas to enhance recovery of Petroleum.
- 2.3.3 Completing of Exploration or Appraisal Wells by way of installation of casing or equipment or otherwise or for the purpose of bringing a Well into use as a producing Well or as a Well for the injection of water or Gas to enhance recovery of Petroleum.
- 2.3.4 Purchase, installation or construction of production, transport and storage facilities for production of Petroleum, such as pipelines, flow lines, production and treatment units, wellhead equipment, subsurface equipment, enhanced recovery systems, offshore platforms, export terminals and piers, harbours and related facilities and access roads for production activities.

2.3.5 Engineering and design studies for facilities referred to in Section 2.3.3.

2.3.6 Any Service Costs and General and Administrative Costs directly incurred in Development Operations and identifiable as such and a portion of the remaining Service Costs and General and Administrative Costs allocated to development activities, determined by the proportionate share of total Contract Costs (excluding General and Administrative Costs and Service Costs) represented by all other Development Costs.

## 2.4 Production Costs

Production Costs are expenditures incurred on Production Operations after the start of production from the Field (which are other than Exploration and Development Costs). The balance of General and Administrative Costs and Service Costs not allocated to Exploration Costs or Development Costs shall be allocated to Production Costs.

## 2.5 Service Costs

Service Costs are direct and indirect expenditures incurred in support of Petroleum Operations in the Contract Area, including expenditures on warehouses, piers, marine vessels, vehicles, motorized rolling equipment, aircraft, fire and security stations, workshops, water and sewerage plants, power plants, housing, community and recreational facilities and furniture and tools and equipment used in these activities. Service Costs in any Financial Year shall include the costs incurred in such Financial Year to purchase and/or construct the said facilities as well as the annual costs of maintaining and operating the same, each to be identified separately. All Service Costs shall be regularly allocated as specified in Sections 2.2.5, 2.3.5 and 2.4 to Exploration Costs, Development Costs and Production Costs and shall be separately shown under each of these categories. Where Service Costs are made in respect of shared facilities, the basis of allocation of costs to Petroleum Operations hereunder shall be specified.

## 2.6 General and Administrative Costs

General and Administrative Costs are expenditures incurred on general administration and management primarily and principally related to Petroleum Operations in or in connection with the Contract Area, and shall include:

2.6.1 main office, field office and general administrative expenditures in Sri Lanka including supervisory, accounting and employee relations services;

2.6.2 an annual overhead charge for services rendered by the parent company or an Affiliate to support and manage Petroleum Operations under the Contract, and for staff advice and assistance including financial, legal, accounting and employee relations services, but excluding any remuneration for services charged separately under this Accounting Procedure, provided that: -

- (a) for the period from the Effective Date until the date on which the first Development Plan under the Contract is approved by the Government, this annual charge shall be the Contractor's verifiable expenditure but shall in no event be greater than the following percentages of the total Contract Costs incurred during the Contract Year in or in connection with the Contract Area and qualifying for recovery pursuant to Section 3:

Contact Cost in any Contract Year US \$ MM	Annual Overhead Charge
0 - 2	3%
Over 2 & less than 5	US \$ 60 000 + 2% of contract costs in excess of US \$ 2 million.
Over 5	US \$ 120 000 + 1% of contract costs in excess of US \$ 5 million

- (b) from the date on which the first Development Plan is approved, the charge shall be at an amount or rate to be agreed on between the Parties and stated in the Development Plan.

2.6.3 All General and Administrative Costs shall be regularly allocated as specified in Sections 2.2.5, 2.3.5 and 2.4 to Exploration Costs, Development Costs and Production Costs respectively, and shall be separately shown under each of these cost categories.

2.7 Site Restoration and Decommissioning fund

Contributions towards, and value of, the Site Restoration and Decommissioning fund in respect of the Contract Area

**3. SECTION 3: COSTS, EXPENSES, EXPENDITURES AND INCIDENTAL INCOME OF THE CONTRACTOR**

**3.1 Costs Recoverable and Allowable Without Further Approval of the PRDC**

Costs incurred by the Contractor on Petroleum Operations as per reviewed or approved Work Programme and Budget by the Management Committee and the PRDS as the case may be, pursuant to the Contract as classified under the headings referred to in Section 2 shall be allowable for the purposes of the Contract except to the extent provided in Section 3.2 or elsewhere in this Accounting Procedure, and subject to audit, as referred to in Article 25, as provided for herein. Further in case of variation in costs over the reviewed/approved Work Programme and Budget, as the case may be, or re-appropriation of costs, shall be submitted to the Management Committee and the PRDS for review/approval, as the case may be, within thirty (30) days from end of the relevant Financial Year and subject to the audit and other provisions of the Contract, such costs shall be allowable for the purposes of the Contract.

**3.1.1 Surface Rights**

All direct costs necessary for the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the purposes of the Contract except as provided in Section 3.1.9.

**3.1.2 Labour and Associated Labour Costs**

**(a) Contractor's locally recruited employees based in Sri Lanka**

Costs of the entire Contractor's locally recruited employees who are directly engaged in the conduct of Petroleum Operations under the Contract in Sri Lanka. Such costs shall include the costs of employee benefits and Government benefits for employees and levies imposed on the Contractor as an employer, transportation and relocation costs within Sri Lanka of the employee and such members of the employee's family as per the personnel policy of the employer as required by law or customary practice in Sri Lanka. If such employees are engaged in other activities in Sri Lanka, in addition to Petroleum Operations, the cost of

such employees shall be apportioned on a time sheet basis according to sound and acceptable accounting principles.

(b) Assigned Personnel

Costs of salaries and wages, including bonuses, of the Contractor's employees directly and necessarily engaged in the conduct of the Petroleum Operations under the Contract, whether temporarily or permanently assigned, irrespective of the location of such employees, it being understood that in the case of those personnel only a portion of whose time is wholly dedicated to Petroleum Operations under the Contract, only that pro rata portion of applicable salaries, wages, and other costs, as specified in Sections 3.1.2(c), (d), (e), (f) and (g), shall be charged and the basis of such pro rata allocation shall be specified.

(c) The Contractor's costs regarding holiday, vacation, sickness and disability benefits and living and housing and other customary allowances applicable to the salaries and wages chargeable under Section 3.1.2(b) above.

(d) Expenses or contributions made pursuant to assessments or obligations imposed under the laws of Sri Lanka that are applicable to the Contractor's cost of salaries and wages chargeable under Section 3.1.2(b) above.

