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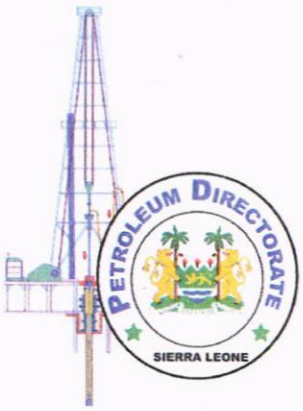
SIERRA LEONE PETROLEUM LICENCE AGREEMENT



BLOCK 7C-10

A-Z Petroleum Products (S.L.) Limited

Petroleum Licence

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ANNEXES

PETROLEUM (EXPLORATION AND PRODUCTION) LICENCE

NO: 2013/7C-10/007

MADE: 21ST MAY 2013

LAID BEFORE PARLIAMENT: 24TH MAY 2013

COMING INTO FORCE: _____DAY OF _____2013

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

A-Z Petroleum Products (S.L.) Limited. a company incorporated in Sierra Leone, on the 12th day of May 2010 and issued with certificate No C.F./352/2010 , and with its registered address at 1F Scan Drive, Freetown Sierra Leone;

(hereinafter referred to as "the Licensee").

CITATION AND COMMENCEMENT

This Licence may be cited as the Petroleum (Exploration and Production) Licence No: 2013/7C-10/007 for Block SL 7C-10 and shall come into force on this ____ day of _____, 2013.

W I T N E S S E T H:

1. All Petroleum existing in its natural state within Sierra Leone is the property of the Republic of Sierra Leone and held in trust by the State.

2. The Licence Area that is the subject matter of this Petroleum Licence has been declared open for Petroleum Operations by the Director General, and the Government of Sierra Leone desires to encourage and promote Exploration, Development and Production within the said area.

3. Any obligations which are to be observed and performed by the Licensee, shall at any time at which the Licensee is more than one person, be joint and several obligations.

4. Licensee, having the financial ability, technical competence and professional skills necessary for carrying out the Petroleum Operations herein described, hereby accept the offer of this Petroleum Licence granted by the State for the Exploration, Development and Production of the Petroleum resources of the said area.

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

IT IS HEREBY AGREED AND DECLARED AS FOLLOWS:

ARTICLE 1

INTERPRETATION

1.1 In this Licence:

1.2 "The Act" means the Petroleum (Exploration and Production) Act 2011;

1.3 "Accounting Guide" means the accounting guide which is attached hereto as Annex 2 and made a part hereof;

1.4 "Affiliate" means any person, whether a natural person, corporation, partnership, unincorporated association or other entity:

a) in which one of the Parties hereto directly or indirectly holds more than fifty percent (50%) of the share capital or voting rights;

b) which holds directly or indirectly more than fifty percent (50%) of the share capital or voting rights in a Party hereto;

c) in which the share capital or voting rights are directly or indirectly and to an extent more than fifty percent (50%) held by a company or companies holding directly or indirectly more than fifty percent (50%) of the share capital or voting rights in a Party hereto; or

d) which holds directly five percent (5%) or more of the share capital or voting rights in Licensee;

1.5 "Appraisal Program" means a program carried out following a Discovery of Petroleum for the purpose of delineating the accumulation of Petroleum to which that Discovery relates in terms of thickness and lateral extent and estimating the quantity of recoverable Petroleum therein;

1.6 "Appraisal Well" means a well drilled for the purposes of an Appraisal Program;

1.7 "Associated Gas" means Natural gas produced from a well in association with Crude Oil;

1.8 **"Barrel"** means a quantity or unit of Crude Oil equal to forty two (42) United States gallons at a temperature of sixty (60) degrees Fahrenheit and at 14.65 psia pressure;

1.9 **"Block"** means a Licence area as depicted on the reference map prepared by the Director General in accordance with the provisions of the Petroleum Act;

1.10 **"Business Day"** means weekday i.e. Monday to Friday;

