

**EXPLORATION AND PRODUCTION
CONCESSION CONTRACT**

BETWEEN

**THE GOVERNMENT
OF THE REPUBLIC OF MOZAMBIQUE**

AND

ENI EAST AFRICA S.p.A.

AND

EMPRESA NACIONAL DE HIDROCARBONETOS, E.P.

FOR

**AREA 4 OFFSHORE OF THE ROVUMA BLOCK
REPUBLIC OF MOZAMBIQUE**

Table of Contents

	Page
Parties.....	1
Preamble	2
Article 1 EPC Documents.....	3
Article 2 Definitions	4
Article 3 EPC Rights and their Duration	7
Article 4 Work Commitment during Exploration Period	11
Article 5 Conduct of Petroleum Operations	18
Article 6 Commercial Discovery and Development.....	19
Article 7 Relinquishment of Areas	21
Article 8 Records and Reports	22
Article 9 Cost Recovery and Production Entitlement.....	24
Article 10 Valuation of Petroleum.....	31
Article 11 Fiscal Terms and Other Charges.....	34
Article 12 Production Bonuses	44
Article 13 Lifting Arrangements.....	45
Article 14 Conservation of Petroleum and Prevention of Loss	46
Article 15 Decommissioning	47
Article 16 Insurance	51
Article 17 Natural Gas	53
Article 18 Employment and Training	56
Article 19 Indemnification and Liability	59
Article 20 Title.....	61
Article 21 Rights of Inspection.....	63

Article 22 Accounting and Audits	64
Article 23 Confidentiality	65
Article 24 Assignment	67
Article 25 Force Majeure	68
Article 26 Foreign Exchange Control	70
Article 27 Nature and Extent of the Rights of the Concessionaire	73
Article 28 Protection of the Environment	80
Article 29 Surrender and Cancellation	83
Article 30 Consultation, Arbitration and Independent Expert	88
Article 31 Applicable Law	92
Article 33 Joint Operating Agreement	94
Article 34 Future Agreements	95
Article 35 Notices	96

Annexes

Annex “A” Description of the EPC Area

Annex “B” Map of the EPC Area

Annex “C” Accounting and Financial Procedure

Annex “D” Form of Bank Guarantee

Annex “E” Form of Parent Company Guarantee

Annex “F” Joint Operating Agreement

Parties

This Exploration and Production Concession Contract (“EPC”) is made subject to applicable law on the _____ day of December 2006:

- (a) THE GOVERNMENT OF THE REPUBLIC OF MOZAMBIQUE, hereinafter referred to as “the Government” and herein represented by the Minister for Mineral Resources; and
- (b) ENI EAST AFRICA S.p.A., a company established under the laws of Italy hereinafter referred to as “Eni” and herein represented by the appointed representative, and
- (c) EMPRESA NACIONAL DE HIDROCARBONETOS, E.P., a company established in accordance with the laws of the Republic of Mozambique, herein represented by its Chairman of the Board hereinafter referred to as “ENH”.

Eni and ENH shall hereinafter be referred to as the “Concessionaire”. The Concessionaire and the Government shall hereinafter collectively be referred to as the “Parties”.

Preamble

WHEREAS, applicable Petroleum law provides that all Petroleum resources in the soil and the subsoil of the land territory, in the seabed of internal waters and the territorial sea, in the exclusive economic zone and on the continental shelf, are the property of the Republic of Mozambique;

WHEREAS, pursuant to applicable Petroleum law, the Government has the authority to ensure the implementation of the policy for Petroleum Operations and has for the purpose of this EPC appointed the Ministry of Mineral Resources, hereinafter referred to as “MIREM”, to carry out certain functions for and on behalf of the Government as hereafter specified;

WHEREAS, the Government desires to award to Eni and ENH the right to undertake Petroleum Exploration, Development and Production in certain areas subject to the jurisdiction of the Republic of Mozambique;

WHEREAS, the Concessionaire is willing, on certain terms and conditions stipulated to undertake Petroleum Exploration, Development and Production in the EPC Area and has for such purpose technical competence and adequate financial resources;

WHEREAS, the applicable Petroleum law provides that Petroleum Exploration, Development and Production shall be carried out under a concession;

NOW THEREFORE it has been concluded as follows:

Article 1
EPC Documents

The EPC consists of this EPC main document and the following Annexes, which form an integral part hereof:

Annex "A"	Description of the EPC Area
Annex "B"	Map of the EPC Area
Annex "C"	Accounting and Financial Procedure
Annex "D"	Form of Bank Guarantee
Annex "E"	Form of Parent Company Guarantee
Annex "F"	Joint Operating Agreement

Subject to the conclusion of the EPC, the Concessionaire shall submit a signed joint operating agreement as stipulated in Annex F, for which Government approval is a condition under this EPC.

In the event of conflict between the provisions of the EPC main document and its Annexes, the EPC main document shall prevail.

Article 2

Definitions

Definitions stipulated in applicable Mozambican Petroleum law, currently *Law no. 3/2001 of 21 February and Decree No. 24/2004 of 20 August* apply to this EPC unless otherwise expressly defined. Words and phrases used in this EPC including its Annexes shall have the following meanings:

“*Affiliated Company*” means, in relation to any Person constituting the Concessionaire, any parent company which directly or indirectly controls such Person or any company which is directly controlled by such Person or any company which is controlled, directly or indirectly, by any such parent company.

For the purpose of the foregoing definition:

- (a) a company is directly controlled by another company or companies holding shares or other equity ownership carrying in the aggregate more than fifty percent (50%) of the voting rights exercisable at general meetings; and
- (b) a particular company is indirectly controlled by a company or companies (“parent company or companies”) if a series of companies can be specified, beginning with the parent company or companies and ending with the particular company, so related that each company of the series, except the parent company or companies, is directly controlled by one or more of the companies earlier in the series.

“*Commercial Assessment Period*” applies to a Discovery Area and means the period commencing at the time when the appraisal report regarding the Appraisal Programme relating to the Discovery of non-Associated Natural Gas has been submitted by the Concessionaire.

“*Commercial Production*” means production of Petroleum and delivery of the same at the Delivery Point under a programme of production and sale as provided for in a Development Plan as amended from time to time.

“*Cost Petroleum*” means the portion of Petroleum Produced available to the Concessionaires to cover the costs and expenses incurred in carrying out the Petroleum Operations as stipulated in the EPC.

“*Decommissioning Fund*” means the fund established to cover the costs of decommissioning operations.

“*Delivery Point*” means the point in the Republic of Mozambique which, in the case of Natural Gas, is the inlet flange of the transmission pipeline, and in the case of Crude Oil the inlet flange of the lifting tankship or, in either case, such other point as may be agreed by MIREM and the Concessionaire.

“*Effective Date*” means the first day of the month following the date on which this EPC has been signed by the Government and the Concessionaire, the conditions in Article 3.2 have been met, and the ruling of the Administrative Tribunal has been obtained.

“*Evaluation Period*” means the period, following a notice by the Concessionaire that it has made a Discovery, within which the Concessionaire is required to inform MIREM whether such Discovery is of potential commercial interest.

“*Exclusive Petroleum Operations*” means those Petroleum Operations carried out pursuant to applicable law and this EPC chargeable to the account, benefit and liability of less than all Persons constituting a Concessionaire under this EPC.

“*Expatriate Personnel*” means any employee of any Person constituting the Concessionaire, of an Affiliated Company of any such Person or of any Subcontractor, provided such employee is not a citizen of the Republic of Mozambique and whose contract of employment provides for the payment or the reimbursement of the cost of his passage to and from the Republic of Mozambique.

“*Exploration Operations*” means operations conducted hereunder for or in connection with Exploration for Petroleum in the EPC Area and includes operations conducted to carry out an Appraisal Programme or to drill any Appraisal Well.

“*Exploration Period*” means any relevant period of Exploration set out in this EPC.

“*Exploration Well*” means any well, the purpose of which at the time of the commencement of drilling is to explore for an accumulation of Petroleum, which accumulation was at that time unproven by drilling.

“*MIREM*” means the Ministry of Mineral Resources or any other person or entity appointed to administer and regulate Petroleum Operations for and on behalf of the Government under the EPC whose identity has been notified in writing to the Concessionaire.

“*Participating Interest*” means the percentage interest portion, as further described in Article 3.2, of each party constituting the Concessionaire in the rights, privileges, duties and obligations derived from this EPC.

“*Person*” means any natural person or any corporation, association, partnership, joint venture or entity which is considered a legal entity under the law of Mozambique or the laws of the country pursuant to which such corporation, association, partnership, Joint venture or entity is governed.

“*Petroleum Production Tax*” means the Imposto sobre a Produção de Petróleo as defined by applicable law.

“*Petroleum Produced*” means Petroleum which has been extracted from a reservoir, initially separated and processed into Crude Oil, condensate or Natural Gas delivered to the Delivery Point appropriate for onwards transportation in bulk or through a pipeline. The same applies to “Crude Oil Produced”, “Condensate Produced” and “Natural Gas Produced” as the case may be.

“*Profit Petroleum*” means that portion of Disposable Petroleum, in excess of Cost Petroleum, which is allocated to the Parties under the terms of the EPC.

“*Subcontractor*” means any Person retained by the Concessionaire to carry out any part of the Petroleum Operations.

“*State Participating Interest*” means the share of the Participating Interest owned by an entity holding this Participating Interest on behalf of the Government.

“*Wellhead*” is the inlet flange of the first valve after the wellhead production manifold.

Article 3
EPC Rights and their Duration

- 3.1 This EPC:
- (a) is a concession awarded pursuant to Petroleum Law (Law No. 3/2001 of 21 February), which authorises the conduct of certain Petroleum Exploration, Development and Production activities in an Area as defined herein;
 - (b) confers on the Concessionaire, subject to applicable law and the terms and conditions set forth in this EPC, an exclusive right to conduct Petroleum Operations in order to produce Petroleum from resources originating from one or more Petroleum Deposit in the subsoil of the seabed within the limits of the EPC Area;
 - (c) save where access to an existing Oil Pipeline or Gas Pipeline System is available on reasonable commercial terms, confers a non-exclusive right subject to applicable law to construct and operate an Oil Pipeline or Gas Pipeline System for the purpose of transporting Petroleum Produced from Petroleum Deposits under this EPC.
- 3.2
- (a) Prior to this EPC reaching the Effective Date this EPC has to be approved by the Council of Ministers, the appurtenant agreements to this EPC have to be signed by the Concessionaire, and the ruling of the Administrative Tribunal has to be obtained.
 - (b) On the Effective Date the respective Participating Interests of Eni is ninety percent (90%) and of ENH is ten percent (10%) respectively.
- 3.3 The rights and obligations of the Concessionaire shall commence on the Effective Date and shall subsist:
- (a) during the Exploration Period; and
 - (b) subject to terms and conditions as hereinafter provided, during the Development and Production Period;

provided that obligations of the Concessionaire which have accrued hereunder before the end of any relevant Exploration Period or an applicable Development and Production Period shall, notwithstanding that this EPC has otherwise been cancelled subject to applicable law or the terms and conditions of this EPC, continue to be binding on the Concessionaire for the period provided by the applicable law and for the purpose of any claim in respect thereof, the provisions of Article 30 shall continue to apply.

- 3.4 The initial Exploration Period shall commence on the Effective Date. Unless the EPC is terminated earlier in accordance with its terms, it shall continue for a period of forty-eight (48) months.
- 3.5 Where the Concessionaire desires to extend the Exploration Period the Concessionaire shall submit a notice to MIREM to that effect. Such notice has to be submitted not later than thirty (30) days before the expiry of the initial Exploration Period or any subsequent Exploration Period would otherwise expire. Provided the Concessionaire has fulfilled, or is deemed to have fulfilled, its obligations under the initial Exploration Period, the Concessionaire is entitled:
- (a) at the end of the initial Exploration Period, to a second Exploration Period of twenty-four (24) months; and
 - (b) at the end of a second Exploration Period, to a third Exploration Period of twenty-four (24) months; and
 - (c) to the rights referred to in Article 3.6; and
 - (d) to such additional time that may be necessary to give effect to Article 25.4 on force majeure.
- 3.6 (a) Where pursuant to Article 6 the Concessionaire has notified MIREM that it has made a Discovery, the Exploration Period shall not, in respect of the Discovery Area to which that Discovery relates, terminate before the end of the Evaluation Period.

- (b) Where before the end of the Evaluation Period the Concessionaire has pursuant to Article 6 notified MIREM that a Discovery is of potential commercial interest, the Exploration Period shall not in respect of the Discovery Area to which that Discovery relates terminate before approval of the Development Plan.
 - (c) Where pursuant to Article 17.3 the Commercial Assessment Period has commenced in respect of a Discovery of Natural Gas, the Exploration Period shall not, in respect of the Discovery Area to which that Discovery relates, terminate so long as that Commercial Assessment Period continues.
 - (d) Where the work program of the Concessionaire due to reasons beyond the reasonable control of the Concessionaire has been delayed due to the inability to secure appropriate equipment necessary to conduct Petroleum Operations (including but not limited to drill ships, drill barges and seismic vessels) the Concessionaire shall inform MIREM and in the cases where it is necessary for the Concessionaire to complete the Exploration work commitments submit a properly reasoned request for such extension that may be necessary to allow the completion of such Exploration work program. The competent authority shall without undue delay consider and respond to such request and if not granted give grounds for refusing to grant the extension.
- 3.7 Where the Concessionaire has not prior to the expiry of the third Exploration Period given to MIREM a Declaration of Commerciality by notice, the Concessionaire shall at the end of that period have no further rights or obligations in the EPC Area or under this EPC except as specifically provided herein.
- 3.8 Where, during a relevant Exploration Period the Concessionaire has given to MIREM a Declaration of Commerciality by notice, the Concessionaire shall, in respect of the Development and Production Area to which any such notice relates, continue at the end of the Exploration Period to have rights and obligations hereunder for so long as the Development and Production Period for that Development and Production Area subsists.

3.9 A “Development and Production Period” shall commence with respect to each Development and Production Area on the date on which the Development Plan for that Development and Production Area has been approved in accordance with applicable law, and notice to that effect has been given to the Concessionaire and, unless this EPC is sooner terminated in accordance with its terms or applicable law, shall, in respect of the Development and Production Area to which the said notice relates, continue to subsist for a Development and Production Period of thirty (30) years and for such additional periods that may be necessary to give effect to Article 25.4.

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Article 4

Work Commitment during Exploration Period

- 4.1 The Concessionaire shall, in the discharge of its obligations to carry out Exploration Operations, carry out the work stipulated in this EPC unless otherwise provided or pay to the Government the sums set forth below in this Article. The Exploration work commitments stipulated in this Article may not be performed individually or collectively by the Concessionaire as Exclusive Petroleum Operations.
- 4.2 During the initial Exploration Period of forty-eight (48) months, the Concessionaire shall conduct the following items collectively referred to as “Exploration work commitment”.
- (a) Reprocess and re-interpret of 1000 Km of 2D seismic;
 - (b) Acquire 2000 Km of 2D seismic; and
 - (c) Acquire 1000 SqKm of 3D seismic.

In case of non-performance of the Exploration work commitment described in this Article 4.2, save for exemptions listed in this Article, the total amount to be paid by the Concessionaire to Government (hereinafter referred to as “Minimum Expenditure”) for this period shall be twelve million US dollars (US\$ 12,000,000).

- 4.3 During a subsequent second Exploration Period of twenty-four (24) months, the Concessionaire shall conduct the following items collectively referred to as “Exploration work commitment”:
- (a) Drill one (1) Exploration Well to a depth of five thousand meters (5000m) from the sea level or to a target of Cretaceous sequences, whichever comes first; and
 - (b) Drill one (1) Exploration Well to a depth of five thousand meters (5000m) from the sea level or to a target of Cretaceous sequences, whichever comes first.

In case of non-performance of the Exploration work commitment described in this Article 4.3 save for exemptions listed in this Article the Minimum Expenditure for this extension period shall be fifty million US dollars (US\$ 50,000,000).

4.4 During a subsequent third Exploration Period of twenty-four (24) months, the Concessionaire shall conduct the following items collectively referred to as “Exploration work commitment”:

- (a) Drill one (1) Exploration Well to a depth of five thousand meters (5000m) from the sea level or to a target of Cretaceous sequences, whichever comes first; and
- (b) Drill one (1) Exploration Well to a depth of five thousand meters (5000m) from the sea level or to a target of Cretaceous sequences, whichever comes first.

In case of non-performance of the Exploration work commitment described in this Article, save for exemptions listed in this Article, the Minimum Expenditure for this Exploration Period shall be fifty million US dollars (US\$ 50,000,000).

4.5 Should any well forming part of the Exploration work commitment provided for in Articles 4.3 and 4.4 be abandoned, for any reason other than a reason specified in Article 4.6 below, before reaching the defined objectives of such well, the Concessionaire shall drill a substitute well. In this event the relevant Exploration Period shall be extended by a reasonable period of time as MIREM may agree to allow the drilling and evaluation of the substitute well.

4.6 Unless otherwise approved by MIREM, any well which forms part of the Exploration work commitment provided for in Articles 4.3 and 4.4 shall be drilled to such depth as set forth in those Articles, unless before reaching the required depth:

- (a) further drilling would in the reasonable opinion of the Concessionaire present an obvious danger, due to such events as, but not limited to, the presence of abnormal pressure or excessive losses of drilling mud;
- (b) impenetrable formations are encountered;

- (c) Petroleum bearing formations are encountered which require protecting, thereby preventing planned depths from being reached; or
 - (d) MIREM agrees to terminate the drilling operation.
- 4.7 In circumstances that the drilling of any well is drilled for the purpose of Article 4.6 it may be terminated at a lesser depth and shall be deemed to have satisfied all the Concessionaire's obligations in respect of that well.
- 4.8 During the drilling of Exploration Wells hereunder, the Concessionaire shall, in accordance with applicable law, keep MIREM informed of the progress of each well and shall:
- (a) as soon as reasonably possible, consult with MIREM regarding any proposed well testing programme;
 - (b) test potentially commercially viable horizons in the opinion of the Concessionaire and after consultation with MIREM, within the EPC Area indicated by wireline logging or by other means of formation evaluation; and
 - (c) promptly undertake a technical evaluation of the said test results and of all other relevant subsurface data and submit the same to MIREM as soon as it has been completed.
- 4.9 If, at the end of any Exploration Period, the Exploration work commitment for that period has been completed to the reasonable satisfaction of MIREM, the expenditure incurred by the Concessionaire during that period shall be deemed to equal or exceed the Minimum Expenditure for that period specified in Articles 4.2., 4.3 and 4.4. The Concessionaire shall be relieved from any other obligation incurred during that period and MIREM may call on the Minimum Expenditure guarantee set forth in Article 4.10(a) for the outstanding amounts under Article 4.11 and 4.12, if any.
- 4.10 (a) Minimum Expenditure guarantee. Without prejudice to the joint and several liability of the Persons constituting the Concessionaire, each of the Persons constituting the Concessionaire shall by no later than thirty (30) days after the Effective Date, and where this EPC has been extended pursuant to Article 3.5, on

the first day of such extension period, provide, in substantially the form shown in Annex “D” an unconditional and irrevocable bank guarantee in respect of its participating interest share and the relevant portion of Carry of the Minimum Expenditure for the initial Exploration Period, or, as the case may be, the Minimum Expenditure obligations for any further Exploration Periods, as the same may have been reduced by the provisions of Article 4.11. For the purpose of this Article 4.10(a), where a Person constituting the Concessionaire has undertaken to fund payments in respect of Minimum Expenditure which would otherwise have been payable by another Person constituting the Concessionaire, the share of Minimum Expenditure of that Person constituting the Concessionaire giving that undertaking will be deemed to include the share of Minimum Expenditure for which such other Person constituting the Concessionaire would have been liable if no such undertaking had been given.

- (b) Parent company guarantee. Without prejudice to the joint and several liability of the Persons constituting the Concessionaire, the Operator on behalf of the Persons constituting the Concessionaire shall no later than thirty (30) days after the approval of the Development Plan provide, in substantially the form shown in Annex “E” an unconditional and irrevocable parent company guarantee from an entity acceptable to MIREM in respect of all its obligations under this EPC beyond the scope of the Minimum Expenditure guarantee.

4.11 The amount of any bank guarantee given pursuant to Article 4.10(a) shall be reduced by the Concessionaire in discharge of its obligations under Articles 4.2, 4.3 and 4.4 as follows:

(i) during the initial Exploration Period:

- three hundred thousand US dollars (US\$ 300,000) at completion of Article 4.2(a);
- two million seven hundred thousand US dollars (US\$ 2,700,000) at completion Article 4.2(b);
- nine million US dollars (US\$ 9,000,000) at completion of Article 4.2(c)

(ii) during the second Exploration Period:

- twenty-five million US dollars (US\$ 25,000,000) at completion of Article 4.3 item (a);
- twenty-five million US dollars (US\$ 25,000,000) at completion of Article 4.3(b).

(iii) during the third Exploration Period:

- twenty-five million US dollars (US\$ 25,000,000) at completion of Article 4.4 item (a);
- twenty-five million US dollars (US\$ 25,000,000) at completion of Article 4.4(b).

4.12 If, at the end of the initial Exploration Period or at the end of any subsequent Exploration Period, the Concessionaire has not performed the Exploration work commitment under Articles 4.2, 4.3 or 4.4. MIREM shall notify the Concessionaire and within fourteen (14) days of such notification, have the right to call on the Minimum Expenditure guarantee for the payment there under to MIREM of the full amount of the shortfall as stipulated in Article 4.11.

4.13 In the event where the number of Exploration Wells drilled by the Concessionaire and/or the quantity of seismic data acquired during any Exploration Period exceeds the number of wells and/or seismic data provided for in the Exploration work commitment for that period, as specified in Articles 4.2, 4.3 and 4.4, the number of additional Exploration Wells drilled and/or the quantity of seismic data acquired by the Concessionaire during such Exploration Period may be carried forward and treated as work undertaken in discharge of the Concessionaire's commitment to drill Exploration Wells and/or to acquire seismic data during the succeeding period; provided, however, if by reason of the provisions of this Article, the Exploration work commitment of the Concessionaire for any period as specified in Articles 4.2, 4.3 and 4.4 have been fully discharged by the Concessionaire before that period commences, the Concessionaire, after consultation with MIREM, shall

adopt a work commitment for the period in question so as to ensure the continuity of Petroleum Operations in, or in connection with, the EPC Area during that period.