(e) The Contractor's cost of established plans for employees' group life insurance, hospitalization, pension, retirement and other benefit plans of a like nature customarily granted to the Contractor's employees provided, however, that such costs are in accordance with generally accepted standards in the international petroleum industry, applicable to salaries and wages chargeable to Petroleum Operations under Section 3.1.2(b) above.

(f) Reasonable transportation and travel expenses of employees of the Contractor, including those made for travel and relocation of the expatriate employees, including their dependent family and personal effects, assigned to Sri Lanka whose salaries and wages are

chargeable to Petroleum Operations under Section 3.1.2(b) above. Transportation cost as used in this Section shall mean the cost of freight and passenger service and any accountable incidental expenditure related to transfer travel and authorized under the Contractor's standard personnel policies. The Contractor shall ensure that all expenditures related to transportation costs are equitably allocated to the activities that have benefited from the personnel concerned.

### 3.1.3 Transportation Costs

The reasonable cost of transportation of equipment, materials and supplies within Sri Lanka and from outside Sri Lanka to Sri Lanka necessary for the conduct of Petroleum Operations under the Contract, including directly related costs such as unloading charges, dock fees and inland and ocean freight charges.

### 3.1.4 Charges for Services

#### (i) Third Parties

The actual costs of contract services, services of professional consultants, utilities and other services necessary for the conduct of Petroleum Operations under the Contract performed by third parties other than an Affiliate of the Contractor, provided that the transactions resulting in such costs are undertaken pursuant to Section 1.8 of this Accounting Procedure.

#### (ii) Affiliates of Contractor

##### (a) Professional and Administrative Services and Expenses

Cost of professional and administrative services provided by any Affiliate for the direct benefit of Petroleum Operations including services provided by the production, exploration, legal, financial, insurance, accounting and computer services divisions other than those covered by Section 3.1.4 (ii)(b) which the Contractor may use in lieu of having its own employees. Charges shall be equal to the actual cost of providing



their services, shall not include any element of profit and shall not be any higher than the most favourable prices charged by the Affiliate to third parties for comparable services under similar terms and conditions elsewhere and will be fair and reasonable in the light of prevailing modern oilfield/gasfield and petroleum industry practices.

(b) Scientific or Technical Personnel

Cost of scientific or technical personnel services provided by any Affiliate of the Contractor for the direct benefit of Petroleum Operations, which cost shall be charged on a cost of service basis. Charges therefore shall not exceed charges for comparable services currently provided by outside technical service organizations of comparable qualifications. Unless the work to be done by such personnel is covered by an Approved Budget and Work Programme, the Contractor shall not authorize work by such personnel without approval of the Management Committee and the PRDS.

(c) Equipment, facilities and property owned and furnished by the Contractor's Affiliates, at rates commensurate with the cost of ownership and operation provided, however, that such rates shall not exceed those currently prevailing for the supply of like equipment, facilities and property on comparable terms in the area where the Petroleum Operations are being conducted. The equipment and facilities referred to herein shall exclude major investment items such as (but not limited to) drilling rigs, producing platforms, oil treating facilities, oil and gas loading and transportation systems,

storage and terminal facilities and other major facilities, rates for which shall be subject to separate agreement with the PRDS.

3.1.5 Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems including radio, satellite link and microwave facilities between the Contract Area and the Contractor's nearest base facility.

3.1.6 Office, Shore Bases and Miscellaneous Facilities

Net cost to the Contractor of establishing, maintaining and operating any office, sub-office, shore base facility, warehouse, housing or other facility directly serving the Petroleum Operations. If any such facility services contract areas other than the Contract Area, or any business other than Petroleum Operations, the net costs thereof shall be allocated on an equitable and consistent basis.

3.1.7 Environmental Studies and Protection

Costs incurred in conducting the environmental impact assessment studies for the Contract Area, and in taking environmental protection measures including the cost of Site Restoration and Decommissioning and the contribution to the Environmental Fund established under Article 14.

3.1.8 Materials and Equipment

(i) General

So far as is practicable and consistent with efficient and economical operation, only such material shall be purchased or furnished by the Contractor for use in the Petroleum Operations as may be required for use in the reasonably foreseeable future and the accumulation of surplus stocks shall be avoided. Material and equipment held in inventory shall only be charged to the accounts when such material is removed from inventory and used in Petroleum Operations. Costs shall be charged to the accounting records and books based on the "First-in, First-out method".

(ii) Warranty

In the case of defective material or equipment, any adjustment received by the Contractor from the suppliers or manufacturers or their agents in respect of any warranty on material or equipment shall be credited to the accounts under the Contract.

(iii) Value of materials charged to the accounts under the Contract

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

(b) Material purchased from or sold to Affiliates or transferred to or from activities of the Contractor other than Petroleum Operations under the Contract:

(aa) new material (hereinafter referred to as condition A) shall be valued at the current international price, which shall not exceed the price prevailing in normal arms length transactions on the open market;

(bb) used material which is in sound and serviceable condition and is suitable for reuse

without reconditioning (hereinafter referred to as condition B) shall be priced at not more than seventy five per cent (75%) of the current price of the above mentioned new materials;

- (cc) used material which cannot be classified as condition B, but which, after reconditioning, will be further serviceable for original function as good second-hand condition B material or is serviceable for original function, but substantially not suitable for reconditioning (hereinafter referred to as condition C) shall be priced at not more than fifty per cent (50%) of the current price of the new material referred to above as condition A.

The cost of reconditioning shall be charged to the reconditioned material, provided that the condition C material value plus the cost of reconditioning does not exceed the value of condition B material.

Material that cannot be classified as condition B or condition C shall be priced at a value commensurate with its use.

Material involving erection expenditure shall be charged at the applicable condition percentage (referred to above) of the current knocked-down price of new material referred to above as condition A.

When the use of material is temporary and its service to the Petroleum Operations does not justify the reduction in price in relation to materials referred to above as conditions B and C, such material shall be priced on a basis that will result in a net charge to the accounts

under the Contract consistent with the value of the service rendered.

### 3.1.9 Duties, Fees and Other Charges

Any duties, levies, fees, charges and any other assessments levied after the Effective Date by any governmental or taxing authority in connection with the Contractor's activities under the Contract and paid directly by the Contractor except corporate income tax payable by the constituents of the Contractor.

### 3.1.10 Insurance and Losses

Insurance premia and costs incurred for insurance pursuant to Article 24 of the Contract, provided that such insurance is customary, affords prudent protection against risk and is at a premium no higher than that charged on a competitive basis by insurance companies that are not Affiliates. Except as provided in Sections 3.2(ix), Section 3.2(x) and Section 3.2(xi), actual costs and losses incurred shall be allowable to the extent not made good by insurance. Such costs may include, but are not limited to, repair and replacement of property in the Contract Area resulting from damages or losses incurred by fire, flood, storm, theft, accident or such other cause.