1.11 **"Carried Interest"** means an interest held by the State in respect of which the Licensee pays for the Exploration and Development costs without any entitlement to reimbursement from the State unless otherwise agreed by the parties;

1.12 **"Calendar Year"** means the period of twelve (12) months of the Gregorian calendar, commencing on January 1 and ending on the succeeding December 31;

1.13 **"Commercial Discovery"** means a Discovery which is determined to be commercial in accordance with the provisions of this Licence;

1.14 **"Commercial Production Period"** means in respect of each Development and Production Area the period from the Date of Commencement of Commercial Production until the termination of this Licence or earlier relinquishment of such Development and Production Area;

1.15 **"Contract Area"** and **"Licence Area"** means the area covered by this Licence in which Licensee is authorized to explore for, develop and produce Petroleum, which is described in Annex 1 attached hereto and made a part of this Licence, but excluding any portions of such area in respect of which Licensee's rights hereunder are from time to time relinquished or surrendered pursuant to this Licence;

1.16 **"Contract Year"** means a period of twelve (12) calendar months, commencing on the Effective Date or any anniversary thereof;

1.17 **"Crude Oil"** means hydrocarbons which are liquid at 14.65 psia pressure and sixty (60) degrees Fahrenheit and includes condensates and distillates obtained from Natural Gas;

1.18 **"Date of Commencement of Commercial Production"** means, in respect of each Development and Production Area, the date on which production of Petroleum under a program of regular production, lifting and sale commences;

1.19 **"Date of Commercial Discovery"** means the date of approval of the Development Plan;

1.20 **"Default"** means failure on the part of the Licensee to:

(a) observe or perform any of its duties or obligations under the Licence

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

1.21 **"Development" or "Development Operations"** means the preparation of a Development Plan, the building and installation of facilities for Production, and includes drilling of Development Wells, construction and installation of equipment, pipelines, facilities, plants and systems, in and outside the Licence Area, which are required for achieving Production, treatment, transport, storage and lifting of Petroleum, and preliminary Production and testing activities carried out prior to the Date of Commencement of Commercial Production, and includes all related planning and administrative work, and may also include the construction and installation of secondary and tertiary recovery systems;

1.22 **"Development Costs"** means Petroleum Costs incurred in Development Operations;

1.23 **"Development and Production Area"** means that portion of the Licence Area reasonably determined by Licensee on basis of the available seismic and well data to cover the area extent of an accumulation of Petroleum constituting a Commercial Discovery, enlarged in area by ten percent (10%), where possible, such enlargement to extend uniformly around the perimeter of such accumulation;

1.24 **"Development Period"** means in respect of each Development and Production Area, the period from the Date of Commercial Discovery until the Date of Commencement of Commercial Production;

1.25 **"Development Plan"** means the plan for development of a Commercial Discovery prepared by Licensee;

1.26 **"Development Well"** means a well drilled in accordance with a Development Plan for producing Petroleum, for pressure maintenance or for increasing the Production rate;

1.27 **"Director General"** means The Director General of the Petroleum Directorate appointed under Section 8 of the Act, and where the context so applies, the person appointed by the President of Sierra Leone to oversee the administration of the Act and all aspects of petroleum resources management until the establishment of a Ministry and the appointment of a Minister with responsibility for petroleum matters;

1.28 **"Discovery"** means finding during Exploration Operations an accumulation of Petroleum which can be and is recovered at the surface in a flow measurable by conventional petroleum industry testing methods;

1.29 **"Discovery Area"** means that portion of the Licence Area, reasonably determined by Licensee on the basis of the available seismic and well data to cover the area extent of the geological structure in which a Discovery is made. A Discovery Area may be modified at any time by Licensee if justified on the basis

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

1.30 **"Effective Date"** means the date on which this Licence comes into effect and, unless otherwise provided, shall be the date of ratification of this Licence by Parliament of the Republic of Sierra Leone.