- 4.14 Otherwise than as provided in such Articles, nothing in Articles 4.12 or 4.13 shall be read or construed as extinguishing, postponing or modifying any commitment of the Concessionaire to carry out seismic surveys or to drill Exploration Wells pursuant to this Article.
- 4.15 Neither the Appraisal Wells nor seismic surveys carried out pursuant to an Appraisal Programme drawn up pursuant to Article 6.2 nor the expenditure incurred by the Concessionaire to carrying out such Appraisal Programme shall be treated as discharging in whole or in part the Minimum Expenditure obligations set out in Articles 4.2, 4.3 and 4.4.
- 4.16 Within forty five (45) days from the Effective Date and thereafter, for so long as an Exploration Period subsists and at least ninety (90) days prior to the end of each calendar year or at such other times as may be approved in advance by MIREM, the Concessionaire shall prepare in reasonable detail and submit to MIREM an Exploration work programme and budget for the remaining portion of the calendar year or, for the subsequent calendar year, and a proposed structure for the Concessionaire's organisation for the conduct of Exploration Operations in the EPC Area.
- 4.17 The Exploration work programme and budget prepared by the Concessionaire shall be consistent with obligations under this Article and shall set forth the Exploration Operations which the Concessionaire proposes to carry out during the remaining portion of the calendar year or, in the case of the programme and budget for subsequent years, during the following calendar year. The Concessionaire shall consider any recommendations made by MIREM in respect thereof and after making such revisions thereto as the Concessionaire considers appropriate submit the Exploration work programme and budget to MIREM for information.

4.18 The Concessionaire may at any time amend the Exploration work programme and budget submitted in accordance with Article 4.16, provided that the amended Exploration work programme and budget are:

- (a) prepared in reasonable detail and submitted to MIREM, whose recommendations in respect thereof shall be considered by the Concessionaire;
- (b) consistent with the Concessionaire's obligations under this Article; and
- (c) submitted to MIREM for information once the Concessionaire has made such revisions as it deems appropriate after consideration of any recommendations made by MIREM.

Article 5
Conduct of Petroleum Operations

- 5.1 The Concessionaire shall carry out Petroleum Operations in the EPC Area:
- (a) diligently and with due regard to Good Oilfield Practice;
 - (b) subject to all applicable laws, specifically the Petroleum Law and the Regulations for Petroleum Operations;
 - (c) in accordance with environmental and safety standards generally accepted in the international petroleum industry and applicable from time to time in similar circumstances;
 - (d) in respect of any Development and Production Area in compliance with the Development Plan for that Development and Production Area.
- 5.2 Where the Concessionaire is more than one Person any obligation of the Concessionaire hereunder shall be a joint and several obligation of the Persons who constitute the Concessionaire, save for the following each of which shall be a several obligation of each of those Persons:
- (a) the obligation to pay Corporate Income Tax or any other tax assessed and levied on profit or net income;
 - (b) the obligation to observe stipulations relating to confidentiality set out in Article 23 save in respect of their application to anything done or to be done by the Operator in his capacity as such; and
 - (c) the obligation to observe stipulations relating to foreign exchange set out or referred to in Article 26, save in respect of their application to anything done or to be done by the Operator in his capacity as such.
- 5.3 Eni shall be the Operator. No change of the Operator may take effect unless it has been approved in writing by MIREM.

5.4 Throughout the period of this EPC the Concessionaire or where more than one Person constitutes the Concessionaire, the Operator shall ensure that it has a general manager or another appointed representative who shall reside in the Republic of Mozambique or such other country as may be mutually agreed by all Parties. The Concessionaire or, as the case may be, the Operator shall appoint the general manager or other representative and shall notify MIREM of the identity of the individual so appointed within one hundred and twenty (120) days after the Effective Date. If for any reason the individual so appointed ceases to be general manager, the Concessionaire or, as the case may be, the Operator shall as soon as practicable appoint a replacement acceptable to MIREM and shall notify MIREM of the identity of the replacement.

Article 6

Commercial Discovery and Development

- 6.1 Where, in the course of the Petroleum Operations, a Discovery of Petroleum is made in the EPC Area, the Concessionaire shall as soon as reasonably possible by notice inform MIREM whether or not, in its opinion, the said Discovery is of potential commercial interest.
- 6.2 For a Discovery of potential commercial interest the Concessionaire shall promptly prepare an Appraisal Programme and, after consultation with MIREM, carry out such Appraisal Programme and submit a report of the appraisal activities to MIREM within three (3) months after the completion of the Appraisal Programme.
- 6.3 The Concessionaire shall submit for Government consideration and approval a Development Plan for a proposed Development and Production Area for the Discovery, so as to include such a Development and Production Area in a single area, so far as the boundaries of the EPC Area permit, the entire area of the Petroleum reservoir or reservoirs in respect of which a Declaration of Commerciality has been given. MIREM shall consider without undue delay the proposed Development Plan submitted by the Concessionaire. If the MIREM is unable to complete consultation with concerned relevant authorities within twelve (12) months from receipt of the proposed Development Plan submitted by the

Concessionaire for approval, then MIREM shall notify the Concessionaire and shall when possible indicate when it is expected that the consultation process shall be completed.

6.4 If Commercial Production of a Discovery has not commenced within a period of five years (5) years, or such longer period as may be specified in an approved Development Plan, from the date on which the Development Plan is approved, then the rights and obligations of the Concessionaire over the Development and Production Area to which the Discovery relates shall be extinguished as though the said area had been surrendered pursuant to Article 29. Such period may be extended:

- (a) where the Concessionaire commenced promptly to implement the Development Plan as soon as the Development Plan was approved and has continued to diligently implement the Development Plan but with regard to a Discovery predominantly constituting of Crude Oil at the end of the five (5) year period and with regard to a Discovery predominantly consisting of Non-Associated Natural gas at the end of the five (5) year period, or in both cases such longer period as is specified in the approved Development Plan, has not yet commenced Commercial Production; or
- (b) by the period of time that the commencement of Commercial Production has been delayed for lack of any approval or permit required to be obtained from the Government or any agency thereof after the implementation of the Development Plan has begun and prior to the commencement of Commercial Production and such delay is not attributable to actions or omissions which are within the reasonable control of the Concessionaire; or
- (c) by any period that may be necessary to give effect to Article 25.4.

Article 7
Relinquishment of Areas

- 7.1 Where, pursuant to a request by the Concessionaire under Articles 33 (a) and (12), the Exploration Period is extended at the end of the Initial Exploration Period or subsequently, the Concessionaire shall relinquish its rights:
- (a) at the commencement of the second Exploration Period of twenty-four (24) months in respect of a portion of the EPC Area so that the area retained, excluding what is already included in a Development and Production Area or in a Discovery Area, does not exceed seventy-five per cent (75%) of the EPC Area on the Effective Date;
 - (b) at the commencement of a third Exploration Period of twenty-four (24) months in respect of a portion of the EPC Area so that the area retained, excluding what is already included in a Development and Production Area or in a Discovery Area, does not exceed seventy-five per cent (75%) of the EPC Area on the Effective Date as reduced under letter (a) above;
 - (c) at the end of the third Exploration Period in respect of the remainder of the EPC Area other than any Development and Production Areas or any area with respect of which the Exploration Period has been further extended pursuant to Articles 3.5 (c) and (d),
- 7.2 For the purpose of this Article, a Discovery Area shall not include any area which relates to a Discovery in respect of which:
- (a) the Concessionaire has notified MIREM that the Discovery is not considered to be of potential commercial interest, is not commercial or is no longer considered to be commercial.
 - (b) a Development and Production Area has previously been delineated.

Article 8
Records and Reports

- 8.1 The Concessionaire shall prepare and, at all times while this EPC is in force, maintain accurate and up-to-date records of its operations in the EPC Area. The Concessionaire shall also furnish MIREM with such available information, data and reports relating to the Petroleum Operations, as well as assessments and interpretations relating to the Petroleum Operations all of which as MIREM may reasonably require.
- 8.2 Well logs, maps, magnetic tapes, core and cutting samples and other geological and geophysical information obtained by the Concessionaire in the course of carrying out the Petroleum Operations shall be submitted to MIREM and, save as provided in Article 8.3 or authorised pursuant to Article 23, may not be published, reproduced or otherwise dealt with without the consent of MIREM.
- 8.3 The Concessionaire may retain for its own use copies of material constituting Documentation, with the approval of MIREM, and retain for its own use original material constituting Documentation; provided that samples equivalent in size and quality or, where such material is capable of reproduction, copies have been supplied to MIREM. The Concessionaire may freely export for processing or laboratory examination or analysis samples or other original materials constituting Documentation; provided that samples equivalent in size and quality or, where such material is capable of reproduction, copies of equivalent quality have first been delivered to MIREM.
- 8.4 The Concessionaire shall keep MIREM currently advised of all major developments taking place during the course of the Petroleum Operations and without prejudice to the generality of the foregoing the Concessionaire shall:
- (a) within forty-five (45) days after the end of each calendar quarter prepare and deliver a progress report to MIREM which shall contain a narrative report of activities hereunder during such quarter with plans and maps showing the places where the work described was done; and

- (b) within four (4) months after the end of each calendar year prepare and deliver to MIREM an annual report which shall consolidate and where necessary revise and amplify the quarterly progress reports furnished in respect of that calendar year.

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Article 9

Cost Recovery and Production Entitlement

- 9.1 The Concessionaire shall bear and pay all costs incurred in carrying out the Petroleum Operations in which the Concessionaire participates, and the Concessionaire shall recover such costs permitted by the provisions of this EPC including Annex “C” of this EPC (hereinafter “Recoverable Costs”), and shall be remunerated exclusively by means of an entitlement to quantities of Petroleum to which the Concessionaire is entitled as herein provided.
- 9.2 The provisions related to cost recovery and profit entitlement set out in this Article shall apply to Petroleum with effect that the Government and the Concessionaire shall have title in undivided participating entitlement to the Petroleum available for sale in any given period. Unless otherwise instructed by Government the sale of such Petroleum shall take place on a joint dedicated basis by the Concessionaire and the Concessionaire will hold those entitlements in undivided proportions equal to the proportions in which during that period each Party was entitled to **Disposable Petroleum**. Such instructions shall not affect volumes of Petroleum subject to contract. Accordingly, the proceeds from the sale on a joint dedicated basis of Petroleum in any given period shall be divided between the Government and the Concessionaire in the proportions in which they had title in undivided entitlements to the Petroleum sold.
- 9.3 From the total quantity of **Petroleum Produced**, the Concessionaire may take a portion thereof necessary to discharge the Concessionaire’s obligation for the **Petroleum Production Tax**. The balance of Petroleum remaining after the aforesaid portion has been set aside is hereinafter referred to as “**Disposable Petroleum**”.
- 9.4 (a) For purposes of the R-factor calculation, Disposable Petroleum and Cost Petroleum shall be calculated in respect of the whole of the EPC Area.
- (b) Insofar as permitted by applicable law and this EPC, all costs incurred by the Concessionaire in relation to Petroleum Operations shall be recovered from **Disposable Petroleum**, as available at the **Delivery Point**.

- (c) In addition, and in the event the Government and/or the Concessionaire elect to take **Profit Petroleum** in kind, the Concessionaire shall, for accounting and reporting purposes, record **Cost Petroleum** separately:
 - (i) in respect of each Development and Production Area, and
 - (ii) in the form of liquids and gas, on a pro-rata basis relative to the volumes of **Petroleum Produced**.

Condensate shall be taken in liquids or gas on the basis of its character at the Delivery Point.

9.5 For each calendar year, **Cost Petroleum** shall be limited to seventy-five percent (75%) of **Disposable Petroleum**.

9.6 The **Cost Petroleum** for any quarter calculated in the manner aforesaid shall be increased by:

- (a) the amount of any contributions made by the Concessionaire into the Decommissioning Fund during such quarter; and
- (b) the costs incurred by the Concessionaire during such quarter to implement an approved Decommissioning Plan prepared pursuant to applicable law and the provisions of Article 15 save to the extent that, such costs have been funded by withdrawals from the Decommissioning Fund; and
- (c) provided that in no event shall the Cost Petroleum exceed the Disposable Petroleum.

9.7 Costs, to the extent permitted by the provisions of Annex “C” of this EPC, shall subject to Article 9.8, be recovered from **Cost Petroleum**:

- (a) in respect of the amount of Development and Production Capital Expenditures stipulated in Annex “C” of this EPC incurred during each year, by the recovery of twenty-five (25%) on a linear depreciation basis, beginning in the year in which

such amount is incurred or in the calendar year in which Commercial Production commences, whichever year is later;

- (b) in respect of costs attributable to Exploration as stipulated in Annex “C” of this EPC (hereinafter referred to as “Exploration Costs”), by the recovery of the full amount in the year in which they were incurred or in the year in which Commercial Production commences, whichever year is later, and
- (c) in respect of operating costs attributable to Petroleum Operations stipulated as Operating Costs in Annex “C” to this EPC (hereinafter referred to as “Operating Costs”) (including any contributions into the Decommissioning Fund pursuant to applicable law, the provisions of Article 15 and including any costs incurred by the Concessionaire to implement an approved Decommissioning Plan prepared pursuant to the provisions of applicable law save to the extent, in either case, that such costs have been funded by withdrawals from the Decommissioning Fund), by the recovery of the full amount in the year in which they were incurred.

9.8 To the extent that Recoverable Costs in any year exceed the value of **Cost Petroleum** available in that year, the unrecovered excess shall be carried forward for recovery in succeeding years.

9.9 The quantity of **Cost Petroleum** to which the Concessionaire is entitled in any year shall be established on the basis of the value of the Petroleum Produced during such year, determined in accordance with Article 10.

9.10 **Profit Petroleum** shall be shared between the Government and the Concessionaire according to a scale varying with the value of the R-Factor, where:

(a)
$$\text{R-Factor} = \frac{(\text{Cumulative Cash Inflows})_n}{(\text{Cumulative Capital Expenditures})_n}$$

(b)
$$\begin{aligned} \text{Cumulative Cash Inflows } n = & \\ & \text{Cumulative Cash Inflows } (n-1) \\ & + \text{Concessionaire's portion of Profit Petroleum } n \end{aligned}$$

- + Concessionaire's Cost Petroleum n
- Operating Costs n
- Computed Corporate Income Tax n

- (c) Cumulative Capital Expenditures n =
- Cumulative Capital Expenditures (n-1)
 - + Exploration Costs n
 - + Development and Production Capital Expenditures n

Where:

n is the current year; and (n-1) is the previous year;

Concessionaire's Cost Petroleum is the amount of **Recoverable Costs** actually recovered;

Computed Corporate Income Tax is the Concessionaire's corporate income tax obligation computed according to applicable tax law and Article 11.

For the purpose of calculating the R-Factor, the first year (n=1) shall be the year during which the Effective Date occurs. Any Capital Expenditures incurred prior to the Effective Date shall not be deemed for the purpose of the R-Factor calculation to have been incurred during the year of the Effective Date.

The R-Factor shall be calculated on the last day of each calendar year and the applicable ratio shall determine the sharing of **Profit Petroleum** throughout the following calendar year.

The scale for Profit Petroleum is as follows:

R-Factor	Government's Portion	Concessionaire's Portion
less than one	15%	85%

Equal to or greater than one and less than two	25%	75%
Equal to or greater than two and less than three	35%	65%
Equal to or greater than three and less than four	45%	55%
Equal to or greater than four	55%	45%

- 9.11 (a) If there is a breach of the warranty set out in Article 11.6 or in the event that after the Effective Date there is a change in the laws of the Republic of Mozambique of the kind referred to in Article 11 and as a result the Parties meet to agree on changes to be made to this EPC, then during the period starting when the change in the law comes into effect and ending when an agreement between the Parties is reached pursuant to Article 11, the portion of Profit Petroleum to which the Concessionaire and the Government would otherwise be entitled shall be adjusted so that the net revenues to be received by the Concessionaire from Petroleum Operations are the same as they would have been if no change in the law had taken place.
- (b) Where the Parties have reached agreement on the changes to be made to this EPC pursuant to Article 11, this EPC will be deemed to stand amended to the extent necessary to give effect to that agreement in accordance with its terms.
- 9.12 Concessionaire's **Cost Petroleum** and Profit Petroleum calculations shall be done for each calendar year on an accumulative basis. To the extent that actual quantities and expenses are not known, provisional estimates based on the approved work programme and operating and capital budgets shall be used. Until such time as the value of Petroleum attributable to a year is determined, the calculations will be based on the value of such Petroleum during the preceding year and in the absence of such value, on the value agreed to between MIREM and the Concessionaire. Adjustments shall be made during the succeeding year based on actual Petroleum quantities, prices and expenses in relation to such year.

9.13 Any person constituting the Concessionaire, excluding an entity holding a State Participating Interest or a Permitted Assignee, shall pay all costs properly incurred under this EPC in relation to the State Participating Interest (herein referred to as “Carry”) subject to the following conditions:

- (a) Carry shall be paid by Concessionaires having a Carry obligation pro-rata to their Participating Interests in this EPC.
- (b) In the event that a third party, other than an entity holding a State Participating Interest or a Permitted Assignee, has acquired a Participating Interest in the EPC from any person constituting the Concessionaire, such third party shall be obliged to take over a proportionate share of the Carry.
- (c) If a State Participating Interest is totally or partially transferred to a non-Permitted Assignee, the Carry already paid with respect to the transferred interest and not yet reimbursed to the Concessionaires subject to Carry shall be immediately due and paid to the Concessionaires pro-rata to their respective Participating Interests by such non-Permitted Assignee. The share of any future Carry, to be borne by each Concessionaire having a Carry obligation, shall be calculated according to the new composition of the Concessionaires having such Carry obligation.
- (d) The Carry shall be limited to all costs incurred under this EPC by the Concessionaire in discharging its obligations under this EPC, up to and including the date upon which the Development Plan has been approved.
- (e) The Carry shall be used exclusively to pay for costs properly incurred under this EPC in relation to the State Participating Interest. Save for in respect of a transfer to a Permitted Assignee, ENH may not assign directly or indirectly the benefits derived under Carry. Any transfer of a Participating Interest subject to Carry requires the prior written approval of MIREM. The term “Permitted Assignee” means for the purpose of this Article the Government or a Mozambican Person wholly owned and controlled by the Government.

- (f) From the date of commencement of Commercial Production, ENH and any entity designated by the Government to manage the State Participating Interest portion shall reimburse in full the Carry in cash or in kind to the Persons constituting the Concessionaire. Such reimbursement shall be calculated as and taken from the Cost Petroleum of said Person having benefited from the Carry. All amounts owed up to approval of the Development Plan resulting from the Carry shall be subject to payment of interest in United States Dollars calculated at the LIBOR rate (as defined in and determined in accordance with Article 28.7) plus one (1) percentage point, from the date such costs are incurred by the Persons (other than ENH or a Permitted Assignee), until reimbursed in full. In the event such date occurs during weekends or public holidays then the first subsequent quoted LIBOR rate shall be used.

Article 10
Valuation of Petroleum

- 10.1 The value of Petroleum referred to in Articles 9 and 11 shall, to the extent such Petroleum consists of Crude Oil, be determined at the end of each calendar month commencing with the calendar month in which Commercial Production of Crude Oil begins. To the extent such Petroleum consists of Natural Gas it shall be determined at the end of each calendar month commencing with the calendar month in which commercial delivery at the Delivery Point begins.
- 10.2 A value for each separate export grade of Crude Oil will be:
- (a) in the case of sales to non-Affiliated Companies, the weighted average price per barrel at the Delivery Point of each separate export grade of Crude Oil being the prices FOB within the meaning defined in Incoterms 2000, at which such Crude Oil has been sold by the Concessionaire during that calendar month; or
 - (b) If the Concessionaire sells the Crude Oil to a third party on terms different from FOB (as per Incoterms 2000), then for the purpose of this EPC, a calculated net-back FOB price shall be applied. The net-back FOB price shall be established by deducting from the price agreed the actual and direct costs incurred by the Concessionaire in fulfilling the obligations under their sales contract additional to those obligations included under a FOB contract.
 - (c) in the case of sales to Affiliated Companies, such price as agreed between MIREM and the Concessionaire on the basis of adding the following two factors together:
 - (i) the weighted average calendar month FOB price for Brent rated Crude Oil, or such other appropriate marker Crude Oil for the production in question for the period in question. The weighted average will be based on the days in each calendar month when a closing price is reported in Platts Oilgram price report. Days such as weekends and holidays with no price reports will be ignored;

- (ii) a premium or discount to the price of the Brent rated Crude Oil, or such other appropriate marker Crude Oil for the production in question to be determined by reference to the quality of the Crude Oil produced from the EPC Area and the cost of moving such Crude Oil to the market.

10.3 In any case in which MIREM and the Concessionaire are unable to agree a price under Article 10.2(c), in order to determine the premium or discount referred to therein the following procedures shall be undertaken:

- (a) MIREM and the Concessionaire shall submit to each other their assessments of the premium or discount together with an explanation of the key factors taken into consideration in assessing the premium or discount;
- (b) if the premium or discount submitted by each of MIREM and the Concessionaire are within ten United States Cents (10 US ¢) per barrel or each other the average will be taken for the purposes of setting the final value of the Crude Oil;
- (c) if the premium or discount submitted by each of MIREM and the Concessionaire differ by more than ten United States Cents (10 US ¢) per barrel each will resubmit a revised premium or discount to the other on the third (3rd) business day after the first exchange of information;
- (d) if the premium or discount submitted by each of MIREM and the Concessionaire on the second exchange of information are within ten United States Cents (10 US ¢) per barrel of each other the average will be taken for the purposes of setting the final value of Crude Oil;
- (e) if the premium or discount submitted on the second exchange of information differ by more than ten United States Cents (10 US ¢) per barrel the matter shall, in accordance with Article 30.6. be referred for determination by a sole expert who shall establish a price based on the criteria set out in Article 10.2(c) but always within the range established by the Parties under Article 10.3(d).