### 3.1.11 Legal Expenses

All reasonable costs and expenses, except Section 3.2 (xi) resulting from the handling, investigating, asserting, defending, or settling of any claim or legal action necessary or expedient for the procuring, perfecting, retention and protection of the Contract Area and in defending or prosecuting lawsuits involving the Contract Area or any third party claim arising out of Petroleum Operations under the Contract, or sums paid in respect of legal services necessary for the protection of the joint interest of Cabinet, Minister, PRDC, PRDS and the Contractor, shall be allowable. Such expenditures shall include attorney's fees, court costs, costs of investigation and procurement of evidence and amounts paid in settlement or satisfaction of any such litigation and claims provided such costs are not covered elsewhere in the Accounting Procedure. Where legal services are rendered in such matters by salaried or regularly retained lawyers of the Contractor or an Affiliate, such compensation shall be included instead under Sections 3.1.2 or 3.1.4(ii) above as applicable.

3.1.12 Training Costs

All costs and expenses incurred by the Contractor in training as is required under Article 22 of the Contract.

3.1.13 General and Administrative Costs

The costs described in Section 2.6.1 and the charge described in Section 2.6.2 of this Accounting Procedure.

3.1.14 Royalty, Surface Rentals etc.

Royalty, Signature Bonus, Production Bonus and other levies and taxes paid to the PRDC except income tax paid to the Government.

3.1.15 Site Restoration and Decommissioning fund

Contributions towards, and value of, the Site Restoration and Decommissioning fund in respect of the Contract Area

3.2 Costs Not Recoverable and Not Allowable under the Contract

The following costs and expenses shall not be recoverable or allowable (whether directly as such or indirectly as part of any other charges or expense) for cost recovery and profit sharing purposes under the Contract:

- (i) costs and charges incurred before the Effective Date including costs in respect of preparation, signature or ratification of this Contract;

Explanatory Note: It is clarified that costs and expenses incurred prior to the Effective Date but after the execution of the Contract for making statutory payments in connection with the Petroleum Operations such as Petroleum Exploration License (PEL) fee and application fee shall be allowed as Contract Costs and shall be cost recoverable.

- (ii) expenditures in respect of any financial transaction to negotiate, float or otherwise obtain or secure funds for Petroleum Operations including interest, commission, brokerage and fees related to such transactions, as well as exchange losses on loans or other financing, whether between Affiliates or otherwise;

- (iii) costs of marketing or transportation of Petroleum beyond the Delivery Point;
- (iv) expenditures incurred in obtaining, furnishing and maintaining the guarantees required under the Contract and any other amounts spent on indemnities with regard to non-fulfilment of contractual obligations;
- (v) attorney's fees and other costs and charges in connection with arbitration proceedings and sole expert determination pursuant to the Contract;
- (vi) fines, interest and penalties imposed by courts of law of Sri Lanka;
- (vii) donations and contributions;
- (viii) expenditures on creation of any partnership or joint venture arrangement;
- (ix) amounts paid with respect to non-fulfilment of contractual obligations;
- (x) costs incurred as a result of failure to insure where insurance is required pursuant to the Contract, or of failure to follow procedures laid down by an insurance policy or where the Contractor has elected to self insure, or has under-insured;
- (xi) costs and expenditures incurred as a result of misconduct or negligence of the Contractor;

### 3.3 Other Costs Recoverable and Allowable Only with PRDC Approval

Any other costs and expenditures not included in Sections 3.1 or 3.2 of this Accounting Procedure but which have been incurred by the Contractor for the necessary and proper conduct of Petroleum Operations shall be allowed to be recovered only with the express prior approval in writing of the PRDC.

### 3.4 Incidental Income and Credits

All incidental income and proceeds received from Petroleum Operations under the Contract, including the items listed below, shall be credited to the accounts under the Contract and shall be taken into account for cost recovery, and Profit Petroleum sharing purposes in the manner described in Articles 15 and 16 of the Contract: -

- (i) The proceeds of any insurance or claim or judicial awards in connection with Petroleum Operations under the Contract or any assets charged to the accounts under the Contract where such operations or assets have been insured and the premia charged to the accounts under the Contract;
- (ii) Revenue received from third parties for the use of property or assets, the cost of which has been charged to the accounts under the Contract;
- (iii) 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 Contract;
- (iv) Rentals, refunds or other credits received by the Contractor which apply to any charge which has been made to the accounts under the Contract;
- (v) Prices originally charged to the accounts under the Contract for materials subsequently exported from Sri Lanka without being used in Petroleum Operations under the Contract;
- (vi) Proceeds from the sale or exchange by the Contractor of assets, plant or facilities, the acquisition costs of which have been charged to the accounts under the Contract;
- (vii) Legal costs charged to the accounts under Section 3.1.11 of this Accounting Procedure and subsequently recovered by the Contractor.

### 3.5 Non-Duplication of Charges and Credits

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

## 4. SECTION 4: RECORDS AND INVENTORIES OF ASSETS

### 4.1 Records

- 4.1.1 The Contractor shall keep and maintain detailed records of property and assets in use for or in connection with Petroleum Operations under the Contract in accordance with normal practices in exploration and production activities of the international petroleum industry. Such



records shall include information on quantities, location and condition of such property and assets, and whether such property or assets are leased or owned.

## 4.2 Inventories

### 4.2.1 The Contractor shall:

- (a) not less than once every twelve (12) Months with respect to movable assets; and
- (b) not less than once every three (3) Financial Years with respect to immovable assets, take an inventory of the assets used for or in connection with Petroleum Operations in terms of the Contract and address and deliver such inventory to the PRDS together with a written statement of the principles upon which valuation of the assets mentioned in such inventory has been based.

4.2.2 The Contractor shall give the PRDS at least thirty (30) days notice in writing in the manner provided for in the Contract of its intention to take the inventory referred to in Section 4.2.1 and the PRDS shall have the right to be represented when such inventory is taken.

4.2.3 When an assignment of rights under the Contract takes place, the Contractor at the request of the assignee shall take a special inventory provided that the cost of such inventory is borne by the assignee and paid to the Contractor.

4.2.4 In order to give effect to Article 27 of the Contract, the Contractor shall provide the PRDS with a comprehensive list of all relevant assets when requested by the PRDS to do so.

