

**PUNTLAND**

**PRODUCTION SHARING AGREEMENT**

**BETWEEN**

**THE GOVERNMENT OF PUNTLAND**

**AND**

**CANMEX HOLDINGS (BERMUDA) II LIMITED**

**AND**

**RANGE RESOURCES LIMITED**

**EXPLORATION AREA (DHAROOR VALLEY)**

**TABLE OF CONTENTS**

**ARTICLE 1 DEFINITIONS.....4**  
**ARTICLE 2 ANNEXES .....10**  
**ARTICLE 3 GRANT OF RIGHTS AND TERM .....10**  
**ARTICLE 4 WORK PROGRAM AND EXPENDITURES DURING  
THE EXPLORATION PERIOD.....16**  
**ARTICLE 5 RELINQUISHMENTS.....19**  
**ARTICLE 6 OPERATIONS AND DEVELOPMENT PERIOD .....20**  
**ARTICLE 7 RECOVERY OF COSTS AND PRODUCTION SHARING .....25**  
**ARTICLE 8 TITLE TO ASSETS .....30**  
**ARTICLE 9 TAXES AND BONUSES.....31**  
**ARTICLE 10 OFFICE AND SERVICE OF NOTICE .....35**  
**ARTICLE 11 CONSERVATION, PREVENTION OF LOSS AND  
ENVIRONMENTAL SAFETY .....36**  
**ARTICLE 12 CUSTOMS EXEMPTIONS AND EXCHANGE CONTROL.....37**  
**ARTICLE 13 ACCOUNTING BOOKS; ACCOUNTING AND PAYMENTS .....40**  
**ARTICLE 14 RECORDS, REPORTS AND INSPECTION .....40**  
**ARTICLE 15 RESPONSIBILITIES FOR DAMAGES.....41**  
**ARTICLE 16 PRIVILEGES OF THE DEPARTMENT 'S REPRESENTATIVES .....42**  
**ARTICLE 17 EMPLOYMENT PRIVILEGES AND THE TRAINING OF  
PUNTLAND PERSONNEL .....42**  
**ARTICLE 18 LAWS AND REGULATIONS .....43**  
**ARTICLE 19 RIGHTS OF REQUISITION .....43**  
**ARTICLE 20 ASSIGNMENT .....44**  
**ARTICLE 21 BREACH OF AGREEMENT AND POWER OF CANCELLATION .....45**  
**ARTICLE 22 FORCE MAJEURE.....46**  
**ARTICLE 23 DISPUTES AND ARBITRATION .....48**  
**ARTICLE 24 GOVERNING LAW.....49**  
**ARTICLE 25 STATUS OF PARTIES.....49**  
**ARTICLE 26 LOCAL CONTRACTORS AND LOCALLY  
MANUFACTURED MATERIALS.....49**  
**ARTICLE 27 GAS .....50**  
**ARTICLE 28 CONFIDENTIALITY .....52**  
**ARTICLE 29 ANCILLARY RIGHTS OF CONTRACTOR.....53**  
**ARTICLE 30 MISCELLANEOUS .....55**  
**ARTICLE 31 ASSIGNMENT AND AUTHORIZATION BY THE DEPARTMENT .....55**  
**ARTICLE 32 THE OFFICIAL TEXT .....56**  
**ARTICLE 33 DEPARTMENTAL APPROVAL .....56**  
**ARTICLE 34 THE SIGNATURES.....56**  
**ANNEX D ACCOUNTING PROCEDURES ARTICLE I .....58**

**TABLE OF ANNEXES**

<b>ANNEX A</b>	<b>DESCRIPTION OF THE AGREEMENT AREA</b>
<b>ANNEX B</b>	<b>MAP OF THE AGREEMENT AREA</b>
<b>ANNEX C</b>	<b>THE MINIMUM WORK AND EXPENDITURE OBLIGATIONS DURING THE TWO EXPLORATION PERIODS</b>
<b>ANNEX D</b>	<b>ACCOUNTING PROCEDURES</b>

## **Preamble**

This Agreement was made and entered into in as of the 17<sup>th</sup> day of January, 2007 between the GOVERNMENT of Puntland (hereinafter referred to as the “STATE”), and Canmex Holdings (Bermuda) II Ltd. (hereinafter referred to as “CANMEX”), a limited liability company organized under the laws of Bermuda, a wholly owned subsidiary of Canmex Minerals Corporation, Range Resources Limited (hereinafter referred to as “RANGE”), a corporation duly organized and existing under the laws of Victoria, Australia. Canmex is hereinafter referred to as the “CONTRACTOR”.

**WHEREAS**, all natural resources including all their types and energy sources existing in the surface or subsurface of the ground, in the territorial waters, or the continental shelf and the entire exclusive economic zone of PUNTLAND are the property of the STATE; and

**WHEREAS**, the STATE wishes to promote the Development of potential Petroleum resources in the Agreement Area as defined in this Agreement and the CONTRACTOR wishes to join and assist the STATE in the Exploration, Development and production of the potential Petroleum resources in the Agreement Area, namely Dharoor Valley; and

**WHEREAS**, the STATE has authorized the DEPARTMENT to negotiate and execute this Agreement in accordance with the Contract of Work and the terms negotiated herein between the DEPARTMENT and Canmex and Range Resources; and

**WHEREAS**, under Article 4, Clause 8 of the Puntland Contract of Work, this Agreement forms part of the Contract of Work and the STATE’S entry into the Agreement expressly ratifies both the Contract of Work and this Agreement; and

**WHEREAS**, the CONTRACTOR is willing to undertake the obligations provided under this Agreement as a contractor with respect to the Exploration, Development, production, storing and transporting of Crude Oil in the Agreement Area, and the contractor possesses all the necessary financial resources and the technical and professional competence to carry out the Petroleum Operations described under this Agreement.

**NOW, THEREFORE**, the Parties hereto agree as to the following:

### **ARTICLE 1** **DEFINITIONS**

- 1.1 An "Affiliated Company" means a Company:
  - a. in which the right to exercise more than fifty percent (50%) of the voting rights to be exercised at a general meeting of the equity holders (or the equivalent thereof) of such company is owned directly or indirectly by a Party hereto; or

- b. which has the right to exercise more than fifty percent (50%) of the voting rights to be exercised at a general meeting of the equity holders (or the equivalent thereof) of a Party hereto; or
- c. in which the right to exercise more than fifty percent (50%) of the voting rights to be exercised at a general meeting of the equity holders (or the equivalent thereof) of such company and the right to exercise more than fifty percent (50%) of the voting rights to be exercised at a general meeting of the equity holders (or the equivalent thereof) of a Party hereto are owned directly or indirectly by the same company; or
- d. which directly or indirectly controls, is controlled by, or is under common control with a Party hereto. For the purpose of this definition, the word "control" means the right to exercise more than fifty percent (50%) of the voting rights to be exercised at a general meeting of the equity holders (or the equivalent thereof) of a Company. For the purpose of this definition, the term "party hereto" means the DEPARTMENT , Range Resources or Canmex.

1.2 "Agreement" means this Production Sharing Agreement and the attached Annexes.

1.3 "Agreement Area" means the area as described in Annex "A" and shown on the map labeled Annex "B" which are attached to this Agreement. This area may be reduced from time to time in accordance with Article 5 of this Agreement.

1.4 "Associated Gas" means the Gas which is associated with Crude Oil when it is produced from any well in the Agreement Area, or which can be acquired after separation at the lease separators. The aforesaid description includes all the elements that are components of the Associated Gas prior to its processing through the extraction, condensation, distillation and liquification facilities.

1.5 "Barrel" or "BBL" consists of 42 US gallons measuring a liquid at a temperature of sixty degrees Fahrenheit (60° F) and atmospheric pressure of 14.7 PSIA.

1.6 "Commercial Discovery" means a discovery which the CONTRACTOR determines to be worthy of commercial Development, as set forth in Article 3.4 of this Agreement.

1.7 "Commercial Gas Well" means the first well on any geological feature which, after testing for a period of not more than thirty (30) consecutive Days where practical, and in accordance with sound and accepted Petroleum Industry production practices and verified by the DEPARTMENT is found to be capable of producing Gas at a rate that, in the CONTRACTOR'S opinion economically justifies the undertaking of appraisal work. The date of discovery of a Commercial Gas Well is the date on which such well is tested and completed, according to the above.

1.8 "Commercial Oil Well" means the first well on any geological feature which, after testing for a period of not more than thirty (30) consecutive Days in accordance with sound and accepted Petroleum Industry production practices, is capable of producing Oil at a rate that, in the CONTRACTOR'S opinion, economically justifies the undertaking of appraisal work. The date of establishment of a Commercial Oil Well is the date on which the CONTRACTOR notifies the DEPARTMENT that such well has been completed and tested according to the above. Such notice is to be given, together with a report of the test results and other information available from the well, no later than thirty (30) Days following the conclusion of such testing.

1.9 "Company" means any corporation, general or limited partnership, limited liability company, stock company or association, joint venture, trust company, business trust or other entity.

1.10 "CONTRACTOR" means Canmex and its successors and assignees, as provided for in Article 20 of this Agreement, unless and until Canmex shall no longer own any rights in and to this Agreement, in which case, the CONTRACTOR shall mean Range Resources.

1.11 "Cost Oil" means the cost-recovery Crude Oil as defined in Article 7.1 of this Agreement.

1.12 "Customs Duties" means the Customs Duties as defined in Article 12 of this Agreement.

1.13 "Dependent Unit" means any corporation, authority or company, or directorate of the DEPARTMENT, authorized by the MINISTER according to Article 31 of this Agreement, to undertake the rights and obligations of the DEPARTMENT concerning this Agreement.

1.14 "Development" means, but is not limited to, all the operations and activities pursuant to approved Work Programs and Budgets under this Agreement, including, but not limited to, Exploration activities within the Development Area(s), the drilling, deepening, plugging back, side tracking, redrilling, completing and equipping of Development wells, the design, construction, installation, operation, servicing and maintenance of equipment, lines, systems, facilities, plants and related operations in connection with the production and operation of wells, the production, saving, treating, processing and handling of Petroleum; the taking, saving, storing, transporting, lifting, marketing and delivering of Petroleum for export, and the undertaking of re-pressuring, recycling and other secondary recovery projects.

1.15 "Development Area" means, with respect to each Commercial Discovery, the entire Development Block or Development Blocks covering the entire geological structure capable of production, as defined in a Request for Conversion to Development Area signed by the CONTRACTOR and approved by the MINISTER.

1.16 "Development Block" means an area, the corner points of which have to be coincident with six (6) minutes by six (6) minutes latitude and longitude divisions according to the International Grid System except where limited by the existing boundaries of the Agreement Area.

1.17 "Development Expenditures" means all costs, expenses and expenditures for Development operations, whether or not such costs, expenses and expenditures are normally depreciable.

1.18 "Development Period" means the period for conducting (i) Development operations as provided in Article 3.3.2 of this Agreement, and (ii) remaining Exploration Activities, as provided in Article 3.3.1 of the Agreement.

1.19 "Dry Gas" means non-associated Gas, or the natural gas that exists in any geological reservoir that does not include Oil. The above definition is applied to all natural gas that is produced to the surface not in association with Crude Oil or condensate.

1.20 "Effective Date" means the date of the issuance of the [law] ratifying this Agreement as provided in Article 33 of this Agreement.

1.21 "Exploration" means and includes such geological, geochemical, geophysical, aerial and other surveys, and interpretation thereof, as may be contained in approved Work Programs and Budgets, and the drilling of such shot holes, core holes, stratigraphic tests, holes for the discovery of Petroleum or the appraisal of Petroleum discoveries and other related holes and wells, and the purchase or acquisition of such supplies, materials, services and equipment thereof, as may be contained in the approved Work Programs and Budgets.

1.22 "Exploration Advisory Committee" means the Committee that is designated by both Parties during the Exploration Period as provided for and defined in Article 4.3 of this Agreement.

1.23 "Exploration Expenditures" means all expenditures, costs and expenses for Exploration activities, whether or not such costs, expenses and expenditures are normally depreciable, incurred after the Effective Date of this Agreement and those incurred after the signature of this Agreement if approved by the DEPARTMENT .

1.24 "Exploration Period" and "First Exploration Period" and "Second Exploration Period" mean the periods of Exploration as defined in Article 3.3.1.

1.25 "Exploration Work Program and Budget" means a Work Program and Budget for Exploration as defined in Article 4 and described in Annex "C".

1.26 "Force Majeure" has the meaning ascribed thereto in Article 22.2.

1.27 "Gas" means Dry Gas and/or Associated Gas.

1.28 "Initial Commercial Production" means the first date upon which regular production of Crude Oil from the first Development Area is transported from such Development Area for the purpose of sale, export, or processing at a refinery.

1.29 " Liquid Crude Oil " or " Crude Oil " or " Oil " means any hydrocarbon with a density equal to or greater than pentane (C5+), produced from the Agreement Area in a liquid state at the wellhead or lease separators and existing in a liquid form at a temperature of sixty degrees Fahrenheit (60° F) and atmospheric pressure of 14.7 PSIA.

1.30 "Minimum Work Obligation" means the minimum Exploration work to be performed by the CONTRACTOR with respect to the First Exploration Period or the Second Exploration Period, as applicable, as described in Annex "C".

1.31 "MINISTER" means the Minister of Energy or any other Minister designated from time to time by the State to represent the State with respect to this Agreement.

1.32 "DEPARTMENT " means the DEPARTMENT OF PUNTLAND and any official department of the DEPARTMENT authorized to deal with any matters the subject of this AGREEMENT.

1.33 "Minimum Expenditure Obligation" means the minimum expenditures to be incurred by the CONTRACTOR for Exploration with respect to the First Exploration Period or the Second Exploration Period, as applicable, as described in Annex "C".

1.34 "Month" or "Calendar Month" means a calendar Month, according to the Gregorian calendar, starting on the first Day of the calendar Month, unless another starting date is indicated in the applicable provision of this Agreement. The term "Day" means a Day according to the Gregorian calendar.

1.35 "Monthly Average Daily Net Production" means the total volume in Barrels of Liquid Crude Oil produced and saved from all the Development Areas or blocks and not used in Petroleum Operations during any Month, divided by the number of Days in such Month.

1.36 "Operating Expenses" means all costs, expenses and expenditures incurred after Initial Commercial Production, which costs, expenses and expenditures are not normally depreciable.

1.37 "Operator" means Canmex, the CONTRACTOR participant designated to conduct the Petroleum Operations as specified in Articles 3.1 and 6 of this Agreement, unless Canmex shall withdraw from this Agreement, in which case the Operator shall be Range Resources or another party acceptable to Range Resources and the DEPARTMENT .

1.38 "Operating Committee" means the Committee established pursuant to Article 6.

1.39 "Parties " means the DEPARTMENT , Canmex and Range Resources.



1.40 "Petroleum" means Liquid Crude Oil of various densities, asphalt, Dry Gas, Associated Gas, and all other hydrocarbon substances that may be found in, and produced, or otherwise obtained and saved from the Agreement Area, and all substances that may be extracted therefrom.

1.41 "Petroleum Industry" means the International Petroleum Industry.

1.42 "Petroleum Operations" means Exploration, Development and production operations and all other operations authorized or contemplated under this Agreement.

1.43 "Production Sharing Oil" means the Crude Oil to be shared between the DEPARTMENT and the CONTRACTOR as described in Article 7.3 of this Agreement.

1.44 "Quarter" or "Calendar Quarter" means a period of three (3) consecutive Months beginning on January 1st, April 1st, July 1st, and October 1st of each Year.