- 10.4 The value calculated for Natural Gas Produced from reservoirs within the EPC Area shall be:
- (a) in the case of sales to non-Affiliated Companies, the weighted average price per Gigajoule of commercial specification Natural Gas at the Delivery Point at which such Natural Gas has been delivered by the Concessionaire during that calendar month, shall be the weighted average price per Gigajoule of all other commercial specification Natural Gas delivered during the same calendar month from reservoirs subject to the jurisdiction of the Republic of Mozambique and the weighted average of posted or publicly available prices for alternative fuels to Natural Gas for large scale industrial consumers including power generators in the market where such has been delivered to ultimate customers.
 - (b) in the case of sales to Affiliated Companies, such price as stipulated in subparagraph a) above for sales to non-Affiliated Companies or such price agreed between MIREM and the Concessionaire.
- 10.5 In the event that the Government enters into a commercial Gas and/or Crude Oil Sales Agreement with the Concessionaire for the purchase by the Government of Crude Oil and/or Natural Gas from the Concessionaire, such sales shall be at a price no higher than the price of Crude Oil and/or Natural Gas sold to Affiliated Companies from the EPC Area as determined in terms of this Article 10.

Article 11

Fiscal Terms and Other Charges

- 11.1 The Concessionaire and its Subcontractors shall, save to the extent they are exempt therefrom, be subject to all applicable law of the Republic of Mozambique which impose taxes, duties, levies, charges, fees or contributions.
- 11.2 During the term of this EPC, the Concessionaire and its Subcontractors are entitled to the rights of Tax and Customs Incentives in terms of Law No. 3/2001, of 21 February as defined in the Code of Fiscal Benefits (CFB), approved by Decree No. 16/2002, of 27 June. The Concessionaire and its Subcontractors shall be exempt from the payment of the following taxes, duties, imposts, and other charges:
- (a) Customs duties with regard to the importation of goods destined to be used in Petroleum Operations, vehicles and other imported supplies, but excluding light vehicles for transport of passengers in accordance with article 44 paragraph a) of the CFB;
 - (b) Duties and other customs and fiscal charges on goods temporarily imported for use in Petroleum Operations, including but not limited to such as drilling rigs, seismic vessels, machinery, equipment, aircraft and boats in accordance with article 44 paragraph b) of the CFB;
 - (c) Customs duties on the exportation of the goods referred to in the preceding paragraphs once the goods no longer are needed for the Petroleum Operations in accordance with article 44 paragraph c) of the CFB;
 - (d) Customs duties and custom charges with regard to the exportation of Petroleum Produced in the Republic of Mozambique in accordance with article 44 paragraph d) of the CFB; and
 - (e) The imports and exports referred to in the preceding paragraphs shall also benefit from an exemption from the Value Added Tax (VAT) as provided in the VAT Code

approved by Decree No. 51/98, of 29 September in accordance with article 44 paragraph e) of the CFB.

11.3 The Expatriate Personnel of the Concessionaire and of its Subcontractors shall be exempt under this EPC from:

- (a) Any and all taxes on or related to the income of non-resident Expatriate Personnel of the Concessionaire or its Subcontractors or any other tax of a similar nature imposed on the work earnings of such Expatriate Personnel;
- (b) Customs duties and other levies payable on the importation of personal and household effects of Expatriate Personnel and their dependants imported into the Republic of Mozambique on first arrival, provided that those customs duties shall become payable on such items upon their sale in the Republic of Mozambique to a person who is not exempt from such duties. The Expatriate Personnel shall have the right to export from the Republic of Mozambique free of any customs duties and levies the aforesaid personal and household effects imported by them, within the conditions stipulated in the customs tariff.

11.4 For the purpose of this EPC, the listed imposts (“Listed imposts”) are:

- (a) The Corporate Income Tax (IRPC) which shall be levied in accordance with Decree No. 21/2002, of 30 July, as the same may be amended from time to time but always subject to Articles 11.9 and 9.13, and shall be payable by the Concessionaire or, where the Concessionaire is more than one Person, payable by each of the Persons constituting the Concessionaire who shall be separately assessed and charged. The following provisions shall apply to IRPC levied in respect of income derived from Petroleum Operations hereunder:
 - (i) For any investment made in a continuous manner and in relation to a deposit or field where an investment is commenced prior to the end of the year 2010 to commence production at a future date, a twenty-five percent (25%) reduction in the rate of Corporate Income Tax (IRPC) on the net income from any such field shall apply for a period of eight (8) years starting from

the year of first production. After the expiration of the first eight (8) years calculated from the first year of Commercial Production from any such deposit or field and for other fields which first commence production during and after the year 2010, the IRPC shall be levied on the net income derived from Petroleum Operations from such fields in the EPC Area at the rate of thirty-two percent (32%) or the rate then in effect pursuant to applicable law, whichever is less.

(ii) In determining the net income of the Concessionaire for the purposes of calculating IRPC in any year of tax, or if the Concessionaire is more than one Person, the net income of any Person constituting the Concessionaire, depreciation shall be applied as follows:

(aa) Depreciation shall be deducted at the rates indicated below, beginning in the year in which the expenditure is incurred or Commercial Production commences, whichever year is the later:

- in respect of expenditure on Exploration Operations, including the drilling of Exploration and Appraisal Wells, at one hundred percent (100%);
- in respect of capital expenditure on Development and Production Operations at the annual rate of twenty-five percent (25%) of such expenditure on a linear depreciation basis;
- in respect of operating expenditure, at one hundred percent (100%).

(bb) The Concessionaire, or if the Concessionaire is more than one Person, any Person constituting the Concessionaire, may in any year elect to defer depreciation wholly or partly. In exercising the election to defer, the Concessionaire, or if the Concessionaire is more than one Person, any Person constituting the Concessionaire, shall notify the competent entity in the Ministry of Finance not later

than end of February of the year following the year in question, of its intention to defer depreciation. In such notice, the Concessionaire, or if the Concessionaire is more than one Person, any Person constituting the Concessionaire, shall specify:

- the rate at which it intends to depreciate expenditure on Exploration Operations or operating expenditures during the year in question, such rate not being in excess of one hundred percent (100%); and
- the rate at which it intends to depreciate capital expenditure on Development and Production Operations during the year in question, such rate not being in excess of twenty-five percent (25%).

The rate notified by the Concessionaire or, if the Concessionaire is more than one Person, by any Person constituting the Concessionaire shall only apply to the year specified in the notice. Depreciation in future years shall be made at the rate set in Article 11.4(a)(ii)(aa) unless a further written notice under this Article is submitted.

- (iii) Deferred depreciation, being the difference between the allowed rate and the rate notified by the Concessionaire, or if the Concessionaire is more than one Person, by any Person constituting the Concessionaire, as the rate it intends to use during the year in question, may be taken as a deduction against net income in any future year. The Concessionaire, or if the Concessionaire is more than one Person, any Person constituting the Concessionaire, shall notify the competent entity in the Ministry of Finance in writing not later than the end of February of the year following the year in question of its intent to take such deferred depreciation during such year;
- (iv) Expenditure for professional training of Mozambican workers, shall up to a maximum amount of five percent (5%) of taxable income, be deductible for the purposes of calculating IRPC in accordance with Article 18 paragraph I

of the CFB, during the first five (5) years from the date of commencement of production; provided, however, that, when the professional training is for the use of technologically advanced equipment, the allowable income tax deduction for the purposes of calculating the IRPC shall be a maximum amount of ten percent (10%) of taxable income in accordance with article 18 paragraph 2 of the CFB.

- (v) The Concessionaire shall be exempt from stamp duties for incorporation activities and for any alterations to the social capital and the articles of association for a period of five (5) years from start of operations in accordance with article 20 of the CFB.
 - (vi) The Concessionaire shall benefit from a reduction of 50% on real property transfer tax (SISA) on the acquisition of real estate, provided this was acquired in the first three (3) years from the date of authorisation of the investment, or start of operations in accordance with article 21 of the CFB.
 - (vii) For the purpose of calculating liability for IRPC, a loss incurred by the Concessionaire in any year may be carried forward for deduction for up to six (6) years after the year in which such loss is incurred.
- (b) Customs duties and other levies and taxes not otherwise exempted under this Article 11;
 - (c) Levies, charges, fees or contributions which are non-discriminatory and are levied in return for the provision of specific identifiable services or goods by the Republic of Mozambique or use of facilities owned by the Republic of Mozambique or any state company, such as without limitation, water, electricity, port usage and similar services or goods;
 - (d) Taxes, duties, levies, charges, fees or contributions provided they are imposed under laws of general application, which do not discriminate or have the effect of discriminating against the Concessionaire and are of a minor nature. For the purpose of this Article a tax, duty, levy, charge, fee or contribution shall not be

treated as being of a minor nature if either alone or in combination with any other tax duty, levy, charge, fee or contribution not falling under Articles 11.4(a), (b), or (c), it would result in a charge in excess of United States Dollars two hundred and fifty thousand (US\$250,000) in any one (1) year period or United States Dollars five hundred thousand (US\$500,000) in any continuous period of five (5) years;

- (e) Non-resident foreign Subcontractors of the Concessionaire conducting activities in connection with Petroleum Operations pursuant to this EPC shall be subject to a withholding tax at the single flat rate of ten percent (10%) of the gross amount of the payments of its invoices in respect of the work or services it performed for the Concessionaire. The Concessionaire responsible to make payments of such invoices shall calculate the amount of income tax due as Subcontractor IRPC on this basis, and shall withhold such income tax from the payments made to the foreign Subcontractor and pay immediately such withheld income tax to the competent entity of the Ministry responsible for tax collection in the fiscal area of the Concessionaire on behalf of the foreign Subcontractor in accordance with the periods established by the law;
- (f) No taxes shall be imposed or withheld with respect to payments to any non-resident foreign Subcontractor other than as provided under Article 11.4 e).

11.5

- (a) In accordance with the Petroleum Law and Decree No. 19/04, of 2 June. The Concessionaire shall deliver to the Government in kind as Petroleum Production Tax:
 - (i) in respect of Natural Gas produced from deposits in the EPC Area onshore, a quantity of five percent (5%) of the Natural Gas; in respect of Crude Oil produced from deposits in the EPC Area located onshore, a quantity of eight percent (8%) of the Crude Oil;
 - (ii) in respect of Natural Gas produced from deposits in the EPC Area in water depth less than one hundred (100) metres, a quantity of four percent (4%)

of the Natural Gas, and in respect of Crude Oil produced from deposits in the EPC Area in water depth less than one hundred (100) metres, a quantity of seven percent (7%) of the Crude Oil;

- (iii) in respect of Natural Gas produced from deposits in the EPC Area in water depth equal to or in excess of one hundred (100) metres and less than five hundred (500) metres, a quantity of three percent (3%) of the Natural Gas, and in respect of Crude Oil produced from deposits in the EPC Area in water depth equal to or in excess of one hundred (100) metres and less than five hundred (500) metres, a quantity of five percent (5%) of the Crude Oil;
- (iv) in respect of Natural Gas produced from deposits in the EPC Area in water depth equal to or in excess of five hundred (500) metres, a quantity of two percent (2%) of the Natural Gas, and in respect of Crude Oil produced from deposits in the EPC Area at a water depth equal to or in excess of five hundred (500) metres, a quantity of three percent (3%) of the Crude Oil;

provided always that the rate of Petroleum Production Tax for a Petroleum Deposit shall be a composite rate for Natural Gas and a separate composite rate for Crude Oil where such Petroleum Deposit in the EPC Area does not lie entirely within one of the water depth categories established by Articles 11.5(a)(i) to (iv) above, such composite rates being established pro rata with the amount of Petroleum in place estimated to be in each of the relevant water depth categories, and being established at the tune of the approval of the appropriate Development Plan and not subject to change thereafter; provided that if a Development Plan is amended, then this amended Development Plan may include a revised composite rate for Natural Gas and revised composite rate for Crude Oil for such Petroleum Deposits in the EPC Area and such revised composite rates shall apply from the beginning of the year following the date the amended Development Plan is approved. In the case of a revision to the composite rates as provided aforesaid, in no circumstances shall any retroactive adjustments be made to the amount of the Petroleum Production Tax calculated prior to the time of the approval of the amended Development Plan.

(b) The Concessionaire shall, pursuant to Article 13 of the Regulations relating to Petroleum Production Tax attached to Decree No. 19/04, of 2 June, or subsequent applicable legislation deliver to the competent entity in the Ministry of Finance and MIREM not later than the 20th (twentieth) day of each calendar month and with respect to the previous month, as measured at the Delivery Point, a statement of:

- (i) the quantity of Crude Oil and the quantity of Natural Gas produced in that calendar month;
- (ii) the quantities of Crude Oil and the quantities of Natural Gas sold in that calendar month;
- (iii) the quantities of Crude Oil held in storage at the beginning and the end of the calendar month;
- (iv) the quantity of Crude Oil and the quantity of Natural Gas inevitably lost;
- (v) the quantity of Crude Oil and the quantity of Natural Gas flared, escaped, re-injected or used in Petroleum Operations;
- (vi) the quantity of Crude Oil and the quantity of Natural Gas on which Petroleum Production Tax is due;
- (vii) the quantity of Petroleum Production Tax deliverable for that calendar month and the particulars of the calculation thereof; and
- (viii) any other information relevant for the calculation of Petroleum Production Tax for Crude Oil and for Natural Gas.

(c) The Government may, in lieu of the Petroleum Production Tax deliverable in kind referred to in this Article 11.5, by one hundred and eighty (180) days' notice require the Concessionaire to pay to the Government each month fully or partly in cash the relevant percentage of the value, ascertained in accordance with the provisions of Article 11, of the Crude Oil and the Natural Gas which has been produced from the EPC Area in that month.

- (d) The Petroleum Production Tax for a given calendar month in respect of Crude Oil and in respect of Natural Gas and the respective payments in cash are deliverable or payable before the end of the following month.
 - (e) Payment in cash of the percentage specified in the relevant notice given under Article 11.5(c) shall continue until the Government delivers a further written notice as provided in Article 11.5(c) providing revised instructions to the Concessionaire.
- 11.7 The Government warrants that in respect of Petroleum Operations or income derived from Petroleum Operations, on the Effective Date there were no taxes, duties, levies, charges, fees or contributions other than the Listed Imposts and the taxes in respect of which the Concessionaire and its Subcontractors are exempt under Articles 11.2 and 11.3.
- 11.8 In the exercise of its rights and benefits regarding the exemption from customs duties on import and export stipulated under this Article, the Concessionaire shall comply with the applicable procedures and formalities duly imposed by applicable law.
- 11.9 Nothing in the provisions set out in this Article 11 shall be read or construed as imposing any limitation or constraint on the scope, or due and proper enforcement, of applicable Mozambican law of general application which does not discriminate, or have the effect of discriminating, against the Concessionaire, and provides in the interest of safety, health, welfare or the protection of the environment for the regulation of any category of property or activity carried on in Mozambique; provided, however, that the Government will at all times during the life of the Petroleum Operations ensure in accordance with Article 28, that measures taken in the interest of safety, health, welfare or the protection of the environment are in accordance with standards generally accepted from time to time in the international petroleum industry and are not unreasonable.
- 11.10 In the event that, after the Effective Date, any other tax is introduced in the Republic of Mozambique which is not of the type set out in Article 11 and, as a result, there is an adverse effect of a material nature on the economic value derived from the Petroleum Operations by the Concessionaire, the Parties will, as soon as possible thereafter, meet to agree on changes to this EPC which will ensure that the Concessionaire obtains from the

Petroleum Operations, following such changes, the same economic benefits as it would have obtained if the change in the law had not been effected.

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Article 12
Production Bonuses

The Concessionaire shall pay the following production bonuses to the Government, which shall not be a Recoverable Cost for the purposes of Annex “C” of this EPC:

	Production Bonuses payable in US Dollars
At the Commencement of Initial Commercial Production	\$ 1,000,000.00
When production from the EPC Area first reaches 25,000 BOE per day average for a month	\$ 1,000,000.00
When production from the EPC Area first reaches each further tranche of 75,000 BOE per day average for a month	\$ 5,000,000.00

For the purpose of this Article:

- (i) “Commencement of Initial Commercial Production” means the date on which Commercial Production has been sustained for a period of thirty (30) consecutive days from the EPC Area; and
- (ii) “BOE” means the equivalent number of Barrels of Crude Oil resulting when Natural Gas is converted to Crude Oil on the basis of one (1) Barrel of Crude Oil for each six thousand (6,000) standard cubic feet of Natural Gas.

Article 13

Lifting Arrangements

- 13.1 (a) The Concessionaire shall be subject to provisions regulating the production and sale of Petroleum be entitled to lift and export freely its entitlement to Petroleum Produced under this EPC.
- (b) Each Party shall take its entitlement to Petroleum consistent with Good Oilfield Practice at an approximately regular rate throughout each calendar year.
- (c) Not later than ninety (90) days prior to the date scheduled for the commencement of Commercial Production, the Parties shall establish offtake procedures covering the scheduling, storage and lifting of Petroleum and such other matters as the Parties shall agree. Such procedures shall be consistent with Good Oilfield Practice.
- 13.2 Notwithstanding Article 9.2 or instructions given in accordance with Article 9.2, the Government may by six (6) months' notice given to the Concessionaire or Operator require the Concessionaire or Operator to sell on behalf of the Government during the succeeding calendar year unless otherwise instructed the whole or any portion of the volume of Petroleum Production Tax taken in kind and when applicable Profit Petroleum not previously committed to which the Government is entitled pursuant to this EPC during said succeeding year. The quantity of such Profit Petroleum, which the Government desires to sell shall be specified in said notice. The Concessionaire or Operator shall sell that quantity of Petroleum on the open market at the best price reasonably obtainable and remit the proceeds of the sale directly and forthwith to the Government. The Concessionaire or Operator shall not charge the Government any fee for the selling of the Petroleum of the Government.

Article 14

Conservation of Petroleum and Prevention of Loss

- 14.1 The Concessionaire shall, before carrying out any drilling, prepare and submit for review by MIREM a well programme including a contingency plan designed to achieve rapid and effective emergency response in the event of a blow-out or fire, escape, waste or loss of Petroleum or damage to Petroleum bearing strata.
- 14.2 In the event of a blow-out or fire, escape, waste or loss of Petroleum or damage to Petroleum bearing strata, the Concessionaire shall notify MIREM within twenty-four (24) hours of becoming aware of such occurrence, promptly implement the relevant contingency plan and as soon as practicable thereafter submit a full report thereon to MIREM.
- 14.3 Without prejudice to the obligations of the Concessionaire under Article 29, in the case of relinquishment or surrender by the Concessionaire or termination of the rights of the Concessionaire pursuant to this EPC, the Concessionaire shall within ninety (90) days from the date of such relinquishment, surrender or termination, in respect of the whole of the EPC Area or, as the case may be, any part of the EPC Area which has been relinquished or surrendered:
- (a) plug or close off, in a manner consistent with Good Oilfield Practice, all wells drilled as part of the Petroleum Operations unless otherwise agreed between MIREM and the Concessionaire.
 - (b) take all action necessary, in accordance with Good Oilfield Practice, to prevent hazards to human life or to the property of others or the environment resulting from conditions in the EPC Area or, as the case may be, any part thereof caused by Petroleum Operations, being conditions which were or ought with reasonable diligence to have been evident at the time of relinquishment, surrender or termination.

Article 15

Decommissioning

15.1 If in the reasonable expectation of the Concessionaire, the Concessionaire will cease to produce Petroleum under this EPC from the EPC Area, the EPC expires, is cancelled or surrendered pursuant to the procedure stipulated in this EPC and applicable law the Concessionaire shall submit to MIREM for approval a Decommissioning Plan. The Decommissioning Plan shall be prepared in accordance with applicable law and shall include, but not be limited to:

- (a) Particulars, separately set out in respect of each Development and Production Area, of measures to be taken, to effect decommissioning including but not limited to:
 - (i) decommissioning of equipment and installations for each Development and Production Area;
 - (ii) timely removal of equipment and installations not required for ongoing Petroleum Operations in any other Development and Production Area; and
 - (iii) any other steps that may reasonably be required in order to prevent hazard to human life, or to the property of others or to the environment.
- (b) estimates of the time required to complete operations under the plan;
- (c) a budget for operations under the plan, including particulars of the costs of decommissioning equipment and installations;
- (d) a schedule of the work programme with related costs to be drawn from the Decommissioning Fund in order to meet the costs of implementing the plan; and
- (e) such environmental, engineering and feasibility studies as may be necessary to support the proposed plan.

15.2 The Decommissioning Plan shall be prepared in compliance with applicable law and the provisions of Article 28 and shall ensure that decommissioning is conducted in a manner

which will give effect to standards generally recognised as applicable in the international petroleum industry and the Concessionaire's standards for decommissioning.

- 15.3 In the event that the Concessionaire does not submit a Decommissioning Plan to MIREM within the time allowed MIREM may serve upon the Concessionaire a notice requiring the Concessionaire to submit to MIREM, within a period of ninety (90) days from date on which the notice was served, a Decommissioning Plan. If within that period no Decommissioning Plan is submitted, MIREM may commission consultants of international standing to prepare a Decommissioning Plan.
- 15.4 A Decommissioning Plan prepared by a consultant in accordance with applicable law and this Article shall be implemented by the Concessionaire in accordance with its terms as though it were an obligation of the Concessionaire set forth in Article 28. The cost of commissioning engineering consultants to prepare a consultant's plan shall be payable by the Concessionaire to the Government.
- 15.5 In the event that the Concessionaire considers that production from a Development and Production Area will cease before a Decommissioning Plan has been prepared, decommissioning measures for that Development and Production Area will be prepared by the Concessionaire in accordance with the requirement for decommissioning set out in Articles 15.3 and 15.4, and where those measures have been approved by MIREM will take effect as an amendment to the Development Plan for that Development and Production Area.
- 15.6 Not later than at the commencement of Petroleum production from reserves within the EPC Area, the Concessionaire shall establish in a bank of its choice an interest bearing United States dollar account or such other currency account to be mutually agreed by the Parties to be denominated as the Decommissioning Fund into which the Concessionaire shall set aside from time to time funds to be able to cover the decommissioning costs calculated in accordance with this EPC to meet the estimated costs of implementing an approved Decommissioning Plan. At the time of establishment of the account for the Decommissioning Fund the Concessionaire shall deposit US dollars ten thousand (US\$ 10,000) or equivalent amount if an alternative currency is agreed. The bank so

designated shall have a long term rating of not less than “AA” by Standard and Poor’s Corporation or “Aa2” by Moody’s Investor Service or a comparable rating by another mutually agreed rating service. Preference shall be given to banks in Mozambique possessing the required rating.