## 5. SECTION 5: PRODUCTION STATEMENT

5.1 From the date of first production of Petroleum from the Contract Area the Contractor shall submit a monthly Production Statement to PRDS showing the following information separately of each producing Field and in aggregate for the Contract Area:

5.1.1 The quantity of Crude Oil and Condensate produced and saved.

5.1.2 The quality and characteristics of such Crude Oil and Condensate produced and saved.

- 5.1.3 The quantity of Associated Natural Gas and Non Associated Natural Gas produced and saved.
- 5.1.4 The quality, characteristics and composition of such Natural Gas produced and saved separately.
- 5.1.5 The quantities of Crude Oil, Condensate and Natural Gas used for the purposes of carrying on drilling and production operations and pumping to field storage, as well as quantities re-injected.
- 5.1.6 The quantities of Crude Oil, Condensate and Natural Gas unavoidably lost.
- 5.1.7 The quantities of Natural Gas flared and vented.
- 5.1.8 The size of Petroleum stocks held on the first day of the Month in question.
- 5.1.9 The size of Petroleum stocks held on the last day of the Month in question.
- 5.1.10 The quantities of Natural Gas re-injected into the Petroleum Reservoir.
- 5.1.11 The number of days in the Month during which Petroleum was produced from each Field.
- 5.1.12 The Gas-Oil ratio for each Reservoir and Field for the relevant Month.
- 5.1.13 Water production, water injection and Reservoir pressure data for each Reservoir and Field.
- 5.2 All quantities shown in this Statement shall be expressed in both volumetric terms (barrels of Oil and cubic metres of Gas) and in the case of Oil in weight (metric tonnes).
- 5.3 The PRDS may direct in writing that the Contractor include other reasonable particulars relating to the production of Petroleum in its monthly Production Statement, and the Contractor shall comply with such direction.
- 5.4 The Production Statement for each Month shall be submitted to PRDS no later than fifteen (15) days after the end of such Month.

**6. SECTION 6: VALUE OF PRODUCTION AND PRICING STATEMENT**

- 6.1 The Contractor shall, for the purposes of Article 19 and 21 of the Contract, prepare a Statement providing calculations of the value of Crude Oil, Condensate and Natural Gas produced and saved during each Month. This Statement shall contain the following information:
- 6.1.1 The quantities, prices and receipts realised therefore by the Contractor as a result of sales of Crude Oil, Condensate and Natural Gas to third parties made during the Month in question.
  - 6.1.2 The quantities, prices and receipts realised therefore by the Contractor as a result of sales of Crude Oil, Condensate and Natural Gas made during the Month in question, other than to third parties, if any.
  - 6.1.3 The quantities of Crude Oil, Condensate and Natural Gas appropriated by the Contractor to refining or other processing without otherwise being disposed of in the form of Crude Oil, Condensate and Natural Gas.
  - 6.1.4 The value of stocks of Crude Oil, Condensate and Natural Gas on the first day of the Month in question.
  - 6.1.5 The value of stocks of Crude Oil, Condensate and Natural Gas on the last day of the Month in question.
  - 6.1.6 The percentage volume of total sales of Crude Oil, Condensate and Natural Gas made by the Contractor during the Month that are Arms Length Sales to third parties.
  - 6.1.7 Information available to the Contractor, insofar as required for the purposes of Article 19 of the Contract, concerning the prices of competitive crude oils produced by the main petroleum producing and exporting countries including contract prices, discounts and premia, and prices obtained on the spot markets.
- 6.2 The Contractor shall, for the purpose of Article 21 of the Contract, prepare a Statement providing calculations of the value of Associated Natural Gas and Non Associated Natural Gas produced, flared internally used, saved and sold during each Month. This Statement shall contain all information of the type specified in Section 6.1 for Crude Oil as is applicable to Gas and such other relevant information as may be required by PRDS.
- 6.3 The Statements required pursuant to Sections 6.1 and 6.2 shall include a detailed breakdown of the calculation of the prices of Crude Oil, Condensate

and Natural Gas pursuant to the provisions of Articles 19 and 21.

- 6.4 The Value of Production and Pricing Statement for each Month shall be submitted to the PRDS not later than thirty (30) days after the end of such Month.

**7. SECTION 7: STATEMENT OF COSTS, EXPENDITURES AND RECEIPTS**

- 7.1 The Contractor shall prepare with respect to each Quarter a Statement of Costs, Expenditures and Receipts under the Contract using mercantile basis of accounting. The Statement shall distinguish between Exploration Costs, Development Costs and Production Costs and shall separately identify all significant items of costs and expenditure as itemised in Section 3 of this Accounting Procedure within these categories.

The Statement of receipts shall distinguish between income from the sale of Petroleum and incidental income of the sort itemised in Section 3.4 of this Accounting Procedure. If the PRDS is not satisfied with the degree of disaggregation within the categories, it shall be entitled to request a more detailed breakdown. The Statement shall show the following:

- 7.1.1 Actual costs, expenditures and receipts for the Quarter in question.
- 7.1.2 Cumulative costs, expenditures and receipts for the Financial Year in question.
- 7.1.3 Latest forecast of cumulative costs, expenditures and receipts at the Financial Year end.
- 7.1.4 Variations between budget forecast and latest forecast and explanations thereof.
- 7.2 The Statement of Costs, Expenditures and Receipts of each Quarter shall be submitted to PRDS not later than thirty (30) days after the end of such Quarter.

**8. SECTION 8: COST RECOVERY STATEMENT**

- 8.1 The Contractor shall prepare with respect to each Calendar Quarter a Cost Recovery Statement containing the following information:
- 8.1.1 Unrecovered Contract Costs carried forward from the previous Quarter, if any.

- 8.1.2 Contract Costs for the Quarter in question.
  - 8.1.3 Total Contract Costs for the Quarter in question (Section 8.1.1 plus Section 8.1.2).
  - 8.1.4 Quantity and value of Cost Petroleum taken and disposed of by the Contractor for the Quarter in question.
  - 8.1.5 Contract Costs recovered during the Quarter in question as per Article 15.
  - 8.1.6 Total cumulative amount of Contract Costs recovered up to the end of the Quarter in question.
  - 8.1.7 Amount of Contract Costs to be carried forward into the next Quarter.
- 8.2 The Cost Recovery Statement for each Quarter shall be submitted to PRDS not later than thirty (30) days after the end of such Quarter.