1.45 "Request for Conversion to Development Area" means the request signed by the CONTRACTOR and approved by the MINISTER for the purpose of defining the Development Area with respect to a Commercial Discovery of Oil.

1.46 "Royalty" means the royalty to which the STATE is entitled in accordance with Article 3.2 of this Agreement.

1.47 "PUNTLAND Income Taxes" means the taxes defined in Article 9.1.2 of this Agreement.

1.48 "SCF" means the amount of Dry Gas necessary to fill one (1) cubic foot of space at atmospheric pressure of 14.7 PSIA and at a base temperature of sixty degrees Fahrenheit (60° F).

1.49 "Working Day" means a Day on which banks in PUNTLAND are customarily open for business.

1.50 "Work Program and Budget" means the annual budget and work program for Exploration and/or Development under this Agreement.

1.51 "Year" or "Calendar Year" or "Tax Year" or "Financial Year" means a period of twelve (12) consecutive Months, according to the Gregorian calendar, starting on January 1<sup>ST</sup>, unless another starting date is indicated in the applicable provision of this Agreement.

1.52 "STATE" means PUNTLAND, "GOVERNMENT" means the Government of PUNTLAND as defined in the constitution of PUNTLAND, "DEPARTMENT" means the PUNTLAND Department of Minerals and Petroleum and MINISTER means the Minister of the DEPARTMENT.

1.53 "Puntland Contract of Work" means the Contract of Work entered into between the STATE, Range Resources and Consort Private Limited dated April 2006.

**ARTICLE 2**  
**ANNEXES**

2.1 Annexes " A ", " B ", " C " and " D ", attached to this Agreement are hereby made part hereof and they shall be considered as having equal force and effect with the provisions of this Agreement, provided that if there is a conflict between any Annex and the provisions of the main body of this Agreement, the provisions of the main body of this Agreement shall prevail.

2.1.1 Annex "A" is a description of the Agreement Area.

2.1.2 Annex "B" is an illustrative map indicating the Agreement Area. In the event of any inconsistency between the contents of Annex "A" and Annex "B" the content of Annex "A" shall prevail.

2.1.3 Annex "C" sets out the Minimum Work and Expenditure Obligations during the two Exploration Periods, and extensions thereof.

2.1.4 Annex "D" is the Accounting Procedures.

**ARTICLE 3**  
**GRANT OF RIGHTS AND TERM**

3.1 Grant of Rights

The STATE hereby grants to the CONTRACTOR (for and on behalf of itself and Range Resources) and the DEPARTMENT the sole, exclusive, immediate and irrevocable right to conduct Petroleum Operations in the Agreement Area subject to the terms, covenants and conditions set out in this Agreement. CANMEX shall conduct Petroleum Operations under this Agreement as Operator.

This Agreement shall henceforth govern all the interests, rights and obligations of the parties hereto with respect to the subject matter hereof, and the STATE shall in its name retain the title to the Agreement Area. Except as expressly provided by this Agreement and the Puntland Contract of Work, no other rights or privileges are granted to the CONTRACTOR (and/or Range Resources) with respect to the Agreement Area, the Petroleum produced from the Agreement Area or any other mineral resources in the Agreement Area.

### 3.2 Royalties

The STATE shall own and be entitled to take as a Royalty from the total Crude Oil produced and saved from the Development Area(s) and not used in Petroleum Operations prior to the deduction of Cost Oil, a non-recoverable amount of the Monthly Average Daily Net Production (MADNP) commencing with the first Barrel produced and saved from the Development Area(s) and not used in Petroleum Operations in the following percentages:

- 3.2.1 *[REDACTED]* of the portion or increment of production up to and including *[REDACTED]* Barrels of Monthly Average Daily Net Production;
- 3.2.2 *[REDACTED]* of that additional portion or increment of production which exceeds *[REDACTED]* Barrels of Monthly Average Daily Net Production up to and including *[REDACTED]* Barrels of Monthly Average Daily Net Production;
- 3.2.3 *[REDACTED]* of that additional portion or increment of production which exceeds *[REDACTED]* Barrels of Monthly Average Daily Net Production up to and including *[REDACTED]* Barrels of Monthly Average Daily Net Production;
- 3.2.4 *[REDACTED]* of that additional portion or increment of production which exceeds *[REDACTED]* Barrels of Monthly Average Daily Net Production up to and including *[REDACTED]* Barrels of Monthly Average Daily Net Production;
- 3.2.5 *[REDACTED]* of that additional portion or increment of production which exceeds *[REDACTED]* Barrels of Monthly Average Daily Net Production. ***[REDACTED - ROYALTIES PAYABLE CONSTITUTE SENSITIVE BUSINESS INFORMATION]***

### 3.3 Term

The term of this Agreement shall include an Exploration Period and a Development Period as follows:

#### 3.3.1 Exploration Period

The Exploration Period shall be divided into a First Exploration Period of ***[REDACTED - EXPLORATION PERIODS CONSTITUTE SENSITIVE BUSINESS INFORMATION]***, commencing on the Effective Date, and at the CONTRACTOR'S sole election, a Second Exploration Period of ***[REDACTED - EXPLORATION PERIODS CONSTITUTE SENSITIVE BUSINESS INFORMATION]*** commencing on the Day next following the end of the First

Exploration Period or any extension thereof (if such extension is approved by the DEPARTMENT ). The CONTRACTOR shall have the right to elect to enter into the Second Exploration Period by providing written notice to the DEPARTMENT at least **[REDACTED - NOTICE PERIOD CONSTITUTES SENSITIVE BUSINESS INFORMATION]** prior to the end of the First Exploration Period or any extension thereof, provided that the CONTRACTOR has fulfilled all its obligations under this Agreement for that Exploration Period or its extension. Either Exploration Period may, at the CONTRACTOR'S election, be extended for **[REDACTED - EXTENSION PERIOD CONSTITUTES SENSITIVE BUSINESS INFORMATION]** upon written notice to the DEPARTMENT **[REDACTED - NOTICE PERIOD CONSTITUTES SENSITIVE BUSINESS INFORMATION]** prior to the end of the applicable Exploration Period.

Such First and Second Exploration Periods may be extended as follows:

#### Extension for Appraisal and Evaluation

If, at the end of any Exploration Period or extension thereof, the CONTRACTOR has fulfilled the obligations for that Period but needs more time to evaluate or appraise the results of the Exploration work performed, the CONTRACTOR may extend such Exploration Period or extension thereof for a term not to exceed **[REDACTED - EXTENSION PERIOD CONSTITUTES SENSITIVE BUSINESS INFORMATION]** Months by giving written notice to the DEPARTMENT at least **[REDACTED - NOTICE PERIOD CONSTITUTES SENSITIVE BUSINESS INFORMATION]** prior to the end of such Exploration Period. Such Request shall include the results of the Exploration work performed and the evaluation or appraisal work to be accomplished during the appraisal extension.

#### 3.3.2 Development Period

Without limiting the CONTRACTOR'S rights and obligations under the remaining term of the applicable Exploration Period(s), the Development Period shall commence on the date of the first Commercial Discovery of Oil and shall continue for a period of **[REDACTED - TERM OF DEVELOPMENT PERIOD CONSTITUTES SENSITIVE BUSINESS INFORMATION]** and can be extended by up to **[REDACTED - TERM OF DEVELOPMENT PERIOD CONSTITUTES SENSITIVE BUSINESS INFORMATION]** upon the written notice to the CONTRACTOR **[REDACTED - NOTICE PERIOD CONSTITUTES SENSITIVE BUSINESS INFORMATION]** prior to the expiration of the Development Period provided, however that any such extension (i) shall be subject to new terms and conditions mutually agreed upon by the DEPARTMENT and the CONTRACTOR within the specified **[REDACTED]** period, and (ii) shall not be binding on any party hereto unless a **[law]** is issued approving such extension according to the Constitutional procedures in the PUNTLAND.

### 3.4 Commercial Discovery of Oil

3.4.1 A Commercial Discovery of Oil may consist of **[REDACTED - SENSITIVE BUSINESS INFORMATION]** which is worthy of being developed commercially. After drilling a Commercial Oil Well, the CONTRACTOR shall undertake as part of its Exploration program the appraisal of the discovery by drilling **[REDACTED - SENSITIVE BUSINESS INFORMATION]** to determine whether such discovery is worthy of being developed commercially, taking into consideration the recoverable reserves and all other relevant technical and economical factors.

3.4.2 The CONTRACTOR shall give written notice of a Commercial Discovery of Oil to the DEPARTMENT immediately after the discovery is considered by the CONTRACTOR to be worthy of commercial Development. With respect to a Commercial Oil Well drilled after the extended Exploration Period (**i.e., prior to the Development Period**) the CONTRACTOR shall give such notice of Commercial Discovery of Oil, not later than **[REDACTED - NOTICE PERIOD CONSTITUTE SENSITIVE BUSINESS INFORMATION]** following the completion of the **[REDACTED - SENSITIVE BUSINESS INFORMATION]** appraisal well, or **[REDACTED - SENSITIVE BUSINESS INFORMATION]** following the date of the discovery of such Commercial Oil Well, whichever is earlier. The CONTRACTOR shall also have the obligation to give a notice of Commercial Discovery of Oil even if the discovery well or wells are not Commercial Oil Wells within the definition of "Commercial Oil Well" if, in the CONTRACTOR'S opinion, a reservoir or a group of reservoirs, considered collectively, could be worthy of commercial Development. Notice of a Commercial Discovery of Oil may be given by the CONTRACTOR at any time during the Exploration Period or any extension thereof.

The CONTRACTOR shall also give notice of a Commercial Discovery of Oil in the event it wishes to undertake a gas recycling project, unless such project is already a part of the Development of a previously declared Commercial Discovery of Oil. The date of a Commercial Discovery of Oil will be the date upon which the CONTRACTOR gives notice to the DEPARTMENT of the declaration for such Commercial Discovery.

3.4.3 Following the notice of each Commercial Discovery of Oil as provided for in Article 3.4 of this Agreement, the DEPARTMENT and the CONTRACTOR, within **[REDACTED - NOTICE PERIOD CONSTITUTES SENSITIVE BUSINESS INFORMATION]**, shall sign a Request for Conversion to Development Area, which will identify the

Development Area. Simultaneously, the CONTRACTOR shall submit to the DEPARTMENT a preliminary development plan.

- 3.4.4 The provisions set forth herein contemplate the unity and the indivisibility of the concepts of Commercial Discovery and Development Area and they shall apply to Oil unless otherwise specified.

### 3.5 Sole Risk Project

If Crude Oil is discovered but is not deemed by the CONTRACTOR to be a Commercial Discovery of Oil under the above provisions of Article 3.4, the DEPARTMENT shall, after **[REDACTED - NOTICE PERIOD CONSTITUTES SENSITIVE BUSINESS INFORMATION]** from the expiration of the period specified above within which the CONTRACTOR can give notice of a Commercial Discovery of Oil, have the right upon **[REDACTED - NOTICE PERIOD CONSTITUTES SENSITIVE BUSINESS INFORMATION]** prior written notice to the CONTRACTOR, and at the DEPARTMENT 's sole risk and expense, to develop, produce and dispose of all Crude Oil from the geological feature in which said Crude Oil was discovered as aforesaid. Said notice shall state the specific area covering said geological feature to be developed, the wells to be drilled, the production facilities to be installed and the DEPARTMENT 's estimated cost thereof. Within **[REDACTED - NOTICE PERIOD CONSTITUTES SENSITIVE BUSINESS INFORMATION]** after receipt of said notice, on a preferential basis, the CONTRACTOR may, in writing, elect to develop such area as provided for in this Agreement in the case of a Commercial Discovery. In such event, all terms of this Agreement shall continue to apply to the specified area.

If the CONTRACTOR elects not to develop such area, the specified area (hereinafter called "Sole Risk Area") covering said geological feature shall be set aside for sole risk operations by the CONTRACTOR on behalf of the DEPARTMENT at a rate of remuneration to be agreed upon by the CONTRACTOR (for and on behalf of itself and Range Resources) and the DEPARTMENT . In such event, the DEPARTMENT shall indemnify and save harmless the CONTRACTOR from and against any and all losses, liabilities, suits, costs, actions and causes of action that the CONTRACTOR may suffer by reason of the performance of the CONTRACTOR'S operations on the Sole Risk Area. The Sole Risk Area shall be mutually agreed upon by the DEPARTMENT and the CONTRACTOR on the basis of good Petroleum Industry practices. The DEPARTMENT shall be entitled to have the CONTRACTOR perform such operations on its behalf at the DEPARTMENT 's sole risk and expense. When the DEPARTMENT has recovered from the Crude Oil produced from the Sole Risk Area a quantity of Crude Oil equal in value to **[REDACTED - SENSITIVE BUSINESS INFORMATION]** percent of the cost it has incurred in carrying out the sole risk operations, the CONTRACTOR (for and on behalf of itself and Range Resources) shall have the option, only in the event there has been a separate Commercial Discovery of Oil, or Gas elsewhere within the Agreement Area, to share in further Development and production of the Sole Risk Area upon paying the DEPARTMENT **[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]** percent of the costs incurred by the DEPARTMENT in conducting the sole risk operations. At least **[REDACTED - NOTICE PERIOD CONSTITUTES SENSITIVE BUSINESS INFORMATION]** prior to the estimated recovery date, the DEPARTMENT shall give written notice to the CONTRACTOR and allow the CONTRACTOR access to the data to evaluate the option, as may be requested by the CONTRACTOR. The **[REDACTED - SENSITIVE BUSINESS INFORMATION]** percent payment shall not be recovered by CONTRACTOR. Such DEPARTMENT sole risk operations shall not interfere with the CONTRACTOR'S other operations under this Agreement.

Immediately following such payment the Sole Risk Area shall revert to the status of an ordinary Development Area under this Agreement and thereafter shall be operated in accordance with the terms hereof. Crude Oil from the Sole Risk Area shall be valued in the manner provided in Article 7.4. In the event of any termination of this Agreement, this Agreement shall, however, continue to apply to the operations of any sole risk project.

**ARTICLE 4**  
**WORK PROGRAM AND EXPENDITURES DURING THE EXPLORATION PERIOD**

4.1 Exploration Work Program and Budget

- A Subject to the provisions of this Agreement to the CONTRACTOR obtaining any necessary regulatory approvals, the CONTRACTOR agrees and commits to undertake in the Agreement Area during the applicable Exploration Period a program of Exploration work as a Minimum Work Obligation as set out in Annex "C" which cannot be changed or amended without the approval of the DEPARTMENT , which shall be given within a period of ***[REDACTED - NOTICE PERIOD CONSTITUTES SENSITIVE BUSINESS INFORMATION]***. The Work Program must be fulfilled even if expenses are in excess of the minimum financial obligations. The first Work Program and Budget shall be prepared and submitted to the DEPARTMENT for its approval not later than ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** after the Effective Date.
- B During the First Exploration Period, and any extension thereof the CONTRACTOR shall meet the respective Minimum Work Obligation for such period as set forth in Annex "C" of this Agreement. In the event that the CONTRACTOR timely gives the required written notice to the DEPARTMENT to enter into the Second Exploration Period, the CONTRACTOR shall meet the respective Minimum Work Obligation for such period, and any extension thereof, as set forth in Annex "C" of this Agreement.
- C The CONTRACTOR shall have the right to withdraw before the end of the First Exploration Period or any extension thereof, and this Agreement shall terminate on the date a written notice of such withdrawal is received by the DEPARTMENT from the CONTRACTOR; provided that the CONTRACTOR has fulfilled the Minimum Work Obligations for the First Exploration Period and any extension thereto in effect at the time of withdrawal. In the event the CONTRACTOR withdraws, having expended less than the minimum amount of work obligations required in the First Exploration Period, and any extension, the CONTRACTOR shall pay an amount equal to the difference between such minimum amount and the amount actually spent on Exploration activities to the DEPARTMENT at the time of the withdrawal, but in no event later than ***[REDACTED - NOTICE PERIOD CONSTITUTES SENSITIVE BUSINESS INFORMATION]*** after the expiration of the First Exploration Period, or such extension as the case may be. Any deficiency in aggregate exploration activity expenditures by the CONTRACTOR at the end of the Second Exploration Period or any extension thereof, shall obligate the CONTRACTOR to pay such deficiency to the DEPARTMENT within



**[REDACTED - SENSITIVE BUSINESS INFORMATION]** after the expiration of the Second Exploration Period or such extension thereof, as the case may be.

