

(Legal Notice No. 13)

**THE PETROLEUM (EXPLORATION) ACT 1987**  
(Cap. 44)

**MODEL PETROLEUM AGREEMENT**

IN exercise of the powers conferred by Section 11(2) of the Petroleum (Exploration Act), the Minister hereby causes to be published in the Gazette a Model Petroleum Agreement.

**DEFINITIONS**

1. In this Agreement unless the context otherwise requires, the expression:-

“accounting procedure” means the accounting procedure contained in Annex 1 hereto;

“Agreement Area” means the area covered by the Agreement as described in Annex 2 and demarcated on the map which forms part thereof, excluding any portions from time to time relinquished pursuant to clause hereof and includes a licenced area;

“Agreement Year” means a period of twelve (12) consecutive months according to the Gregorian Calendar, within the term of Agreement, beginning on the effective date or any anniversary thereof.

“barrel of crude oil” means a barrel of crude oil consisting of 42 U.S. gallons at 60 degrees Fahrenheit and normal atmospheric pressure;

"budget" means the annual expenditure plan, prepared in accordance with clause 10 hereof for each work programme;

"calendar year" means a period of twelve (12) months, according to Gregorian Calendar, beginning on first January and ending on the following thirty-first December;

"Contractor" means a person who is contracted by a licensee to carry out petroleum operations and includes a licensee;

"date of commencement of commercial production" means, in respect of each commercial field, the date on which installations and facilities necessary for the production, recovery, transportation and delivery of petroleum on a regular basis have been completed; and on which a minimum of [ ] of crude oil shall have been lifted and delivered on a regular basis. In the case of a gas field, each [ ] cubic meters of natural gas at normal atmospheric pressure and 15 degrees centigrade shall be deemed equivalent to 1 cubic metre of crude oil;

"date of establishment of a commercial field" means, in respect of an oil field, the date on which such field is determined to be commercial in accordance with the procedures stipulated in clause 6 hereof and, in respect of a gas field, the date on which such field is determined to be commercial in accordance with the procedures stipulated in clause 15 hereof;

"development expenditures" means all reasonable and proper costs and expenses paid for development operations, in accordance with clause 14 hereof and the Accounting Procedure, not including the cost of any LNG plant, gas processing plant or any oil or gas trunklines;

"development period" means, in respect of each development area, the period from the date of establishment of a commercial field until the date of commencement of commercial production.

"development plan" means the plan submitted by the contractor for development of a commercial field and approved by the Minister on the recommendation of the Joint Management Committee;

- "development well" means a well drilled after the date of establishment of a commercial field for producing petroleum or increasing the production rate or for accelerating production in a commercial field;
- "discovery well" means the first exploration well in the Agreement Area to yield a substantial amount of petroleum during testing;
- "effective date" means the date on which this Agreement comes into force;
- "expatriate employee" means a person employed by the Contractor or any subcontractor who is not a citizen of Solomon Islands;
- "exploration expenditures" means all reasonable and proper costs and expenses paid for exploration operations, in accordance with clause 12.3 hereof and the Accounting Procedure;
- "exploration" or "exploration operations" means all geological geophysical and geochemical surveys and the drilling of exploration wells which are carried out in the Contract Area during the exploration period, pursuant to work programmes and budgets approved by the Joint Management Committee, for the purpose of discovering petroleum bearing traps, and shall include any further exploration and relevant processing and appraisal work, including economic and technical feasibility studies, as may be carried out to determine whether such traps constitute commercial fields;
- "exploration period" means the time period stipulated in Article 4 hereof, during which the Contractor is to carry out exploration operations, and shall terminate with respect to any development area on the date of establishment of a commercial field in that development area;
- "exploration well" means a well including a dry well, discovery well or an appraisal well, which is drilled during the exploration period for the purpose of discovering or appraising a petroleum field;
- "gas field" means one or more natural gas-bearing pools within a geologically defined trapping area;
- "Government" means the Government of Solomon Islands or its authorised officers;
- "Joint Management Committee" means the Joint Management Committee established pursuant to clause 7;

"recoverable costs" means all exploration costs and development costs approved by the Minister to be reimbursed to the Contractor.