**9. SECTION 9: PROFIT SHARING STATEMENT**

- 9.1 The Contractor shall prepare with respect to each Quarter a Profit Sharing Statement containing the following information:
- 9.1.1 the calculation of the applicable net cash flows as defined in Appendix D for the Quarter in question.
  - 9.1.2 the value of the Investment Multiple applicable in the Quarter in question.
  - 9.1.3 based on Section 9.1.2 and Article 16, the appropriate percentages of Profit Petroleum for the State and the Contractor in the Quarter in question.
  - 9.1.4 the total amount of Profit Petroleum to be shared between the State and the Contractor in the Quarter in question.
  - 9.1.5 based on Sections 9.1.3 and 9.1.4, the amount of Profit Petroleum due to the State and the Contractor as well as to each Company constituting the Contractor in the Quarter in question.
  - 9.1.6 the actual amounts of Petroleum taken or payment received by PRDC and the Contractor as well as by each Company constituting the Contractor during the Quarter in question to satisfy their entitlements pursuant to Section 9.1.5.

9.1.7 adjustments to be made, if any, in future Quarters in the respective amounts of Profit Petroleum due to the State and the Contractor as well as to each Company constituting the Contractor on account of any differences between the amounts specified in Sections 9.1.5 and 9.1.6, as well as any cumulative adjustments outstanding from previous Quarters.

9.2 The Profit Sharing Statement shall be submitted to PRDS not later than thirty (30) days after the end of such Quarter. Any amount due or adjustment required in profit sharing among the Parties shall be made within thirty (30) days from the submission of the Statement to the PRDS.

## **10. SECTION 10: LOCAL PROCUREMENT STATEMENT**

10.1 In furtherance of the obligation in Article 23 of the Contract for the Contractor to give preference to the procurement of Sri Lankan goods and services, the Contractor shall prepare in respect of each Financial Year a local procurement statement, containing the following information:

- (a) the amount of expenditure incurred by the Contractor directly, or indirectly through its Subcontractors, on goods supplied, produced or manufactured in Sri Lanka;
- (b) the amount of expenditure incurred by the Contractor directly, or indirectly through its Subcontractors, on services provided by Sri Lankan entities;
- (c) the respective percentages that the expenditures recorded under items (a) and (b) above represent of the Contractor's total expenditures;
- (d) a detailed description of the procedures adopted during the Financial Year to identify and purchase goods and services from Sri Lankan suppliers; and
- (e) a detailed exposition of how the local purchases for the Financial Year as recorded under items (a) and (b) above compared with the projected purchases included in the budget statement for that Financial Year (pursuant to Section 12.1.3), with explanations for any significant variations;

10.2 The local procurement statement shall be submitted to the PRDS within sixty (60) days after the end of each Financial Year.

**11. SECTION 11: END OF FINANCIAL YEAR STATEMENT**

- 11.1 The Contractor shall prepare a definitive End of Financial Year Statement. The Statement shall contain aggregated information in the same format as required in the Production Statement, Value of Production and Pricing Statement, Statement of Costs, Expenditures and Receipts, Cost Recovery Statement and Profit Sharing Statement, but shall be based on actual quantities of Petroleum produced, income received and costs and expenditures incurred. Based upon this Statement, any adjustments that are necessary shall be made to the transactions concerned under the Contract.
- 11.2 The End of Financial Year Statement for each Financial Year shall be submitted to PRDS within ninety (90) days of the end of such Financial Year.

**12. SECTION 12: BUDGET STATEMENT**

- 12.1 The Contractor shall prepare a Budget Statement for each Financial Year. This Statement shall distinguish between budgeted Exploration Costs, Development Costs and Production Costs and shall show the following:
- 12.1.1 Forecast costs, expenditures and receipts for the Financial Year in question.
- 12.1.2 A schedule showing the most important individual items of total costs, expenditures and receipts for the said Financial Year.
- 12.1.3 Estimated amounts to be spent in the Financial Year on procuring goods and services in Sri Lanka.
- 12.2 The Budget Statement shall be submitted to PRDS with respect to each Financial Year not less than ninety (90) days before the start of the said Financial Year provided that in the case of the Financial Year in which the Effective Date falls, the Budget Statement shall be submitted within ninety (90) days of the Effective Date.

**APPENDIX D**  
**CALCULATION OF THE INVESTMENT MULTIPLE FOR PRODUCTION**  
**SHARING PURPOSES**

1. In accordance with the provisions of Article 16, the share of the State and the Contractor respectively of Profit Petroleum from the Contract Area in any Year shall be determined by the Investment Multiple earned by the Contractor from the then Petroleum Operations at the end of the preceding Year. These measures of profitability shall be calculated on the basis of the appropriate net cash flows as specified in this Appendix D.
2. The “**Net Cash Income**” of the Contractor from their Petroleum Operations in any particular Year is the aggregate value for the Year of the following:
  - (a) Cost Petroleum entitlement of the Contractor as provided in Article 15;
    - (i) plus
  - (b) Profit Petroleum entitlement of the Contractor as provided in Article 16;
    - (ii) plus
  - (c) the Contractor’s incidental income (of the type specified in Section 3.4 of the Accounting Procedure) arising from Petroleum Operations;
    - (iii) less
  - (d) the Contractor’s Production Costs and royalty payments (Article 17) incurred on or in the Contract Area;
3. The “**Investment**” made by the Contractor in the Contract Area in any particular Year is the aggregate value for the Year of:
  - (e) the Contractor’s Exploration Costs incurred on or in the Contract Area pursuant to Article 15
    - (iv) plus
  - (f) the Contractor’s Development Costs incurred on or in the Contract Area.
4. For the purposes of the calculation of the Investment Multiple, costs or expenditures that are not allowable as provided in the Accounting Procedure shall be excluded from Contract Costs and be disregarded.



5. The Investment Multiple ratio earned by the Contractor as at the end of any Financial Year shall be calculated by dividing the aggregate value of the addition of each of the annual Net Cash Incomes (accumulated, without interest, up to and including that Financial Year starting from the Financial Year in which Production Costs were first incurred or Production first arose) by the aggregate value of the addition of each of the annual Investments (accumulated, without interest, up to and including that Financial Year starting from the Financial Year in which Exploration and Development Costs were first incurred).
6. Profit Petroleum from the Contract Area in any Financial Year shall be shared between the State and the Contractor in accordance with the value of the Investment Multiple earned by the Contractor as at the end of the previous Financial Year pursuant to Articles 16.2 to 16.5.