1.31 **"Exploration" or "Exploration Operations"** means the search for Petroleum by geological, geophysical and other methods and the drilling of Exploration Well(s) and includes any activity in connection therewith or in preparation thereof and any relevant processing and appraisal work, including technical and economic feasibility studies, that may be carried out to determine whether a Discovery of Petroleum constitutes a Commercial Discovery;

1.32 **"Exploration Period"** means the period commencing on the Effective Date and continuing during the time provided within which Licensee is authorized to carry out Exploration Operations and shall include any periods of extensions provided for in this Licence. The period shall terminate with respect to any Discovery Area on the Date of Commercial Discovery in respect of such Discovery Area;

1.33 **"Exploration Well"** means a well drilled in the course of Exploration Operations conducted hereunder during the Exploration Period, but does not include an Appraisal Well;

1.34 **"Force Majeure"** means any event beyond the reasonable control of the Party claiming to be affected by such event which has not been brought about at its instance, including, but not limited to, earthquake, storm, flood, lightning or other adverse weather conditions, war, embargo. blockade, strike, riot or civil disorder which could hinder the performance of the party's obligations. Force Majeure is not applicable to any default by Licensee to pay any sum of money due under this Licence;

1.35 **"Foreign National Employee"** means an expatriate employee of Licensee, its Affiliates, or its Sub-contractors who is not a citizen of Sierra Leone;

1.36 **"Gross Production"** means the total amount of Petroleum produced and saved from a Development and Production Area during Production Operations which is not used by Licensee in Petroleum Operations;

1.37 **"IT Act"** means the Income Tax Act of 2000 and all amendments thereto;

1.38 **"Licensee"** means the person or persons to whom the licence is granted, their successors and any person or persons to whom the rights conferred by this Licence may lawfully have been assigned. Where two or more persons are the Licensee any reference to the Licensee is a reference to any of these persons;

1.39 **"The Licence"** means the right to explore for and produce hydrocarbons issued by the Director General Petroleum Directorate acting on behalf of the government of Sierra Leone, and includes the Annexes attached hereto;

1.40 **"The Minister"** means the same as is defined in The Act;

1.41 **"Month"** means a month of the Calendar Year;

1.42 **"Natural Gas"** means all hydrocarbons which are gaseous at 14.65 psia pressure and sixty (60) degrees Fahrenheit temperature and includes wet gas, dry gas and residue gas remaining after the extraction of liquid hydrocarbons from wet gas;

1.43 **"Non-Associated Gas"** means Natural Gas produced from a well other than in association with Crude Oil;

1.44 **"Operator"** means the same as is defined in The Act;

1.45 **"Participating Interest"** means the undivided percentage interest of each Party in the rights and obligations derived from the Petroleum Licence Agreement.

1.46 **"Party"** means the State or Licensee, as the case may be;

1.47 **"Petroleum"** means Crude Oil or Natural Gas or combination of both;

1.48 **"Petroleum Costs"** means all expenditures made and costs incurred in the conduct of Petroleum Operations hereunder, determined in accordance with the Accounting Guide attached hereto as Annex 2;

1.49 **"Petroleum Operations"** means all activities, both in and outside Sierra Leone, relating to the Exploration for, Development, Production, handling and transportation of Petroleum contemplated under this Licence and includes Exploration Operations, Development Operations and Production Operations and all activities in connection therewith;

1.50 **"Petroleum Product"** means any product derived from Petroleum by any refining or other process;

1.51 **"Production" or "Production Operations"** means activities not being Development Operations undertaken in order to extract, save, treat, measure, handle, store and transport Petroleum to storage and/or loading points and to carry out any type of primary and secondary operations, including recycling, recompression, maintenance of pressure and water flooding and all related activities such as planning and administrative work and shall also include maintenance, repair and replacement of facilities, and well workovers, conducted after the Date of Commencement of Commercial Production of the respective Development and Production Area;