## 2. SCOPE OF THE AGREEMENT

The objective of this Agreement is the exploration, development and production of petroleum in the Agreement Area, as follows -

- (a) the Contractor shall carry out all operations necessary for the exploration (including appraisal) and development of petroleum in the Agreement Area in accordance with the provisions of this Agreement;
- (b) the Contractor shall provide all funds required for the carrying out performance of exploration operations;
- (c) in the event that one or more commercial fields are established in the Agreement area, the Contractor shall also provide all funds necessary for the development of such commercial fields in accordance with the provisions of this Agreement;
- (d) The Contractor shall recover costs as provided in clause 13 hereof and be entitled to a share of the crude oil produced as provided in clause 15 hereof; and
- (e) the exploration operations and development operations shall be carried out at the sole cost and risk of the Contractor. The costs incurred by the Contractor in the performance of exploration operations and development operations shall be reimbursed to the Contractor only in accordance with clause 14 hereof. If no Commercial field is discovered in the Contract Area or if the production achieved is insufficient to reimburse the contractor in accordance with the provisions of this Agreement, the Contractor shall bear its own loss and the Government shall have no obligation to supply petroleum or otherwise reimburse the Contractor for any costs or for any interest or return on the amount of its investment;
- (f) Nothing contained in this Agreement shall be deemed to confer any right on the Contractor other than those rights expressly granted herein;
- (g) The Government reserves the right to enter into contracts with third parties with respect to the Agreement Area, provided that no such contract shall

unreasonably interfere with the rights of the Contractor hereunder;

### 3. AGREEMENT AREA

- 3.1 The Agreement Area comprises .....Blocks covering a total area of approximately ..... Km as described by reference to co-ordinates in Annex A and the map appended thereto.
- 3.2 The Agreement Area has been delimited for the purpose of determining the surface area for the conduct of petroleum operations hereunder and no right is granted in favor of the Contractor to the surface area or to the seabed, the soil or the subsoil, or to any natural resources existing therein, except for the rights to carry out petroleum exploration and to receive petroleum as expressly provided by this Agreement

### 4. GRANTS OF RIGHTS AND TERM

- 4.1 The Minister shall, subject to the terms of this Agreement, grant a petroleum prospecting licence to the Contractor conferring exclusive right to explore for petroleum within the Agreement Area, and upon each commercial field being established shall, subject to the term of this Agreement, grant a petroleum development licence to the contractor, conferring exclusive right to develop and produce petroleum within the development area and to sell and dispose of the Contractor's share of the petroleum so produced.
- 4.2 The term of this Agreement which shall be divided into an exploration period and a combined development and production period(s), shall be thirty-five (35) from the effective date subject to earlier termination as provided in this Agreement.
- 4.3 The exploration period shall consist of an original phase and two possible extended phases as follows-
- (a) a first phase of four (4) Agreement Years - first year through the fourth year;
  - (b) a second phase of two (2) Agreement Years - fifth year through the sixth year; and
  - (c) a third phase of two (2) Agreement Years - seventh year through the eighth year.

- 4.4 In the event that a petroleum field is discovered during the exploration period and is determined to be a commercial field the exploration period shall be terminated with respect to the development area covering that field; exploration operations shall continue in the remaining portion of the Agreement Area until the end of the exploration period.
- 4.5 In the event that petroleum field is discovered during the exploration period, and the joint period is due to expire before the completion of the appraisal work considered by the Joint Management Committee to be necessary for determining the commerciality of the field, the exploration period may be extended by the Minister for such time not exceeding five (5) years and with respect to such area as the Minister may consider reasonable for the completion of the appraisal work in order that a decision may be made by the Joint Management Committee with respect to its commerciality.
- 4.6 Notwithstanding the provision of subclause 2 of this clause, this Agreement shall automatically terminate if -
- (a) within six (6) months from the effective date work pursuant to a work programme has not commenced;
  - (b) subject to subclause 5 of this clause or clause 6.3, the Contractor has not made a commercial discovery within eight (8) Agreement Years from the effective date of this Agreement.

## 5. AGREEMENT AREA AND RELINQUISHMENT

- 5.1 The Contractor shall relinquish portions of the Agreement Area as follows:
- (a) On or before the end of the second year from the effective date, the Contractor shall by written notice to the Minister relinquish so much of the Agreement Area as to reduce the Agreement Area retained by him to.....blocks (the reduced Agreement Area);
  - (b) On or before the end of the first phase of the exploration period, the Contractor shall by written notice to the Minister relinquish not less than half the number of blocks of the reduced Agreement Area;
  - (c) On or before the end of the second phase of the exploration period, the Contractor shall by written notice to the Minister relinquish not less than fifty per cent (50%) of the Agreement Area retained at the end of the first phase after deducting herefrom each

development area; and

- (d) On or before the end of the third phase of the exploration period, the Contractor shall by written notice to the Minister relinquish the remaining Agreement Area except any development area.