**APPENDIX E**  
**PROCEDURE FOR ACQUISITION OF GOODS AND SERVICES**

**I OBJECTIVES**

1. The objectives of these procedures are to:
  - (a) ensure that the goods and services acquired by the Operator for carrying out the Petroleum Operations are acquired at the optimum cost taking into consideration all relevant factors including price, quality, delivery time and the reliability of potential suppliers.
  - (b) ensure that goods and services are delivered in a timely manner taking into consideration the consequences of delays in the acquisition of these goods and services on the project as a whole.
  - (c) ensure that the provisions of Article 23 of the Contract are implemented.

**II PRINCIPLES**

The principles upon which these procedures are based are:

- (a) The Parties must be satisfied that the Operator is working to an agreed procedure for acquiring goods and services which is auditable and in accordance with the provisions of the Contract.
- (b) The Operator must have the ability to acquire goods and services expeditiously so that the project schedules in respect of Approved Work Programmes are maintained.

**III PROCEDURES**

The procedures to be adopted by the Operator for the acquisition of goods and services shall be as follows:

	Procedure A	Procedure B	Procedure C
Applicable to exploration, appraisal, development and production operations	\$ 50 000 to less than \$ 200 000	\$ 200, 000 to less than \$ 500 000	Equal to or more than \$ 500 000

### **For Contracts valued at less than US\$ 5000**

The Operator will be at liberty to determine the procurement procedures and methods to procure goods and services valued at less than US Dollars five thousand (US\$5000).

### **For Contracts valued at US\$ 5000 and above but less than US\$ 50,000**

The Operator will be at liberty to determine the preferred method of acquiring goods and services valued at US Dollars five thousand (US\$ 5000) and above but less than US Dollars fifty thousand (US\$ 50,000) provided that at least three (3) quotations from selected suppliers (including at least one (1) Sri Lankan supplier) will be obtained. For items valued at greater than US Dollars twenty thousand (US\$ 20,000), Operator is required to report to the Operating Committee if the quote accepted exceed the lowest quote by more than twenty (20) percent. The Operator will promptly report to the Operating Committee and the PRDS the Operator's reasons for not selecting the lowest quote.

### **Procedure A:**

The Operator shall:

- (1) publish invitations for parties to pre-qualify for the proposed contract in at least three (3) daily national English language Sri Lankan newspapers. Provide to Companies constituting the Contractor other than the Operator, a list of responding parties and an analysis of their qualifications for the contract being contemplated to be awarded. Include those who qualify, as per the prequalification criteria approved as per Appendix E (IV) in the list of entities from which the Operator proposes to invite tender for the said contract;
- (2) provide the constituents of the Contractor with a list of all the entities approved by the Operating Committee as per Appendix E (V) for the applicable category of the contract along with other entities, if any, from whom the Operator proposes to invite tender;
- (3) add to such list the entities that other Party (ies) request for adding within five (5) Business Days on receipt of such lists;
- (4) if and when any Party so requests, the Operator shall evaluate any entity listed in (1) and (2) above to assure that entity is qualified as based on the qualification criteria agreed in accordance with Appendix E (IV) to perform under the contract;
- (5) complete the tendering process within a reasonable period of time;

- (6) circulate to PRDS and all the Companies constituting the Contractor a comparative bid analysis stating the Operator's choice of the entity for award of contract. Provide also reasons for such choice in case entity chosen is not the lowest bidder;
- (7) inform PRDS and all the Companies constituting the Contractor of the entities to whom the contract has been awarded; and
- (8) upon the request of a Party, provide such Party and PRDS with a copy of the final version of the contract awarded.

**Procedure B:**

The Operator shall:

- (1) publish invitations for parties to pre-qualify for the proposed contract in at least three (3) daily national English language Sri Lankan newspapers. Provide to Companies constituting the Contractor other than the Operator, a list of responding parties and an analysis of their qualifications for the contract being contemplated to be awarded. Include those who qualify, as per the prequalification criteria approved as per Appendix E (IV) in the list of entities from which the Operator proposes to invite tender for the said contract;
- (2) provide the Parties with a list of all the entities approved by the Operating Committee as per Appendix E (V) for the applicable category of the contract, along with other entities, if any, from whom the Operator proposes to invite tender;
- (3) add to such list the entities that other Parties request for adding within five (5) Business Days on receipt of such list;
- (4) if and when any Party so requests, the Operator shall evaluate any entity listed in (1) and (2) above to assure that entity is qualified as based on the qualification criteria agreed in accordance with Appendix E (IV), to perform under the contract;
- (5) complete the tendering procedure within a reasonable period of time;
- (6) circulate to PRDS and all the Companies constituting the Contractor a comparative bid analysis stating the Operator's choice of the entity for award of contract. Provide also reasons for such choice in case the entity

chosen is not the lowest bidder. If the bid selected is not the lowest bid, obtain prior approval of the Operating Committee for award of contract;

- (7) award the contract accordingly and inform the Management Committee and the PRDS of the entities to whom the contract has been awarded; and
- (8) upon the request of a Party, provide such Party and PRDS with a copy of the final version of the contract awarded.

**Procedure C:**

The Operator shall:

- (1) publish invitations for parties to pre-qualify for the proposed contract in at least three (3) daily national English language Sri Lankan newspapers. Provide to Companies constituting the Contractor other than the Operator, a list of responding parties and an analysis of their qualifications for the contract being contemplated to be awarded. Include those who qualify, as per the prequalification criteria approved as per Appendix E (IV) in the list of entities from which the Operator proposes to invite tender for the said contract;
- (2) provide the Management Committee and the PRDS with a total list of all the entities selected as (1) above and all the entities approved by the Operating Committee as per Appendix E (V) for the applicable category of the contract, along with other entities, if any, from whom the Operator proposes to invite tender;
- (3) add to such entities that other Party (ies) request for adding within five (5) Business Days on receipt of such list;
- (4) if and when any Party so requests, the Operator shall evaluate any entity listed in (2) and (3) above to assure that entity is qualified as based on the qualification criteria agreed in accordance with Appendix E (IV), to perform under the contract;
- (5) prepare and dispatch the tender documents to the entities as finally listed and to Parties;
- (6) after the expiration of the period allowed for tendering, consider and analyse the details of all bids received;