1.52 **"Production Costs"** means Petroleum Costs incurred in Production Operations;

1.53 **"Quarter"** means a quarter, commencing January 1, April 1, July 1 or October 1;

1.54 **"Remedy"** means to make good, or making good, such Default including performing the obligation of Licensee under the Licence;

1.55 **"Sierra Leone"** means the territory of the Republic of Sierra Leone and includes the sea, seabed and subsoil, the Continental Shelf, the exclusive economic zone and all other areas within the jurisdiction;

1.56 **"Specified Rate"** means the rate which the Barclays Bank, London, certifies to be the London Interbank offered rate (LIBOR) in the London Interbank Eurodollar market on thirty (30) day deposits, in effect on the last business day of the last respective preceding month, plus two and half per cent (2.5%);

1.57 **"Standard Cubic Foot"** or **"SCF"** means the quantity of gas that occupies one (1) cubic foot at 14.65 psia pressure and sixty (60) degrees Fahrenheit temperature;

1.58 **"State"** means the Government of the Republic of Sierra Leone;

1.59 **"Subcontractor"** has the meaning assigned to that term in the Petroleum Act;

1.60 **"Work Program"** means the annual plan for the conduct of Petroleum Operations.

ARTICLE 2

SCOPE OF THE LICENCE AND LICENCE AREA

2.1 This Licence provides for the Exploration for and Development and Production of Petroleum in the Licence Area by Licensee.

2.2 A-Z Petroleum Products (S.L.) Limited is hereby appointed Operator with One Hundred percent (100%) Participating Interest in the Licence.

2.3 Subject to the terms of this Licence, Operator shall be responsible for the execution of such Petroleum Operations as are required by the provisions of this Licence and is hereby appointed the exclusive entity to conduct Petroleum Operations in the Licence Area.

2.4 The Director General authorizes the Licensee, pursuant to the terms set forth herein, to carry out the useful and necessary Petroleum Operations in the Licence Area.

2.5 The Licensee undertakes, for all the work necessary for carrying out the Petroleum Operations provided for hereunder, to comply with good international

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

2.6 The Licensee shall maintain all apparatus and appliances and all wells which have not been abandoned and plugged as provided by Article 20 of this Licence in good repair and condition and shall execute all operations in or in connection with the exploration area in a proper and workmanlike manner in accordance with methods and practice of exploration customarily used in best oilfield practices and without prejudice to the generality of the foregoing provision the licensee shall take all steps practical in order

(a) to prevent the escape or waste of petroleum discovered in the exploration area;

(b) to conserve the exploration area for production operations;

(c) to prevent damage to Petroleum bearing strata;

(d) to prevent the entrance of water through wells to Petroleum bearing strata and;

(e) to prevent the escape of Petroleum into any waters in or around the vicinity of the Exploration Area.

2.7 The Licensee shall comply with any instructions from time to time given by the Director-General in writing relating to any of the matters set out in the foregoing paragraph. If the licensee objects to any such instruction on the ground that it is unreasonable he may, within fourteen days from the date upon which the same was given, meet with the Director General to raise its objections to the Directive and provide alternatives that will meet the Director General's objectives. If after the meeting, Director General informs Licensee in writing that notwithstanding its objections, Licensee should comply with his original written directives, Licensee may within fourteen days (14) days of receiving the written instruction refer the matter to arbitration in the manner provided in Article 28. If the matter is of a technical nature, it may be referred for sole expert determination in the manner provided for in Article 28.7.

2.8 The Licensee shall give notice to the Director General of any event causing escape or waste of Petroleum, damage to Petroleum – bearing strata or entrance of water through wells to Petroleum bearing strata forthwith after the occurrence of that event and shall, forthwith after the occurrence of any event causing escape of Petroleum into the sea, give notice of the event to the Chairperson of the Environment Protection Agency and Director General Petroleum Directorate

2.9 The Licensee shall not carry out any operations authorized by this Licence in or about the Exploration Area in such manner as to interfere unjustifiably with navigation or fishing in the waters of the Exploration Area or with the conservation of the living resources of the sea.