15.7 The calculation of the amounts to be set aside for estimated future Decommissioning costs into the Decommissioning Fund shall be governed as follows:

- (a) The estimates of (i) the recoverable reserves and the projected production schedule and (ii) total decommissioning costs for the Concessionaire proposed decommissioning solution as well as reasonable alternative decommissioning solutions shall be submitted for MIREM approval. The MIREM shall based on the proposals from the Concessionaire select a preliminary decommissioning solution to form the basis for the calculation of decommissioning costs to be covered by a Decommissioning Fund created for the purpose of covering such decommissioning costs. Adequate provisions for successive revisions of such estimates shall when required herein required by applicable law or deemed necessary by the Concessionaire due to substantial changes in fact also be included in any updated Decommissioning Plan.
- (b) In any calendar year in which the Concessionaire did not submit to MIREM a revised Decommissioning Plan or the total estimated decommissioning cost, Concessionaire shall update the value of the latest total estimated decommissioning cost preliminary approved by MIREM in order to account for the escalation of such approved estimated decommissioning costs in the period between the calendar year in which such costs were estimated and the then current calendar year. For this purpose, and for each calendar year, the applicable annual US Dollar escalation index shall be based on the Producers Price Index for the Drilling of Oil and Gas Wells as published by the United States Bureau of Labor Statistics. The annual index to be used in year “n” shall be determined by difference between the annual index relating to the year in which the latest approved estimate is determined and the same annual index relating such year “n”. In the event the above US Bureau of

Labour Statistic ceases, for any reason whatsoever, to publish the Producers Price Index for the drilling of Oil and Gas Wells set out in the preceding paragraph of this Clause or when an alternative currency is selected, Parties shall determine either an alternative independent internationally recognised source, or an alternative representative index.

- 15.8 The Concessionaire will not withdraw money from the Decommissioning Fund save for the purpose of meeting the costs of implementing an approved Decommissioning Plan and all statements relating to the Decommissioning Fund provided by the bank from time to time shall be copied to MIREM.
- 15.9 Payments into the Decommissioning Fund shall be cost recoverable in accordance with provisions applicable to this EPC.
- 15.10 Costs incurred by the Concessionaire to implement an approved Decommissioning Plan shall be cost recoverable in accordance with provisions in that regard set out in Article 9 and for the purpose of IRPC shall be treated as an operating expense save where, in either case, such costs have been funded by withdrawals from the Decommissioning Fund.
- 15.11 Any funds remaining in the Decommissioning Fund after the approved Decommissioning Plan has been completed shall be treated as Profit Petroleum and the remaining balance shall be shared in accordance with the provision of Article 9.7.
- 15.12 In the event that at the time of implementing any Decommissioning Plan there are insufficient funds available in the Decommissioning Fund to fund the operations of that plan, the shortfall shall be met in full by the Concessionaire.
- 15.13 An approved Decommissioning Plan shall, subject to the provisions of Article 20.2, be implemented prudently and without undue delay.

Article 16

Insurance

- 16.1 The Concessionaire shall effect and maintain, in respect of Petroleum Operations, unless otherwise agreed between the Parties, all insurance required by applicable Mozambican law and, as the case may be, required by other applicable law and such other insurance as MIREM and the Concessionaire may agree from time to time. Such insurance shall at least include insurance against the following risks:
- (a) loss or damage to all Installations and equipment which are owned or used by the Concessionaire in the Petroleum Operations;
 - (b) pollution caused in the course of the Petroleum Operations by the Concessionaire for which the Concessionaire may be held responsible;
 - (c) property loss or damage or bodily injury suffered by any third party in the course of the Petroleum Operations by the Concessionaire for which the Concessionaire may be liable to indemnify the Government;
 - (d) the cost of removing wrecks and cleaning up operations following an accident in the course of the Petroleum Operations by the Concessionaire; and
 - (e) the Concessionaire's and/or the Operator's liability for its employees engaged in the Petroleum Operations.
- 16.2 In relation to Development and Production Operations, the Concessionaire shall submit to MIREM a programme for the provision of an "All Risks" insurance which may, inter alia, cover physical damage to the facilities under construction and installation as well as legal liabilities arising out of the Development and Production Operations.
- 16.3 Any insurance required to be effected by the Concessionaire pursuant to the provision of Articles 16.1 and 16.2 may, at the Concessionaire's discretion and subject to the approval of MIREM, be provided by one or more of the following options:

- (a) **non-insurance** wherein the Concessionaire itself carries the risks and no premia are charged; provided, however, that in the case of any losses or damages resulting from a risk where the Concessionaire has elected to non-insure, such losses or damages shall not be Recoverable Costs for the purpose of Annex “C” of this EPC;
 - (b) insurance through an insurance company wholly owned by the Operator or the Concessionaire in which case the premia charged shall be at prevailing international insurance market rates;
 - (c) the Concessionaire utilising for the benefit of Petroleum Operations insurance which is placed as part of a global coverage in which case the premia charged shall be at the rates obtained for such global coverage; or
 - (d) subject to Article 19, insurance **through the international insurance markets** at prevailing rates, provided that:
 - (i) an insurance company wholly owned by the Operator or a Concessionaire may participate in any internationally placed insurance or reinsurance; and
 - (ii) the Concessionaire shall have the option to tender and effect all appropriate reinsurance for any insurance placed through insurance companies registered in the Republic of Mozambique.
- 16.4 Unless otherwise approved by MIREM, the Concessionaire shall competitively tender all renewable insurances placed into the international markets at least once every three (3) years.
- 16.5 The Concessionaire shall require its Subcontractors to carry equivalent insurance of the type and in such amount as is required by law and is customary in the international petroleum industry in accordance with Good Oilfield Practice.

Article 17
Natural Gas

- 17.1 The Concessionaire shall have the right to use Natural Gas extracted from reservoirs within the EPC Area for the Petroleum Operations in the EPC Area including but not limited to power generation, pressure maintenance and recycling operations.
- 17.2 The terms and conditions relating to the use and production of Associated Natural Gas shall be as follows:
- (a) In the event the Concessionaire elects to process and sell Associated Natural Gas, the Concessionaire shall notify MIREM and, for the purposes of cost recovery and entitlement of production, such Natural Gas shall be treated by the Parties in the same way as other Natural Gas.
 - (b) In the event the Concessionaire elects not to process and sell Associated Natural Gas not used for purposes stipulated in Article 17.1 or paragraph (c) below, the Government may offtake without any payment to the Concessionaire but at the Government's sole risk and cost, such Natural Gas at the gas/oil separator, provided that such offtake does not materially disrupt or delay the conduct of the Petroleum Operations.
 - (c) The Concessionaire may re-inject any Associated Natural Gas which is not taken by Government pursuant to paragraph (b) above, used for Petroleum Operations, processed and sold by the Concessionaire, or taken by Government in accordance with paragraph (b) above, and the costs of such disposal shall be recoverable to the extent that such re-injection is included in the Development Plan.
- 17.3 The terms and conditions relating to the Appraisal Program and the commercial assessment of the production and sale of non-Associated Natural Gas shall be as follows:
- (a) On completion of an Appraisal Programme relating to a Discovery of non-Associated Natural Gas made by the Concessionaire and the submission of an appraisal report thereon, the "Commercial Assessment Period" shall, if the

Concessionaire so requests, commence and shall continue in respect of any Discovery Area for a period of **six (6) years**, exercisable at the sole option of the Concessionaire. An extension may be granted upon application by the Concessionaire to the Government, for a second period of up to two (2) years. An appraisal report submitted under this Article shall include the estimated recoverable reserves, projects delivery rate and pressure, quality specifications and other technical and economic factors relevant to the determination of a market for available Natural Gas. The Concessionaire may, at any time during the Commercial Assessment Period, inform the MIREM by notice that the Petroleum reservoir located in any Discovery of non-Associated Natural Gas made by the Concessionaire in respect of which an appraisal report has been submitted, is commercial.

- (b) If the Concessionaire does not request a Commercial Assessment Period pursuant to paragraph (a) above within ninety (90) days from the date on which the appraisal report was submitted, the Concessionaire shall inform the MIREM by notice whether any Discovery of non-Associated Natural Gas made by the Concessionaire in respect of which an appraisal report has been submitted, is commercial.

Where the Concessionaire pursuant to this Article gives notice that any Discovery of non-Associated Natural Gas made by the Concessionaire is commercial, that notice shall, for the purpose of this EPC, be a notice of Commercial Discovery.

17.4 The Commercial Assessment Period shall end on the first to occur of:

- (a) the date following that on which Concessionaire gives a Notice of Commercial Discovery under Article 17.3;
- (b) the date that the Concessionaire voluntarily surrenders the Discovery Area to which the Commercial Assessment Period relates; or
- (c) expiry of the period to which Concessionaire is entitled to under Article 17.3

- 17.5 The Concessionaire shall be deemed to have relinquished all rights to the Discovery of non-Associated Natural Gas if it has not given a notice of Commercial Discovery under Article 17.3 by the end of the Commercial Assessment Period or on earlier relinquishment of that portion of the EPC Area.
- 17.6 The Concessionaire shall be responsible for investigating market opportunities and seek to develop a market for non-Associated Natural Gas produced from any Development and Production Area and shall sell such non-Associated Natural Gas on a joint dedicated basis on terms common to all the parties constituting the Concessionaire. Every contract for the sale of such non-Associated Natural Gas made by the Concessionaire under this article shall be subject to approval by the MIREM. In applying for such approval the Concessionaire shall demonstrate to the MIREM that the prices and other terms of sale of such Natural Gas represents the market value obtainable for such Natural Gas, taking into consideration a fair market cost for transporting the Natural Gas from the Delivery Point to the purchaser and having regard to the alternative uses and markets that can be developed for such Natural Gas.
- 17.7 With its application for approval of any gas sales contract, pursuant to Article 17.6, the Concessionaire may apply in respect of any Development and Production Area from which non-Associated Natural Gas will be produced for sale under that gas sales contract, for an extension of the Development and Production Period and where such extension is necessary to facilitate the sale of gas under any such contract the MIREM will grant the same.

Article 18

Employment and Training

- 18.1 Subject to the Government's security review of any individual entering Mozambique and the procedures and formalities of the applicable Mozambican law relating to immigration the Government shall provide the necessary permits or other approvals required for the employment and admission into the Republic of Mozambique of Expatriate Personnel employed by the Concessionaire or its Subcontractors for the purpose of this EPC.
- 18.2 In the conduct of the Petroleum Operations, the Concessionaire shall endeavour to utilise citizens of the Republic of Mozambique having appropriate qualifications to the maximum extent possible at all levels of its organisation, as Sub-Contractors or employed by Sub-Contractors. In this connection, the Concessionaire shall, in consultation with MIREM, propose and carry out an effective training and employment programme for its Mozambican employees in each phase and level of operations, taking account of the requirements of safety and the need to maintain reasonable standards of efficiency in the conduct of the Petroleum Operations. Such employees may be trained in the Republic of Mozambique or abroad as required by the training programmes prepared by the Concessionaire.
- 18.3 The Concessionaire shall co-operate with MIREM in giving a mutually agreed number of Government employees the opportunity to participate in training activities provided by the Concessionaire or any of its Affiliated Companies for its employees and specifically for Government employees.
- 18.4 In order for MIREM to monitor the fulfilment of the employment and training obligations contained in this Article, the Concessionaire shall annually submit its recruitment and training programmes to MIREM.
- 18.5 The Concessionaire shall pay one million United States dollars (US\$ 1,000,000) to the Government. This amount shall be used as **institutional support** to the entities involved in promotion and administration of Petroleum Operations. Such payment shall be made

within thirty (30) days from the Effective Date to the Government in accordance with the instruction provided by the representative of the Government designated in this EPC.

- 18.6 (a) **During the Exploration Period**, the Concessionaire shall pay to the Government two hundred thousand United States Dollars (US\$ 200,000) per year, to be spent on **training and institutional support programmes** within the Government. The Concessionaire and the Government may mutually agree to training activities to be funded by Concessionaire. In such instances the agreed amount of funding shall be used as a credit against the following year's training obligation. The first payment shall be made on the anniversary of the Effective Date within the Exploration Period of this EPC and subsequent payments shall be made on the anniversaries thereof.
- (b) **During the Development and Production Period** the Concessionaire shall pay to the Government three hundred thousand United States Dollars (US\$ 300,000) per year to be spent on **training and institutional support programmes** within the Government. The Concessionaire and the Government may mutually agree to training activities to be funded by Concessionaire. In such instances the agreed amount of funding shall be used as a credit against the following year's training obligation. The first payment shall be made within thirty (30) days from the approval of the first Development Plan and subsequent payments shall be made on the anniversary thereof.
- 18.7 The Concessionaire shall pay to the Government two hundred and fifty thousand United States dollars (US\$ 250,000) for social support projects for the citizens of the Republic of Mozambique in areas where Petroleum Operations take place. The Concessionaire may recommend social programs to be funded by the Concessionaire and if agreed by the Government the agreed amount of funding shall be used as a credit against the following year social support obligation. The first payment shall be made within thirty (30) days from the Effective Date. Such annual amount to be paid by the Concessionaire until a total amount of one million United States Dollars (US\$ 1,000,000) has been paid in full.

- 18.8 The Concessionaire shall include as part of the Development Plan proposals for the activities required to satisfy the obligations contained in Article 18.3 during the Development and Production Period.
- 18.9 The sums expended by the Concessionaire to satisfy the obligations contained in this article shall be recoverable costs for the purpose of Annex “C” of this EPC.

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Article 19

Indemnification and Liability

- 19.1 The Concessionaire shall indemnify and hold the Government harmless from and against any and all claims instituted against the Government by third parties in respect of injury, loss or damage caused by the Concessionaire in the conduct of the Petroleum Operations in which the Concessionaire participates, provided that the claims are duly qualified by a third party or the Government. In no case the Concessionaire's liability under this Article shall include punitive damages.
- 19.2 Notwithstanding anything to the contrary in this EPC, the Concessionaire, its Subcontractors and any of its Affiliated Companies carrying out such Petroleum Operations on behalf of the Concessionaire shall not be liable to the Government and the Government shall not be liable to the Concessionaire, for consequential loss or damage including but not limited to inability to produce Petroleum, loss of production, loss of profit or punitive damages.
- 19.3 The Government shall indemnify and hold the Concessionaire, its Subcontractors and any of its Affiliated Companies harmless from and against any and all claims instituted against the Concessionaire, its Subcontractors and any of its Affiliated Companies by third parties in respect of injury, loss or damage caused by the acts or omissions of the Government in its commercial capacity.
- 19.4 Except as provided for in Article 19.8 no Party hereto shall settle or compromise any claim for which another Party is responsible hereunder without the prior written consent of such other Party, and in the event that it does so, the indemnity aforesaid shall not have effect in relation to the claim so settled or compromised.
- 19.5 Subject to Article 19.4, in carrying out Petroleum Operations under this EPC the Concessionaire shall be liable for any injury, loss or damage suffered by the Government and caused by the Concessionaire or by any Affiliated Company or Subcontractor carrying out Petroleum Operations on behalf of the Concessionaire if such injury, loss or damage is

the result of the Concessionaire's, the Affiliated Company's or the Subcontractor's failure to meet the standards required by this EPC.

- 19.6 Any claim pursued by any third parties which would entitle any of the Parties (together the "Indemnified Party") of this EPC to be indemnified by any of the other Parties of this EPC (together the "Indemnifying Party") shall be promptly communicated by notice to the Parties so that the Indemnifying Party may promptly intervene in the claim and pursue its defence. The Indemnified Party which is in breach of the obligation to notify the claim and causes the Indemnifying Party not to be able to properly pursue its defence, shall lose its rights to the indemnification under this Article.
- 19.7 If within thirty (30) days of receipt of such claim notice, the Indemnifying Party notifies the Indemnified Party that it elects to assume the defence of such claim, then the Indemnifying Party shall have the rights to defend, at its cost and expense, such claim by all appropriate proceedings including any compromise or settlement thereof, so long as any settlement agreement does not provide for or result in any continuing liability or obligation on the Indemnified Party in respect of such third party claim.
- 19.8 If the Indemnifying Party fails timely to elect to assume the defence of such claim, then the Indemnified Party shall have the right to defend at the sole cost and expense of the Indemnifying Party the third party claim by all appropriate proceedings including any compromise or settlement thereof.

Article 20

Title

- 20.1 Title to the Concessionaire's entitlement of Petroleum Produced under this EPC shall pass to the Concessionaire at the Wellhead. Thereafter the Government and the Concessionaire shall own the Petroleum jointly, and in undivided shares, until each takes individual title to and delivery of its entitlement of Petroleum at the Delivery Point.
- 20.2 The Concessionaire shall finance the cost of all facilities and equipment to be used in Petroleum Operations. Subject to applicable law and this Article the Concessionaire shall have the right to use such equipment and facilities for Concessionaire Petroleum Operations during the term of this EPC and any extensions thereof until the EPC expires, is surrendered or cancelled, in which case the title to said facilities and equipment at the option of the Government and without additional compensation may be transferred to the Government. In the event that Government requires the transfer of such facilities and equipments to the Government or to a Mozambican Person wholly owned or controlled by the Government, Concessionaire shall be released from all responsibility and liability of every kind pertaining to decommissioning of such facilities and equipments as well as payment of any further funds in the Decommissioning Fund. Government shall indemnify Concessionaire from and against any loss, damage and liability of any nature whatsoever, as well as any claim, action or proceeding instituted against Concessionaire by any person or entity, including, but not limited to any Governmental authority, arising from, or connected with, the continued use of such facilities and equipments and their ultimate decommissioning, as well as any failure by Government or person appointed by Government to properly decommissioning such facilities and equipments.
- 20.3 The Concessionaire shall be the owner of facilities and necessary appurtenant equipment for use in Petroleum Operations under this EPC unless otherwise approved by the Government. The provisions of Article 20.2 above with respect to the title of property passing to the Government shall not apply to equipment approved by the Government as belonging to third parties. Moveable facilities and equipment owned by foreign third

parties may be freely exported from the Republic of Mozambique in accordance with applicable law and the terms of the applicable agreement.

- 20.4 Third parties may subject to terms and conditions stipulated by applicable Petroleum law have the right to the use available spare capacity of facilities and necessary appurtenant equipment on terms and conditions to be agreed between the parties and acceptable to the Government. Such terms and conditions shall include a tariff that shall represent the payment for the Concessionaire's cost of additional investments required for facilitating such third party use as well as operational costs and a profit element reflecting the risk taken by the owner of the facilities. The tariff for third party use of facilities and appurtenant equipment shall be approved by the Government. When the Concessionaire and the third parties wishing to make use of facilities cannot agree to a reasonable tariff for third party use the Government may stipulate the tariff.
- 20.5 Third party use of facilities and necessary appurtenant equipment shall only take place when such third party use is not materially negatively affecting Concessionaire Petroleum Operations and is feasible from a technical, environmental and safety point of view.

Article 21

Rights of Inspection

MIREM shall have the right at its own cost, save for transport and accommodation to be provided by the Concessionaire, to post duly appointed representatives on site on a permanent basis at metering stations, provided that such appointed representatives shall not interfere with any Petroleum Operations.

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Article 22

Accounting and Audits

- 22.1 The Concessionaire shall be responsible for maintaining accounting records of all costs, expenses and credits of the Petroleum Operations in accordance with the provisions of Annex “C” of this EPC. The said accounting records shall be kept in the Republic of Mozambique.
- 22.2 MIREM shall have the right to audit and inspect the Concessionaire’s accounting records in accordance with the provisions of Annex “C”.

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Article 23
Confidentiality

- 23.1 This EPC, the Documentation and other records, reports analyses, compilations, data, studies and other materials (in whatever form maintained, whether documentary, computer storage or otherwise) are confidential (hereinafter referred to as “Confidential Information”) and except as authorised by applicable law or this Article shall not be disclosed to any third party without the prior written consent of all the Parties hereto, which consent shall not be unreasonably withheld.
- 23.2 Nothing in this Article shall prevent the disclosure of Documentation, excluding the Concessionaire's interpretations and assessments, to a third party by the Government:
- (a) if it relates to an area which is no longer part of the EPC Area; or
 - (b) with the written consent of the Concessionaire, which shall not be unreasonably withheld if, in the judgment of the Government the Documentation might have significance for the assessment of prospectivity in an adjoining area over which the Government is offering Exploration rights.
- 23.3 Restrictions on disclosure imposed by this Article shall not apply to a disclosure made reasonably:
- (a) if it is required for the purpose of any arbitration or legal proceedings or claim relating to this EPC or to the Petroleum Operations;
 - (b) to a Subcontractor, or consultant in connection with the conduct of Petroleum Operations;
 - (c) by the Concessionaire or Operator to a third party where such disclosure is essential to the safe conduct of Petroleum Operations;
 - (d) to an Affiliated Company;

- (e) by the Concessionaire to a third party for the purpose of entering into a contract for data exchange with another entity operating in Mozambique where all data exchanged relates to Petroleum Operations within Mozambique;
- (f) by any Person constituting the Concessionaire to a bona fide intending assignee of an interest under this EPC or an interest in any Person constituting the Concessionaire;
- (g) to a third party in connection with and for the purpose of the sale or proposed sale of Petroleum from the EPC Area;
- (h) to a third party in connection with the financing or proposed financing of Petroleum Operations;
- (i) which is required by any applicable law or by the rules or regulations of any recognised stock exchange on which shares of the disclosing Party or any of its Affiliated Companies are listed; or
- (j) if, and to the extent that, it is already public knowledge without improper disclosure hereto.