- D Excess work in any portion of the Exploration Period (including extensions) may be carried forward to satisfy the work in a subsequent portion of the Exploration Period (including extensions).

4.2 Subject to Article 4.1.A, at least **[REDACTED - SENSITIVE BUSINESS INFORMATION]** prior to the beginning of each Financial Year or at such other times as may mutually be agreed to by the DEPARTMENT and the CONTRACTOR, the CONTRACTOR shall prepare an Exploration Work Program and Budget for the Agreement Area setting forth the Exploration operations which the CONTRACTOR proposes to carry out during the ensuing Year. During each Exploration Period or extension, such Work Programs and Budgets taken together shall be at least sufficient to satisfy the CONTRACTOR'S minimum work and expenditure obligations for the period it covers, taking into account any credits for excess work or excess expenditures by the CONTRACTOR in prior portions of the Exploration Period.

#### 4.3 Exploration Advisory Committee

The Exploration Work Program and Budget shall be reviewed by a joint committee to be established by the DEPARTMENT and the CONTRACTOR within 15 day after the Effective Date. This committee, hereinafter referred to as the "Exploration Advisory Committee", shall consist of **[REDACTED - SENSITIVE BUSINESS INFORMATION]**, **[REDACTED - SENSITIVE BUSINESS INFORMATION]** of whom shall be appointed by the DEPARTMENT and **[REDACTED - SENSITIVE BUSINESS INFORMATION]** by the CONTRACTOR. The Chairman of the Exploration Advisory Committee shall be designated by **[REDACTED - SENSITIVE BUSINESS INFORMATION]** from among the members appointed by it. The Exploration Advisory Committee shall review and give such advice as it deems appropriate with respect to the proposed Work Program and Budget. Following review by the Exploration Advisory Committee, the CONTRACTOR shall make such revisions as it thinks appropriate and submit the Exploration Work Program and Budget to the DEPARTMENT for its approval to be given within **[REDACTED - SENSITIVE BUSINESS INFORMATION]**. Following such approval, the CONTRACTOR shall not substantially revise or modify said Work Program and Budget without the approval of the DEPARTMENT .

4.4 The CONTRACTOR shall advance all necessary funds for all materials, equipment, supplies, personnel administration and operations pursuant to the Exploration Work Program and Budget and the DEPARTMENT shall not be responsible to bear or repay any of the aforesaid costs. The CONTRACTOR shall be responsible for the preparation and performance of the Exploration Work Program and Budget which shall be implemented in a workmanlike manner and consistent with good Petroleum Industry practices. All contracts greater than **[REDACTED - AMOUNTS CONSTITUTE SENSITIVE BUSINESS INFORMATION]** related to the performance of the work program must be approved by the DEPARTMENT or its duly authorized representatives.

The CONTRACTOR shall entrust the management of Exploration operations in the PUNTLAND to its technically competent General Manager and Deputy General Manager. The name of such Manager and Deputy General Manager shall, upon appointment, be forthwith notified to the DEPARTMENT, accompanied by a curriculum vitae of such General Manager or Deputy General Manager. The General Manager and, in his absence, the Deputy General Manager shall be entrusted by the CONTRACTOR with sufficient powers to carry out immediately all lawful written directions given to them by the DEPARTMENT or its Representative under the terms of this Agreement. All lawful regulations issued or hereafter to be issued which are applicable hereunder and not in conflict with this Agreement shall apply to the CONTRACTOR.

4.5 Statement of Expenditure:

The CONTRACTOR shall supply the DEPARTMENT, within **[REDACTED - SENSITIVE BUSINESS INFORMATION]** from the end of each Calendar Quarter, with a Statement of Exploration activity showing costs incurred by the CONTRACTOR during such Quarter. The CONTRACTOR'S records and necessary original supporting documents shall be available for inspection by the DEPARTMENT at any time during regular working hours for **[REDACTED - SENSITIVE BUSINESS INFORMATION]** from the date of receiving each Statement.

Within the **[REDACTED - SENSITIVE BUSINESS INFORMATION]** from the date of receiving such Statement, the DEPARTMENT shall advise the CONTRACTOR in writing setting forth the basis therefor if it considers:

4.5.1 that the record of costs is not correct; or

4.5.2 that the costs of goods or services supplied are not in line with international market prices for goods or services of similar quality supplied on similar terms prevailing at the time such goods or services were supplied, provided however, that purchases made and services performed within PUNTLAND shall be subject to Article 26 of this Agreement; or

- 4.5.3 that the condition of the materials furnished by the CONTRACTOR does not agree with their prices; or
- 4.5.4 that the costs incurred are not reasonably required for Petroleum Operations.

The CONTRACTOR shall confer with the DEPARTMENT in connection with any problem thus presented, and the parties hereto shall attempt to reach a settlement which is mutually satisfactory.

If within the time limit of the *[REDACTED - SENSITIVE BUSINESS INFORMATION]* period provided for in this Article 4.5 the DEPARTMENT has not advised the CONTRACTOR of its objection to any Statement, such Statement shall be considered as preliminarily approved, subject to audit by the DEPARTMENT according to the Accounting Procedure, Annex (D) of this Agreement.

## **ARTICLE 5** **RELINQUISHMENTS**

### 5.1 Mandatory Relinquishments

- 5.1.1 At the end of the First Exploration Period, including any extensions thereof the CONTRACTOR enters into, the CONTRACTOR shall relinquish a total of *[REDACTED - SENSITIVE BUSINESS INFORMATION]* percent of the original Agreement Area, provided that if the CONTRACTOR does not elect to enter into the Second Exploration Period or any extension set forth in Article 3 then the CONTRACTOR shall relinquish *[REDACTED - SENSITIVE BUSINESS INFORMATION]* not then converted to a Development Area or (Areas) or for approval for conversion to a Development Area is not then pending.
- 5.1.2 At the end of the Second Exploration Period, including any extension thereof, the CONTRACTOR shall relinquish *[REDACTED - SENSITIVE BUSINESS INFORMATION]*.

### 5.2 Voluntary Relinquishments

The CONTRACTOR may voluntarily relinquish all or any part of the Agreement Area subject to having fulfilled all of its obligations at that time required to be performed under Article 4.1 of this Agreement. Any voluntary relinquishment shall be credited toward the mandatory relinquishments required under Article 5.1 above. For greater certainty and without limitation, there shall be no expenditure obligations in respect of any such voluntarily relinquished Agreement Area.

### 5.3 Requirements for Relinquishments

The size and shape of the relinquishments made under this Article shall be determined by mutual agreement, provided that, unless otherwise agreed, all areas relinquished shall, at a minimum, be contiguous and reasonably accessible for, and capable of, further Exploration and Development. Any part of the Agreement Area shall be considered subject to relinquishment, including any such part corresponding to a geological feature in which Petroleum may be present or has been determined to be present after drilling a well, provided that notwithstanding the foregoing the CONTRACTOR shall not be obliged to relinquish any part of the Agreement Area corresponding to a Development Area(s) or to the surface area of any geological feature in which a Commercial Oil Well has been established, unless the time provided for establishing a Commercial Discovery has expired pursuant to Article 3 of this Agreement.

### 5.4 Notice of Relinquishment

At least **[REDACTED - SENSITIVE BUSINESS INFORMATION]** prior to the date of each relinquishment, the CONTRACTOR shall submit to the DEPARTMENT a report of its completed Exploration activities on the area proposed to be relinquished and the coordinates of the connecting points of the boundary line of such areas.

### 5.5 Withdrawal

The DEPARTMENT does hereby acknowledge and agree that Canmex has acquired the rights in and to this Agreement as a result of an agreement executed and delivered by Range Resources and Canmex and dated as of 1 December, 2006. In the event Canmex and Range Resources advise the DEPARTMENT that Canmex no longer has an interest in this Agreement, then, forthwith after receipt of such written notice, Canmex shall be released from any and all obligations hereunder save and except for obligations incurred by reason of its acting as Operator hereunder and Range Resources shall thereupon be the CONTRACTOR and the OPERATOR hereunder.

## **ARTICLE 6** **OPERATIONS AND DEVELOPMENT PERIOD**

### 6.1 Operating Committee

6.1.1 Within **[REDACTED - SENSITIVE BUSINESS INFORMATION]** of a Commercial Discovery, the Exploration Advisory Committee shall be dissolved and an Operating Committee shall be established.

6.1.2 The Operating Committee shall consist of **[REDACTED - SENSITIVE BUSINESS INFORMATION]** representatives, **[REDACTED -**

***SENSITIVE BUSINESS INFORMATION***] representatives appointed by the DEPARTMENT and ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** representatives appointed by the CONTRACTOR.

The Chairman of the Operating Committee shall be a representative of ***[REDACTED - SENSITIVE BUSINESS INFORMATION]***. The Vice-Chairman of the Operating Committee shall be a representative of ***[REDACTED - SENSITIVE BUSINESS INFORMATION]***.

6.1.3 The responsibilities of the Operating Committee are as follows:

6.1.3.1 generally review and supervise the implementation of the Development and Production Operations under this Agreement;

6.1.3.2 consider and approve the Work Programs and Budgets presented to it by the Operator on behalf of the CONTRACTOR and consider the recommendations of the Work Program and Budget Subcommittee.

6.1.3.3 receive proposals from the Operating Subcommittees;

6.1.3.4 endorse or suggest changes to the above proposals and submit same to the DEPARTMENT and the Operator on behalf of the CONTRACTOR; and

6.1.3.5 assist the DEPARTMENT and the Operator on behalf of the CONTRACTOR in carrying out their respective duties and obligations under this Agreement.

6.1.4 The following Operating Subcommittees shall be established contemporaneously with the formation of the Operating Committee:

6.1.4.1 Work Program and Budget Subcommittee;

6.1.4.2 Technical/ Operations Subcommittee;

6.1.4.3 Contracting and Procurement Subcommittee; and

6.1.4.4 Training Subcommittee.

6.1.4.5 The Operator shall form Project Teams to which the DEPARTMENT employee(s) may be seconded upon approval of the Operating Committee. The secondments

shall be processed as contemplated in Article 17.1.4 of this Agreement.

## 6.2 Work Program and Budget

**[REDACTED - SENSITIVE BUSINESS INFORMATION]** after the date that the Operating Committee comes into existence in accordance with paragraph 6.1.1 above, the Operator, in consultation with the Work Program and Budget Subcommittee, shall prepare a Work Program and Budget for further Exploration and Development for the remainder of the Financial Year in which the Commercial Discovery of Oil is made, and not later than **[REDACTED - SENSITIVE BUSINESS INFORMATION]** before the end of the current Financial Year (or such other date as may be agreed upon by the Operating Committee), the Operator, in consultation with the Work Program and Budget Subcommittee, shall prepare an annual Production Schedule, Work Program and Budget for further Exploration and Development for the succeeding Financial Year. The Operating Committee shall review and give such directions as it deems appropriate with respect to the proposed Work Program and Budget or Production Schedule, Work Program and Budget, as the case may be. The CONTRACTOR shall consider changes proposed by the Operating Committee and will make such changes in the proposals as it deems appropriate. Thereafter, the Work Program and Budget, or Production Schedule, Work Program and Budget, as the case may be, as endorsed or amended, will be presented to the DEPARTMENT for its final approval.

6.3 **[REDACTED - SENSITIVE BUSINESS INFORMATION]** necessary funds for all materials, equipment, supplies, personnel administration and operations pursuant to the Work Program and Budget and **[REDACTED - SENSITIVE BUSINESS INFORMATION]** the aforesaid costs. The Operator, shall be responsible for the preparation and performance of the Work Program and Budget which shall be implemented in a workmanlike manner and in accordance with good Petroleum Industry practices. With the involvement of the Contracts and Procurement Subcommittee the Operator shall provide notice to the DEPARTMENT or its authorized representative for any service contract (not including individual labour contracts) award in excess of **[REDACTED - SENSITIVE BUSINESS INFORMATION]**, where such award is to be made on the basis of a sole source or to be made to a bidder other than the lowest bidder. The DEPARTMENT or its authorized representative shall have **[REDACTED - SENSITIVE BUSINESS INFORMATION]** within which to communicate its written approval of such award, failing such communication, approval shall be deemed. Furthermore, with the involvement of the Contracts and Procurement Subcommittee as set forth in Annex "D", the Operator shall provide notice to the DEPARTMENT or its authorized representative for any service contract (not including individual labour contracts) award, even if to the lowest bidder, with a value in excess of **[REDACTED - AMOUNTS CONSTITUTE SENSITIVE BUSINESS INFORMATION]**. The DEPARTMENT or its authorized representative shall have **[REDACTED - SENSITIVE BUSINESS INFORMATION]** within which to communicate its written approval of such

award, failing such communication approval shall be deemed. In the event approval is denied as aforesaid, the Operating Committee shall meet in an attempt to resolve the issue.

The CONTRACTOR shall entrust the management of Development and Production operations in the PUNTLAND to its technically competent General Manager and Deputy General Manager. The name of such Manager and Deputy General Manager shall, upon appointment, be forthwith notified to the DEPARTMENT, accompanied by a curriculum vitae of such General Manager and Deputy General Manager. The General Manager and, in his absence, the Deputy General Manager shall be entrusted by the CONTRACTOR with sufficient powers to carry out immediately all lawful written directions given to them by the DEPARTMENT or its Representative under the terms of this Agreement.

#### 6.4 Statement of Expenditure

The CONTRACTOR shall supply the DEPARTMENT, within **[REDACTED - SENSITIVE BUSINESS INFORMATION]** from the end of each Calendar Quarter, with a Statement of Expenditures showing costs incurred and paid by the CONTRACTOR during such Quarter. The CONTRACTOR'S records and necessary original supporting documents shall be available for review by the DEPARTMENT at any time during regular working hours for **[REDACTED - SENSITIVE BUSINESS INFORMATION]** from the date of receiving such Statements. Within the **[REDACTED - SENSITIVE BUSINESS INFORMATION]** from the date of receiving such Statement, the DEPARTMENT shall advise the CONTRACTOR in writing (setting forth the basis therefore if it considers:

- a. that the record of costs is not correct; or
- b. that the costs of goods or services supplied are not in line with the international market prices for goods or services of similar quality supplied on similar terms prevailing at the time such goods or services were supplied, provided however, that purchases made and services performed within PUNTLAND shall be subject to Article 26 of this Agreement; or
- c. that the condition of the materials furnished by the CONTRACTOR does not agree with their prices; or
- d. that the costs incurred are not reasonably required for Petroleum Operations.

The CONTRACTOR shall confer with the DEPARTMENT in connection with any problem thus presented, and the parties hereto shall attempt to reach a settlement which is mutually satisfactory.

If within the time limit of the [*REDACTED - SENSITIVE BUSINESS INFORMATION*] period provided for in this Article 6.4 the DEPARTMENT has not advised the CONTRACTOR of its objection to any Statement, such Statement shall be considered as preliminarily approved, subject to audit by the DEPARTMENT according to the Accounting Procedure, Annex (D) of this Agreement.