- 5.2 The Contractor may at any time voluntarily relinquish all or part of the Agreement Area, subject to fulfilment of its obligations under the provisions of this Agreement.
- 5.3 The Contractor shall have the right to select a development area consisting of blocks within which discovery of a commercial field has been established. This Agreement shall terminate at the end of eight years from the effective date in respect of those areas remaining which are not within the development areas and which are not areas in respect of which an extension has been granted pursuant to subclause 3 of clause 6.
- 5.4 On or before the commencement of commercial production, the Contractor shall relinquish that portion of the development area, which is not included in a production area.
- 5.5 The relinquished areas shall so far as reasonably possible be of sufficient size and convenient shape taking into account contiguous areas already relinquished and not subject to other agreements to enable petroleum operations to be carried out thereon and upon relinquishment shall cease to be part of the Agreement Area for all purposes.
- 5.6 Ninety (90) days prior to the date of each relinquishment, the Contractor shall submit to the Joint Management Committee a complete report of its exploration operations on the area to be relinquished including a map showing the blocks to be relinquished with relevant geographical coordinates in accordance with the applicable law,

## 6. MINIMUM WORK AND EXPENDITURE OBLIGATION

- 6.1 The exploration period shall start on the effective date and shall have a duration of eight (8) years. The combined development and production period(s) for the development area(s) shall commence on the date the Contractor notifies the Minister pursuant to this clause that a commercial discovery is made and shall have duration(s) for a further period of thirty-five years.

discovery is made and shall have duration(s) for a further period of thirty-five years.

- 6.2 If the Contractor does not make a commercial discovery of petroleum during the exploration period, this Agreement shall automatically terminate at the end of the eight-year period unless extended by written notice of Contractor given at least thirty (30) days prior to such termination.
- 6.3 Where the Contractor is still in the process of drilling or testing an exploratory well and the well has not reached the required depth, the Contractor may apply for the period to be extended for a period not exceeding one (1) year, provided that an application by the said Contractor shall be made within thirty (30) days of the expiration of this Agreement.
- 6.4 The Contractor shall commence exploration operations not later than six (6) months from the effective date.
- 6.5 The Contractor shall carry out the minimum exploration program hereinafter specified in this clause for each of the three phases of the exploration period.
- 6.6 During the first phase of the exploration period the Contractor shall -
  - (a) complete a study of the regional geology and deliver to the Minister a report thereon, including appropriate maps, cross sections and illustrations not later than sixty (60) days after the commencement of exploration operations;
  - (b) conduct within the first two years of the exploration period a geophysical survey of each block of the Agreement Area which when combined with existing data, shall -
    - (i) provide a minimum seismic grid adequate to define prospective drill sites over prospective closures as interpreted from the data available to the Contractor on the date this Agreement comes into effect;



- ii) provide an adequate seismic evaluation of structural and stratigraphic conditions over the remaining portions of the Contract Area (on a grid of not less than ...x...(Km). The seismic survey shall include not less than ... line kilometres; and
      - (iii) investigate seabed conditions for each probable drill site area in a manner approved by the Joint Management Committee and prepare a bathymetric map; and
    - c) complete the drilling of the first exploration well in prospects in the Agreement Area, to the geological basement (as that term is generally understood in the international petroleum industry), or to a depth of .....metres whichever is less. The location of the well shall be approved by the Joint Management Committee.
- 6.7 During the second phase of the exploration period the Contractor shall
- (a) complete a study of the geological and geophysical data available at the beginning of the second phase and deliver to the Minister a report thereon including appropriate maps, cross sections and illustrations not later than sixty (60) days after the beginning of such phase;
  - (b) conduct a detailed geophysical survey of the Agreement Area which, when combined with the existing data shall -
    - (i) provide a minimum seismic grid adequate to define prospective drill sites over prospective closures interpreted from the data then available to the Contractor;
    - (ii) investigate seabed conditions for each probable drill site area in a manner approved by the Joint Management Committee and prepare a bathymetric map. The seismic survey shall include a minimum of ..... line km unless otherwise agreed by the Joint Management Committee; and

- (iii) complete the drilling of one (1) exploration well in the Agreement Area to geological basement (as that term is generally understood in the international petroleum industry), or to a depth of ..... metres, whichever is less, unless commercially productive hydrocarbons are first encountered in said well. The location of the well shall be approved by the Joint Management Committee.

6.8 During the third phase of the exploration period the Contractor shall -

- (a) complete a study of the geological and geophysical data available at the beginning of the third phase and deliver to the Minister a report thereon including appropriate maps, cross sections and illustrations, not later than sixty (60) days after the beginning of such phase;
- (b) conduct a detailed geophysical survey of the Agreement Area which, when combined with the existing data shall -
  - (i) provide a minimum seismic grid adequate to define prospective drill sites over prospective closures interpreted from the data then available to the Contractor. The seismic survey shall include a minimum of ..... line kilometres.
  - (ii) investigate seabed conditions for each probable drill site area in a manner approved by the Joint Management Committee and prepare a bathymetric map.
- (c) complete the drilling of one (1) exploration well in the Agreement Area to basement (as that term is generally understood in the international petroleum industry), or to a depth of ..... meters (number to be agreed), whichever is less, unless commercially productive hydrocarbons are first encountered in said well. The location of the well shall be approved by the Joint Management Committee.