Any Confidential Information disclosed pursuant to paragraphs (b), (d), (e), (f) or (h) of this Article 23.3 shall be disclosed on terms that ensure that such Confidential Information is treated as confidential by the recipient.

23.4 None of the Persons constituting the Concessionaire shall be required to disclose any of its proprietary technology or that of their Affiliated Companies or proprietary technology of a third party licensed to the Persons constituting the Concessionaire or the Operator.

Article 24
Assignment

- 24.1 Subject to Article 9.14 and this Article the Concessionaire, and where the Concessionaire is more than one Person every Person who constitutes the Concessionaire, may assign to another Person its rights and obligations hereunder or an undivided proportionate part thereof. The same applies to other direct and indirect transfers of interest or participation in the EPC, including, inter alia, assignment of shareholdings or any legal instrument which provides or may provide decisive control over a Person constituting the Concessionaire or its Participating Interest in this EPC. Save as provided in Article 24.2, an assignment shall require the prior written consent of the Minister of Mineral Resources.
- 24.2 No consent shall be required by the Minister of Mineral Resources in case of an assignor who is not in material breach of any of the terms and conditions hereof in respect of an assignment:
- (a) as a result of an Assignment Notice served on a Defaulting Participant under this EPC; or
 - (b) if required to give effect to the default procedures under a joint operating agreement concluded in relation to the Petroleum Operations.
- 24.3 Each assignment made pursuant to this Article shall be effected by an instrument in writing to be executed by the assignee on terms whereby such assignee accepts and agrees to become a Person constituting the Concessionaire and to be bound by the terms and conditions of this EPC including all appurtenant documents required by an administrative decision or applicable law and free of any transfer charge or fees.
- 24.4 No unitisation pursuant to this EPC or applicable law or any adjustment to the portion of the unitised Discovery allocated to the EPC Area shall be considered to be an assignment under this Article.

Article 25
Force Majeure

- 25.1 The non-performance or delay in performance, wholly or in part, by the Government or the Concessionaire of any obligation under this EPC excepting an obligation to make payments hereunder, shall be excused if, and to the extent that, such non-performance or delay is caused by Force Majeure.
- 25.2 For the purpose of this EPC, the term Force Majeure means any cause or event beyond the reasonable control of, and not brought about at the instance of, the Party claiming to be affected by such event, and which has caused the non-performance or delay in performance. Without limitation to the generality of the foregoing, events of Force Majeure shall include natural phenomena or calamities including but not limited to, epidemics, earthquakes, storms, lightning, floods, fires, blowouts, wars declared or undeclared, transboundary hostilities, blockades, civil unrest or disturbances, labour disturbances, strikes, quarantine restrictions and unlawful acts of government.
- 25.3 The Party claiming suspension of its obligations under this EPC on account of Force Majeure shall:
- (a) promptly notify the other Parties of the occurrence thereof;
 - (b) take all actions that are reasonable and legal actions to remove the cause of Force Majeure but nothing herein shall require the Concessionaire, subject to applicable law, to resolve any labour dispute except on terms satisfactory to the Concessionaire; and
 - (c) upon removal or termination thereof, promptly notify the other Parties and take all reasonable action for the resumption of the performance of its obligations under this EPC as soon as possible after the removal or termination of Force Majeure.
- 25.4 Where under this EPC the Concessionaire is required or has the right to do any act or to carry out any programme within a specified period or the rights of the Concessionaire hereunder are to subsist for a specified period the specified period shall be extended so as

to take reasonable account of any period during which by reason of Force Majeure the Concessionaire has been unable to carry out the programme necessary to exercise a right, carry out its obligations or enjoy its rights hereunder.

- 25.5 Where a Force Majeure situation continues for more than fifteen (15) consecutive days, the Parties shall meet forthwith in order to review the situation and to agree on the measures to be taken for the removal of the cause of Force Majeure and for the resumption in accordance with the provisions of this EPC of the performance of the obligations hereunder.

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Article 26
Foreign Exchange Control

26.1 The Concessionaire shall at all times comply with the procedures and formalities relating to dealings in foreign exchange which may be in force in the Republic of Mozambique from time to time and the Government undertakes to ensure that those procedures and formalities will not in any way diminish the rights accorded to the Concessionaire under clauses 26.2 to 26.8.

26.2 The Concessionaire shall have the right but not the obligation:

- (a) to open and keep one or more accounts denominated in Mozambican currency with any bank in the Republic of Mozambique authorised by Banco de Mozambique for this purpose and to dispose freely of the sums deposited therein without restriction.

Such accounts may be credited only with:

- (i) the proceeds of the conversion into Mozambican currency pursuant to Article 26.2(c) of United States dollar funds deposited in the accounts referred to in Article 26.2(b);
- (ii) the unused balance of any sums drawn from such account; and
- (iii) amounts received in Mozambican currency in respect of funds related to Petroleum Operations including sale of Petroleum or of any rental, refund or other credit received by the Concessionaire which apply to any change made to the accounts under this EPC.

- (b) to open and keep one or more accounts denominated in United States dollars, with any bank in the Republic of Mozambique authorised by Banco de Mozambique for this purpose, to freely import and deposit into such account funds required for the conduct of Petroleum Operations and to freely dispose of the sums deposited therein without restriction, provided always that such accounts are credited only with sums deposited in United States dollars:

- (c) to purchase Mozambican currency from banks in the Republic of Mozambique, exchange houses, other financial institutions, authorised by Banco de Mozambique for this purpose.
- 26.3 (a) The Concessionaire and the Operator acting on behalf of the Concessionaire shall have the right to open and keep up to four (4) accounts (as well to open and keep further accounts outside the Republic of Mozambique with the prior consent of the Bank of Mozambique) with any bank outside the Republic of Mozambique, in any foreign currency, and freely dispose of the sums deposited therein without restriction, with funds related to Petroleum Operations. Such accounts, however, shall not be credited with the proceeds of the sale of Mozambican currency without the prior consent of the Bank of Mozambique except for funds generated by the sale within the Republic of Mozambique of Petroleum, or of assets held in respect of Petroleum Operations., which may be credited to the aforesaid accounts without the need for prior consent.
- (b) Save in respect of funds needed by the Concessionaire to discharge its obligations under this EPC to the Government, which payments may be made out of proceeds deposited in such offshore accounts, the Concessionaire shall have the right to retain abroad all proceeds and payments under this EPC received in said bank accounts, and to dispose freely of the same without any obligation to convert the whole or any part of such proceeds and payments to Mozambican currency or to otherwise repatriate the same or any part thereof to the Republic of Mozambique; provided, however, that subject to applicable law, the estimated amount of tax due in respect of the Concessionaire's share of Profit Petroleum shall be remitted to an account in the Republic of Mozambique within 45 days, and all amounts to which the Government is entitled shall be remitted to the Republic of Mozambique within 30 days.
- (c) All payments to the Government and/or to ENH shall be made in United States dollars, unless the Parties have agreed otherwise, to two accounts domiciled in the

Republic of Mozambique, the first to be indicated by the Government and the other by ENH.

- (d) The Concessionaire shall be obliged to report periodically on the operation of the accounts referred to in clause 26.3(a), above. Specifically, the Concessionaire shall copy the Government on monthly bank statements received. The Government shall be entitled to audit such accounts. Amounts spent on any such audits shall be cost recoverable. The Concessionaire shall waive banking confidentiality as to the Government in respect of such accounts in order to facilitate any such audits.
- 26.4 Subject to withholding tax due, all non-resident Subcontractor and all of the Expatriate Personnel of the Concessionaire, the Operator or of any Subcontractors, shall be entitled to receive in any currency other than Mozambican currency the whole or any part of his compensation outside the Republic of Mozambique. All payments to resident subcontractors shall be made exclusively in Mozambique.
- 26.5 This foreign exchange regime shall not apply to ENH or its legal successor, in the event that same is a Mozambican Person, as a Person constituting Concessionaire under this EPC, which shall be subject to the regime set forth in applicable law.
- 26.6 Subject to clause 26.3(b), above, the Concessionaire may receive, remit and retain abroad and freely dispose of all or any part of the proceeds realised from the sale of its share of Petroleum, including the portion of Crude Oil for the recovery of costs and the Profit Petroleum to which it is entitled.
- 26.7 Subject to withholding tax due, the Concessionaire shall have the right freely to declare and pay dividends to their shareholders and to remit the same abroad under the terms of the applicable law.
- 26.8 The Government and the Concessionaire shall develop procedures under which amounts demonstrably expended under this EPC that are cost recoverable, as well as such further amounts demonstrably expended as may be classifiable as capital expense under applicable law, shall be entitled to capital registration notwithstanding the account from which the corresponding expenses were made.

Article 27

Nature and Extent of the Rights of the Concessionaire

- 27.1 Subject to any right that the Government may have under the laws of Mozambique for imperative reasons in the national interest to acquire Petroleum to which the Concessionaire holds title, and the right of the Government to collect Petroleum Production Tax in kind pursuant to Article 11.6(d) the Concessionaire may, by export or otherwise, freely sell or otherwise dispose of its entitlement to Petroleum as provided for in this EPC.
- 27.2 The rights granted under this EPC to the Concessionaire and its Subcontractors shall include the right of use and enjoyment of the land and maritime areas encompassed in the EPC Area, for the purpose of conducting Petroleum Operations. For that purpose Concessionaire and its Subcontractors may construct and operate such works, facilities, platforms, structures and pipelines as may be necessary. Such rights to be exercised by the Concessionaire provided, however, that the lawful occupier of any land in the EPC Area shall retain any rights he may have to graze stock upon or cultivate the surface of the land, except to the extent that such grazing or cultivation interferes with Petroleum Operations in any such area. Further, for the purpose of conducting Petroleum Operations, Concessionaire and its Subcontractors may conduct and operate works, facilities, platforms, structures and pipelines necessary in the EPC area. Such rights to be exercised by the Concessionaire, provided, however, that such Persons shall retain rights they may have to fishing or aquaculture, except to the extent such activities interfere with Petroleum Operations in such area.
- 27.3 The right of the Concessionaire to use the land, maritime area or sea bed shall continue to apply to acreage initially included within the EPC Area but subsequently relinquished in accordance with the terms of this EPC where such use is reasonably necessary for purposes of conducting Petroleum Operations in the EPC Area then remaining under this EPC.
- 27.4 For the purposes of carrying out Petroleum Operations, the Concessionaire and any Subcontractors shall have at all times access to and from the EPC Area and to any other area in the Republic of Mozambique where the Concessionaire has acquired or constructed facilities, subject to Articles 27.9(f) and (g).

- 27.5 The rights of the Concessionaire under Articles 27.2, 27.3, 27.4, 27.8, and 27.9 shall be exercised reasonably so as to affect as little as possible the interests of any lawful occupier of land in the EPC Area.
- 27.6 Where in the course of conducting Petroleum Operations in the EPC Area the Concessionaire causes disturbance to the rights of the lawful occupier of any land or causes damage to his growing crops, trees, buildings, stock or works the Concessionaire shall pay to the lawful occupier such compensation in respect of any such disturbance or damage as may be agreed by a settlement or as Concessionaire may be adjudged liable to pay by final, non-appealable order or judgement of a court or arbitral body under Mozambican jurisdiction.
- 27.7 Where in the course of conducting Petroleum Operations in the EPC Area the Concessionaire causes disturbance to the rights of a Person having their fishing fields or grounds occupied, aquaculture activities limited, fishing or aquaculture equipment moved to less favourable locations from a maritime resource management or commercial point of view, as well as having their equipment, catch or harvest polluted or damaged the Concessionaire shall pay to the Person affected such compensation in respect of any such demonstrable disturbance or damage as may be agreed by settlement or as Concessionaire may be adjudged liable to pay by final, non-appealable order or judgement of a court or arbitral body under Mozambican jurisdiction.
- 27.8 Where the amount of any compensation to be paid pursuant to Articles 27.6 and 27.7 is in dispute, the matter shall be referred for determination to a sole expert pursuant to Article 30.6 as though it were a matter in dispute between the Parties.
- 27.9 For the purposes described in this Article the following rights are granted to the Concessionaire subject to and in accordance with the provisions of the work programme related thereto and applicable law:
- (a) to drill for and have the free use of water and impound surface waters and to establish systems for the supply of water for the Petroleum Operations and for consumption by its employees and its Subcontractors;

- (b) with the consent of, and subject to such terms and conditions agreed with, any Person having the right to dispose of such minerals, to carry away and use for Petroleum Operations in Mozambique, materials such as gravel, sand, lime, gypsum, stone and clay; provided that if the Person having the right to dispose of the same is the Government or an agency of Government; then Concessionaire shall have the use of such minerals for the Petroleum Operations in accordance with applicable law;
- (c) to erect, set up, maintain and operate engines, machinery, pipelines, gathering lines, umbilicals, storage tanks, compressor stations, pumping stations, houses, buildings and all other constructions, installations, works, platforms, facilities and other fixtures which are required in furtherance of its Petroleum Operations;
- (d) to erect, set up, maintain and operate all communication and transportation systems and facilities but shall not, save for temporary purposes, do so unless drawings of and locations for their sites have been submitted to and approved by the Government, under reasonable conditions of installation and operation of such systems and facilities;
- (e) to erect, maintain and operate harbour and terminal facilities for use exclusively in Petroleum Operations, together with the necessary means of communication and transport between such facilities and any part of the EPC Area; provided that the consent of the Government to the location of such works shall first be obtained;
- (f) with respect to lands located outside of the EPC Area, to have the right of way over land not in the beneficial occupation of any Person and in the case of land in the beneficial occupation of the Government or any state company, agency or instrumentality of the Government to have right of way on such reasonable terms and conditions as the Government and the Concessionaire may agree; and
- (g) with respect to lands located outside of the EPC Area, to have, otherwise than aforesaid, the use of land necessarily required for the conduct of Petroleum Operations with the agreement of the Person holding a right affected, including the

lawful occupier of land or, in the case of unoccupied land or land occupied by the Government or any state company, agency or instrumentality of the Government on such reasonable terms and conditions as the Government shall specify, provided that if the Concessionaire is unable to reach agreement with the Person so affected on the terms and conditions for the use of any such right including land the Concessionaire shall immediately notify the Government. If the use of the rights by the Concessionaire is to be of a temporary nature, not exceeding one (1) year, the Government shall authorise such temporary use upon deposit by the Concessionaire with the Government of a sum by way of compensation to such Person holding the right for loss of use and damage to its interest. If the use is required to be for a period longer than one (1) year, the Government shall authorise the use by the Concessionaire of the right in question upon deposit by the Concessionaire with the Government of such sum by way of compensation and shall direct appropriate proceedings to grant the Concessionaire the right to use and legally utilize the right under the law at the moment in force as if the Petroleum Operations were in all respects a work of public utility.⁴

27.10 The Concessionaire shall be subject to the procedures and formalities required by applicable law for the exercise of the rights set forth in this Article.

27.11 (a) In the event that the Government exercises any right it may have under the applicable laws to acquire for imperative reasons in the national interest Petroleum belonging to the Concessionaire, the Government shall give not less than forty five (45) days' notice of the exercise of such right and of the volumes it wishes to acquire, and the Concessionaire shall supply the volumes so notified from the Petroleum to which the Concessionaire is entitled under this EPC at the Delivery Point or such point that may be agreed or such point within Mozambican jurisdiction designated by the Government. Additional cost incurred by Concessionaire in order to deliver such Petroleum at any other point than the Delivery Point with facilities and equipment in place, as well as other necessary costs related to the delivery of such Petroleum, shall be reimbursed to the

Concessionaire by Government and the cost of any new facilities and equipment to be used for such delivery shall be paid by the Government.

- (b) The Government shall pay the Concessionaire the full market value of the Petroleum so acquired determined in accordance with Article 10. Payment for the Petroleum so acquired in any calendar month shall be made in United States dollars within thirty (30) days after the end of that calendar month. The Concessionaire may receive, remit and retain abroad and freely dispose of all or any part of the sums so paid.
- (c) The Government shall not exercise its right to acquire Petroleum belonging to the Concessionaire:
 - (i) in respect of any month unless during that month the Government is taking Petroleum Production Tax entirely in kind pursuant to Article 11.5;
 - (ii) unless it is also exercising the same right rateably among all producers of Petroleum within the Republic of Mozambique (to the extent practicable taking into account the geographical location of the production in relation to the geographical location of the requirements).

27.12 The Government undertakes that so long as this EPC subsists:

- (a) The Government, its political subdivisions, agencies and instrumentalities, to the extent that they have or may acquire the power to do so, will not expropriate, nationalise or intervene in the assets, rights, interests or any other property of any kind of the Concessionaire held for the purpose of Petroleum Operations including the rights held by the Concessionaire hereunder.

Without prejudice to the rights of the Government acting through MIREM to regulate Petroleum Operations in the Republic of Mozambique, for the purpose of this undertaking, the Government shall be deemed to have intervened in the property or assets of the Concessionaire if (otherwise than pursuant to a judgment or in exercise of its rights as a mortgage creditor, or in accordance with the law of

insolvency, liquidation or creditor's rights) it assumes power of management over such property or assets or exercises effective control of such property or assets.

- (b) In the event of a breach of Article 27.12(a), nothing in the provisions of Article 19.5 shall be read or construed as preventing consideration of the projected flow of profits (if any) from Petroleum Operations hereunder for the purpose of determining the value of property or assets expropriated, nationalised or made subject to intervention.
- (c) In the event that the Petroleum Law is repealed or amended, the Government undertakes to ensure that this EPC remains in full force and effect provided always that nothing in this provision will be construed as requiring the Government to relieve the Concessionaire from compliance with the provisions of applicable law relating to Petroleum Operations, not inconsistent herewith, which may be in force from time to time.

27.13 (a) Where for the purpose of conducting Petroleum Operations hereunder the Concessionaire, Operator or any Subcontractor requires from MIREM, the Government or from any agency or instrumentality of the Government or from a political subdivision thereof any approvals, licenses, permits, authorisations, consents or releases or any assistance, advice or guidance relating to the above, then subject to the terms and conditions of this EPC, the same shall be granted or given expeditiously and without undue delay.

- (b) Without prejudice to the generality thereof, the undertaking set out in Article 27.13(a) shall apply to:
 - formalities relating to the import and export of goods including the export of Petroleum Produced hereunder;
 - formalities relating to the use by the Concessionaire of any form of transport for the movement of employees, equipment and materials and to the use of communication and port facilities in the Republic of Mozambique;

- the grant of permits or other approvals required for the admission into and employment in the Republic of Mozambique of Expatriate Personnel;
- the grant of land rights or the permits or other approvals necessary for the use of land in accordance with this Article 27;
- the grant of rights to take or use water and minerals;
- procedures and formalities relating to foreign exchange; and
- approval of assignments and, to the extent required, transactions relating to the shares of any Person constituting the Concessionaire.

The Government will expedite all formalities regarding the Concessionaire's registration to do business in Republic of Mozambique and the registration of any leases, contracts or other documents. The Government will, to the extent that circumstances and resources permit, ensure that the Concessionaire and its employees and property enjoy reasonable protection in Republic of Mozambique.

27.14 In the event of changes in Petroleum legislation or in other Mozambican legislation affecting Petroleum Operations that may, individually or in the aggregate, create a material adverse effect to the economic benefits of the Concessionaire or to the State in terms of this EPC, the Parties shall as soon as possible after any of the above-mentioned situations occur, meet to verify and agree on the changes, in all cases, that may be required to the EPC in order to restore as closely as possible, the economic benefits that the Concessionaire would have derived if the change in the legislation had not been effected.

The provisions of this article shall not be read or construed as imposing any limitation or constraint on the scope, or due and proper enforcement, of Mozambican legislation which does not discriminate, or have the effect of discriminating, against the Concessionaire, and provides for the protection of health, safety, labour or the environment, or for the regulation of any category of property or activity carried on in Mozambique, provided, however, that the Government will at all times during the period of Petroleum Operations ensure that, in accordance with the terms of Article 31, measures taken for the protection of health, safety, labour or the environment are in accordance with standards that are reasonable and generally accepted in the international petroleum industry.

Article 28

Protection of the Environment

- 28.1 The Government will at all times during the life of the Petroleum Operations ensure in accordance with this Article, that measures taken in the interest of safety, health, welfare or the protection of the environment are in accordance with standards generally accepted from time to time in the international petroleum industry and are not unreasonable.
- 28.2 In carrying out Petroleum Operations hereunder the Concessionaire shall:
- (a) in accordance with accepted standards in the international petroleum industry employ up-to-date techniques, practices and methods of operation for the prevention of environmental damage, the control of waste and the avoidance of unnecessary loss of, or damage to, natural resources;
 - (b) observe applicable laws and regulations of general application in force from time to time in the Republic of Mozambique for the protection of the environment; and
 - (c) comply strictly with the obligations relating to the protection of the environment it has assumed under any approved Development Plan.
- 28.3 The Concessionaire undertakes for the purposes of this EPC to take all necessary and adequate steps in accordance with Good Oilfield Practice to:
- (a) ensure, if the Concessionaire is otherwise legally responsible, proper compensation for injury to Persons or damage to property caused by the Petroleum Operations;
 - (b) avoid irremediable environmental damage to the EPC Area and adjoining or neighbouring lands and marine areas caused by the Concessionaire's Petroleum Operations; and
 - (c) rehabilitate at its own cost all areas that suffer environmental damage as a result of the Petroleum Operations.