## 6.5 Facilities

6.5.1 The CONTRACTOR shall have the right to construct and operate facilities for the processing, transport, storage and shipment of Petroleum in the PUNTLAND and the DEPARTMENT shall render all assistance to the CONTRACTOR on matters involving PUNTLAND law.

6.5.2 If, during the Term of this Agreement, the CONTRACTOR and the DEPARTMENT agree that the CONTRACTOR has no foreseeable need for part or all of the unused capacity in the Petroleum Operations facilities such as a pipeline or Crude Oil storage or export terminal facility forming part of Petroleum Operations, and that in the CONTRACTOR'S opinion such capacity can be used for operations conducted by the DEPARTMENT or anyone acting on behalf of the DEPARTMENT, including persons having rights under any other Production Sharing Agreements in PUNTLAND, without interfering with the CONTRACTOR'S and the DEPARTMENT's Petroleum Operations under this Agreement, and if the DEPARTMENT determines a need for such part or all of such unused capacity for such operations in Puntland, then the DEPARTMENT and the CONTRACTOR shall meet to negotiate mutually satisfactory terms covering such use (including a proportional per barrel charge representing unrecovered capital costs of the CONTRACTOR for such unused capacity), provided always that the CONTRACTOR shall have the prior right to use the above mentioned facilities for the Petroleum Operations.

6.5.3 If the CONTRACTOR should determine and advise the DEPARTMENT that it needs part or all of the unused capacity in Petroleum Operations facilities such as a pipeline or Crude Oil storage or export terminal facility in PUNTLAND which are not subject to this Agreement, the DEPARTMENT shall, to the extent that it has the right to do so, cause such unused capacity to be made available for the CONTRACTOR'S use for Petroleum Operations on mutually satisfactory terms, including reasonable payment by the CONTRACTOR for such use (including a



proportional per barrel charge representing unrecovered capital costs of such unused capacity).

**ARTICLE 7**  
**RECOVERY OF COSTS AND PRODUCTION SHARING**

7.1 Cost Recovery Crude Oil

Subject to the auditing provisions under this Agreement, the CONTRACTOR (on its own behalf and on behalf of Range Resources) shall recover all costs, expenses and expenditures incurred for all Petroleum Operations out of and to the extent of a maximum of ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** percent per Quarter of all the Crude Oil produced and saved from the Agreement Area and not used in Petroleum Operations and after Royalty payments to the STATE according to Article 3.2 of this Agreement. Such Crude Oil is hereinafter referred to as "Cost Oil".

All such costs, expenses and expenditures shall be recovered from Cost Oil in the following manner:

- 7.1.1 Operating Expenses incurred and paid after the date of Initial Commercial Production shall be recoverable in the Tax Year in which such costs and expenses are incurred and paid.
- 7.1.2 Exploration Expenditures including, but not limited to, those accumulated prior to the commencement of Initial Commercial Production shall be recoverable at the rate of ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** per four Quarter period starting either in the four Quarter period in which such expenditures are incurred and paid or the four Quarter period in which Initial Commercial Production commences, whichever is the later, and the remaining ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** shall be fully eligible for recovery in the first Quarter of the following four Quarter period.
- 7.1.3 Development Expenditures, including, but not limited to, those accumulated prior to the commencement of Initial Commercial Production shall be recoverable at the rate of ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** per four Quarter period starting either in the four Quarter period in which such expenditures are incurred and paid or the four Quarter period in which Initial Commercial Production commences, whichever is the later, and the remaining ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** shall be fully eligible for recovery in the first Quarter of the following four Quarter period.
- 7.1.4 The recovery of costs and expenses, based upon the ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** rate referred to in 7.1.2 and 7.1.3 above, shall be allocated proportionately over four consecutive

Quarters (one fourth to each Quarter). Any recoverable costs and expenses not recovered in one Quarter as thus allocated shall be carried forward for recovery in the next Quarter.

- 7.1.5 If all costs, expenses and expenditures that are recoverable in any Quarter, including, but not limited to, Operating Expenses and such costs, expenses and expenditures carried forward from previous Quarters pursuant to this paragraph (7.1.5), exceed the value of the maximum amount of Cost Oil ("Maximum Cost Oil") that can be taken by the CONTRACTOR in such Quarter, as provided in Article 7.1. above then the unrecovered excess amount shall be carried forward for recovery in the next succeeding Quarter or Quarters until fully recovered, but in no case shall they be recovered after the termination of this Agreement. However, if such recoverable costs, expenses and expenditures are less than the value of the Maximum Cost Oil, then the value of the Crude Oil taken as Cost Oil by the CONTRACTOR shall be equal to such recoverable costs, expenses and expenditures. The difference between the Maximum Cost Oil and the Cost Oil actually taken by the CONTRACTOR during such Quarter shall be included in the Production Sharing Oil and taken and disposed of separately by the DEPARTMENT and the CONTRACTOR pursuant to Article 7.3 below.

7.2 Non-Recoverable Costs and Expenses:

In addition to any non-recoverable costs and expenses provided for in this Agreement or in Annex "D" of this Agreement, the below-mentioned costs and expenses are not recoverable from Cost Oil or otherwise under this Agreement:

- 7.2.1 Costs and expenses not related directly or indirectly to Petroleum Operations in the Agreement Area.
- 7.2.2 That portion of the costs and expenses in excess of the limitations set forth in the Accounting Procedure in Annex "D" or other provisions of this Agreement.
- 7.2.3 Expenses incurred, paid, and carried forward, prior to the Effective Date of this Agreement, except for Exploration Expenditures incurred after signature of this Agreement if approved by the DEPARTMENT .
- 7.2.4 All taxes in PUNTLAND or in other countries except as specifically provided for in this Agreement.
- 7.2.5 Losses which are recovered through insurance, any contract of indemnity or otherwise from a third party.
- 7.2.6 Bonuses paid to the STATE or to the DEPARTMENT .

- 7.2.7 Interest, fees and commissions on loans and guarantees.
- 7.2.8 Expenses or payments for education and training pursuant to Article 9.2, except for costs and expenses for training of PUNTLAND employees of the CONTRACTOR provided such costs and expenses are included in an approved Work Program and Budget.
- 7.2.9 Expenses incurred and paid for the marketing of Agreement Area Crude Oil outside PUNTLAND and the cost of transporting, storing, handling and exporting of Petroleum beyond the point of export in PUNTLAND.
- 7.2.10 Foreign exchange losses.

### 7.3 Production Sharing Oil

The Crude Oil remaining after deducting Royalty and Cost Oil from the total Crude Oil produced and saved from the Agreement Area, and not used in Petroleum Operations, shall be taken and disposed of separately by the DEPARTMENT and the CONTRACTOR (for and on its own behalf and on behalf of Range Resources) as follows:

***[REDACTED - SENSITIVE BUSINESS INFORMATION]***  
to DEPARTMENT , and  
***[REDACTED - SENSITIVE BUSINESS INFORMATION]***  
to CONTRACTOR  
(for and on its own behalf of Range Resources)

### 7.4 Valuation of Crude Oil

- 7.4.1 It is the intent of the Parties that the value of the Cost Oil (and the CONTRACTOR'S (for and on its own behalf and on behalf of Range Resources) Production Sharing Oil for the purpose of PUNTLAND Income Taxes as provided in Article 9.1.2 below) shall reflect the prevailing market price for Crude Oil. For the purpose of evaluating the prevailing market value of the quantity of Cost Oil to which the CONTRACTOR (for and on its own behalf and on behalf of Range Resources) is entitled hereunder during each Calendar Quarter, the weighted average price realized in freely convertible currency, from F.O.B. point of export sales to non-Affiliated Companies during any such Quarter at arms length by either the DEPARTMENT or the CONTRACTOR under all such Crude Oil sales of the Agreement Area Crude Oil then in effect, but excluding any DEPARTMENT to DEPARTMENT sales that do not reflect international oil market prices and any Crude Oil Sales contracts involving barter, whichever is higher, shall be used. Prices shall be appropriately adjusted to credit terms providing for payment within ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** from the date of bill of lading. Currencies other than

US Dollars shall be converted into US Dollars at the rate for buying US Dollars with such currencies as quoted by Citibank, New York at 10:30 a.m. New York time, on the bill of lading date for any such sales, and if this is not a banking Day in New York, on the next succeeding banking Day in New York.

It is understood that in the case of C.I.F. or other sales on delivered bases, appropriate deductions shall be made for applicable freight and insurance charges to calculate the F.O.B. point of export price.

7.4.2 If, during any Calendar Quarter there are no such sales by the DEPARTMENT or the CONTRACTOR then in effect, the DEPARTMENT and the CONTRACTOR shall meet as soon as practicable, but no later than **[REDACTED - SENSITIVE BUSINESS INFORMATION]** after the end of such Quarter, and mutually agree upon the price of Crude Oil to be used in determining the value mentioned in paragraph 7.4.1 above, taking into account prevailing market prices during the calendar Quarter for comparable sales of crude oil of similar quality and quantities in the same geographic markets. Pending such mutual agreement the provisional price used shall be the last price determined pursuant to paragraph 7.4.1 or under this paragraph 7.4.2 and appropriate adjustment will be made thereto after determination of a mutually agreed price by the DEPARTMENT and the CONTRACTOR.

#### 7.5 Tanker Lifting

At a reasonable time prior to the commencement of Initial Commercial Production, the CONTRACTOR shall submit for consideration of the DEPARTMENT a procedure for scheduling tanker liftings from the agreed upon point(s) of export and shall negotiate with the DEPARTMENT acceptable provisions relating to underlifting and overlifting of production. Such provisions shall include periodic and at least Quarterly settlement of overlifts and underlifts in cash or in kind at the option of the DEPARTMENT .

#### 7.6 Optional Purchase of Crude Oil

The CONTRACTOR shall grant the STATE the option, to be exercised upon at least **[REDACTED - SENSITIVE BUSINESS INFORMATION]** notice to the CONTRACTOR to purchase from the CONTRACTOR up to **[REDACTED - SENSITIVE BUSINESS INFORMATION]** of the CONTRACTOR'S Production Sharing Oil (being for and on its own behalf and on behalf of Range Resources).

The price for the Production Sharing Oil purchased by the STATE shall be the prevailing market price received by the CONTRACTOR for its sales to non-Affiliated Companies as calculated in Article 7.4.1 above during the applicable Quarter. If there have been no such sales then the price reached under Article 7.4.2 for the applicable Quarter shall apply.

All purchases by the STATE pursuant to this option shall be on credit terms providing for payment within **[REDACTED - SENSITIVE BUSINESS INFORMATION]** from the bill of lading date for sales by tanker shipments, and from invoice date for other sales, and shall be secured by an irrevocable letter of credit acceptable to the CONTRACTOR.

#### 7.7 Production Forecast

The CONTRACTOR shall prepare and furnish to the DEPARTMENT a yearly production forecast report setting out the total quantity(ies) of the Petroleum that the CONTRACTOR estimates can be produced, saved and transported according to this Agreement during the Year and Quarterly in accordance with good Petroleum Industry practices.

The CONTRACTOR shall use its best efforts to produce the forecast quantity of each Quarter, as updated from time to time.

The CONTRACTOR shall, in accordance with good Petroleum Industry practices, store the Crude Oil in storage tanks constructed and maintained by the CONTRACTOR in the Agreement Area or each Development Area, as applicable, and/or a coastal point of export as may be mutually agreed, acting reasonably

Measuring and volumetric determination of Crude Oil shall take place for the purpose of this Agreement at the point of custody transfer such as:

- (i) The tie-in point where the Crude Oil is delivered to any third party for transportation, storage or sale; or
- (ii) The point where the DEPARTMENT takes possession of its share of Crude Oil; or
- (iii) The Export flange of the storage tanks located at the agreed upon points of export.

The DEPARTMENT shall take title to its Royalty and share of Production Sharing Oil (in accordance with Article 3.2 and 7.3), and the CONTRACTOR (for and on its own behalf and on behalf of Range Resources) shall take title to Cost Oil and its share of Production Sharing Oil (in accordance with Articles 7.1 and 7.3 respectively) as provided for in this Agreement at a metering point at the storage tanks or at a point mutually agreed upon by the CONTRACTOR and the DEPARTMENT .

7.8 Subject at all times to the provisions of section 29.6, the CONTRACTOR shall have the right to incur and pay costs and expenses for any item of an approved Work Program for an amount in excess of the Budget for such item and such costs and expenses shall be cost recoverable under this Agreement to the extent that they do not exceed **[REDACTED - SENSITIVE BUSINESS INFORMATION]** percent of the Budget for such item, limited however in the aggregate for all Budget items to **[REDACTED - SENSITIVE BUSINESS INFORMATION]** of the total approved Budget. The CONTRACTOR shall, with the approval of the DEPARTMENT , have the right to revise any approved Work Program and Budget.

## **ARTICLE 8** **TITLE TO ASSETS**

8.1 The DEPARTMENT shall become the owner of all assets acquired and owned by the CONTRACTOR (for and on its own behalf and on behalf of Range Resources) in connection with the Petroleum Operations carried out by the CONTRACTOR in accordance with the following:

- 8.1.1 Land shall become the property of the DEPARTMENT as soon as it is purchased or obtained, subject to full and free use by the CONTRACTOR (for and on its own behalf and on behalf of Range Resources) during the term of this Agreement.
- 8.1.2 Title to fixed and movable assets shall be transferred automatically and gradually from the CONTRACTOR (for and on its own behalf and on behalf of Range Resources) to the DEPARTMENT as they are recovered in accordance with the provisions of Article 7 of this Agreement, however, the full title to fixed and movable assets shall be transferred automatically from the CONTRACTOR (for and on its own behalf and on behalf of Range Resources) to the DEPARTMENT when its total cost has been recovered by the CONTRACTOR (for and on its own behalf and on behalf of Range Resources) in accordance with the provisions of Article 7 or at the time of termination of this Agreement with respect to all assets chargeable to the Petroleum Operations whether recovered or not, whichever occurs first.

The book value of such assets in each Calendar Quarter shall be communicated by the CONTRACTOR to the DEPARTMENT within ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** after the end of each Calendar Quarter.

8.2 During the term of this Agreement, the CONTRACTOR is entitled to the full and free use of all fixed and movable assets referred to above in connection with the Petroleum Operations hereunder or under any other Petroleum Operation entered into by the Parties. The CONTRACTOR shall not dispose of the same except with the written approval of the DEPARTMENT and subject to Articles 12.5, 12.6, and 12.7 below.

8.3 The CONTRACTOR may freely import into the PUNTLAND and use therein and freely export at the end of such use, machinery and equipment which the CONTRACTOR either rents or leases in accordance with good Petroleum Industry practices including, but not limited to, the leasing of computer hardware and software.

## **ARTICLE 9** **TAXES AND BONUSES**

### 9.1 Taxes

9.1.1 (a) The CONTRACTOR (for and on its own behalf and on behalf of Range Resources) shall pay a fixed percentage tax ("fixed tax") equivalent to ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** of all of its actual Exploration Expenditures incurred and paid in conducting its Exploration Operations. This fixed tax shall be paid within ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** after the Tax Year in which the relevant Exploration Expenditures are incurred and paid. Such payments shall be made to the PUNTLAND tax authorities and shall be accompanied by statements authenticated by the DEPARTMENT setting out the relevant Exploration Expenditures in reasonable detail. Within ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** after the end of each Tax Year for which this fixed tax is paid, the DEPARTMENT shall furnish to the CONTRACTOR official receipts evidencing the payment of such tax.