- 6.9 Where, during any phase(s) of the exploration period, the Contractor drills more wells than provided for in sub clauses 6(c), 7(b)(iii) and 8(c) of this clause and such additional well(s) meet the completion standards provided for in this clause, then those well(s) shall be counted as satisfying the Contractor's future required well obligations.
- 6.10 The Contractor shall deliver to the Minister during the exploration period such reports at such times as are required by this Agreement or other applicable law or as may be requested by the Joint Management Committee.
- 6.11 The Contractor shall provide within thirty (30) days of the effective date, a performance bond or other Security approved by the Minister in the form set out in annex 3 which shall be renewed and released in accordance with the following provisions.
- (a) the performance bond shall in each phase of the exploration period be equal to million .....US dollars (US\$).
  - (b) at the end of each phase of the exploration period the performance bond shall be released by the Government at the date it receives evidence which in accordance with modern and internationally accepted petroleum industry practices is sufficient to verify that the Contractor has fulfilled the Contractor's obligations under this clause, provided, however, that where the Contractor has not fulfilled the minimum work obligations specified in this clause, all or part of the performance bond shall be forfeited as follows-
    - (i) with respect to the seismic survey, an amount equal to ..... United States Dollars multiplied by every seismic line-km not acquired, processed or interpreted; and
    - (ii) with respect to exploratory drilling, and amount equal to ten thousand United States Dollars multiplied by every metre not drilled in the committed wells or for which no adequate well data have been obtained.

- 6.12 Where the Contractor encounters geological basement before reaching the depth of the well as specified in subclause 6(c) and 7(b)(iii) of this clause, the remaining undrilled portion of the well shall be deemed to have been drilled for the purposes of subclause 11(b) of this clause.
- 6.13 The performance bond shall be adjusted annually by the Joint Management Committee in a manner set out in the Accounting Procedures to allow for fluctuations in currency values and inflation.
- 6.14 Not less than ninety 90 days prior to the beginning of the second and third phases of the exploration period, the Contractor shall provide a renewed performance bond approved by the Minister in the form set out in Annex ....., in the amount of thirty-three million United States Dollars.
- 6.15 Where the Contractor fails to execute all or part of a work programme during a phase of the exploration period and the Minister is of the opinion that there are valid technical reasons for such failure, the Minister shall release the portion of the performance bond covering the portion of the work which could not be performed on account of valid technical reasons.
7. JOINT MANAGEMENT COMMITTEE
- 7.1 For the purpose of the proper implementation of petroleum operations under this Agreement, the parties shall establish a Joint Management Committee not later than forty-five (45) days after the effective date.
- 7.2 Each party shall appoint three (3) members to the Joint Management Committee. The Minister shall appoint from the Committee a Chairman who shall be his representative. The Contractor shall appoint from the Committee the Vice-Chairman who shall be its representative.
- 7.3 The Joint Management Committee shall meet not less than once every six (6) months and such regular meetings shall be held at such time and places as the Committee shall decide. In the case of emergency, a meeting shall be convened upon such notice as shall be reasonable in the circumstances.

- 7.4 When one party believes that a decision of the Joint Management Committee can be made without the need of holding a meeting, the representative of that party shall give notice to the representative of the other party providing sufficient supporting material to permit the other party to determine whether to agree to such decision. The other party shall respond within ten (10) days following the receipt of the said notice.
- 7.5 As the secretariat of the Joint Management Committee, each party shall appoint one (1) officer. The appointed officers shall not be members of the Committee but shall attend meetings of the committee as non-voting representatives. The appointed officers shall carry out such duties and take such responsibilities as the Joint Management Committee may from time to time assign including -
- (a) keeping minutes of meetings;
  - (b) preparing drafts of decision of the Committee;
  - (c) transmitting copies of decisions to both parties for approval, after such decisions have been reviewed by the Chairman;
  - (d) drafting and transmitting notices of regular meetings, pursuant to the instructions of the Chairman and Vice-Chairman; and
  - (e) collecting information provided and questions forwarded by the Contractor, the Minister refer such information and questions the Chairman and Vice-Chairman.
- 7.6 The Contractor shall be responsible for the preparation for each meeting of the Joint Management Committee. When the preparation is to be done by the party which calls for an additional meeting the relevant arrangement shall be specified in advance by the notice of meeting.
- 7.7 The Joint Management Committee shall have the following functions -
- (a) approval of the work programme and budget;
  - (b) review of operations carried out in accordance with the work programme and approval of audited accounts of the petroleum operations;