- 28.4 If the Concessionaire fails to comply with the terms of Articles 28.2 or 28.3 or contravenes any law on the prevention of environmental damage and such failure or contravention results in any environmental damage, the Concessionaire shall take all necessary and reasonable measures to remedy such failure or contravention and the effects thereof.
- 28.5 (a) If the Government has reasonable grounds to believe that any works or installations erected by the Concessionaire or any operations carried out by the Concessionaire in the EPC Area are endangering or may endanger Persons or any property of any other Person or is causing pollution or harming wildlife or the environment to a degree which the Government considers unacceptable, the Government shall notify the Concessionaire of its concerns and the Government and the Concessionaire shall immediately consult to agree on remedial measures to be taken by the Concessionaire. Said remedial measures will be undertaken within a reasonable period of time to repair any damage and to prevent further damage to the extent reasonably practicable. If there is a disagreement between the Government and the Concessionaire regarding the existence of a problem of the type described in this Article or the remedial action to be taken by the Concessionaire, such matter shall be submitted to a sole expert for determination pursuant to Article 30.6.
- (b) In the case of any matter referred to a sole expert under Article 28.5(a), if requested by the Government, the Concessionaire shall undertake such temporary measures to address the Government's concerns as may be reasonably requested by the Government.
- 28.6 Without limitation to the generality of Articles 28.2, 28.3, 28.4 and 28.5, the Concessionaire shall cause a consulting firm or individuals, approved by the Government on account of their special knowledge of environmental matters to carry out an environmental impact study on terms of reference determined by the Concessionaire and approved by the Government, in order to establish what the effect will be on the environment, human beings, wildlife or marine life in the EPC Area in consequence of the Petroleum Operations to be undertaken under this EPC.

- 28.7 If the Concessionaire fails to comply with any terms contained in this Article within a reasonable period of time the Government may, after giving the Concessionaire notice of such failure to comply and a reasonable period of time necessary to take corrective action, take any action which may be necessary to cure such failure, and recover, immediately after having taken such action, all expenditure incurred in connection with such action from the Concessionaire together with interest at the prevailing LIBOR rate calculated from the date such expenditure is made until repaid. "LIBOR" meaning the annual rate equal to the average three (3) month term compounded quarterly at the London inter-bank offered rate for United States dollar deposits as published by the Wall Street Journal or, if not published therein, then by the Financial Times of London. Should a rate not be quoted for a relevant date (such as weekends or public holidays), then the first subsequent quoted rate shall be used.
- 28.8 The Concessionaire and MIREM shall notify each other of any environmentally, archaeologically, historically or similarly protected areas or features which might be affected by the Petroleum Operations.
- 28.9 In the event that Petroleum Operations are intended to be conducted within the boundaries of any protected area within the EPC Area, the Concessionaire shall obtain such additional approvals from the Government, as may be required by applicable law.

Article 29

Surrender and Cancellation

29.1 The Concessionaire on giving to MIREM not less than thirty (30) days' notice may:

- (a) if its obligations in respect of any Exploration Period have been fulfilled, at any time thereafter surrender its rights in respect of the entire EPC Area with the consequence that no new obligations will thereafter accrue; and
- (b) at any time, surrender its rights in respect of any acreage forming part of the EPC Area with the consequence that no new obligations will thereafter accrue in respect of such acreage; provided, however, that:
 - (i) no surrender by the Concessionaire of its rights over any part of the EPC Area shall relieve the Concessionaire of any of its obligations as set out in Article 4; and
 - (ii) any area surrendered shall be continuously delineated by meridians and parallels of latitude expressed in whole minutes of a degree.

29.2 Unless otherwise provided in this Article, the Government may, by notice to the Concessionaire, cancel this EPC for the reasons given in applicable law, including in any of the following events:

- (a) the Concessionaire is in material breach of the terms and conditions of this EPC;
- (b) the Concessionaire fails to materially comply within a reasonable period of time with any final decision reached as a result of arbitration proceedings conducted pursuant to Article 30.2 or fails within a reasonable period of time to accept as final and binding the decision of a sole expert to whom, pursuant to this EPC, any matter has been referred under Article 30.6;
- (c) where the Concessionaire is one Person, an order is made or a resolution is passed by a court of competent jurisdiction winding up the affairs of the Concessionaire unless the winding up is for the purpose of amalgamation or reorganisation and the

Government has been notified of the amalgamation or reorganisation, or if without the approval of the Government, the majority of the shares in the Concessionaire are acquired by third parties other than an Affiliated Company; or

- (d) the Concessionaire is more than one Person and all Persons who constitute the Concessionaire are for the purpose of Article 29.3(a) Defaulting Participants.

29.3 (a) In the event that more than one Person constitutes the Concessionaire, and in respect of any such Person (hereinafter in this Article referred to as the “Defaulting Participant”) an event occurs of the kind described in Article 29.2(c) or any such Person (also hereinafter referred to as the “Defaulting Participant”) is in material breach of an obligation under this EPC which as provided in Article 5.2(a) is a several obligation, the Government will not be entitled to cancel this EPC pursuant to Article 29.2 or otherwise, unless all the Persons who constitute the Concessionaire are Defaulting Participants, but may subject to Article 29.4, serve on the Defaulting Participant a notice (hereinafter referred to as an “Assignment Notice”).

- (b) Where an Assignment Notice has been served on a Defaulting Participant, the Defaulting Participant shall forthwith, unconditionally, without consideration, and free from all encumbrances assign its undivided participating share in this EPC to the other Persons who constitute the Concessionaire (the “Non-Defaulting Participants”) in undivided shares in proportion to the undivided shares in which the Non-Defaulting Participants hold their shares in this EPC, and each of the Non-Defaulting Participants shall be obliged to accept that assignment. A Non-Defaulting Participant accepting such an assignment shall not be responsible for any obligations of the assigning Defaulting Participant to the Government or any third party which accrued prior to the assignment.

29.4 The Government may cancel this EPC pursuant to Article 29.2 or serve an Assignment Notice under Article 29.3 only if:

- (a) the Government gives not less than ninety (90) days' notice (the "Notice") to the Concessionaire or, as the case may be, the Defaulting Participant, of an intention to cancel this EPC or to serve an Assignment Notice stating in detail in the Notice the alleged material breach or other grounds for cancellation or service of an Assignment Notice relied upon by the Government;
- (b) the Concessionaire or the Defaulting Participant is given a period of thirty (30) days from its receipt of the Notice to provide any information it wishes the Government to consider;
- (c) the Concessionaire or Defaulting Participant is given a period of sixty (60) days from its receipt of the Notice:
 - (i) to cure or remove such material breach or other grounds specified in the Notice for cancellation or service of an Assignment Notice; or
 - (ii) if such material breach or other grounds aforesaid cannot be cured or removed within such sixty (60) day period, to immediately begin efforts to cure or remove the alleged material breach or other grounds aforesaid and to diligently pursue such efforts; or
 - (iii) where it is impossible to cure or remove such material breach or other grounds aforesaid, to pay reasonable compensation to the Government, in respect thereof; and
- (d) the Concessionaire or the Defaulting Participant either:
 - (i) has failed within the said sixty (60) days to cure or remove such material breach or other grounds aforesaid pursuant to Article 29.4(c)(i); or
 - (ii) has failed to diligently pursue efforts to cure or remove such material breach or other grounds aforesaid pursuant to Article 29.4(c)(ii); or

- (iii) in the event that it is impossible to cure or remove such material breach or other grounds aforesaid, has failed within the said sixty (60) days to pay reasonable compensation;

and the Concessionaire or the Defaulting Participant has not commenced arbitration proceedings pursuant to Article 29.5.

29.5 And dispute between the Parties as to whether:

- (a) there are grounds under Article 29.2 on which this EPC may be cancelled;
- (b) there are grounds under Article 29.3 on which an Assignment Notice may be served on any Person;
- (c) the requirements of Article 29.4(a), (b) and (c) have been satisfied; or
- (d) the Concessionaire or, as the case may be, the Defaulting Participant has remedied or removed a ground in respect of which this EPC may be cancelled under Article 29.2 or an Assignment Notice served under Article 29.3 or whether full, prompt and effective compensation has been paid in respect of grounds for cancellation or the service of an Assignment Notice which are impossible to remedy or remove

shall be referred to arbitration under Article 30.

- 29.6 (a) Where notice of a dispute has been given by the Concessionaire in respect of any of the matters specified in Article 29.5, the Government may not pursuant to Article 29.2 cancel this EPC until the matter or matters in dispute have been resolved by an award and in that event only if cancellation is consistent with the award rendered;
- (b) Where the existence of a material breach of the terms and conditions of this EPC relates to a matter in dispute between the Government and the Concessionaire which has been referred for determination by a sole expert pursuant to Article 30.6, a notice served on the Concessionaire pursuant to Article 29.4 may not rely upon that matter as a reason for the intended cancellation of this EPC until the sole expert

has determined the matter and in that event only if cancellation would be consistent with the way in which the matter has been so determined.

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Article 30

Consultation, Arbitration and Independent Expert

- 30.1 For the purpose of this article there are two Parties, the Government and the Concessionaire.
- 30.2 A dispute shall be resolved, if possible, by negotiation between the Parties. A notice of the existence of a dispute shall be given by a Party to another in accordance with the provisions of Article 35. In the event that no agreement is reached within thirty (30) days after the date one Party notifies the other that a dispute exists, or such longer period that is specifically provided for elsewhere in this EPC, either Party shall have the right to have such dispute determined by arbitration or an expert as provided for in this Article 30. Arbitration and expert determination as aforesaid shall be the exclusive method of determining a dispute under this EPC.
- 30.3 Subject to the provisions of this Article 30, and save for any matter to be referred to a sole expert as provided in clause 30.6, the Parties shall submit any dispute arising out of or in connection with this EPC which cannot be resolved by negotiation as provided in clause 30.2 to arbitration as hereinafter provided:
- (a) the dispute shall be submitted to the International Centre for Settlement of Investment Disputes (“ICSID”) for settlement by arbitration pursuant to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States in accordance with the arbitration rules thereof in effect on the Effective Date (the “Convention”). It is hereby stipulated that the transaction to which this EPC relates is an investment;
 - (b) the seat of the arbitration shall be Geneva, Switzerland and the law of the merits of the arbitration shall be Mozambique law. The arbitration shall be conducted in the English language. If for any reason an ICSID arbitral tribunal declines to approve Geneva as the place of arbitration, the place of arbitration for that case shall be the Permanent Court of Arbitration in The Hague. Notwithstanding Article 32, the

English version of this EPC signed by the Parties shall be used as the official translation in arbitral proceedings;

- (c) if the dispute is not between one or more Parties who are nationals of a Contracting State, on the one hand, and the Government and/or ENH, on the other hand, or if for any reason the Centre refuses to register a request for arbitration or an arbitral tribunal established in accordance with the ICSID Arbitration Rules determines that the dispute is not within the jurisdiction of the Centre, the dispute shall be settled by arbitration in accordance with the UNCITRAL Arbitration Rules. In the event that UNCITRAL Arbitration Rules shall be applied, the appointing authority shall be the Permanent Court of Arbitration in The Hague;
- (d) an award by an arbitrator or arbitrators shall be final and binding on all Parties;
- (e) the arbitral panel shall be composed of three (3) arbitrators to be appointed in accordance with the ICSID Rules, provided that, upon mutual agreement of both Parties, the arbitration may be conducted by a sole arbitrator appointed under the ICSID Rules. Unless both Parties have agreed that the dispute shall be settled by a sole arbitrator, the claimant Party shall nominate in the request for arbitration, and the respondent Party shall nominate within thirty (30) days of the registration of the request, one (1) arbitrator pursuant to the ICSID Rules. Within a period of thirty (30) days from the date when both arbitrators have accepted their appointments the arbitrators so appointed shall agree on a third arbitrator, who shall act as Chairman of the arbitral tribunal. If either Party fails to nominate an arbitrator as provided above, or if the arbitrators nominated by the Parties fail to agree on a third arbitrator within the period specified above, then ICSID shall make such appointments as necessary in accordance with the ICSID Rules. If both Parties have agreed that the dispute shall be settled by a sole arbitrator the sole arbitrator shall be nominated by agreement between them subject to acceptance by the nominated arbitrator; provided that if the Parties are unable to agree on a nominee for sole arbitrator within thirty (30) days from the date of the registration of the request, then ICSID shall appoint the sole arbitrator in accordance with the ICSID Rules;

- (f) insofar as practicable, the Parties shall continue to implement the terms of this EPC notwithstanding the initiation of arbitral proceedings and any pending disputes; and
- (g) the provisions set out in this Article 30 shall continue after the termination of this EPC; and
- (h) Neither any sole expert nor any arbitrator of the arbitral tribunal, as applicable, shall be of the same nationality as any Party.

30.4 An award or a decision, including an interim award or decision, in arbitral proceedings pursuant to this Article 30 shall be binding on the Parties and judgment thereon may be entered in any court having jurisdiction for that purpose. Each of the Parties hereby irrevocably waives any defences based upon sovereign immunity and waives any claim to immunity:

- (a) in respect of proceedings in aid of arbitration or to enforce any such award or decision including, without limitation, immunity from service of process and from the jurisdiction of any court; and
- (b) in respect of immunity from the execution of any such award or decision against the property of the Republic of Mozambique held for a commercial purpose.

Parties in this clause 30.4 shall be understood to include each Person constituting the Concessionaire.

30.5 Any matter in dispute of a technical nature not involving interpretation of law or the application of this EPC and which is required to be referred to a sole expert for determination under the provisions of this EPC, including Articles 10.3(e) and 28.5(a) of this EPC and Article 2.1(e) of Annex “C” or other issues of a substantially equivalent nature to said clauses (or with respect to any other matter which the Parties may otherwise agree to so refer) shall be referred by a Party giving notice to such effect pursuant to Article 35. Such notice shall contain a statement describing the dispute and all relevant information associated therewith. A sole expert shall be an independent and impartial person of international standing with relevant qualifications and experience appointed pursuant to

the mutual agreement of the Parties. Any sole expert appointed shall act as an expert and not as an arbitrator or mediator and shall be instructed to endeavour to resolve the dispute referred to him within thirty (30) days of his appointment, but in any event within sixty (60) days of the appointment. Upon the selection of the sole expert, the Party receiving the notice of referral above shall submit its own statement containing all information it considers relevant with respect to the matter in dispute. The decision of the sole expert shall be final and binding and not subject to any appeal, save for fraud, corruption or manifest disregard of applicable procedure of this EPC. If the Parties are unable to agree on the appointment of a sole expert within twenty (20) days after a Party has received a notice of referral under this Article the sole expert shall be selected by the ICC Centre for Expertise, and the person so selected shall be appointed by the Parties.

- 30.6 The sole expert shall decide the manner in which any determination is made, including whether the Parties shall make oral or written submissions and arguments, and the Parties shall co-operate with the sole expert and provide such documentation and information as the sole expert may request. All correspondence, documentation and information provided by a Party to the sole expert shall be copied to the other Party, and any oral submissions to the sole expert shall be made in the presence of all Parties and each Party shall have a right of response. The sole expert may obtain any independent professional or technical advice as the sole expert considers necessary. The English version of this EPC signed by the Parties shall be used as the official translation in any determination by the sole expert. The fees and expenses of a sole expert appointed under the provisions of Article 30.5 shall be borne equally by the Parties.
- 30.7 The Parties hereby agree not to exercise any right to institute legal proceedings under any law or jurisdiction to set aside any interim or final arbitral award made pursuant to this Article 30 except that nothing in this Article 30.7 shall be read or construed as imposing any limitation or constraint on either Party's right to seek to nullify any such interim or final arbitral award (a) rendered by an ICSID arbitral tribunal on the limited grounds and in accordance with the procedure set forth in Article 52 of the Convention or (b) rendered by the arbitral tribunal pursuant to the UNCITRAL Arbitration Rules on the limited grounds set forth in Article 52 of the Convention.

Article 31
Applicable Law

- 31.1 This EPC shall be governed by and construed in accordance with the applicable laws of the Republic of Mozambique.
- 31.2 (a) The Government and the Concessionaire agree to cooperate on preventing corruption. The parties undertake to take administrative disciplinary actions and rapid legal measures in their respective responsibilities to stop, investigate and prosecute in accordance with national law any person suspected of corruption or other intentional misuse resource.
- (b) No offer, gift, payments or benefit of any kind, which would or could be construed as an illegal or corrupt practice, shall be accepted, either directly or indirectly, as an inducement or reward for the execution of this EPC or for doing or not doing any action or making any decision in relation to this EPC.
- (c) The above is equally applicable to the Concessionaire, its Affiliated Companies, agents, representatives, sub-contractors or consultants when such offer, gift, payments or benefit violate:
- (i) the applicable laws of the Republic of Mozambique;
 - (ii) the laws of the country of formation of the Concessionaire or of its ultimate parent company (or its principal place of business); or,
 - (iii) the principles described in the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, signed in Paris on December 17, 1997, which entered into force on February 15, 1999, and the Convention's Commentaries.
- 31.3 References in this EPC to applicable law are without prejudice to the rights of the Parties under Article 27.14 when such applicable law is Mozambican law.

Article 32

Language

This EPC has been drawn up in the Portuguese and English languages and three (3) originals of each version have been prepared for signature by the Government and the Concessionaire. One (1) signed original of each version will be retained by the Parties. Both the Portuguese and English versions are binding. However, the Portuguese text will prevail in case of conflict.

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Art 33 - Joint Operating Agreement

- 33.1 A joint operating agreement shall be signed between Persons constituting the Concessionaire immediately upon execution of this EPC.
- 33.2 The joint operating agreement is subject to the approval of the Government and such an approval is a condition for the EPC.
- 33.3 Every agreement other than the joint operating agreement relating to the Petroleum Operations made between the Persons who constitute the Concessionaire shall be consistent with the provisions of this EPC and shall be submitted to MIREM as soon as the same has been executed.

Article 34
Future Agreements

It is understood that any written agreement which may at any time be concluded between the Concessionaire on the one hand and the Government on the other, as may be required or desired within the context of this EPC shall be deemed to have been approved to the same extent as if it was originally included in this EPC.

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Article 35

Notices

35.1 All notices, invoices and other communications hereunder shall be deemed to have been properly given or presented, if delivered in writing in person or by courier or sent by facsimile confirmed by courier at the addresses indicated in Article 35.2 with the charges associated with the delivery of the notice, invoice or other communication being paid by the sender.

35.2 All such notices shall be addressed to the Government or the Concessionaire, as the case may be, as follows:

(a) The Government

MINISTÉRIO DOS RECURSOS MINERAIS
Prédio Montepio, Avenida Fernão de Magalhães, 34, 1st floor
Caixa Postal 4724
Maputo, Mozambique

Attention: Chairman of the National Petroleum Institute
Telephone: +258 21 320935
Telefax: +258 21 430 850

(b) Eni East Africa S.p.A.

Via Emilia, 1 — 20097 San Donato Milanese (MI)
Italia
PO BOX: 20097

Attention: Chairman
Telephone: + 39 02 52064582
Telefax: + 39 02 52063259

(c) Empresa Nacional de Hidrocarbonetos E.P.

Av. 25 de Setembro, 270, block 1

Time Square, 4th floor
Caixa Postal 4787
Maputo, Mozambique

Attention: Chairman

Telephone: +258 21 429456

Telefax: +258 21 324808

35.3 Subject to Article 35.4 each Party hereto may substitute or change the aforesaid address by giving written notice thereof to the others.

35.4 The Concessionaire shall at all times maintain an address in Maputo for the purpose of service of notice.

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IN WITNESS WHEREOF, the Government and the Concessionaire have signed this EPC in three (3) originals in each of the Portuguese and English languages, as of the date first herein above stated.

The Government

By: /s/ Esperanca Laurinda Bias
Name: Esperanca Laurinda Francisco
Nhiuane Bias
Title: Minister of Mineral Resources
Date: 20/12/06

Eni East Africa S.p.A.

By: /s/Aldo Napolitano
Name: Aldo Napolitano
Title: Chairman
Date: 20/12/06

**Empresa Nacional de Hidrocarbonetos
E.P.**

By: /s/ Issufo Anuar Dauto Abdula
Name: Issufo Anuar Dauto Abdula
Title: Chairman of ENH Board
Date: 20/12/06

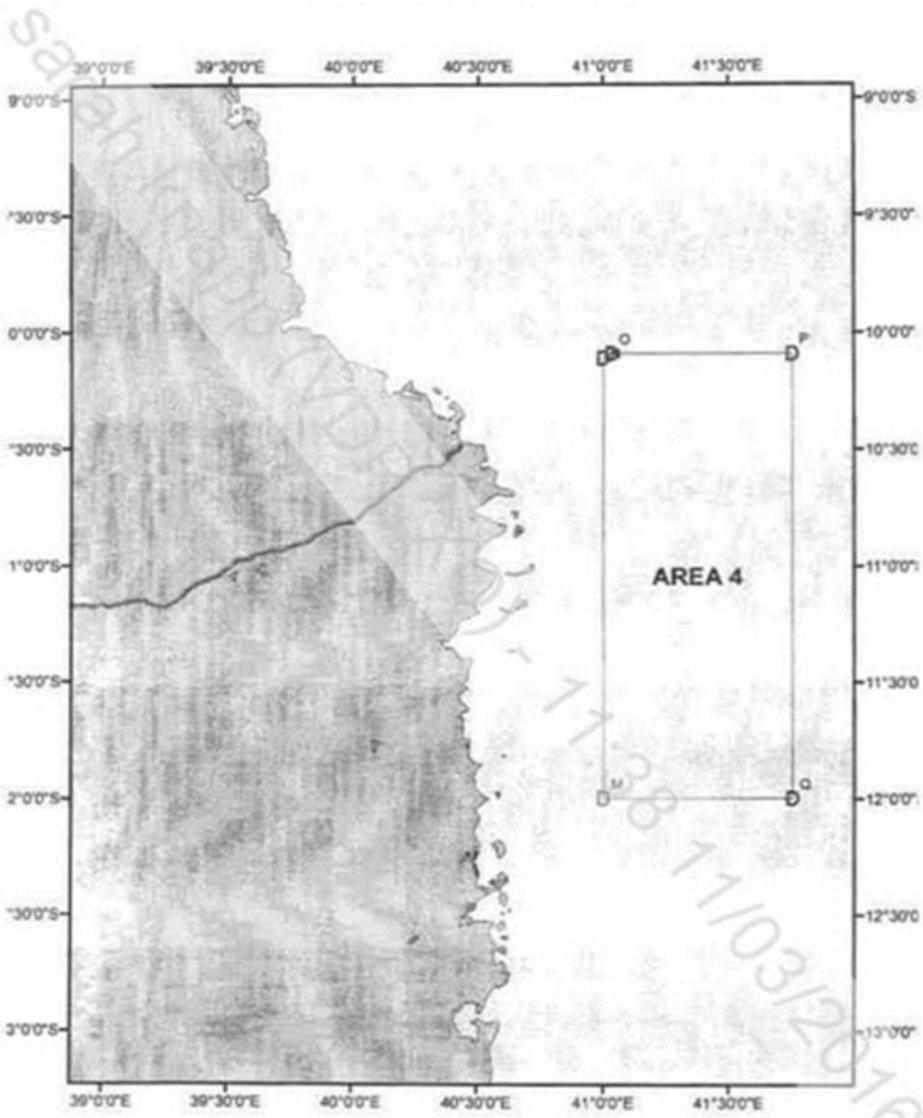
ANNEX A

DESCRIPTION OF THE EPC AREA

POINTS	Latitude S	Longitude E
N	10° 06' 42"	41° 00'
O	10° 05' 29"	41° 02' 01"
P	10° 05' 29"	41° 45'
Q	12° 00'	41° 45'
M	12° 00'	41° 00'

Annex B

Map of the EPC Area



Annex “C”

EPC Accounting and Financial Procedure

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TABLE OF CONTENTS

Annex C EPC Accounting and Financial Procedure	1
Section 1. General Provisions	2
1.1 Definitions.....	2
1.2 Statements required to be submitted by the Concessionaire.....	2
1.3 Language and Units of Account	3
1.4 Payments	4
1.5 Audit and Inspection Rights of the Government	5
Section 2. Classification, Definition and Allocation of Costs and Expenditures	7
2.1 Exploration Costs.....	7
2.2 Development and Production Capital Expenditures	7
2.3 Operating Costs.....	8
2.4 Service Costs.....	9
2.5 General and Administrative Expenses.....	9
2.6 Decommissioning Fund	11
Section 3. Costs, Expenses, Expenditures and Credits of the Concessionaire	13
3.1 Subject to Applicable Law, costs recoverable without further approval of the Government.....	13
3.2 Costs recoverable only with approval of the Government.....	19
3.3 Costs not recoverable under the EPC.....	19
3.4 Recoverability and Deductibility	20
3.5 Credit under the EPC	20
3.6 Duplication of Charges and Credits.....	21
Section 4. Records and Valuation of Assets	22
Section 5. Production Statement.....	23
5.1	23
5.2	23

Section 6. Value of Production and Petroleum Production Tax Statement	24
6.1	24
6.2	24
Section 7. Cost Recovery Statement.....	26
7.1	26
7.2	26
Section 8. Statement of Expenditure and Receipts	27
8.1	27
8.2	27
Section 9. Final End-of-Year Statement	28
Section 10. Budget Statement.....	29
10.1	29
10.2	29
10.3	29
Section 11. Long Range Plan and Forecast	30
11.1 Exploration Plan.....	30
11.2 Development Forecast	30
11.3 Changes of Plan and Forecast.....	31
Section 12. Revision of Accounting and Financial Procedures	32
Section 13. Conflict with the EPC	33

Annex C EPC Accounting and Financial Procedure

This Annex is attached to and made part of the Exploration and Production Concession Contract dated December 2006, awarded by the Government of the Republic of Mozambique to Eni East Africa S.p.A. and Empresa Nacional de Hidrocarbonetos, (ENH) EP (hereinafter referred to as “the EPC”).