Expatriate employees of the CONTRACTOR, its contractors and its subcontractors working in Exploration Operations shall be exempt from all personal income taxes and similar taxes in PUNTLAND during Exploration Operations on all income or reimbursements paid by the CONTRACTOR, its contractors and subcontractors on all income from any sources outside or inside of PUNTLAND.

(b) Expatriate Employees of the CONTRACTOR, its contractors and subcontractors working in Development and production Operations, beginning as of the date of the first conversion to Development Area and thereafter, shall be subject to all personal income taxes and similar taxes in

PUNTLAND on all income paid by the CONTRACTOR, its contractors and its subcontractors on all income from any sources outside or inside of PUNTLAND according to the income tax Law in force in PUNTLAND.

#### 9.1.2 Income Tax

Any and all taxes to which Canmex and/or Range Resources are subject under the laws of PUNTLAND that are measured by income, profit or turnover are hereinafter referred to as "PUNTLAND Income Taxes". For the purpose of PUNTLAND Income Taxes, the total taxable income of Canmex and/or Range Resources with respect to any Tax Year shall be an amount calculated as follows:

- (i) The total value (determined as provided in Article 7.4 above) of all Crude Oil received by Canmex and/or Range Resources in such Tax Year pursuant to Article 7 less the costs and expenses of Canmex and/or Range Resources including those which are allowed to be recovered in the Tax Year under Article 7; plus
- (ii) An amount equal to the PUNTLAND Income Taxes of Canmex and Range Resources. If the total value of such Crude Oil received in any Tax Year by the of Canmex and Range Resources as set out in (i), above is equal to zero, then the Canmex and Range Resources shall not be required to pay any PUNTLAND Income Taxes for such Tax Year.

9.1.3 The DEPARTMENT shall assume, pay and discharge on behalf of Canmex and Range Resources, the PUNTLAND Income Taxes of Canmex and Range Resources out of the DEPARTMENT 's share of Crude Oil under this Agreement.

9.1.4 Within *[REDACTED - SENSITIVE BUSINESS INFORMATION]* after the end of each Tax Year, the DEPARTMENT shall furnish to Canmex and Range Resources official receipts evidencing the payment of the PUNTLAND Income Taxes of Canmex and Range Resources for such Tax Year. Such receipts shall be issued by the proper tax authorities and shall state the amount and other particulars customary for such receipts.

9.1.5 Canmex, Range Resources, their Affiliated Companies' their contractors and their subcontractors are exempt from all of the taxes and related taxes of any nature whatsoever during Petroleum Operations with the exception of the fixed tax as stated in Article 9.1.1(a).



#### 9.1.6 Tax Statements

Canmex and Range Resources shall provide the statements concerning the calculation of the fixed tax stated in Article 9.1.1 above within thirty (30) Days after each Quarter commencing after the Effective Date of this Agreement, and shall provide statements concerning PUNTLAND Income Taxes according to Article 9.1.2 above within thirty (30) Working Days after each Tax Year commencing after Initial Commercial Production and shall provide statements concerning the personal income tax as stated in Article 9.1.1.(b) above, within fifteen (15) Working Days following the end of the Month in which taxes are due.

### 9.2 Bonuses

#### 9.2.1 Training Bonus

The CONTRACTOR (on its own behalf and on behalf of Range Resources) shall pay to the DEPARTMENT , within **[REDACTED - SENSITIVE BUSINESS INFORMATION]** after the Effective Date and each anniversary thereof during the term of this Agreement, and any extension thereto, a lump sum of **[REDACTED - SENSITIVE BUSINESS INFORMATION]** United States Dollars **[REDACTED - SENSITIVE BUSINESS INFORMATION]** for the purpose of training PUNTLAND employees of the DEPARTMENT and its Dependent Units.

#### 9.2.2 Institutional Bonus

The CONTRACTOR (on its own behalf and on behalf of Range Resources) shall pay to the DEPARTMENT , within **[REDACTED - SENSITIVE BUSINESS INFORMATION]** after the Effective Date and each anniversary thereof during the term of this Agreement, and any extension thereto, a lump sum of **[REDACTED - SENSITIVE BUSINESS INFORMATION]** United States Dollars **[REDACTED - SENSITIVE BUSINESS INFORMATION]** as an institutional bonus.

#### 9.2.3 Social Development Bonus

The CONTRACTOR (on its own behalf and on behalf of Range Resources) shall pay to the DEPARTMENT , within **[REDACTED - SENSITIVE BUSINESS INFORMATION]** after the Effective Date and each anniversary thereof during the term of this Agreement, and any extension thereto, a lump sum of **[REDACTED - SENSITIVE BUSINESS INFORMATION]** United States Dollars **[REDACTED - SENSITIVE BUSINESS INFORMATION]** as a Social Development Bonus.

#### 9.2.4 Production Bonus

The CONTRACTOR (on its own behalf and on behalf of Range Resources) shall pay to the DEPARTMENT the following production bonuses. The rates of production specified below shall not include production from any sole risk projects of the DEPARTMENT except if the CONTRACTOR (on its own behalf and on behalf of Range Resources) exercises its option to share in such sole risk production, and only from the initial date of sharing. Each production bonus shall be paid only once, and only at such time as a specified production level is achieved.

- (i) ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** United States Dollars ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** within ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** after the first date when the total average daily production of Crude Oil produced and saved from the Agreement Area, and not used in Petroleum Operations, has been sustained at the rate of ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** Barrels per Day for a period of thirty (30) consecutive Days.
- (ii) ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** United States Dollars ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** within ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** after the first date when the total average daily production of Crude Oil produced and saved from the Agreement Area, and not used in Petroleum Operations, has been sustained at the rate of ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** Barrels per Day for a period of thirty (30) consecutive Days.
- (iii) ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** United States Dollars ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** within ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** after the first date when the total average daily production of Crude Oil produced and saved from the Agreement Area, and not used in Petroleum Operations, has been sustained at the rate of ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** Barrels per Day for a period of thirty (30) consecutive Days.
- (iv) ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** United States Dollars ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** within ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** after the first date when the total average daily production of Crude Oil produced and saved from the Agreement Area, and not used in Petroleum Operations, has been sustained at the rate of ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** Barrels per Day for a period of thirty (30) consecutive Days.

- (v) *[REDACTED - SENSITIVE BUSINESS INFORMATION]* United States Dollars *[REDACTED - SENSITIVE BUSINESS INFORMATION]* within *[REDACTED - SENSITIVE BUSINESS INFORMATION]* after the first date when the total average daily production of Crude Oil produced and saved from the Agreement Area, and not used in Petroleum Operations, has been sustained at the rate of *[REDACTED - SENSITIVE BUSINESS INFORMATION]* Barrels per Day for a period of thirty (30) consecutive Days.

9.3 All taxes, bonuses and contributions referred to above are not recoverable from the Cost Oil under Article 7 of this Agreement.

#### **ARTICLE 10** **OFFICE AND SERVICE OF NOTICE**

During the period of this Agreement, the CONTRACTOR shall maintain an office in PUNTLAND starting within *[REDACTED - SENSITIVE BUSINESS INFORMATION]* after the Effective Date of this Agreement, at which notices shall be validly served.

All matters and notices shall be deemed to be validly served on Canmex and Range Resources which are delivered to the office of the CONTRACTORS' General Manager against receipt or which are sent to him by registered mail, fax, or telex.

All matters and notices shall be deemed to be validly served on the DEPARTMENT which are delivered to the MINISTER'S office in Basasso during regular office hours or which are sent to it by registered mail, fax, or telex.

Any changes in the address of the CONTRACTOR'S office or in the individual empowered as General Manager shall be notified to the DEPARTMENT at least *[REDACTED - SENSITIVE BUSINESS INFORMATION]* prior to the changing date.

**ARTICLE 11**

**CONSERVATION, PREVENTION OF LOSS AND ENVIRONMENTAL SAFETY**

11.1 The CONTRACTOR shall take all proper measures, according to generally accepted methods in the Petroleum Industry to prevent loss or waste of Petroleum above or under the ground in any form during drilling, producing, gathering, transporting, distributing and storage operations.

The Test crude Oil produced from any well(s) in the Agreement Area is the property and the responsibility of the DEPARTMENT who will dispose of it freely and separately.

The DEPARTMENT has the right to prevent any operation on any well that it might reasonably expect would result in loss or damage of the well or the Oil or Gas field.

11.2 Upon completion of the drilling of a productive well, the CONTRACTOR shall inform the DEPARTMENT or its Representative of the time when the well will be tested and the production rate ascertained.

11.3 Except in instances where multiple producing reservoirs (not in pressure communication with each other) in the same well can only produce economically through a single tubing string, Petroleum shall not be produced from multiple Oil bearing zones through one string of tubing at the same time, except with the prior approval of the DEPARTMENT or its representative, such approval not to be unreasonably withheld.

11.4 The CONTRACTOR shall record data regarding the quantities of Petroleum and water produced Monthly from each Development Area. Such data shall be sent to the DEPARTMENT or its representative on the special forms provided for that purpose. A report to that effect must be submitted daily. Daily or weekly statistics regarding the production from the Development Area shall be available at all reasonable times for examination by authorized representatives of the DEPARTMENT .

11.5 Daily drilling records and the graphic well logs must show the quantity and type of cement and the amount of any other materials used in the well for the purpose of protecting Petroleum, Gas bearing or fresh water strata.

Any fundamental mechanical operation on a well after its completion, must be approved by Representatives of the DEPARTMENT .

11.6 In the course of performing the Petroleum Operations, the CONTRACTOR, its contractors and its subcontractors shall be subject to the laws, decrees, other rules and regulations with respect to environmental protection and safety of the country and conduct its operations in accordance with accepted Petroleum Industry practices.

**ARTICLE 12**  
**CUSTOMS EXEMPTIONS AND EXCHANGE CONTROL**

12.1 The DEPARTMENT , Canmex, Range Resources, their contractors and their subcontractors shall be permitted to import from abroad, and shall be exempt from all Customs Duties and related taxes with respect to the importation of machinery, equipment, vehicles, materials, supplies, consumables, and mobile properties, to be used solely in the carrying out of Petroleum Operations, under this Agreement. Foodstuffs and alcoholic beverages may also be imported.

12.2 The exemption stated in paragraph 12.1 of this Article does not apply to any imports of materials if these or comparable materials are manufactured in PUNTLAND and may be purchased locally at a rate which does not exceed **[REDACTED - SENSITIVE BUSINESS INFORMATION]** percent of the cost of the imported goods prior to the addition of the Customs Duties, but after adding the cost of transport and insurance.

12.3 Canmex, Range Resources, their contractors and their subcontractors shall have the right to export free of Customs Duties and related taxes any material, equipment and goods which are imported to PUNTLAND for the purpose of the Petroleum Operations under this Agreement irrespective of whether they were exempt or not from Customs Duties and related taxes according to this Agreement, provided that Canmex and/or Range Resources, as the case may be, notifies the DEPARTMENT of such exportation.

12.4 There shall be no license required, and Canmex, Range Resources and the DEPARTMENT and their respective customers shall be exempt from any duty, tax, fee or any other financial impost in respect of the export of Crude Oil under this Agreement. Subject to any obligation under this Agreement to sell Petroleum to the STATE, the CONTRACTOR (on its own behalf and on behalf of Range Resources) shall have the right to freely (except for those fees and charges which are normally paid to the DEPARTMENT Agencies for actual services rendered by the DEPARTMENT Agencies) export and sell the Cost Oil and its share of Production Sharing Oil.

12.5 The CONTRACTOR (on its own behalf and on behalf of Range Resources), its contractors and their subcontractors shall have the right after receiving approval from the DEPARTMENT to sell any materials or equipment or goods which were damaged or used, and thereby became non-serviceable, and which the CONTRACTOR, its contractors or its subcontractors respectively classify as scrap or junk, in the PUNTLAND without paying Customs Duties and related taxes.

12.6 New materials, equipment and goods, or used but serviceable materials, equipment and goods, that are surplus to the Petroleum Operations under this Agreement may be sold outside the PUNTLAND after the DEPARTMENT 's approval following exportation or may be sold within the PUNTLAND provided that for any sale in the PUNTLAND the purchaser shall pay the applicable Customs Duties, taxes or imposts, if any, except if sold or transferred free of charge to the DEPARTMENT or one of its Dependent Units or, with the the DEPARTMENT 's approval to other companies

enjoying substantially the same Customs Duties exemption as the CONTRACTOR.

12.7 In the event of such sale under Article 12.5 or 12.6 above, the proceeds from such sales shall be divided in the following manner:

The CONTRACTOR (on its own behalf and on behalf of Range Resources) shall be entitled to reimbursement of its unrecovered costs, if any, in such material or equipment, and the excess, if any, shall be paid to the DEPARTMENT . The unrecovered costs shall be reduced by the amount of such reimbursement paid to the CONTRACTOR (on its own behalf and on behalf of Range Resources).

12.8 For the purpose of implementing this Article, the Customs Duties include all duties, excise, fees and any other imposts and taxes (except those fees and charges which are normally paid to the DEPARTMENT Agencies for actual services rendered by the DEPARTMENT Agencies) levied for importing (or exporting, if applicable) the said materials, equipment and goods.

12.9 Canmex and Range Resources, its contractors and its subcontractors are exempt from the need to obtain import and export permits for equipment, machinery, and any other goods required for their activities, and they will be exempt from paying concession royalties to PUNTLAND corporations or companies.

12.9.1 Every foreign employee of the CONTRACTOR or its Affiliated Companies or its contractors and its subcontractors are permitted to import from abroad, exempt from Customs Duties, a reasonable quantity of household goods, personal belongings, and a car to be used only for personal and family use. Whatever an employee imports may not be sold in the PUNTLAND except and after Customs Duties and related taxes are properly paid, unless sold to another foreign employee of the CONTRACTOR.

12.9.2 In order to implement the above paragraph 12.9.1 of this Article, the understanding of the customs fees stated in Articles 12.4 and 12.8 of this Agreement must be applied as well.

12.10 The CONTRACTOR, and its contractors and its subcontractors shall be exempt from foreign exchange controls in the PUNTLAND, with respect to their activities under this Agreement.

12.10.1 The CONTRACTOR (on its own behalf and on behalf of Range Resources) and its non PUNTLAND subcontractors shall supply all funds necessary for its Petroleum Operations in PUNTLAND under this Agreement in freely convertible currency from abroad. The CONTRACTOR (on its own behalf and on behalf of Range Resources) and its non-PUNTLAND contractors and its subcontractors shall have the right to buy PUNTLAND currency whenever required, and the conversion shall be made at Puntland

banks according to the official PUNTLAND rate of exchange at the best rate officially prevailing in the PUNTLAND, which rate shall be at least as favorable as the rate available to any other international petroleum company conducting similar activity in PUNTLAND. The CONTRACTOR (on its own behalf and on behalf of Range Resources) and its non-PUNTLAND contractors and its subcontractors shall have the right to make payments directly abroad in foreign currencies for goods and services obtained abroad for its operations in PUNTLAND under this Agreement and to charge such payments in accordance with the provisions of this Agreement without having first to transfer to PUNTLAND the funds for such payments. The CONTRACTOR shall have the right to maintain abroad one (1) or more convertible currency accounts in international credit institutions of its selection. The CONTRACTOR (on its own behalf and on behalf of Range Resources) shall have the right to pay abroad principal and interest on borrowings to finance any of its Petroleum Operations without having first to transfer to PUNTLAND the funds for such payments.