- (7) prepare and circulate to the PRDS and the Companies constituting the Contractor a comparative bid analysis stating the Operator's recommendation as to the entity to whom the contract should be awarded, the reasons therefore, and the technical, commercial and contractual terms to be agreed upon;
  - (8) obtain the approval of the Operating Committee to the recommended bid. However, failing Operating Committee approval any Company constituting the Contractor may refer the issue to the Management Committee for decision; and
  - (9) award the contract accordingly and upon the request of a Party, provide such Party and PRDS with a copy of the final version of the contract.
- IV. A set of vendor qualifications criteria for each major category contract/supply shall be proposed by the Operator and approved by the Operating Committee within thirty (30) days of its submission. In the event the Operating Committee fails to approve vendor qualification criteria within thirty (30) days of the date the same is first submitted by the Operator, the matter shall be referred to the Management Committee and PRDS for decision. The Operating Committee may revise the qualification criteria.
- V. It is anticipated that, in order to expedite joint operations, contracts will be awarded to qualified vendors/contractors who are identified as approved vendors for the specified activities. A list of such approved vendors shall first be established as follows:

The Operator shall:

- (1) provide PRDS and the Companies constituting the Contractor with a list of the entities from whom Operator proposes to invite tender for contracts; and
- (2) add to such list entities whom a Company requests for adding within fourteen (14) days on receipt of such list; and
- (3) obtain approval of the Operating Committee. The Operator shall thereafter maintain such list. The Operating Committee may add to or delete vendors from such list.

**APPENDIX F1  
FORM OF PARENT COMPANY GUARANTEE**

(to be furnished pursuant to Article 29.1.2 of the Contract)

WHEREAS ..... a company duly organised and existing under the laws of .....having its registered office at ..... (hereinafter referred to as the "Guarantor" which expression shall include its successors and assigns) is [the indirect owner of one hundred percent (100%) of the capital stock of ..... and direct owner of its parent company;] and

WHEREAS .....is signatory to a Petroleum Resources Agreement in respect of an (offshore) area identified as Block SL 2007-01-001 (hereinafter referred to as the "Contract") made between the Government of Sri Lanka (hereinafter referred to as the "Government"), and .....(hereinafter referred to as ..... which expression shall include its successors and permitted assigns); and

WHEREAS the Guarantor wishes to guarantee the performance of ..... or its Affiliate Assignee under the Contract as required by the terms of the Contract;

NOW, THEREFORE this Deed hereby provides as follows:

1. The Guarantor hereby unconditionally and irrevocably guarantees to the Government that it will make available, or cause to be made available, to ..... or any other directly or indirectly owned Affiliate of ..... to which any part or all of.....'s rights or interest under the Contract may subsequently be assigned ("Affiliate Assignee"), financial, technical and other resources required to ensure that ..... or any Affiliate Assignee can carry out its obligations as set forth in the Contract.
2. The Guarantor further unconditionally and irrevocably guarantees to the Government the due and punctual compliance by ..... or any Affiliate Assignee, of any obligations of ..... or any Affiliate Assignee under the Contract.
3. The Guarantor hereby undertakes to the Government that if ....., or any Affiliate Assignee, shall, in any respect, fail to perform its obligations under the Contract or commit any breach of such obligations, then the Guarantor shall fulfil or cause to be fulfilled the said obligations in place of ..... or any Affiliate Assignee, and will indemnify the Government against all losses,

damages, costs, expenses or otherwise which may result directly from such failure to perform or breach on the part of .....

4. This guarantee shall take effect from the Effective Date and shall remain in full force and effect for the duration of the said Contract and thereafter until no sum remains payable by ....., or its Affiliate Assignee, under the Contract or as a result of any decision or award made by any expert or arbitral tribunal thereunder.
5. This guarantee shall not be affected by any change in the articles of association and byelaws of ..... or the Guarantor or in any instrument establishing the Company or Guarantor.
6. The liabilities of the Guarantor shall not be discharged or affected by (a) any time indulgence, waiver or consent given to .....; (b) any amendment to the Contract or to any security or other guarantee or indemnity to which ..... has agreed; (c) the enforcement or waiver of any terms of the Contract or of any security, other guarantee or indemnity; or (d) the dissolution, amalgamation, reconstruction or reorganisation of .....
7. This guarantee shall be governed by and construed in accordance with the laws of Sri Lanka.

IN WITNESS WHEREOF the Guarantor, through its duly authorised representatives, has caused its seal to be duly affixed hereto and this guarantee to be duly executed the [ ] day of [ ] 200[ ].



**APPENDIX F2**  
**FORM OF COMPANY GUARANTEE**

(to be furnished pursuant to Article 29.1.2 of the Contract)

WHEREAS [XYZ Company] duly organised and existing under the laws of [ ] [ ] having its registered office at [ ] (hereinafter referred to as the “Guarantor” which expression shall include its successors and assigns) is signatory to a Petroleum Resources Agreement in respect of an (offshore) area identified as Block [ ] (hereinafter referred to as the “Contract”) made between the Government of Sri Lanka (hereinafter referred to as the “Government”), and [XYZ Company] (hereinafter referred to as [“XYZ”] which expression shall include its successors and permitted assigns); and

WHEREAS the Guarantor wishes to guarantee its performance under the Contract as required by the terms of the Contract;

NOW, THEREFORE this Guarantee hereby provides as follows:

1. The Guarantor hereby unconditionally and irrevocably guarantees to the Government that it will make available, or cause to be made available, financial, technical and other resources required to ensure that [XYZ] can carry out its obligations as set forth in the Contract.
2. The Guarantor further unconditionally and irrevocably guarantees to the Government the due and punctual compliance by it of any obligations under the Contract.
3. The Guarantor hereby undertakes to the Government that it shall fulfil or cause to be fulfilled all its obligations under the Contract, and if it fails to perform its obligations under the Contract or commits any breach of such obligations, then it shall indemnify the Government against all losses, damages, costs, expenses or otherwise which may result directly from such failure to perform or breach on its part.
4. This guarantee shall take effect from the Effective Date and shall remain in full force and effect for the duration of the said Contract and thereafter until no sum remains payable by [XYZ], under the Contract or as a result of any decision or award made by any expert or arbitral tribunal thereunder.
5. This guarantee shall not be affected by any change in the articles of association and byelaws of [XYZ] or in any instrument establishing the Company.

6. The liabilities of the Guarantor shall not be discharged or affected by (a) any time indulgence, waiver or consent given to [XYZ]; (b) any amendment to the Contract or to any security or other guarantee or indemnity to which [XYZ] has agreed; c) the enforcement or waiver of any terms of the Contract or of any security, other guarantee or indemnity.
7. This guarantee shall be governed by and construed in accordance with the laws of Sri Lanka.

IN WITNESS WHEREOF the Guarantor, through its duly authorised representatives, has caused its seal to be duly affixed hereto and this guarantee to be duly executed the [ ] day of [ ] 200[ ].