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Section 1. General Provisions

1.1 Definitions

For the purposes of this EPC Accounting and Financial Procedure the terms used here in which are defined in applicable law, the EPC shall have the same meaning when used in this EPC Accounting and Financial Procedure.

1.2 Statements required to be submitted by the Concessionaire

(a) Within ninety (90) days of the Effective Date, the Concessionaire shall submit to the Government a proposed outline of charts of accounts, operating records and reports, which outline shall be in accordance with applicable Mozambican law and generally accepted and recognised accounting principles, consistent with best practice in the international petroleum industry. Within ninety (90) days of receiving the above submission Government shall either indicate its approval of the proposal or request revisions to the proposal. Within one hundred and eighty (180) days after the Government has approved the Concessionaire's proposals the Concessionaire and Government shall approve an outline charts of accounts, operating records and reports which shall describe the basis of the accounting system and procedures to be developed and used under the EPC. Following such approval, the Concessionaire shall expeditiously prepare and provide the Government with formal copies of the comprehensive charts of accounts related to the accounting, recording and reporting functions, and allow Government to examine the Concessionaire's manuals, if any, and to review procedures which are, and shall be, observed under the EPC.

(b) Notwithstanding the generality of the foregoing, the Concessionaire is required to make regular statements relating to the Petroleum Operations. These Statements are as follows:

(i) Production Statement (see Section 5 of this Annex);

- (ii) Value of Production and Petroleum Production Tax Statement (see Section 6 of this Annex);
 - (iii) Cost Recovery Statement (see Section 7 of this Annex);
 - (iv) Statement of Expenditures and Receipts (see Section 8 of this Annex);
 - (v) Final End-of-Year Statement (see Section 9 of this Annex);
 - (vi) Budget Statement (see Section 10 of this Annex);
 - (vii) Long Range Plans (see Section 11 of this Annex).
- (c) All reports and statements will be prepared in accordance with the EPC, applicable law and, where there are no relevant provisions in either of these, in accordance with generally accepted and recognised accounting principles consistent with best practice in the international petroleum industry.

1.3 Language and Units of Account

- (a) Accounts shall be maintained in United States dollars and such other currency as may be required under the applicable law. United States dollars shall be the currency of reference for cost recovery purposes. Metric units and barrels shall be employed for measurements required under this Annex, the language employed shall be English and such other language as may be required under the applicable law. Where necessary for clarification the Concessionaire may also maintain accounts and records in other languages, units of measurement and currencies.
- (b) It is the intent of this Accounting and Financial Procedure that neither Government nor the Concessionaire should experience an exchange gain or loss at the expense of, or to the benefit of the other. However, should there be any gain or loss from exchange of currency, it will be credited or charged to the accounts under the EPC.

- (c) Amounts received and costs and expenditures made in Mozambican Meticaais or in United States dollars shall be converted from Mozambican Meticaais into United States dollars or from United States dollars into Mozambican Meticaais on the basis of the average of the buying and selling exchange rates between the currencies in question as published by Banco de Mozambique or in accordance with the applicable law, prevailing on the actual day of the transaction on which such amounts are received and costs and expenditures are paid or as agreed by the Parties.

1.4 Payments

- (a) Except as provided in Subsections 1.4(b) and (c), all payments between the Parties shall, unless otherwise agreed, be in United States dollars and through a bank designated by each receiving party.
- (b) Payment of any tax by the Concessionaire shall be made in accordance with the provisions of the EPC and the applicable law.
- (c) Discharge of the Concessionaire's obligation with respect to the Petroleum Production Tax and the Government's share of Profit Petroleum shall be made in accordance with the EPC.
- (d) All sums due by a Concessionaire to the Government under the EPC during any calendar month shall, for each day such sums are overdue during such month, bear interest compounded quarterly at an annual rate equal to the average three (3) month London interbank offered rate (LIBOR) plus one (1) percentage points for United States dollar deposits as published by the Wall Street Journal or if not published therein, then by the Financial Times of London. Should a rate not be quoted for a relevant date (such as weekends or public holidays), then the first subsequent quoted rate shall be used.

1.5 Audit and Inspection Rights of the Government

- (a) Upon giving the Concessionaire thirty (30) days' notice the competent authority of the Government shall have the right to audit the Concessionaire's accounts and records maintained in accordance with the EPC provisions with respect to each calendar year within three (3) years from the end of each such calendar year. An audit report with respect to Concessionaire's accounts of any calendar year must be submitted to the Concessionaire within three (3) years from the end of such calendar year. For purposes of auditing, the Government may examine and verify at reasonable times all charges and credits relating to the Petroleum Operations such as books of account, accounting entries, material records and any other documents, correspondence and records necessary to audit and verify the charges and credits. Furthermore, the auditors shall have the right in connection with such audit to visit and inspect, subject to reasonable notification, all sites, plants, facilities, warehouses and offices of the Concessionaire serving the Petroleum Operations including visiting personnel associated with those operations.
- (b) Without prejudice to the finality of matters as described in Subsection 1.5(a) all documents referred to in that sub-section shall be maintained and made available for inspection by the Government for such a time as prescribed by the applicable law.
- (c) In the event that Government does not conduct an audit with respect to a calendar year or conducts the audit but does not issue an audit report within the time specified in Subsection 1.5(a) above, Government shall be deemed not to have objected to the Cost Recovery Statement prepared and maintained by the Concessionaire and such Cost Recovery Statement shall be considered true and correct for Cost Recovery purposes for such calendar year absent material mistake, fraud or willful misconduct. In case where Government conducts a review and issue an audit report, Government, shall be deemed not to have objected to the Cost Recovery Statement and such Cost Recovery Statement shall be considered true and correct for Cost Recovery purposes for such calendar year with respect to each

item which is not the subject of an exception in such audit report absent material mistake, fraud or willful misconduct.

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Section 2. Classification, Definition and Allocation of Costs and Expenditures

All expenditures relating to the Petroleum Operations shall, subject to Applicable Law be classified, defined and allocated as follows:

2.1 Exploration Costs

“Exploration Cost” shall consist of all direct and allocated indirect costs incurred in the search for Petroleum in the EPC Area, including but not limited to:

- (a) Aerial, geophysical, geochemical, paleontological, geological, topographical and seismic surveys and studies and their interpretation.
- (b) Core hole drilling and water well drilling.
- (c) Labour, materials and services used in drilling wells with the object of finding new Petroleum Reservoirs or for the purpose of appraising the extent of Petroleum Reservoirs already discovered provided such wells are not completed as producing wells.
- (d) Facilities used solely in support of these purposes including access roads and purchased geological and geophysical information.
- (e) Service Costs allocated to the Exploration Operations as per the provisions of Subsection 2.4 of this Accounting Procedure.
- (f) General and Administrative Expenses allocated to the Exploration Operations as per the provisions of Subsection 2.5 of this Accounting Procedure.

2.2 Development and Production Capital Expenditures

“Development and Production Capital Expenditure” shall consist of all expenditures incurred in the Development and Production Operations, including but not limited to:

- (a) Drilling wells which are completed as producing wells and drilling wells for purposes of producing from a Petroleum Reservoir already discovered whether these wells are dry or producing.
- (b) Completing wells by way of installation of casing or equipment or otherwise after a well has been drilled for the purpose of bringing the well into use as a producing well.
- (c) Intangible drilling costs such as labour, consumable material and services having no salvage value which are incurred in drilling and deepening of wells for production purposes.
- (d) The costs of field facilities such as flow lines, production and treatment units, wellhead equipment, subsurface equipment, enhanced recovery systems, offshore platforms, Petroleum storage facilities, export terminals and piers, harbours and related facilities, and access roads for production activities.
- (e) Engineering and design studies for field facilities.
- (f) Service Costs allocated to the Development and Production Operations as per the provisions of Subsection 2A of this Accounting Procedure.
- (g) General and Administrative Expenses allocated to the Development and Production Operations as per the provisions of Subsection 2.5 of this Accounting Procedure.

2.3 Operating Costs

“Operating Costs” shall consist of all expenditures incurred in the Petroleum Operations after the start of the Commercial Production which are other than Exploration Costs, Development and Production Capital Expenditures, General and Administrative Expenses and Service Costs, including but not limited to:

- (a) Operating, servicing, maintaining and repairing production and injection wells and all field facilities completed during the Development and Production Operations.

- (b) Planning, producing, controlling, measuring and testing the flow of Petroleum and collecting, gathering, treating, storing and transferring the Petroleum from the Petroleum Reservoir to the Delivery Point.
- (c) The balance of General and Administrative Expenses and Service Costs not allocated to the Exploration Operations or the Development and Production Operations.

2.4 Service Costs

“Service Costs” shall consist of direct and indirect expenditures in support of the Petroleum Operations including warehouses, offices, camps, piers, marine vessels, vehicles, motorised rolling equipment, aircraft, fire and security stations, workshops, water and sewage plants, power plants, housing, community and recreational facilities and furniture, tools and equipment used in these activities. Service costs in any calendar year shall include the total costs incurred in such year to purchase and/or construct said facilities as well as the annual costs to maintain and operate the same. All Service costs will be regularly allocated as specified in Subsections 2.1(e), 2.2(f) and 2.3 to Exploration Costs, Development and Production Capital Expenditures and Operating Costs.

Service Costs incurred during the period commencing with the Effective Date and ending with the date of approval by MIREM of the first Development Plan for a proposed Development and Production Area, shall be fully allocated to Exploration Cost. Commencing with the date of approval by MIREM of the first Development Plan for a proposed Development and Production Area, and if it becomes necessary to allocate Service Costs to or between Petroleum Operations, such allocation shall be made on an equitable basis in accordance with applicable law, failing agreement, the allocation to be determined by a sole expert in accordance with Article 30 of the EPC.

The Concessionaire shall furnish a description of its allocation procedures pertaining to Service Costs along with each proposed Development Plan.

2.5 General and Administrative Expenses

“General and Administrative Expenses” shall consist of:

- (a) All main office, field office and general administrative costs in the Republic of Mozambique including but not limited to supervisory, accounting and employee relations services.
- (b) An overhead charge for services rendered outside the Republic of Mozambique for managing the Petroleum Operations and for staff advice and assistance including financial, legal, accounting and employee relations services. This charge shall be five percent (5%) of Contract Costs up to five million US dollars (US\$5,000,000), three percent (3%) of that portion of Contract Costs between five million US dollars (US\$5,000,000) and ten million US dollars (US\$10,000,000) and one and one half percent (1.5%) of Contract Costs which are in excess of ten million US dollars (US\$10,000,000). The contract costs referred to herein shall include all Exploration Costs, Development and Production Capital Expenditures, Operating Costs and Service Costs.
- (c) All General and Administrative Expenses will be regularly allocated as specified in Subsections 2.1(f), 2.2(g) and 2.3 to Exploration Costs, Development and Production Capital Expenditures and Operating Costs.

General and Administrative Expenses incurred during the period commencing with the Effective Date and ending with the date of approval by MIREM of the first Development Plan for a proposed Development and Production Area, shall be fully allocated to Exploration Cost. Commencing with the date of approval by MIREM of the first Development Plan for a proposed Development and Production Area, if it becomes necessary to allocate General and Administrative Expenses to or between Petroleum Operations, such allocation shall be made on an equitable basis agreed between the parties in accordance with applicable law, failing agreement, the allocation to be determined by a sole expert in accordance with Article 30 of the EPC.

The Concessionaire shall furnish a description of its allocation procedures pertaining to General and Administrative Expenses, along with each proposed Development Plan.

2.6 Decommissioning Fund

For the purpose of costs related to the implementation of a Decommissioning Plan a Decommissioning Fund shall be established for each Development and Production Area, commencing from the calendar quarter in whichever of the following situations first occur:

- (a) the Petroleum Produced has reached 50% of the aggregate recoverable resources as determined in an approved Development Plan and any successive reappraisal of such initial recoverable reserves; or
- (b) five (5) years prior to the expiry or surrender of this EPC or the use of any facility for the purpose of extracting Petroleum from a Production and Development Area within this EPC is permanently terminated.

For every subsequent calendar quarter in which Petroleum is produced, the Concessionaire shall charge as Operating Costs a portion of the estimated future cost of decommissioning.

The amount to be deposited in the Decommissioning Fund for a calendar quarter shall be charged as Operations Costs subject to the Cost Recovery limitation stipulated in article 5 of the EPC and calculated in the following manner.

$$QD = (ECA \times (EPR/ CPP)) - DFB$$

where:

QD is the amount of funds to be transferred to the Decommissioning Fund in respect of the relevant calendar quarter;

ECA is the estimated cost of abandonment operations established pursuant to the Decommissioning Plan;

EPR is the estimated remaining Petroleum reserves to be recovered from the end of the calendar quarter in which the Decommissioning Fund was opened;

- CPP is the cumulative production of Petroleum from the end of the calendar quarter in which the Decommissioning Fund was opened;
- DFB is the Decommissioning Fund balance at the end of the previous calendar quarter.

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Section 3. Costs, Expenses, Expenditures and Credits of the Concessionaire

3.1 Subject to Applicable Law, costs recoverable without further approval of the Government.

Subject to the provisions of the EPC and applicable law, the Concessionaire shall bear and pay the following costs and expenses in respect of the Petroleum Operations. These costs and expenses will be classified under the headings referred to in Section 2. They are recoverable by the Concessionaire under the EPC.

(a) Surface Rights

This covers all direct costs attributable to the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the EPC Area.

(b) Labour and Associated Labour Costs

- (i) gross salaries and wages including bonuses and premiums of the Concessionaire's employees directly engaged in the Petroleum Operations, irrespective of the location of such employees, it being understood that in the case of those personnel only a portion of whose time is dedicated to the Petroleum Operations, only that pro-rata portion of applicable salaries, wages and fringe benefits will be charged;
- (ii) the Concessionaire's costs regarding holiday, vacation, sickness and disability payments applicable to the salaries and wages chargeable under (i) above;
- (iii) expenses or contributions made pursuant to assessments or obligations imposed under the laws of the Republic of Mozambique which are applicable to the Concessionaire's cost of salaries and wages chargeable under (i) above;

- (iv) the Concessionaire's cost of established plans for employees' life insurance, hospitalisation, pensions, and other benefits of a like nature customarily granted to the Concessionaire's employees;
- (v) reasonable travel and personal expenses of employees of the Concessionaire including those made for travel and relocation of the expatriate employees and their families assigned to the Republic of Mozambique, all of which shall be in accordance with the Concessionaire's normal practice;
- (vi) any personal income taxes of the Republic of Mozambique incurred by employees and paid or reimbursed by the Concessionaire.

(c) Transportation

The cost of transportation of employees, equipment, materials and supplies necessary for the conduct of the Petroleum Operations.

(d) Charges for Services

(i) Third Party Contracts

The actual costs of contracts for technical and other services entered into by the Concessionaire for the Petroleum Operations, made with third parties, including the Affiliated Companies which have contracted with the Concessionaire to perform services that are normally provided by third parties, are recoverable, provided that the prices paid by the Concessionaire are no higher than those generally charged by other international or domestic suppliers for comparable work and services.

(ii) Affiliated Companies of Concessionaire

Without prejudice to the charges to be made in accordance with Subsection 2.5, in the case of services rendered to the Petroleum Operations by an Affiliated Company of the Concessionaire, such services shall be rendered

under **service agreements** between Concessionaire and Affiliated Companies, and the charges will be based **on actual costs** and will be competitive. The charges will be no higher than the most favourable prices charged by the Affiliated Company to third parties for comparable services under similar terms and conditions elsewhere. The Concessionaire shall specify the amount of the charges which contributes an allocated proportion of the general material, management, technical and other costs of the Affiliated Company, and the amount which is the direct cost of providing the services concerned. If necessary, certified evidence regarding the basis of prices charged may be obtained from the auditors of the Affiliated Company.

(e) Material

(i) General

So far as is practicable and consistent with efficient, economical and internationally accepted operational requirements, only such material shall be purchased or furnished by the Concessionaire for use in the Petroleum Operations as may be required for use in the reasonably foreseeable future and to the extent that such purchase or supply are in accordance with the EPC.

(ii) Warranty of Material

The Concessionaire does not warrant material beyond the supplier's or manufacturer's guarantee and, in case of defective material or equipment, any adjustment received by the Concessionaire from the suppliers/manufacturers or their agents will be credited to the accounts under the EPC.

(iii) Value of material charged to the accounts under the EPC

(a) Except as otherwise provided in (b) below material purchased by the Concessionaire 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, customs duties, consular fees, other items chargeable against imported material and where applicable handling and transportation expenses from point of importation to warehouse or operating site, and its costs should not exceed those currently prevailing in normal arms-length transactions on the open market.

(b) Materials purchased from Affiliated Companies of the Concessionaire shall be charged at the prices specified in (1) and (2) hereof.

(1) New material (condition "A") shall be valued at the current international price which should not exceed the price prevailing in normal arms-length transactions on the open market.

(2) Used material (conditions "B" and "Cs")

(i) material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classified as condition "B" and priced at seventy-five percent (75%) of the current price of new materials defined in (1) above.

(ii) material which cannot be classified as condition "B" but which:

- (a) after reconditioning will be further serviceable for original function as good second-hand material condition “B”, or
- (b) is serviceable for original function but substantially not suitable for reconditioning,

shall be classified as condition “C” and priced at fifty percent (50%) of the current price of new material as defined in (1) above. The cost of reconditioning shall be charged to the reconditioning material provided that the condition “C” material value plus the cost of reconditioning does not exceed the value of condition “B” material.

- (iii) Material which cannot be classified as condition “B” or condition “C” shall be priced at a value commensurate with its use.
- (iv) Material involving erection costs shall be charged at the applicable percentage, in accordance to its condition, of the current dismantled price of new material as defined in (1) above.
- (v) When the use of material is temporary and its service to the Petroleum Operations does not justify the

reduction in price as provided for in (2)(ii) hereof, such material shall be priced on a basis that will result in a net charge to the accounts under the EPC consistent with the value of the service rendered.

(f) Rentals, Duties and Other Assessments

All rentals, taxes, levies, charges, fees, contributions and any other assessments and charges levied by the Government, its political subdivisions, agencies and instrumentalities, in connection with the Petroleum Operations and paid directly or indirectly by the Concessionaire with the exception of the Corporate Income Tax imposed on the Concessionaire.

(g) Insurance and Losses

Insurance premia and costs incurred for insurance arranged in accordance with the EPC provided that if such insurance is wholly or partly placed with an Affiliated Company of the Concessionaire, such premia and costs shall be recoverable only to the extent generally charged by competitive insurance companies other than an Affiliated Company of the Concessionaire. Costs and losses incurred as a consequence of events which are, and in so far as, not made good by insurance obtained under the EPC are recoverable under the EPC.

(h) Legal Expenses

All costs and expenses of litigation and legal or related services necessary or expedient for the procuring, perfecting, retention and protection of the EPC Area, and in defending or prosecuting lawsuits involving the EPC Area or any third party claim arising out of activities under the EPC, or sums paid in respect of legal services necessary or expedient for the protection of joint interest of the Government and the Concessionaire are recoverable. Where legal services are rendered in such matters by salaried or regularly retained lawyers of the

Concessionaire or an Affiliated Company of the Concessionaire, such compensation will be included instead under Subsection 3.1(b) or 3.1(d) above, as applicable.