- 12.10.2 The CONTRACTOR shall have the right to hold United States Dollars and other freely convertible currency in a bank account in the PUNTLAND.
- 12.10.3 Subject to Article 12.1.1 below and Article 9.1.1(b) of this Agreement, the CONTRACTOR shall have the right to pay its expatriate employees working in PUNTLAND in foreign currencies outside of PUNTLAND. Such employees shall only be required to bring into PUNTLAND such foreign exchange as required to meet their personal living and other expenses in PUNTLAND.
- 12.10.4 The CONTRACTOR (on its own behalf and on behalf of Range Resources) shall have the right to receive and retain abroad and freely use all funds received by it abroad, including, without limitation, any sales proceeds from an authorized assignment of its interests in this Agreement, the proceeds from the sales of its share of Crude Oil exported, and proceeds received by the CONTRACTOR (on its own behalf and on behalf of Range Resources) from any sale of equipment, materials and goods permitted as described in Article 12.7.
- 12.10.5 The DEPARTMENT or DEPARTMENT , or their designated purchasers in PUNTLAND, shall pay the CONTRACTOR (on its own behalf and on behalf of Range Resources) abroad in U.S. Dollars for any Crude Oil purchased from the CONTRACTOR, (on its own behalf and on behalf of Range Resources) including

Crude Oil that is requisitioned by the DEPARTMENT pursuant to Article 19 below. The term "abroad", as used in this Agreement, means outside PUNTLAND.

12.11 The CONTRACTOR, its contractors and its subcontractors shall pay PUNTLAND contractors and suppliers of materials manufactured in PUNTLAND, as well as importers of equipment, machines, and consumable goods, in PUNTLAND currency, which may be obtained according to provision of Article 12.10.1 of this Agreement except in a case where the payment should be paid by foreign currency for the need of services and procurement.

12.12 The CONTRACTOR, (on its own behalf and on behalf of Range Resources) its foreign contractors and its subcontractors, as well as their resident foreign staff, shall have access to any duty free shops in PUNTLAND.

### **ARTICLE 13** **ACCOUNTING BOOKS; ACCOUNTING AND PAYMENTS**

13.1 The CONTRACTOR shall maintain at its business offices in PUNTLAND books of account, in accordance with the Accounting Procedure in Annex "D" of this Agreement and according to the accepted accounting practices generally used in the Petroleum Industry. The CONTRACTOR must keep such other books and records as may be necessary to show the work performance under this Agreement, including the amounts and value of all Petroleum produced and saved. The CONTRACTOR shall keep its books of account and accounting records in United States Dollars, which shall be the controlling currency of this Agreement for cost recovery, taxes and other purposes, and in PUNTLAND currency for information. The CONTRACTOR shall furnish to the DEPARTMENT or its Representative Monthly returns showing the amount of Petroleum produced and saved. Such returns shall be prepared in the form required by the DEPARTMENT or its Representative and shall be signed by the General Manager or by the Deputy General Manager or a duly designed deputy, and delivered to the DEPARTMENT or its Representative within ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** after the end of the Month that covers the return.

13.2 The aforesaid books of account and other books and records referred to above, shall be available at all reasonable times for inspection by duly authorized representatives of the DEPARTMENT , upon reasonable notice and at the sole cost, expense and risk of the DEPARTMENT .

### **Article 14** **RECORDS, REPORTS AND INSPECTION**

14.1 The CONTRACTOR shall accurately prepare and keep at all times, while this Agreement is in force, the current records of operations in the Agreement Area, according to this Agreement.



14.2 The CONTRACTOR shall furnish the DEPARTMENT or its Representative, in conformity with applicable regulations or as the DEPARTMENT or its Representative may reasonably require, information and data concerning their operations under this Agreement. The CONTRACTOR will perform the functions indicated in this Article in accordance with its role as specified in this Agreement.

14.3 The CONTRACTOR shall save and keep for a reasonable period of time a representative portion of each sample of cores and cuttings taken from drilling wells, to be disposed of, or forwarded to the DEPARTMENT or its Representative in the manner directed by the DEPARTMENT . All such samples retained by the CONTRACTOR for the Petroleum Operations shall be considered available for inspection at any reasonable time by the DEPARTMENT or its Representatives.

14.4 Unless otherwise agreed to by the DEPARTMENT , in case of exporting any rock samples outside PUNTLAND, samples equivalent in size and quality shall, before such exportation, be delivered to the DEPARTMENT .

14.5 Original records are the property of the DEPARTMENT . They can only be exported with the permission of the DEPARTMENT; provided, however, that magnetic tapes and other data which must be processed or analyzed outside PUNTLAND may be exported if a copy or comparable record, if available, is maintained in PUNTLAND and provided that such exports shall be repatriated to PUNTLAND promptly after processing or analysis.

14.6 On termination of this Agreement (only), for the purpose of obtaining new offers, the DEPARTMENT may show any other party uninterpreted basic geophysical and geological data (such data to be not less than *[REDACTED - SENSITIVE BUSINESS INFORMATION]* old unless the CONTRACTOR agrees to a shorter period, which agreement shall not be unreasonably withheld) with respect to the Agreement Area.

14.7 All available technical data concerning the Agreement Area including the geological, geophysical and drilling data and any rock or hydrocarbon rock samples shall be made available at no cost to the DEPARTMENT (except for reasonable costs for reproduction, copying or shipping) within thirty (30) Days from the Effective Date.

## **ARTICLE 15** **RESPONSIBILITIES FOR DAMAGES**

The CONTRACTOR shall entirely and solely be responsible according to the law toward third parties for any damage by the CONTRACTOR'S operations and shall indemnify the DEPARTMENT against all damages for which they may be held liable to third parties on account of any such operations unless such operations are ordered by the DEPARTMENT in connection with the operations of the MINISTER pursuant to Article 19 (or elsewhere in the Agreement), or result from the gross negligence or willful misconduct of the DEPARTMENT 's Representatives while in the Agreement Area.

**ARTICLE 16**  
**PRIVILEGES OF THE DEPARTMENT 'S REPRESENTATIVES**

Duly authorized Representatives of the DEPARTMENT shall have access to the Agreement Area and to the operations conducted thereon at all reasonable times, subject to complying with the CONTRACTOR'S safety guidelines, and provided such Representatives do not unreasonably burden or interfere with the CONTRACTOR'S operations. Such Representatives may examine the books, registers, and records of the CONTRACTOR and make a reasonable number of surveys, drawings, and tests for the purpose of enforcing this Agreement. They shall for this purpose, be entitled to make reasonable use of the machinery and instruments of the CONTRACTOR on the condition that no danger or impediment to the operations hereunder shall arise directly or indirectly from such use. Such Representatives shall be given reasonable assistance by the agents and employees of the CONTRACTOR so that none of the activities shall endanger or hinder the safety or the efficiency of the operations. The CONTRACTOR shall offer such representatives all privileges and facilities accorded to its own employees in the field and shall provide them, free of charge, the use of reasonable office space of adequately furnished housing while they are in the field for the purpose of facilitating the objective of their assignments. The CONTRACTOR shall not be responsible for any liability resulting from the injury to or death of or damage to the property of any such representatives or employees, unless caused by the negligence or willful misconduct of the CONTRACTOR.

**ARTICLE 17**  
**EMPLOYMENT PRIVILEGES AND THE TRAINING OF PUNTLAND PERSONNEL**

17.1 It is the desire of the DEPARTMENT and the CONTRACTOR that operations hereunder be conducted in a business-like and efficient manner:

17.2 The CONTRACTOR shall select its employees and determine their numbers, to be used for the operations hereunder, subject to Article (6) above.

17.3 The CONTRACTOR shall, after consultation with the DEPARTMENT , prepare and carry out specialized training programs for all PUNTLAND employees engaged in operations according to this Agreement and with respect to applicable aspects of the Petroleum Industry, such training programs should be in line with and satisfy the requirements of the PUNTLAND Plan and are to be prepared jointly and approved by the DEPARTMENT . The CONTRACTOR shall undertake to replace gradually its staff by qualified PUNTLAND nationals in full coordination with the DEPARTMENT and in accordance with the approved PUNTLAND Plans.

17.4 The CONTRACTOR shall use its best efforts to include in its organization in Puntland, throughout the Exploration and Development periods and when appropriate to the nature of the Petroleum Operations, graduates seconded by the DEPARTMENT such as geologists, geophysicists, drilling engineers and production engineers, the number and

selection of which shall be determined by mutual agreement between the DEPARTMENT and the CONTRACTOR. Any graduates so selected for secondment to the CONTRACTOR shall be subject to a six (6) Month probationary period at the end of which the CONTRACTOR shall have the option to end the secondment of any secondee that has not performed to the CONTRACTOR'S satisfaction. The CONTRACTOR shall provide the DEPARTMENT with a statement setting forth the reasons for the CONTRACTOR'S actions.

17.5 All Puntland personnel employed by the CONTRACTOR, its contractors and its subcontractors shall be paid according to their employment terms, salaries, wages, benefits and allowances correspondent to their technical, administrative and professional abilities.

## **ARTICLE 18** **LAWS AND REGULATIONS**

### 18.1 General

Except as provided in this Agreement, Canmex and Range Resources and its contractors and its subcontractors shall be subject to all the laws of PUNTLAND (including the Puntland Contract of Work to the extent that it is not inconsistent with this Agreement) and regulations issued for the implementation thereof, including, without limitation, any regulations for the safety, environment, health, labor and efficient performance of operations carried out pursuant to this Agreement and for the conservation of the Petroleum resources. Canmex and Range Resources and its contractors and its subcontractors shall be subject to the provisions of this Agreement which affect them, and to all regulations which are duly issued by the DEPARTMENT or the DEPARTMENT from time to time, except those regulations and laws that are inconsistent with this Agreement.

### 18.2 Rights Controlled by this Agreement

Interests, rights and obligations of the DEPARTMENT that are represented by the DEPARTMENT and of the CONTRACTOR (on its own behalf and on behalf of Range Resources) under this Agreement, shall be solely governed by the provisions of this Agreement and may be altered or amended only by the mutual agreement of the Parties, which will be subject to approval according to the constitutional procedures in PUNTLAND.

## **ARTICLE 19** **RIGHTS OF REQUISITION**

### 19.1 General

In case of national emergency, the DEPARTMENT has the right to requisition all or part of the Petroleum produced from the Development Area or Areas during

the period of such emergency, and has the right to instruct the CONTRACTOR (on its own behalf and on behalf of Range Resources) to increase the production to the maximum rate achievable in accordance with Petroleum Industry standards. The DEPARTMENT has also such right to requisition the Development Area itself and, any related facilities, during the period of such emergency.

19.1.1 Subject to Articles 21.1.7 and 21.2, the DEPARTMENT has a right of a final requisition of any Development Area if it is proved to the DEPARTMENT that the CONTRACTOR has caused, by its gross negligence or willful misconduct, a material and substantial damage to any Oil field or any relevant facilities in the aforementioned area provided that the cause of such damage shall be determined by a neutral third party selected by the DEPARTMENT and the CONTRACTOR to assist them in reaching a mutual agreement on the right of final requisition.

19.1.2 In no case shall a requisition, as provided for herein, be implemented prior to adequate written notice to the CONTRACTOR so that it shall be able to express his views with respect to such claim of a requisition.

#### 19.2 Notice of Requisition

The requisition of Petroleum production shall be carried out through a Ministerial Order. Any requisition of the Development Area itself, or any related facilities, shall be carried out through a Republican Resolution duly notified to the CONTRACTOR.

#### 19.3 Indemnification

In the event of any requisition, except a final requisition referred to in Article 19.1.1, the DEPARTMENT shall indemnify the CONTRACTOR ***[REDACTED - INDEMNIFICATION PROVISIONS CONSTITUTE SENSITIVE BUSINESS INFORMATION]***

### **ARTICLE 20** **ASSIGNMENT**

#### 20.1 General

Save and except as provided herein with respect to Range Resources, the CONTRACTOR may not (except to an Affiliated Company) assign to any person, firm or corporation in whole or in part, any of its rights, privileges, duties or obligations under this Agreement without the written approval of the DEPARTMENT, which approval shall not be unreasonably withheld. The CONTRACTOR shall give to the DEPARTMENT a prompt notice of any assignment to an Affiliated Company. Subject to the foregoing, this Agreement shall enure to the benefit of the Parties and their respective successors and permitted assigns.

## 20.2 Approval of the DEPARTMENT

The DEPARTMENT shall give approval to the assignment by the CONTRACTOR (if required) of all or part of its rights, privileges, duties or obligations if the following conditions are met:

- 20.2.1 The obligations of the assignor deriving from this Agreement have been duly fulfilled as of the date such request is made and remain fulfilled on the date of the assignment.
- 20.2.2 The proposed assignee or assignor produces reasonable evidence to the DEPARTMENT of the assignee's financial and technical competence.
- 20.2.3 The instrument of assignment includes provisions stating precisely that the assignee is bound by all covenants contained in this Agreement and any modifications or additions, in writing, that up to such time have been made.

A draft of the proposed assignment and all relevant documents supporting the request, shall be submitted to the DEPARTMENT prior to the date of the proposed assignment, for the purpose of official approval.

20.3 Any assignment by the CONTRACTOR of all or part of its interests in this Agreement shall be free of any taxes and fees of any nature whatsoever including, but not limited to, taxes on any sales proceeds and transfer taxes, charges and fees:

20.4 The CONTRACTOR shall, with the approval of the DEPARTMENT have the right to assign a security interest with respect to its interest in this Agreement for the purpose of obtaining financing for the Petroleum Operations which assignment shall be without prejudice to the DEPARTMENT 's right under this Agreement.

## **ARTICLE 21** **BREACH OF AGREEMENT AND POWER OF CANCELLATION**

21.1 The DEPARTMENT has the right to cancel this Agreement in the following instances:

- 21.1.1 If knowingly, the CONTRACTOR has submitted in writing any false statements to the DEPARTMENT which were of a material nature for the execution of this Agreement.
- 21.1.2 If the CONTRACTOR assigns any interest hereunder contrary to the provisions of Article 20 hereof.
- 21.1.3 If the CONTRACTOR is adjudicated bankrupt by a court of competent jurisdiction.

21.1.4 If the CONTRACTOR does not comply with the final decision reached as the result of arbitration proceedings conducted under Article 23 hereunder.

21.1.5 If the CONTRACTOR intentionally extracts any mineral other than Petroleum not authorized by this Agreement or without the authorization of the DEPARTMENT , except such extractions as may be unavoidable as the result of operations conducted hereunder in accordance with accepted Petroleum Industry practices and which shall be notified to the DEPARTMENT or its Representative as soon as possible.

21.1.6 If the CONTRACTOR commits any material breach of this Agreement.

21.1.7 If the CONTRACTOR causes, by his gross negligence or willful misconduct, material or substantial damage to any Oil and Gas field or any relevant facilities.

Such cancellation shall take place without prejudice to any right which may have accrued to the DEPARTMENT against the CONTRACTOR (on its own behalf and on behalf of Range Resources) in accordance with the provisions of this Agreement and, in the event of such cancellation, the CONTRACTOR shall have the right to remove from the Agreement Area all its personal property.

21.2 If the DEPARTMENT deems that one of the aforesaid causes (other than a Force Majeure cause referred to Article 22 hereof) exists to cancel this Agreement, the DEPARTMENT shall give to the CONTRACTOR **[REDACTED - SENSITIVE BUSINESS INFORMATION]** written notice (or such longer period as may be reasonably necessary to remedy said cause provided the CONTRACTOR commences remedial actions within **[REDACTED - SENSITIVE BUSINESS INFORMATION]** of receipt of such written notice and diligently pursues such remedial actions) personally served on the CONTRACTORS' General Manager in a legally official manner and receipt of which is acknowledged by him or by his legal agent, to remedy and remove such cause; but if for any reason such service is impossible due to unnotified change of address, publication on the Official Gazette of the DEPARTMENT of such notice shall be considered as validly served upon the CONTRACTOR. If at the end of the said notice period such cause has not been remedied and removed, this Agreement may be canceled forthwith by the DEPARTMENT .