- (c) review of the Contractor's report on the commerciality of a newly discovered petroleum field, and determination of the commerciality of the field; and
  - (d) such other functions as may be required by this Agreement or expressly delegated to it by the parties.
- 7.8 Decisions of the Joint Management Committee shall be made by a majority of the members present. Four members shall constitute a quorum.
8. CONDUCT OF OPERATIONS
- 8.1 The Contractor shall as holder of a petroleum prospecting licence be responsible for the conduct of exploration operations and as a holder of a petroleum development licence be responsible for the conduct of development operations and production operations respectively in accordance with this Agreement.
- 8.2 The Contractor shall establish an organisation in Solomon Islands to carry out the Contractor's responsibilities in relation to petroleum operations. Such organisation shall, for purposes of the petroleum operations and carrying on business in connection therewith be registered with the Government. The Contractor's representative in charge of such organisation shall be fully authorised by the Contractor to receive notices, to act, and to enter into binding commitments for the Contractor for the purposes of this Agreement.
- 8.3 The Contractor shall -
- (a) conduct operations in accordance with all applicable laws and shall always be mindful, in the conduct of its operations, of the rights and interests of Solomon Islands;
  - (b) conduct petroleum operations with due diligence, efficiency and economy, in accordance with the best international techniques and practices generally used in the petroleum industry, observing sound technical and engineering practices using appropriate advanced technology and effective equipment, machinery, methods and materials;

- (c) prepare and maintain full and accurate records of all technical operations performed under this Agreement; and
  - (d) prepare and maintain accounts of all operations under this Agreement in such manner as to present a full and accurate record of the costs of such operations, in accordance with the Accounting Procedure contained in Annex 1 hereto.
- 8.4 The Contractor shall prepare work programs and budget, and carry out petroleum operations in accordance with work programs and budgets approved by the Joint Management Committee.
- 8.5 The Contractor shall keep the Minister regularly and fully informed of operations being carried out by the Contractor and shall promptly provide the Minister with all information, data, samples, interpretations and reports including all field recorded seismic, geological, gravity, magnetic, bathymetry and navigation data, copies of any surface geological maps, analyses of outcrop materials and reports prepared from the data obtained, progress and completion reports, which are required by this Agreement and by all applicable laws, and which shall include, but not be limited to -
- (a) processed seismic data and interpretations thereof;
  - (b) well data, including but not limited to, electric logs and other wireline surveys, mud logging reports and logs, samples of cuttings and corals and analyses made therefrom;
  - (c) special reports such as those prepared from drilling data, geological or geophysical data, including maps or illustrations derived therefrom;
  - (d) well testing and well completion reports, including all stimulation and treatments, production tests, pressure measurements and interpretation of data obtained;
  - (e) reports dealing with local surveys, seabed conditions and seafloor hazards, or other reports dealing with well, platform or pipeline locations;

- (f) reservoir investigations and estimates regarding reserves, field limits and economic evaluations relating to future operations;
  - (g) daily, weekly, monthly and routine reports on the petroleum operations;
  - (h) comprehensive final reports upon the completion of each specific operations;
  - (i) contingency programs and reports on safety and accidents;
  - (j) procurement plans, sub-contracts and service contracts;
  - (k) design drawings, design criteria or specifications, and construction records;
  - (l) reports of technical investigations relating to petroleum operations;
  - (m) reports of any other investigations based upon data from the Agreement Area; and
  - (n) such other reports as may be required by Accounting Procedure contained in Annex 2 hereto.
- 8.6 All the original data and samples referred to in this clause shall be kept in Solomon Islands, except that the Joint Management Committee may in consultation with the Chief Inspector permit data and samples to be exported for analysis, subject to such the provisions of the Petroleum (Exploration) Regulations.
- 8.7 The Contractor shall provide inspectors with appropriate facilities to be present at or inspect, the Contractor's operations at such time as the Chief Inspector may determine.
- 8.8 The Contractor shall, in carrying out its responsibilities under this Agreement comply with Part VII of the Petroleum (Exploration) Regulations.
- 8.9 If as a result of the failure of the Contractor to fulfil its obligations,



petroleum operations result in the uncontrolled release of petroleum or other materials on the seabed in the sea, or land or in fresh water, or if the Contractor's operations result in any other form of pollution or otherwise cause harm to fresh water, marine or animal life, the Contractor shall notify the Minister immediately and promptly take all necessary measures to control the pollution, to clean up any released petroleum or other material, or to repair, to the maximum feasible extent, any damage resulting from the said circumstances. The cost of such control, clean-up and repair activities shall be borne by the Contractor and shall not be included in allowable exploration expenditures, development expenditures or operating expenditures in accordance with clause 13 hereof.