2.10 The Licensee shall bear alone the financial risk associated with the performance of the Petroleum Operations. The Petroleum Costs related thereto shall be recoverable by the Licensee in accordance with the provisions of the terms of this Licence.

2.11 In the event that no Commercial Discovery is made in the Licence Area, or that Gross Production achieved from the Licence Area is insufficient fully to reimburse Licensee in accordance with the terms of this Licence, then Licensee shall bear its own loss; the Director General and the State shall have no obligations whatsoever to Licensee in respect of such loss.

2.12 During the term hereof, in the event of Production, the total Production arising from the Petroleum Operations shall be shared between the parties according to the terms set forth in this Licence.

2.13 On the Effective Date, the Licence Area shall be the area referred to as Block SL 7C-10 as defined in Annex One (1).

2.14 As of the Effective Date, the Licence Area shall cover a total of approximately Two Thousand and Fifteen Square Kilometers (2015 Sq. Km) as depicted by Annex (1) One and shall from time to time during the Term of this Licence be reduced according to the terms herein. During the Exploration, Licensee shall pay rentals to the State for that area included within the Licence Area at the beginning of each Contract Year according to the provisions of this Licence.

ARTICLE 3

STATE PARTICIPATION

3.1 The Licensee shall have one hundred percent (100%) interest in the Licence Area during the Exploration Period.

3.2 Subject to Article 3.3 below, the State shall have a ten percent (10%) initial carried interest with respect to all Development Operations. The State's initial interest shall be a working interest with respect to all Production Operations.

3.3 In addition to the initial interest provided for in Article 3.2 above, the State shall have the option in respect of each Development and Production Area to contribute a proportionate share not exceeding 5% of all Development and Production Costs in respect of such Development and Production Area, (or make arrangements satisfactory to Licensee to that effect) thereby acquiring an additional interest of up to 5% in Petroleum Operations in such Development and Production Area. The Director General shall notify Licensee of its option within ninety (90) days of the Date of Commercial Discovery.

3.4 If the State exercises the Option pursuant to Article 3.2, the Participating Interests of the each company comprising the Licensee provided in Article 2.2 of this Licence shall be proportionally reduced as follows: A-Z Petroleum Products (S.L.) Limited's one hundred percent (100%) Participating Interest shall be reduced to ninety percent (90%) and if the State exercises the Option pursuant to Article 3.3 the Participating Interests of A-Z Petroleum Products (S.L.) Limited shall be further reduced by five percent to eighty five percent (85%) with the State holding the remaining ten percent (10%) or fifteen percent (15%) Participating Interest as the case may be in all Petroleum Operations and all rights under this Licence.

3.5 For interest as provided for in Article 3.3 within six (6) months of its election, the State shall reimburse Licensee for all expenditure attributable to State's Additional Interest and incurred from the Date of Commercial Discovery to the date the Director General notifies Licensee of its election.

3.6 For the avoidance of doubt the State shall only be liable to contribute to costs:

(a) Incurred in respect of Development Operations in any Development and Production Area to the extent only of any Additional Interest acquired in such Development and Production Area under Article 3.3.

(b) Incurred in respect of Production Operations in any development and production area both to the extent of

i. Its ten percent (10%) initial interest

ii. Any additional interest acquired in such development and production area under Article 3.3.

3.7 All Development costs incurred by the Licensee on behalf of the State shall be fully recoverable subject to a maximum of forty percent (40%) of the State's share of the oil and gas production attributable to the State's ten percent (10%) Interest in any given financial year. All unrecovered costs shall be carried forward until such costs are fully recovered.

3.8 If the oil and gas production ceases before the amounts funded by Licensees are fully reimbursed, the State is under no obligation to pay to Licensee the unrecovered amounts.

ARTICLE 4

LICENCE TERM

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