**APPENDIX G**  
**PROFORMA OF BANK GUARANTEE TO BE PROVIDED PURSUANT TO**  
**ARTICLE 29**

1. Whereas the Government of Sri Lanka (hereinafter referred to as the "Government") having entered into a Petroleum Resources Agreement for block SL 2007-01-001 dated \_\_\_\_\_ (hereinafter referred to as the "Contract", which expression shall include all the amendments agreed to between the Government and \_\_\_\_\_ having its registered office at \_\_\_\_\_ (hereinafter referred to as the "Contractor" which expression unless repugnant to the context or meaning thereof include all its successors, administrators, executors and assigns), and

Whereas the Contractor has agreed to furnish to Petroleum Resources Development Committee (PRDC) on behalf of the Government a bank guarantee (hereinafter referred to as "Guarantee") of (US D\_\_\_\_) \_\_\_\_\_.

2. We [name of the Bank] registered under the laws of [ ] and having its registered office at [ ] (hereinafter referred to as the "Bank", which expression shall unless repugnant to the context or meaning thereof includes all its successors, administrators, executors and assigns) do hereby guarantee and undertake unconditionally to pay immediately to the PRDC on behalf of the Government on the first demand of the Chairman, PRDC in writing and any/all money(s) to the extent of US\$\_\_\_\_) without any demur, reservation, contest or protest and/or without any reference to the Contractor. Any such demand made by the Government on the Bank by serving a written notice shall be conclusive and binding, without any proof, on the Bank as regards the amount due and payable, notwithstanding any dispute(s) pending before any court, tribunal, arbitrator, sole expert, conciliator or any other authority and/or any other matter or thing whatsoever, as liability under these presents being absolute and unequivocal. We agree that the Guarantee herein contained shall be irrevocable and shall continue to be enforceable until it is discharged by the Government in writing. This Guarantee shall not be determined, discharged or affected by the liquidation, winding up, dissolution or insolvency of the Contractor and shall remain valid, binding and operative against the Bank.
3. The Bank also agrees that the Government at its option shall be entitled to enforce this Guarantee against the Bank as a principal debtor, in the first instance, without proceeding against the Contractor and notwithstanding any security or other guarantee that Government may have in relation to the Contractor's liabilities.

4. The Bank further agrees that Government shall have fullest liberty without our consent and without affecting in any manner our obligations hereunder to vary any of the terms and conditions of the said Contract or to extend time of performance by the said Contractor from time to time or to postpone for any time or from time to time exercise of any of the powers vested in Government against the said Contractor and to forebear or enforce any of the terms and conditions relating to the said Contract and we shall not be relieved from our liability by reason of any such variation, or extension being granted to the said Contractor or for any forbearance, act or omission on the part of the Government or any indulgence by the Government to the said Contractor or any such matter or thing whatsoever which under the law relating to sureties would, but for this provision, have effect of so relieving us.
5. The Bank further agrees that the Guarantee herein contained shall remain in full force and effect for 90 days after the end/termination of the committed work programme.
6. This Guarantee shall not be discharged by any change in our constitution, in the constitution of the Contractor.
7. The Bank confirms that this Guarantee has been issued with observance of appropriate laws of the country of issue.
8. The Bank also agrees that this Guarantee shall be governed and construed in accordance with Sri Lankan Laws and subject to the exclusive jurisdiction of the Courts of Sri Lanka. The Bank's obligations under the guarantee are not assignable. The Bank waves all defences available to the guarantor.
9. Notwithstanding anything contained herein above, our liability under this Guarantee is limited to US\$\_\_\_\_\_ (US\$\_\_\_\_\_ )and our Guarantee shall remain in force up to and including sixty (60) days after the expiry date/extended date. Any claim under this Guarantee must be received before the expiry of sixty (60) days or before the expiry of sixty (60) days from the extended date if any. If no such claim has been received by us within sixty (60) days after the said date/extended date the Government's right under this will cease. However, if such a claim has been received by us within and up to sixty (60) days after the said date/extended date, all the Government's rights under this Guarantee shall be valid and shall not cease until we have satisfied that claim.
10. Further, notwithstanding anything contained herein above, if and when PRDS advises the Bank in writing annual reduction in the value of the bank guarantee based on its consideration of the Contractor's completion of Minimum Work Programme by that time, the Bank agrees to formally

document such reduction in the value of the bank guarantee , either by amending this Guarantee appropriately or by substituting this Guarantee with a new guarantee for such reduced amount, while all other terms and conditions of the Guarantee remain unaltered.

In witness whereof, the Bank through its authorised officers has set its hand and stamp on this                    day of                    200   at                    .

The seal of [                    ] was hereto duly affixed by [                    ] this [                    ] day of [                    ] 200[                    ] in accordance with its by-laws and this Guarantee was duly signed by [                    ] and [                    ] as required by the said bye-laws.

\_\_\_\_\_  
Secretary

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

Witness:

**APPENDIX H  
FORM OF COMPANY GUARANTEE**

**(to be furnished pursuant to Article 29.8 of the Contract)**

WHEREAS [XYZ Company] duly organised and existing under the laws of [ ] having its registered office at [ ] (hereinafter referred to as the "Guarantor" which expression shall include its successors and assigns) is signatory to a Petroleum Resources Agreement in respect of an (offshore) area identified as Block [ ] (hereinafter referred to as the "Contract") made between the Government of Sri Lanka (hereinafter referred to as the "Government"), and [XYZ Company] (hereinafter referred to as ["XYZ"]) which expression shall include its successors and permitted assigns); and

WHEREAS the Guarantor wishes to guarantee its liability of Royalty under the Contract as required by the terms of the Contract;

NOW, THEREFORE this Guarantee hereby provides as follows:

1. The Guarantor hereby unconditionally and irrevocably guarantees to the Government that it will comply with the liability of Royalty as set forth in the Contract.
2. This guarantee shall not be affected by any change in the articles of association and byelaws of [XYZ] or in any instrument establishing the Company.
3. The liability of Royalty (for a value equal to one month's Royalty payment) of the Guarantor shall not be discharged or affected by (a) any time indulgence, waiver or consent given to [XYZ]; (b) any which [XYZ] has agreed; c) the enforcement or waiver of any terms of the Contract or of any security, other guarantee or indemnity.
4. This guarantee shall be governed by and construed in accordance with the laws of Sri Lanka.

IN WITNESS WHEREOF the Guarantor, through its duly authorised representatives, has caused its seal to be duly affixed hereto and this guarantee to be duly executed the [ ] day of [ ] 200[ ].