- 8.10 If the Contractor does not act promptly so to control, clean up, or repair, as the case may be, the Minister may, after giving the Contractor reasonable notice in the circumstances, take any actions or execute any works which are necessary, and the costs and expenses of such works shall be borne by the Contractor and shall not be included in allowable exploration expenditures, development expenditures or operating expenditures in accordance with clause 13 hereof.
- 8.11 Where more than one entity constitutes the Contractor, one of them shall be designated as operator for the purposes of conducting petroleum operations as required to be conducted under this Agreement, but each such entity shall remain jointly and severally responsible for the satisfactory performance of all technical financial and other obligations of the Contractor under this Agreement.
- 8.12 Nothing in this Agreement shall exempt the Contractor from liability for any loss suffered by or damage or injury caused to the Government or its employees or to third parties or to any property or interest as a result of the wrongful or negligent acts or omissions of the Contractor, sub-contractors or employees in the conduct of operations under this Agreement.
- 8.13 The Contractor shall at all times indemnify subconstruction, employees and agents against all claims and liabilities arising out of any loss, damage death or injury to any third party occasioned by any act or omission of the Contractor, any sub-contractor or employee in the conduct of the Contractor's operations under this Agreement.
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## 9. GOVERNMENT'S OBLIGATIONS

- 9.1 The Minister shall grant a petroleum prospecting licence to the Contractor in terms of the Act to take effect from the effective date, and upon a commercial field being established, grant a Petroleum development licence to the Contractor.
- 9.2 The Government shall, subject to all applicable laws assist the Contractor expeditiously and efficiently to carry out to the Contractor obligations stipulated in this Agreement, in particular the Government shall assist the Contractor to -
- (a) obtain entry and exit visas for expatriate employees, including members of their families who will normally reside in Solomon Islands;
  - (b) comply with customs procedures and to obtain permits for the import of necessary materials;
  - (c) comply with foreign exchange regulations and to obtain permission to take necessary remittances.

## 10. WORK PROGRAMME AND BUDGET

- 10.1 Not later than sixty (60) days after the effective date, the Contractor shall prepare and submit to the Joint Management Committee for its approval the work programme and budget for the first Agreement Year. The proposed work programme and budget shall be considered as expeditiously as possible so as to enable the Contractor to commence exploration operations.
- 10.2 The Contractor shall, not later than ninety (90) days before the end of each Agreement Year prepare and submit for approval to the Joint Management Committee a proposed work programme and budget for the Agreement Year.
- 10.3 The Contractor shall prepare and submit to the Joint Management Committee the proposed work program and budget for any project which the Contractor proposes to undertake in accordance with subclause 4 of this clause.

- 10.4 The Contractor shall use its best efforts to implement the work program and budget as approved by the Joint Management Committee, and if a revision or modification of the details of the work programme and budget should become necessary in the cause of actual petroleum operations, the Contractor may make a revision or modification subject to the following -
- (a) the Contractor may make expenditures in excess of those in the approved budget not exceeding, in the case of an individual project, ten per cent (10%) of the total expenditure approved for that project. The Contractor shall report any such excess expenditure to the Joint Management Committee in accordance with the Accounting Procedure contained in Annex 2 hereto.
  - (b) if circumstances require that for the efficient conduct of petroleum operations, expenditures have to be incurred on certain projects prior to the approval of the budget, the Contractor may make such expenditures, provided that maximum expenditures provided the maximum expenditure involved in each of such projects does not exceed ..... In case of emergency, the Contractor shall report to the Joint Management Committee within seven (7) days following the making of any such payment in respect of such expenditures, and the Committee shall, at its first meeting after the receipt of the report, take a decision with respect to such payment; and
  - (c) the aggregate excess expenditures made under subclauses 4(a) and (b) of this clause shall not be greater than five percent (5%) of the total expenditure in the approved annual budget. If the Contractor has reason to believe that any expenditure is required to be made which would involve exceeding the said limit of five percent (5%), the Contractor shall present the contractors reasons therefor to the Joint Management Committee and obtain the Committee's prior approval before making such expenditure.
- 10.5 Before purchasing or leasing, or entering into any contract to purchase or lease any goods services for the purpose of petroleum operations, and the amount involved or total amount involved in series of related contracts is greater than \$100,000, the Contractor shall seek the prior approval of the Joint Management

Committee which shall be entitled to examine bids and quotations and to require other relevant information relating to such proposed contracts.

- 10.6 The limits on expenditures stipulated in this clause shall be adjusted annually by the Joint Management Committee to allow for fluctuations in currency values and inflation.