## **ARTICLE 22** **FORCE MAJEURE**

22.1 The non-performance or delay in performance by the DEPARTMENT and the CONTRACTOR (on its own behalf and on behalf of Range Resources) of any obligation under this Agreement other than the obligation to pay any amounts due or giving notices shall be excused if, and to the extent that, such non-performance or delay is caused by Force Majeure. The period of any such non-performance or delay, together with such period as may be necessary for the restoration of any damage done during such delay

shall be added to the time given in this Agreement for the performance of such obligation and for the performance of any obligation dependent thereon and consequently, to the term of this Agreement, but only if the extension of the term of this Agreement is relevant to the performance of such obligation.

22.2 "Force Majeure", within the meaning of this Agreement, shall be any order, regulation or direction of the DEPARTMENT , or (with respect to the CONTRACTOR) (on its own behalf and on behalf of Range Resources) of the DEPARTMENT of a country (i) asserting jurisdiction over, or (ii) which is the jurisdiction of incorporation of, Canmex and/or Range Resources, whether promulgated in the form of law or otherwise, or any act of God, insurrection, terrorism, riot, war, strike (or other labor disturbances), fires, floods or any cause not due to the fault or negligence of the party invoking Force Majeure, whether or not similar to the foregoing, provided that any such cause is beyond the reasonable control of the party invoking Force Majeure.

22.3 Without prejudice to the above and except as may be otherwise provided herein, the DEPARTMENT shall incur no responsibility whatsoever to the CONTRACTOR (on its own behalf and on behalf of Range Resources) for any damages, restrictions or loss arising in consequence of such cause of Force Majeure.

22.4 If the Force Majeure event occurs during the Exploration Period or any extension thereof and continues in effect for a period of **[REDACTED - SENSITIVE BUSINESS INFORMATION]**, thereafter the CONTRACTOR (on its own behalf and on behalf of Range Resources) shall have the option upon **[REDACTED - SENSITIVE BUSINESS INFORMATION]** prior written notice to the DEPARTMENT to terminate its obligations hereunder without further liability of any kind, except for those accrued payments under this Agreement.

**ARTICLE 23**  
**DISPUTES AND ARBITRATION**

23.1 In case a dispute arises under this Agreement between the DEPARTMENT and the CONTRACTOR, the two Parties to the dispute shall use their good faith efforts to settle their differences by mutual agreement. Otherwise, the two parties shall submit their dispute to arbitration as provided in this Article 23.

23.2 The arbitration shall be held in Paris, France, and conducted in the English language in accordance with the Rules of Conciliation and Arbitration of the International Chamber of Commerce. In the event of no provisions being made in these rules in certain cases, the arbitration tribunal shall establish their own procedure.

23.3 The arbitration shall be initiated by either party to the dispute ("First Party") giving notice to the other party to the dispute ("Second Party") that it elects to refer the dispute to arbitration and has appointed an arbitrator who shall be identified in said notice. The Second Party shall notify First Party in writing within Forty-five (45) Days identifying the arbitrator that has been selected.

23.4 If the Second Party does not so appoint its arbitrator, the First Party shall have the right to apply to the Court of Arbitration of the International Chamber of Commerce to appoint a second arbitrator. The two arbitrators shall, within Thirty (30) Days, select a third arbitrator failing which the third arbitrator shall be appointed by the Court of Arbitration of the International Chamber of Commerce at the request of either party.

23.5 The third arbitrator shall not be a citizen of the PUNTLAND or of a country in which Canmex and/or Range Resources is incorporated, and shall not have any economic interest in the oil business of PUNTLAND or of any party to the dispute.

23.6 The Parties hereto shall extend to the arbitration tribunal all facilities (including access to the Petroleum Operations) for obtaining any information required for the proper determination of the dispute. The absence or default of any party to the arbitration shall not be permitted to prevent or hinder the arbitration proceeding in any or all of its stages.

23.7 Pending the decision or award of the arbitration tribunal, the operations or activities which have given rise to the arbitration need not be discontinued. In the event the decision or award recognizes that the complaint was justified, provisions may be made therein for such reparation as may be appropriately made in favor of the complainant.

23.8 Judgment on the award rendered may be entered in any Court having jurisdiction or application may be made to such Court for a judicial acceptance of the award and an order of enforcement, as the case may be.

23.9 The provisions of this Agreement relating to arbitration shall continue in force notwithstanding the termination of this Agreement.



23.10 The two Parties hereto base their relationship under this Agreement on the principles of goodwill and good faith. The interpretation and application of the provisions of this Agreement with respect to the arbitration shall be in accordance with PUNTLAND Laws that are outlined in Article 24 of this Agreement.

#### **ARTICLE 24** **GOVERNING LAW**

This Agreement, its Annexes, and any modification, will be governed and interpreted according to the Laws of the Province of British Columbia and the federal laws of Canada applicable therein except the laws which are inconsistent with this Agreement.

#### **ARTICLE 25** **STATUS OF PARTIES**

25.1 The rights, duties, obligations and liabilities with respect to the DEPARTMENT and the the CONTRACTOR, (on its own behalf and on behalf of Range Resources) shall be several and not joint or collective, it being understood that this Agreement shall not be construed as constituting an association or corporation or partnership.

25.2 Canmex and Range Resources shall be subject to the laws of the place where they are incorporated regarding their legal status or creation, organization, charter and bylaws, share holding and ownership.

25.3 The shares of capital of Canmex and Range Resources which are entirely held abroad shall not be offered for public subscription in PUNTLAND.

25.4 This Agreement shall constitute the authority for the CONTRACTOR and the DEPARTMENT to conduct all activities as are necessary to carry out the Petroleum Operations as contemplated by this Agreement.

#### **ARTICLE 26** **LOCAL CONTRACTORS AND LOCALLY MANUFACTURED MATERIALS**

26.1 The CONTRACTOR and its contractors and its subcontractors shall:

26.1.1 Give priority to local contractors and subcontractors including the DEPARTMENT Dependent Units as long as their performance is comparable to international standards and quality and the prices of their services are not higher than the prices of other contractors and subcontractors by more than *[REDACTED - SENSITIVE BUSINESS INFORMATION]* percent. The CONTRACTOR shall, following consultation with the DEPARTMENT, invite local contractors for bidding when it requests bids for any required services.

26.1.2 Give preference to locally manufactured materials, equipment, machinery and consumables so long as their quality and time of delivery are comparable to internationally available materials, equipment, machinery

and consumables. However, such material, equipment, machinery and consumables may be imported for operations conducted hereunder if the local price of such items at the CONTRACTOR'S operating base in PUNTLAND is more than **[REDACTED - SENSITIVE BUSINESS INFORMATION]** percent higher than the price of such imported items before Customs Duties, but after transportation and insurance costs have been added.

**ARTICLE 27**  
**GAS**

27.1 The Associated Gas and Dry Gas produced from the Agreement Area are the property of the State. If the CONTRACTOR (on its own behalf and on behalf of Range Resources) needs part of the separated Associated Gas and/or Dry Gas for the purpose of utilizing it in the Petroleum Operations or for reinjection to preserve the pressure of the reservoirs, the CONTRACTOR (on its own behalf and on behalf of Range Resources) must submit to the DEPARTMENT a request for such utilization free of charge together with documentation to support the request. Approval of such request shall not be unreasonably withheld.

27.2 Associated Gas

- a. The CONTRACTOR (on its own behalf and on behalf of Range Resources) shall deliver the Associated Gas to the point where it is separated from the Crude Oil. Any costs with respect to such delivery to the STATE, including but not limited to, any increase in the CONTRACTOR'S costs (on its own behalf and on behalf of Range Resources) as a result of such delivery, shall be paid by the STATE. Any Associated Gas that is not taken by the STATE or that is not utilized in the Petroleum Operations, as aforesaid may be treated by the CONTRACTOR (on its own behalf and on behalf of Range Resources) in accordance with good Petroleum Industry Practices.
  
- b. Subject to paragraph 27.1, if the STATE considers the possibility of entering into an agreement with any party for the export and sale of the Associated Gas or its delivery to the DEPARTMENT for local consumption (the Project), the DEPARTMENT and the CONTRACTOR shall meet for the purpose of reaching a mutual agreement on the terms and conditions of the Project Agreement. Any such Gas Project Agreement shall be based on the following principles:
  - (i) The STATE's share in the Project shall not be more than **[REDACTED - SENSITIVE BUSINESS INFORMATION]** percent.

- (ii) The CONTRACTOR shall initially bear all costs and expenses related to the Project including those related to the construction and operation of the facilities and shall be reimbursed from the Annual Gas Revenue according to the terms of the Project Agreement.
- (iii) If an agreement is not reached as contemplated above within Six (6) Month period from the first meeting devoted to that purpose between the DEPARTMENT and the CONTRACTOR and unless such period is extended by mutual agreement, the DEPARTMENT shall have the right to conduct negotiations with any third party and to conclude an agreement on the Gas Project; provided such agreement and Project shall not diminish the CONTRACTOR'S rights to use the Gas in Petroleum Operations hereunder. In that context and as a third party, the CONTRACTOR (on its own behalf and on behalf of Range Resources) may, alone or together with any other party, submit a new proposal to the DEPARTMENT for the establishment of the Gas Project; provided, however the DEPARTMENT shall be completely free to select the best proposal according to its own discretion without assuming any liability whatsoever to or any other party, and the CONTRACTOR (on its own behalf and on behalf of Range Resources) shall be entitled only to recover its exploration and appraisal expenditures pursuant to Article 7 of this Agreement.

### 27.3 DRY GAS

- a. The CONTRACTOR shall notify the DEPARTMENT of any discovery of Dry Gas on any separate geological feature within the Agreement Area. The CONTRACTOR and the DEPARTMENT shall promptly meet for the purpose of discussing whether there is a basis for the CONTRACTOR and the DEPARTMENT to mutually agree on the terms and conditions under which the CONTRACTOR (on its own behalf and on behalf of Range Resources) shall diligently undertake in accordance with good Petroleum Industry practices, the appraisal and development thereof, if feasible, of the discovery. Provided this Agreement is in effect, any Gas Project Agreement shall be based on the following principles:
  - (i) Unless otherwise agreed, the appraisal program shall be in stages with the first stage being preliminary feasibility study and each subsequent stage being dependent on the successful completion of the previous one.
  - (ii) All costs, expenses and expenditures of the appraisal program shall be recoverable from Oil as Exploration Expenditures, or in the absence of a Crude Oil Production, from the Annual Gas Revenue in accordance with the Gas Project Agreement.

27.3.2 If the DEPARTMENT and the CONTRACTOR fail to reach an agreement on the Gas Project, within *[REDACTED - SENSITIVE BUSINESS INFORMATION]* period from the first meeting devoted to that purpose between the DEPARTMENT and the CONTRACTOR, and unless such period is extended by mutual agreement, the DEPARTMENT shall have the right to develop such Dry Gas discovery on its own or in collaboration with any third party. In such an event the CONTRACTOR (on its own behalf and on behalf of Range Resources) shall relinquish to the DEPARTMENT the area covering said geological feature. Such area to be mutually agreed upon between the DEPARTMENT and the CONTRACTOR (on its own behalf and on behalf of Range Resources) on the basis of good Petroleum Industry practices. Provided however the CONTRACTOR (on its own behalf and on behalf of Range Resources) shall not be entitled to any compensation for that relinquishment and shall be entitled only to recover its expenditures related to the exploration and appraisal program in accordance with Article 7 of this Agreement.

27.4 Financial Terms:

The Gas Project Agreement shall provide for the financial terms and conditions as follows:

- (i) All the sharing and the cost recovery shall be effected on the basis of the Annual Revenue of the Project.
- (ii) There should be specified the following:
  - Bonuses to the DEPARTMENT
  - Royalties which STATE shall receive from the Gas Project.
  - Cost Recovery limit.
  - Profit sharing provisions.

**Article 28**  
**CONFIDENTIALITY**

28.1 General

Except as specifically provided in this Agreement, Canmex and Range Resources and their contractors and their subcontractors shall not at any time during the Term of this Agreement or for a period of Two (2) Years thereafter, use for their benefit or disclose to or use for the benefit of any other person whatsoever, including, but not limited to, any company, firm, corporation, institution or DEPARTMENT any information acquired during the term of this Agreement as a result of the Petroleum Operations hereunder. For purposes of this Article information shall include, without limitation, data, designs, methods, formulas, processes, reserves and any other technical, financial or trade information.

28.2 Use or Disclosure by the CONTRACTOR

- 28.2.1.1 Canmex and Range Resources may freely use information for all purposes necessary to meet their respective obligations under this Agreement.
- 28.2.1.2 Canmex and Range Resources may disclose information to others:
- (i) to the extent necessary to permit others to perform any of the obligations under this Agreement;
  - (ii) in connection with the arranging of financing or assignment; and
  - (iii) to the extent required by any applicable law or regulation in or as required by any recognized Stock exchange in which the securities of Canmex and Range Resources, or an Affiliated Company are quoted; or in accordance with good Petroleum Industry practices, provided that such disclosure will not cause any damage or prejudice the DEPARTMENT 's rights under this Agreement.

Provided, however, any disclosure under 28.2.2. (i) or 28.2.2(ii), above shall require the third party to which the disclosure is made to agree in writing to maintain the same confidentiality requirements applied to Canmex and Range Resources hereunder.

28.3 Approval of the DEPARTMENT

Any use or disclosure not specifically authorized in Section 28.2, above, shall be subject to the written authorization of the DEPARTMENT .

28.4 Exemption

This Article 28 shall not apply to any information which Canmex or Range Resources acquired or acquires from any source other than from the performance of this Agreement or from the DEPARTMENT or which is considered to be in the public domain.

**Article 29**  
**ANCILLARY RIGHTS OF CONTRACTOR**

29.1 For the purpose of its operations under this Agreement and subject to the laws and regulations at the time in force and subject to the approval of the DEPARTMENT , the CONTRACTOR (on its own behalf and on behalf of Range Resources) shall have the right to take free of cost any stone, sand or other building materials from land not privately occupied or owned and to drill for and take any water which may be available and may be required for operations under this Agreement, provided that the inhabitants

are not prevented from taking their usual requirements of such materials and that the water supply of the local inhabitants and nomad population is not endangered.

29.2 Radio, telephone and other communication facilities maintained by the CONTRACTOR shall be for its exclusive use for purposes of its activities under this Agreement, shall be subject to all DEPARTMENT al regulations and shall be available for reasonable or emergency use by the DEPARTMENT free of charge. Such facilities shall be so constructed and operated as not to interfere with similar installations which exist or with the permission of the DEPARTMENT may be established in PUNTLAND for public use or for the purposes of defense.

29.3 Canmex and Range Resources shall have the right to use without payment and in a safe manner, existing roads within PUNTLAND and shall permit free public use of the roads constructed and maintained by them, except such roads as Canmex and Range Resources may with the consent of the DEPARTMENT declare to be for its exclusive private use.

29.4 Canmex and Range Resources shall have the right to use existing public harbor and airports in PUNTLAND upon payment of the port and harbor dues or landing or other fees generally applicable in accordance with applicable regulations, provided that such use is not so extensive to interfere with the right of the public to use such harbors and airports.