(i) Training Costs

All costs and expenses incurred by the Concessionaire in training of its employees located in Mozambique and engaged in the Petroleum Operations pertaining to activities in the EPC area and such other training as required under the EPC or applicable law. Payments made in accordance with Article 18.5 and Article 18.6 of the EPC.

(j) General and Administrative Expenses

The costs described in Subsection 2.5(a) and the charge described in Subsection 2.5(b).

(k) The costs of any guarantee required by the Government under the EPC.

(l) Payments into the Decommissioning Fund and cost incurred for the decommissioning according to applicable law and the EPC.

3.2 Costs recoverable only with approval of the Government

Interest, fees and related charges incurred on commercial loans raised by the Concessionaire for the Petroleum Operations to the extent that such interest, fees and related charges are commensurate with interest, fees and related charges normally paid on loans of such nature, approval in respect thereof not to be unreasonably withheld.

3.3 Costs not recoverable under the EPC

(a) Petroleum marketing or transportation costs of Petroleum beyond the Delivery Point.

- (b) Costs of arbitration and the independent expert under Article 30 of the EPC.
- (c) Petroleum Production Tax and Corporate Income Tax
- (d) Fines and penalties imposed by any public authority in the Republic of Mozambique or elsewhere.

3.4 Recoverability and Deductibility

The determination of whether the costs and expenses set forth herein are recoverable or non-recoverable shall apply only to this EPC, and shall not be interpreted to preclude the Concessionaire from deducting said amounts in computing its net income from the Petroleum Operations for Corporate Income Tax purposes under applicable law.

3.5 Credit under the EPC

The net proceeds of the following transactions will, subject to applicable law, be credited to the accounts under the EPC:

- (a) The net proceeds of any insurance or claim in connection with the Petroleum Operations or any assets charged to the accounts under the EPC when such operations or assets were Insured and the premia charged to the accounts under the EPC.
- (b) Revenue received from outsiders for the use of property or assets charged to the accounts under the EPC.
- (c) Any adjustment received by the Concessionaire from the suppliers/manufacturers or their agents in connection with a defective material the cost of which was previously charged by the Concessionaire to the accounts under the EPC.
- (d) Rentals, refunds or other credits received by the Concessionaire which apply to any charge which has been made to the accounts under the EPC.

- (e) The amounts received for inventory materials under the EPC and subsequently exported from the Republic of Mozambique without being used in the Petroleum Operations.
- (f) Legal expenses charged to the accounts under Subsection 3.1(h) and subsequently recovered by the Concessionaire.

3.6 Duplication of Charges and Credits

Notwithstanding any provision to the contrary in this Accounting and Financial Procedure, it is the intention that there shall be no duplication of charges or credits in the accounts under the EPC.

Section 4. Records and Valuation of Assets

The Concessionaire shall maintain detailed records of property in use for the Petroleum Operations in accordance with Applicable Law and normal practice in exploration and production activities of the international petroleum industry. At reasonable intervals but at least once a year with respect to movable assets and once every five (5) years with respect to immovable assets, inventories of the property under the EPC shall be taken by the Concessionaire. The Concessionaire shall give the Government at least thirty (30) days' written notice of its intention to take such inventory and the Government shall have the right to be represented when such inventory is taken. The Concessionaire will clearly state the principles upon which valuation of the inventory has been based. When an assignment of rights under the EPC takes place a special inventory may be taken by the Concessionaire at the request of the assignee provided that the costs of such inventory are borne by the assignee.

Section 5. Production Statement

5.1

Subsequent to the commencement of commercial production from the EPC Area, the Concessionaire shall submit a monthly production statement (hereinafter referred to as the “Production Statement”) to the Government showing the following information for each Development and Production Area:

- (a) The quantity of Crude Oil produced.
- (b) The quantity of Natural Gas produced.
- (c) The quantities of Petroleum used for the purposes of carrying on drilling and production operations and pumping to field storage.
- (d) The quantities of Natural Gas flared.
- (e) The size of Petroleum stocks held at the beginning of the month.
- (f) The size of Petroleum stocks held at the end of the month.
- (g) Any other relevant information as may be required under the applicable law.

5.2

The Production Statement of each calendar month shall be submitted to the Government no later than seven (7) business days after the end of such calendar month.

Section 6. Value of Production and Petroleum Production Tax Statement

6.1

The Concessionaire shall prepare a statement covering the determination of the fair market value of Crude Oil and Natural Gas respectively, produced during each calendar month and the value of the Petroleum Production Tax payable to the Government. This statement shall contain the following information:

- (a) The quantities and prices realised therefore by the Concessionaire as a result of sales of Crude Oil and Natural Gas respectively to third parties made during the calendar month in question.
- (b) The quantities and the prices realised therefore by the Concessionaire as a result of sales of Crude Oil and Natural Gas respectively made during the calendar month in question, other than to third parties.
- (c) The quantity of stocks of Crude Oil and if applicable Natural Gas at the end of the preceding calendar month.
- (d) The quantity of stocks of Crude Oil and if applicable Natural Gas at the end of the calendar month in question.
- (e) The total Petroleum Production Tax liability for Crude Oil and Natural Gas respectively for the calendar month.
- (f) Information available to the Concessionaire, when requested by the Government, concerning the prices of Crude Oil or Natural Gas 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 value of Production and Petroleum Production Tax Statement of each calendar month shall be submitted to the Government not later than thirty (30) days after the end of such calendar month.

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Section 7. Cost Recovery Statement

7.1

The Concessionaire shall prepare with respect to each calendar quarter a cost recovery statement (hereinafter referred to as the “Cost Recovery Statement”) containing the following information:

- (a) Recoverable costs carried forward from the previous quarter if any.
- (b) Recoverable costs for the quarter in question.
- (c) Total recoverable costs for the quarter in question (Subsection 7.1(a) plus Subsection 7.1(b)).
- (d) Quantity and value of Cost Petroleum taken proportionally in Crude Oil and Natural Gas and disposed of by the Concessionaire for the quarter in question.
- (e) EPC costs recovered for the quarter in question.
- (f) Total cumulative amount of EPC costs recovered up to the end of the quarter in question.
- (g) Amount of recoverable EPC costs to be carried forward into the next quarter.

7.2

The Cost Recovery Statement of each quarter shall be submitted to the Government no later than thirty (30) days after the end of such quarter.

Section 8. Statement of Expenditure and Receipts

The Concessionaire shall prepare with respect to each calendar quarter a statement of expenditures and receipts under the EPC (hereinafter referred to as the “Statement of Expenditure and Receipts”). The statement will distinguish between Exploration Costs, Development and Production Capital Expenditures, Operating Costs, decommissioning costs and the balance of the Decommissioning Fund and will identify major items of expenditures within these categories. The statement will show the following:

8.1

- (a) Actual expenditures and receipts for the quarter in question.
- (b) Cumulative expenditure and receipts for the budget year in question.
- (c) Latest forecast cumulative expenditures at the year end.
- (d) Variations between budget forecast and latest forecast and explanations thereof.

8.2

The Statement of Expenditure and Receipts of each calendar quarter shall be submitted to the Government no later than thirty (30) days after the end of such quarter.

Section 9. Final End-of-Year Statement

The Concessionaire will prepare a Final End-of-Year Statement. The statement will contain information as provided in the Production Statement, Value of Production and Petroleum Production Tax Statement, Cost Recovery Statement and Statement of Expenditures and Receipts but will be based on actual quantities of Petroleum produced and expenses incurred. Based upon this statement, any adjustments that are necessary will be made to the payments made by the Concessionaire under the EPC. The Final End-of-Year Statement of each calendar year shall be submitted to the Government within sixty (60) days of the end of such calendar year.

Section 10. Budget Statement

10.1

The Concessionaire shall prepare an annual budget statement (hereinafter referred to as the “Budget Statement”). This will distinguish between Exploration Costs, Development and Production Capital Expenditures and Operating Costs and will show the following:

- (a) Forecast expenditures and receipts for the budget year under the EPC.
- (b) Forecast cumulative expenditures and receipts to the end of the said budget year.
- (c) A schedule showing the most important individual items of forecast Development and Production Capital Expenditures for the said budget year.

10.2

The Budget Statement shall be submitted to the Government with respect to each budget year no less than ninety (90) days before the start of the year except in the case of the first year of the EPC when the Budget Statement shall be submitted within thirty (30) days of the Effective Date.

10.3

It is recognised by the Concessionaire and the Government that the details of the Budget Statement may require changes in the light of existing circumstances and nothing herein contained shall limit the flexibility to make such changes. Consistent with the foregoing the revision of said Statement is provided for annually.

Section 11. Long Range Plan and Forecast

The Concessionaire shall prepare and submit for information and planning purpose to the Government either one or both of the following two (2) long range plans, whichever is appropriate:

11.1 Exploration Plan

During the Exploration Period, the Concessionaire shall prepare an Exploration Plan for each period of three (3) calendar years commencing as of the first day of January following the Effective Date (hereinafter referred to as the “Exploration Plan”) which shall contain the following information:

- (a) Estimated Exploration Costs showing outlays for each of the three (3) calendar years covered by the Exploration Plan.
- (b) Details of seismic operations planned for each such year.
- (c) Details of all drilling activities planned for each such year.
- (d) Details of infrastructure utilisation and requirements.

The first such Exploration Plan shall also include the above information for the period starting on the Effective Date and ending on the last day of December of that calendar year.

The Exploration Plan shall be revised at the beginning of each calendar year following of the Effective Date. The Concessionaire shall prepare and submit to the Government the first Exploration Plan within sixty (60) days of the Effective Date and thereafter shall prepare and submit to the Government no less than forty-five (45) days before the end of each calendar year following the Effective Date a revised Exploration Plan.

11.2 Development Forecast

The Concessionaire shall prepare a development forecast for each period of five (5) calendar years (hereinafter referred to as the “Development Forecast”) commencing as of the first day of January following the date when the first development plan is approved and the Concessionaire commences the implementation of such plan.

The Development Forecast shall contain the following information:

- (a) Forecast of Development and Production Capital Expenditures for each of the five (5) calendar years.
- (b) Forecast of Operating Costs for each such calendar year.
- (c) Forecast of Petroleum production for each such calendar year.
- (d) Forecast of number and types of personnel employed in the Petroleum Operations in the Republic of Mozambique.
- (e) Description of proposed Petroleum marketing arrangements.
- (f) Description of main technologies employed.
- (g) Description of working relationship of the Concessionaire to the Government.

The Development Forecast shall be revised at the beginning of each calendar year commencing as of the second year of the first Development Forecast. The Concessionaire shall prepare and submit to the Government the first Development Forecast within one hundred and twenty (120) days from the date when the first development plan is approved or deemed to have been approved by the Management Committee and the Concessionaire commences the implementation of such plan and thereafter shall prepare and submit a revised Development Forecast to the Government no later than forty-five (45) days before each calendar year commencing as of the second year of the first Development Forecast.

11.3 Changes of Plan and Forecast

It is recognised by the Concessionaire and the Government that the details of the Exploration Plan and Development Forecast may require changes in the light of existing circumstances and nothing herein contained shall limit the flexibility to make such changes. Consistent with the foregoing the revision of said Plan and Forecast is provided for annually.

Section 12. Revision of Accounting and Financial Procedures

The provisions of this Accounting and Financial Procedure may be amended by determined by Applicable Law or in absence of such law agreement between the Concessionaire and the Government. The amendments shall be made in writing and shall state the date upon which the amendments shall become effective.

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Section 13. Conflict with the EPC

In the event of any conflict between the provisions of this Accounting and Financial Procedure and the EPC, the provisions of the EPC shall prevail.

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ANNEX “D”

Bank Guarantee

[Date]

Ministry of Mineral Resources

The Minister of Mineral Resources

Av. Ferñao de Magalhães, 34, 1

Maputo, Mozambique

1. We understand that on _____ 2006, the Government of the Republic of Mozambique, Empresa Nacional de Hidrocarbonetos, (ENH) E.P and Eni East Africa S.p.A. (the latter also the “Guaranteed Party”) entered into an Exploration and Production Concession Contract for Area 4 of the Rovuma Basin offshore of Mozambique (the “EPC”). For purposes of this Bank Guarantee, ENH and the Guaranteed Party are collectively referred to as the “Concessionaire”. Capitalised words not defined in this Bank Guarantee shall have the meaning ascribed to them in the EPC.
2. We, the undersigned [BANK LEGAL NAME] (the “Bank”), hereby, save for the conditions stipulated below in clause 5, unconditionally and irrevocably guarantee in favour of the Government of the Republic of Mozambique (the “Government”) the due and punctual payment of all sums owed to the Government and unpaid by the Guaranteed Party in respect of the Concessionaire’s failure to fulfil the Exploration work commitment in relation to the _____ Exploration Period, up to a maximum of United States _____ (US\$ __,000,000).
3. The guarantee amount referred to in clause 2 above shall be reduced from time to time upon delivery to the Bank of a certificate from the Guaranteed Party countersigned on behalf of the Government setting forth the amount of such reduction based on completion of the corresponding items of the Exploration work commitment determined according to Article 4 of the EPC.

4. This Bank Guarantee shall become effective on the Effective Date of the EPC and shall terminate on the expiry of the _____ Exploration Period, or such earlier time as the total of the reductions during such Exploration Period equal the guarantee amount referred to in clause 2 above.
5. Demands may be made under this Bank Guarantee by the Government by delivering to the Bank the Government's written statement setting forth the amount claimed and certifying that the amount claimed represents the amount due and owing by the Guaranteed Party in respect of the Concessionaire's failure under the EPC to fulfil the Exploration work commitment in relation to the _____ Exploration Period:
 - (a) the Concessionaire has failed to incur the Minimum Expenditure in relation to the relevant Exploration Period;
 - (b) the Guaranteed Party has been notified in writing by the Minister of Mineral Resources, by registered letter or courier (a copy of which to be attached to such written statement), of Concessionaire's non-compliance and the details thereof, and has been advised that a drawing is being made against this unconditional and irrevocable Bank Guarantee; and
 - (c) the Concessionaire has been provided a minimum of fourteen (14) days to correct the conditions of non-compliance and has failed to do so.
6. Upon its cancellation or expiry, this Bank Guarantee shall be returned to the Guaranteed Party.

The duly authorised representative of the Bank has executed this Bank Guarantee on this the _____ day _____ of 20[].

Very truly yours,

for and on behalf of

[BANK LEGAL NAME]

ANNEX “E”

Parent Company Guarantee

THIS GUARANTEE is made the _____ day of _____ 20[]

BY and BETWEEN

1. **Eni S.p.A.** a limited liability company established under the laws of Italy (the “**Guarantor**”), in favour of
2. **THE GOVERNMENT OF THE REPUBLIC OF MOZAMBIQUE** herein represented by the Minister for Mineral Resources and Energy (the “**Government**”);

(each a “**Party**” and collectively the “**Parties**”)

WHEREAS

- (a) On _____ the Government, Empresa Nacional de Hidrocarbonetos, (ENH) EP and Eni East Africa S.p.A. (the “**Concessionaire**”) entered into an Exploration and Production Concession Contract (the “**EPC**”) for Area 4 of the Rovuma Basin, offshore of Mozambique.
- (b) The Guarantor is the ultimate parent company of Eni East Africa S.p.A. (the “**Company**”).
- (c) The Government requires that the due and proper performance of the Company Obligations shall be guaranteed by the Guarantor under the terms of this Guarantee and the Guarantor is willing to grant this Guarantee.

NOW IT IS HEREBY AGREED AS FOLLOWS:

1. DEFINITIONS AND INTERPRETATION

- 1.1 “**Company Obligations**” means any Obligations limited to the Company’s Participating Interest in the EPC and related to or arising out of the Company’s activities relevant to Petroleum Operations during any period occurring any time after completion of the

Exploration Period up to and including final implementation of decommissioning of facilities.

- 1.2 “**Third Party Claimant**” means a natural person who is a citizen of the Republic of Mozambique or any legal entity established and registered pursuant to Mozambique law, with its headquarters in Mozambique and having at least 50% of its share capital held by citizens of Republic of Mozambique.

Terms defined in the EPC shall have the same meaning when used in this Guarantee. Words referred to in the singular shall include the plural and vice versa.

2. GUARANTEE

- 2.1 The Guarantor irrevocably and unconditionally guarantees, subject to all the other terms of this Guarantee, that if the Company fails, in whole or in part, to perform any of the Company Obligations towards the Government, and to satisfy any claim of a Third Party Claimant made against the Company as a result or consequence of the Company’s acts or omissions in carrying out the Company Obligations (each of the Government, and Third Party Claimant being hereinafter collectively referred to as the “Beneficiaries”), the Guarantor shall as soon as reasonably practicable following a demand made in accordance with clause 3, take such steps itself as shall be necessary:

- (a) to perform such Company Obligation or remedy such breach; or
- (b) where such failure or breach is not capable of remedy, restore performance of the breached Company Obligation.

- 2.2 This Guarantee shall become effective thirty (30) days after the approval of the Development Plan and shall terminate on termination of all relevant Petroleum Operations subject to the applicable law and the EPC.

- 2.3 Upon termination of this Guarantee the Guarantor shall have no further liability whatsoever to the Beneficiaries under or in connection with this Guarantee save in respect of any breach notified by the Beneficiaries in accordance with clause 3 of this Guarantee prior to its termination.

3. DEMANDS

- 3.1 The Beneficiaries shall notify the Guarantor in writing when a breach of a Company Obligation has occurred and such notice shall contain a description of such breach.
- 3.2 Subject to clauses 4 and 7 of this Guarantee, if the Company fails to remedy a breach specified in a notice given under clause 3.1 within fourteen (14) days of receipt of such notice by the Guarantor, the Beneficiaries may then make a demand in writing to the Guarantor that shall (i) set out the alleged breach of the Company Obligation(s); and (ii) require the Guarantor to take such steps as are provided in clause 2 of this Guarantee.

4. RIGHTS AND OBLIGATIONS

- 4.1 Beneficiaries shall be obliged before exercising any of the rights, powers or remedies conferred upon it in respect of the Guarantor by this Guarantee or by law:
- 4.1.1 to notify the Company of the breach of a Company Obligation;
- 4.1.2 if the Company:
- (a) in the case of a claim by the Government, disputes the breach notified by the Government, to have obtained an arbitral award or expert determination confirming such breach by the Company; or
 - (b) in the case of a claim by a Third Party Claimant, disputes the breach notified by such Third Party Claimant, to have obtained a court judgment or order, provided that such judgment or order of a court has been issued against the Company and such judgment or order is final and non-appealable; and
- 4.1.3 to make or file any claim or proof in winding-up or dissolution of the Company (to the extent applicable).

5. LIMITATIONS

- 5.1 The obligations of the Guarantor under this Guarantee shall not be discharged or impaired by any act or omission or any other event or circumstances whatsoever (whether or not

known to the Company, the Guarantor or the Beneficiaries) which would or might (but for this clause 5) operate to impair or discharge the Guarantor's liability under this Guarantee, including, but without limitation:

- 5.1.1 any of the Company Obligations being or becoming illegal or invalid, in any respect;
- 5.1.2 any granting of time (or other indulgence) to the Company or any other person; or
- 5.1.3 any amendment to or variation, waiver or release of, any of the terms of the EPC to the extent that such amendment, variation, waiver or release is made with the Guarantor's prior written consent.

6. ASSIGNMENT AND SUCCESSORS

- 6.1 Any benefit of this Guarantee shall not be assignable by the Beneficiaries to any person.
- 6.2 The Guarantor may not assign its rights and obligations under this Guarantee without the prior written consent of the Government

7. LIMITATION AND MAXIMUM LIABILITY OF GUARANTOR

- 7.1 Notwithstanding any other provisions of this Guarantee, the Guarantor shall have all of the rights, limitations, defences including, without limitation, all rights of set off, available to the Company under the EPC or at law in the case of a claim by a Third Party Claimant in relation to any demand made under clause 3.2 of this Guarantee. In no circumstances shall the Guarantor be liable to pay any amount under this Guarantee which is greater than the Company would have been liable to pay if the Company had performed the Company Obligations.
- 7.2 Notwithstanding any other provision of this Guarantee, the Beneficiaries prior to making any demand or any attempt to collect under this Guarantee, shall first pursue collection from the Company and shall exhaust all resources against and liquidation of the Company assets, including but not limited to any applicable insurance coverage available to satisfy any Company Obligations.

8. GOVERNING LAW AND JURISDICTION

This Guarantee shall be governed by and construed in accordance with the laws of the Republic of Mozambique. The provisions of Article 30 of the EPC shall apply 'mutatis mutandis' to this Guarantee in respect of all disputes between the Government, the Guarantor or the Company.

9. NOTICES

- 9.1 Any notice to be given by either Party to the other under this Guarantee shall be in writing and shall be delivered by hand to the Guarantor or the Beneficiaries, as the case may be, or sent to such recipient by recorded delivery letter or facsimile addressed to such recipient at such address and for the attention of such person as the Guarantor or the Beneficiaries, as the case may be, shall from time to time designate by notice, and until such notice shall be given the addresses of the Guarantor and the Beneficiaries shall be as follows:

The Guarantor

Attention: _____
Telephone: _____
Telefax: _____

The Government

Avenida Ferñao de Magalhães 34
Caixa Postal 2904
Maputo, Mozambique

Attention: National Petroleum Institute
Telephone: +258 21 320 935
Telefax: +258 21 430 850

- 9.2 All notices delivered by recorded delivery or hand shall be deemed to be effective upon receipt. Notices given by facsimile shall be deemed to have been received where there is confirmation of uninterrupted transmission by a transmission report and where there has

been no telephonic communication by the recipient to the senders (to be confirmed in writing) that the facsimile has not been received in legible form within twenty-four (24) hours of sending.

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IN WITNESS WHEREOF this Guarantee has been executed by the Guarantor and has been accepted by the Government on the date specified above.

for and on behalf of **XXX**

for and on behalf of **THE
GOVERNMENT OF THE REPUBLIC
OF MOZAMBIQUE**

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ANNEX F

JOINT OPERATING AGREEMENT

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