## 11. COMMERCIALITY

- 11.1 If petroleum is discovered in the Agreement Area, the Contractor shall immediately report such discovery to the Minister in terms of regulation 27 of the Petroleum (Exploration) Regulations and the Joint Management Committee.
- 11.2 If the Contractor reports to the Minister and the Joint Management Committee that the discovery does not merit appraisal, the area covered by the discovery shall remain in the Agreement Area, subject to clause 5 hereof.
- 11.3 If the Contractor reports to the Minister and the Joint Management Committee that the discovery merits appraisal the Contractor shall, not later than ninety (90) days after the discovery prepare and submit for approval by the Joint Management Committee a work programme for the appraisal of such discovery, such work programme being in addition to any other obligations of the Contractor pursuant to clause 6 hereof.
- 11.4 The Contractor shall, after the approval of the work programme referred to in subclause 1 of this clause, carry out the approved work programme in accordance with the timetable contained therein. The Contractor shall increase the performance bond provided pursuant to clause 6 hereof by an amount to be determined by the Joint Management Committee, and the amount of such increase shall be released upon completion of such work programme and delivery of the evaluation report required pursuant to sub clause 5 of this clause any expenditure incurred as a result of such work programme shall be considered exploration expenditures for the purpose of clause 13 hereof.

- 11.5 Not later than ninety (90) days after the completion of such work programme, the Contractor shall submit to the Joint Management committee a detailed report (hereinafter in this Agreement called "the evaluation report") containing an evaluation of the commerciality of the discovery.
- 11.6 the evaluation report shall include, but not be limited to, the following information - geological conditions, structural configuration; physical properties and extent of reservoir rocks; pressure, volume and temperature analysis of the reservoir fluid; fluid characteristic, including in the case of crude oil, oil gravity, sulphur percentage, sediment and water percentage; and product yield pattern; and product yield pattern; production forecasts (per well and per field); estimates of recoverable reserves; and a calculation of the commerciality of the field in accordance with the procedure set out in subclause 10 of this clause.
- 11.7 Notwithstanding that the Contractor may consider that a petroleum field could efficiently be developed by means of more than one production area, the evaluation report shall be prepared by taking into account all projected production from the entire development area.
- 11.8 If the Contractor considers that sufficient information to evaluate the commerciality of the discovery is not available, the Contractor shall submit a programme for further appraisal to the Joint Management Committee.
- 11.9 If the Contractor considers that the discovery is commercial the Contractor shall submit with the Evaluation Report a proposed general development plan for all proposed production areas in the Development Area. This plan shall contain the following -
- (a) a general description of the techniques and equipment by which it is proposed that the field will be developed;
  - (b) a general description of the goods, labour and services that could be obtained in Solomon Islands in compliance with clause 18 hereof;
  - (c) an impact statement describing the possible environmental effects of the proposed development plan;

- (d) a description of the technical and economical feasibility of alternative methods of development;
  - (e) where any pool extends beyond the Agreement Area, the suggested unitisation agreement in accordance with the applicable law;
  - (f) the manner in which the Contractor proposes to land petroleum in Solomon Islands;
  - (g) the manner in which the Contractor proposes to finance the development of the petroleum field; and
  - (h) a map delineating the proposed development area. Any detailed engineering drawings and studies in respect to the proposed developments shall be submitted to the Joint Management Committee for approval during the development period in accordance with such guidelines as the Minister may prescribe from time to time.
- 11.10 The assessment of commerciality of a discovery shall be an estimate of the anticipated value of the petroleum expected to be produced from the development area, based on the anticipated market prices for oil, gas and natural gas liquids determined at the anticipated point of metering in the development area, taking into account where applicable anticipated tariffs for the use of any petroleum transport system and costs of natural gas processing outside the development area and the costs of natural gas liquification.
- 11.11 The total exploration expenditure incurred and properly allocable under this Agreement prior to the time of the discovery shall be determined.
- 11.12 An estimate shall be made of the following on a calendar year basis -
- (a) exploration expenditure expected to be made during the remainder of the exploration period properly allocable to the prospective development area;
  - (b) anticipated development expenditures for such area;