29.5 Subject to the approval of the appropriate DEPARTMENT authorities, the CONTRACTOR (on its own behalf and on behalf of Range Resources) shall have the use and occupation of surface rights of the lands and buildings owned by the DEPARTMENT in PUNTLAND which it may reasonably require for operations under this Agreement subject to an agreed upon rental payment which shall not be less favorable than available to any other international Petroleum company. When land, surface rights or buildings required by the CONTRACTOR (on its own behalf and on behalf of Range Resources) for operations under this Agreement are privately occupied or owned, their purchase, lease or clearance shall be effected at terms to be negotiated by the CONTRACTOR (on its own behalf and on behalf of Range Resources) with the owner or occupier but such terms shall not be substantially more onerous to the CONTRACTOR (on its own behalf and on behalf of Range Resources) than those normally offered currently for similar transactions in the locality concerned. The DEPARTMENT shall, upon request by the CONTRACTOR (on its own behalf and on behalf of Range Resources) assist in the negotiations with the owner and occupier and shall use the power of eminent domain when necessary after the payment of reasonable compensation to the owner in compelling cases.

29.6 The CONTRACTOR (on its own behalf and on behalf of Range Resources) shall have the right to incur and pay costs and expenses pertaining to any emergency affecting safety to person or property in the Petroleum Operations and such costs and expenses shall be recoverable under this Agreement provided that the DEPARTMENT shall be notified of any such emergency as soon as practicable.

**Article 30**  
**MISCELLANEOUS**

30.1 The headings or titles to each of the Articles and paragraphs of this Agreement are solely for the convenience of the parties hereto and shall not be used with respect to the interpretation or construction of the provisions off this Agreement.

30.2 Entire Agreement

This Agreement and the Annexes attached hereto represent the entire agreement between the Parties hereto with respect to the subject mater hereof, superseding all other previous oral and written communications, representations, and agreements with respect thereto. This Agreement and its Annexes may be modified only by all the Parties hereto and ratified in accordance with constitutional procedures in the PUNTLAND.

30.3 All items of archeological value that Canmex and Range Resources encounters are the sole property of the STATE. Canmex and Range Resources shall notify the DEPARTMENT 's Representatives of such find as soon as it encounters such items. The CONTRACTOR (on its own behalf and on behalf of Range Resources) must take all necessary precautions for their safety during the execution of the Petroleum Operations. Canmex and Range Resources shall abide by the Laws and instructions in this regard.

30.4 Considering that the Parties hereto base their relationship under this Agreement on good will and good faith, the Parties hereto agree that in those provisions of this Agreement where a party hereto is required to obtain the consent, approval, determination, or agreement of the other Party hereto, such consent, approval, determination or agreement shall not be unreasonably withheld or delayed

**Article 31**  
**ASSIGNMENT AND AUTHORIZATION BY THE DEPARTMENT**

31.1 The DEPARTMENT reserves the right to assign part or the whole of its rights and obligations in this Agreement for any establishment, corporation, authority, company or any department that belongs to it in PUNTLAND during any period when this Agreement is in effect, and reserves the right to restore all of its rights and its obligations at any time it desires to do so. The DEPARTMENT has the right to assign and deputize for more than one unit to exercise its rights and perform its obligations under this Agreement throughout all the stages of the execution of this Agreement. Any such transfer of rights and obligations shall not be binding on Canmex and Range Resources until the DEPARTMENT has delivered to Canmex and Range Resources the document effecting such transfer.

**Article 32**  
**THE OFFICIAL TEXT**

32.1 This Agreement is written in the English language. In the event that this Agreement is translated into any other language and there is an inconsistency between such translation and this Agreement in English, the English version shall prevail.

**Article 33**  
**DEPARTMENT AL APPROVAL**

33.1 This Agreement, signed by the DEPARTMENT Canmex and Range Resources, shall not be binding upon any of the Parties hereto, until the issuance of the Law approving this Agreement according to the constitutional procedures in the PUNTLAND and giving the provisions of this Agreement, including the Annexes, full force and effect of law notwithstanding any countervailing DEPARTMENT enactment.

**Article 34**  
**THE SIGNATURES**

34.1 Certifying the foregoing, the Parties hereby sign this Agreement on the date which appears in the Preamble of this Agreement. This Agreement may be executed in counterpart by original or telefacsimile signature and each such signature when taken together shall constitute one and the same Agreement.



**GOVERNMENT OF PUNTLAND / DEPARTMENT OF MINERALS AND PETROLEUM**

By: \_\_\_\_\_

Signature: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**CANMEX MINERALS LIMITED**

By: \_\_\_\_\_

Signature: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**RANGE RESOURCES LTD.**

By: \_\_\_\_\_

Signature: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**ANNEX A**

**DESCRIPTION OF AGREEMENT AREA**

**BOUNDARY CO-ORDINATES**

***[REDACTED - COORDINATES CONSTITUTE SENSITIVE BUSINESS INFORMATION]***

**ANNEX B**

***[REDACTED - MAP CONSTITUTES SENSITIVE BUSINESS INFORMATION]***

**ANNEX C**

**MINIMUM WORK OBLIGATIONS**

**ARTICLE 4.1(A)**

- **First Exploration Period – [REDACTED - AMOUNTS CONSTITUTE SENSITIVE BUSINESS INFORMATION]**
  
- **Second Exploration Period – [REDACTED - AMOUNTS CONSTITUTE SENSITIVE BUSINESS INFORMATION]**
  
- **Exploration Area (Dharoor Valley):**
  - i. **[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION];**
  
  - ii. **[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION];**
  
  - iii. **[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION];**
  
  - iv. **[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]; and**
  
  - v. **[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION].**

**ANNEX D**

**ACCOUNTING PROCEDURES**

**ARTICLE I**

**COSTS, EXPENSES AND EXPENDITURES**

Subject to the provisions of the Agreement, the CONTRACTOR shall alone bear and directly pay the following costs and expenses, which costs and expenses shall be classified and treated in accordance with the Agreement.

1. Surface Rights

All direct cost attributable to the acquisition, renewal or relinquishment of surface rights occupied and maintained in force for the Agreement Area.

2. Labour

- (A) Salaries and wages of the CONTRACTOR's employees directly engaged in the various activities under the Agreement including salaries and wages paid to geologists and other employees who are temporarily assigned to and employed in such activities.
- (B) Cost of living and housing allowances, and other customary allowances applicable to salaries and wages of expatriate employees. Paid bonuses, overtime and other customary allowances applicable to salaries and wages of national employees.
- (C) Cost of expenditures or contributions made pursuant to law or assessments imposed by DEPARTMENT al authority which are applicable to labour cost of salaries and wages.

3. Employees Benefits

Cost of established plans for employees group life assurance, hospitalization, pension, retirement, stock purchase, thrift and other benefits of a like nature which are applicable to labour cost of salaries and wages of expatriate employees, and for national employees. Severance pay will be charged at a fixed rate applied to payrolls which will equal an amount equivalent to the maximum liability for severance payments as required under PUNTLAND labour law.

4. Material

Material, equipment and supplies purchased or furnished as such by the CONTRACTOR.

A. Purchase

Material, equipment and supplies purchase shall be at price paid by the CONTRACTOR after deduction of all discounts actually received.

B. Material Furnished by CONTRACTOR

Material required for operations shall be purchased directly whenever practicable, except that the CONTRACTOR may furnish such material from CONTRACTOR's affiliates stocks outside PUNTLAND under the following conditions.

(1) New Material (Condition "A")

New material transferred from CONTRACTOR's affiliates warehouse or other properties shall be priced at cost, provided that the cost of material supplied is no higher than international prices for material of similar quality supplied on similar terms prevailing at the time such material was supplied.

(2) Used Material (Conditions "B" and "C")

(a) Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classed as Condition "B" and priced at **[REDACTED - SENSITIVE BUSINESS INFORMATION]** of the price of new material.

(b) Material which cannot be classified as Condition "B" but which is serviceable for original function but substantially not suitable for reconditioning, shall be classed as Condition "C" and shall be priced at a value commensurate with its use. Material which cannot be classified as Condition "C" shall also be priced at a value commensurate with its use.

(c) Tanks, buildings and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

C. Warranty of Materials Furnished by the CONTRACTOR

The CONTRACTOR does not warrant the material furnished beyond or back of the dealer's or manufacturer's warranty.

5. Services

(A) Outside Services

The cost of consultants, contract services and utilities procured from third parties.

- (B) Cost of services performed by the MINISTER or by CONTRACTOR or its Affiliated Companies in facilities inside or outside PUNTLAND. Regular, recurring, routine services, such as interpreting magnetic tapes and/or other analysis, shall be performed and charged by CONTRACTOR or its Affiliated Companies at an agreed price. Major projects involving engineering and design services shall be performed by the CONTRACTOR by their Affiliated Companies at a negotiated contract amount. Use of the CONTRACTOR's or its Affiliated Companies' wholly owned equipment shall be charged at a rental rate commensurate with the cost of ownership and operation, but not in excess of competitive rates currently prevailing in PUNTLAND.

6. Damages and Losses

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident or any other cause not controlled by the CONTRACTOR through the exercise of reasonable diligence. The CONTRACTOR shall furnish the MINISTER written notice of damages or losses incurred in excess of **[REDACTED - SENSITIVE BUSINESS INFORMATION]** U.S. Dollars per occurrence, as soon as practicable after report of the same has been received by the CONTRACTOR.

7. Insurance and Claims

The cost of any public liability, property damage and other insurance against liabilities of the CONTRACTOR, and/or the parties or any of them to their employees and/or outsiders as may be required by the Laws, rules and regulations of the PUNTLAND or as the parties may agree upon. The proceeds of any such insurance or claim collected shall be credited against operations. If no insurance is carried for a particular risk, all related actual expenditures incurred and paid by the CONTRACTOR in settlement of any and all losses, claims, damages, judgements, and any other expenses, including legal services.

8. Indirect Expenses

Camp overhead and facilities such as shore base, warehouses, water systems, road systems, salaries and expenses of field supervisory personnel, field clerks, assistants, and other general employees indirectly serving the Agreement Area.

9. Legal Expenses

All costs and expenses of litigation, or legal services otherwise necessary or expenditure for the protection of the Agreement Area, including attorney's fees and expenses as hereinafter

provided, together with all judgements obtained against the parties or any of them on account of the operations under the Agreement, and actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the operations or the subject matter of the Agreement. In the event actions or claims affecting the interest hereunder shall be handled by the legal staff of one or more of the parties hereto, a charge commensurate with cost of providing and furnishing such services may be made to operations.

10. Administrative Overhead and General Expense

- (A) Anytime the CONTRACTOR is conducting Petroleum Operations, cost of staffing and maintaining CONTRACTOR's head office in PUNTLAND and/or other offices established in PUNTLAND, other than field office which will be charged as provided in Article II, paragraph 9 above, and excepting salaries of employees of the CONTRACTOR who are temporarily assigned to and directly serving on the Area, which will be charged as provided in Article I, Paragraph 2 above.
- (B) The CONTRACTOR's administrative overhead outside PUNTLAND applicable to the Petroleum Operations under this Agreement shall be charged annually at the rate of **[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]** of the expenditure not exceeding **[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]** U.S. Dollars, **[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]** of expenditure in excess of **[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]** U.S. Dollars but less than **[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]** U.S. Dollars, **[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]** percent of expenditure in excess of **[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]** U.S. Dollars but less than **[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]** U.S. Dollars, and **[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]** percent of expenditure in excess of **[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]** U.S. Dollars.
- (C) No other direct charges as such for CONTRACTOR's administrative overheads outside PUNTLAND will be applied against the Petroleum Operations. Example of the type of costs the CONTRACTOR is incurring and charging hereunder due to the activities under the Agreement and covered by said percentages are:
  - (1) Executive - Time of executive officers
  - (2) Treasury - Financial and exchange problems
  - (3) Purchasing - Procuring materials, equipment and supplies
  - (4) Exploration and Production - Directing, advising and controlling the entire project



- (5) Other departments such as legal, comptrollers and engineering which contribute time, knowledge and experience to the operation. The foregoing does not preclude charging for direct services under sub-paragraph 6B of this Article I.
- (D) Anytime the CONTRACTOR is conducting Petroleum Operations, CONTRACTOR's personnel engaged in general clerical and office work, supervisors and officers whose time is generally spent in the main office and not in the field, and all employees generally considered as general and administrative and not charged to other types of expense, will be charged to operations. Such expenses shall be allocated each month between Exploration, Development and Producing Operations according to sound and practicable accounting methods.

11. Taxes

All taxes, duties or levies paid in PUNTLAND by CONTRACTOR with respect to this Agreement, other than those covered by the Agreement.

12. Interest

An interest charge as agreed below and equal to the following: up to ***[REDACTED - SENSITIVE BUSINESS INFORMATION]*** of CONTRACTOR's total Development expenditure stated in U.S. Dollars made under this Agreement and not yet recovered through Cost Oil times the London Interbank offering Rate (LIBOR) QUOTED BY The Bank of England on the first business day of such month for medium-term loans. This interest charge shall be on borrowings actually made by the CONTRACTOR, except in the event that the STATE shall be able to arrange such borrowings at more favourable rates. Interests will accrue from the date the expenditure is actually made.

13. Other Expenditures

Any costs, expenses or expenditures, other than those which are covered and dealt with by the foregoing provisions of this Article I, incurred by CONTRACTOR under Work Programs and Budgets, in consultation with the DEPARTMENT .

## ARTICLE II

### INVENTORIES

1. Periodic Inventories, Notice and Representation

At reasonable intervals as agreed upon by the MINISTER and the CONTRACTOR inventories shall be taken by the CONTRACTOR or the operations material, which shall include all such material, physical assets and construction projects. Written notice of intention to take inventory shall be given by the CONTRACTOR to the MINISTER at least thirty (3) days before any inventory is to begin so that the DEPARTMENT may be represented when any inventory is

take. Failure of the DEPARTMENT to be represented at an inventory shall bind it to accept the inventory taken by CONTRACTOR who shall, in the event, furnish the MINISTER with a copy.

2. Reconciliation and Adjustment of Inventories

Reconciliation of Inventory shall be made by the CONTRACTOR and the MINISTER, and a list of overage and shortages shall be jointly determined and the inventory adjusted by the CONTRACTOR.

**ARTICLE III**

**COST RECOVERY**

1. Statement of Recovery of Costs and of Cost Recovery Crude Oil

CONTRACTOR shall, pursuant to the Agreement, render to the MINISTER not later than *[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]* after each quarter a statement for that quarter showing:

- (i) *[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]*
- (ii) *[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]*
- (iii) *[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]*
- (iv) *[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]*
- (v) *[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]*
- (vi) *[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]*
- (vii) *[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]*

## ARTICLE IV

### CONTROL STATEMENTS AND MAJOR ACCOUNTS

1. Exploration obligations statement

The CONTRACTOR shall annually prepare from the Statements of Expenditures prepared a statement showing for such year the excess or deficit in Exploration expenditures compared to the minimum Exploration obligations. Such statement shall be rendered to the MINISTER not later than *[REDACTED - TERMS CONSTITUTE SENSITIVE BUSINESS INFORMATION]* following the end of such year.

2. Major Accounts

For the purpose of classifying costs, expenses and expenditures for cost recovery as well as for the purpose of establishing when the Exploration obligation has been met, costs, expenses and expenditures shall be recorded in major account including the following: -

- Exploration Expenditures
- Development Expenditures other than Operating Expenses
- Operating Expenses

Necessary sub-accounts shall be used.

Revenue accounts shall be maintained by the CONTRACTOR to the extent necessary for the control of recovery of costs and the treatment of Cost Oil.