- (c) expected operating expenditures properly allocable to such area; and
  - (d) income tax payable in respect of such area in accordance with clause 20 hereof.
- 11.13 The estimates of revenues made pursuant to subclause 10 of this clause and the estimates of costs and taxes made pursuant to subclauses 11 and 12 of this clause shall be used to develop a projected cashflow for the development area applying the provisions of clauses 13 and 16 hereof where applicable.
- 11.14 In the event that the cashflow provides for complete recovery of the operation, exploration and development expenditures by the Contractor in accordance with the provisions of this Agreement, but without requiring the application of the provisions of clause 13 hereof, the development area shall be regarded as commercial.
- 11.15 If the cashflow does not indicate that the development area is commercial, in accordance with subclause 14 of this clause, but the Contractor is nonetheless willing to consider the development of the discovery, the Contractor shall make a statement to this effect in the Evaluation Report.
- 11.16 The Joint Management Committee shall consider the evaluation report together with a proposed general development plan where appropriate not later than thirty (30) days after the submission of the evaluation report by the Contractor. Upon consideration of an evaluation report, the Joint Management Committee may decide that the discovery is -
- (a) a commercial field, under subclause 4 of this clause, hereof, in which event the Joint Management Committee shall recommend a development plan to the Minister for approval. The date of the ministerial approval shall be the "date of establishment of a commercial field";
  - (b) not a commercial field and subsequently, but before the end of the exploration period, determine that changed circumstances justify further evaluation of the discovery, in which event the Contractor shall carry out such further evaluation, and submit a further evaluation report (and, where appropriate, a proposed development plan) for the Joint Management Committee's further consideration

## 12. RENTALS

12.1 The Contractor shall pay to the Government a yearly rent calculated in United States dollars on the basis of the following formula -

$$\text{Rental} = \frac{b}{a} (40,000 + n \times B)$$

in which

"b" represents the consumer price index for the United States for the calendar year previous to the effective date or anniversary thereof;

"a" represents the consumer price index for the United States for the calendar year previous to the effective date; and

"n" represents the number of blocks in the Agreement Area on the anniversary of the effective date under consideration.

"B" represents the amount payable per block as specified in the following table:

effective date	0
1st anniversary	200
2nd anniversary	250
3rd anniversary	1,000
4th anniversary	1,250
5th anniversary	3,000
6th anniversary	4,000
7th anniversary	10,000
8th anniversary	12,500
9th anniversary	25,000
10th anniversary	37,500
11th anniversary	50,000
12th anniversary	75,000



13. PRODUCTION CAPACITY AND ALLOWABLE PRODUCTION

- 13.1 Within a reasonable time after the commencement of commercial production of petroleum from the Agreement Area, and annually thereafter, the Contractor shall submit to the Minister for his information, the Contractor's planning studies and estimates showing the anticipated and feasible capacity or range or capacities of the Agreement Area for the production of petroleum during each of the succeeding five (5) years. Such planning studies shall give relevant technical details of the methods available to achieve given levels of production and shall also indicate an estimate of the capital and other costs involved in achieving such production levels. The Contractor also shall advise the Minister of the maximum production capacity which the Contractor shall endeavour to install in the Agreement Area in each of the succeeding five (5) years. In terminating the maximum production capacity to be installed in the Agreement Area, the Contractor shall take into due consideration sound petroleum engineering practice and other technical economic factors relevant to the field discovered in the Agreement Area.
- 13.2 Not later than three (3) months after the commencement of commercial production of petroleum from the Agreement Area, and thereafter not later than three (3) months prior to the end of each Calendar Year, the Contractor shall submit to the Minister for his information, the Contractor's estimate of the maximum capacity expressed in cubic meters of oil per day of the Agreement Area for the production of each type and grade of petroleum under the following calendar year consistent with the best conservation practices and subject to the Petroleum (Exploration) Regulations.
- 13.3 Taking into account the goal of continuous production on an optimum level the requirements of all the parties and other relevant factors, the Contractor shall advise the Minister for his information, as to the quantities expressed in cubic meter per day of each type and grade

of petroleum which the Contractor plans to produce from the Agreement Area during the following calendar year. The Contractor shall set such quantities as close as reasonably possible but not in excess of the maximum efficient rate or recovery for the Agreement Area based upon good oilfield practices and sound petroleum engineering principles such quantities being hereafter referred to as the "allowable production goal".

- 13.4 The Contractor shall use diligent efforts to ensure that net production of each type and grade of petroleum from the Agreement Area in any calendar year shall approximate as closely as possible to the allowable production goal set for such period.

#### 14. ROYALTY AND COST RECOVERY

- 14.1 The Contractor shall make available to the Minister each calendar year for his disposal crude oil in the amount of twelve and one-half percent (12.5%) of the net production of crude oil either in cash or in kind from the Contract Area in accordance with the Act. The Government's option to take in cash or in kind shall be communicated to the Contractor within 30 days of receipt of the Contractor's yearly notice of available crude oil. Such crude oil shall be referred to hereinafter as "royalty oil" such royalty oil shall be made available to the Government at the Contractor's outlet flange of export storage facilities.
- 14.2 Of the balance of the net production of crude oil remaining each calendar year after deducting royalty oil, the Contractor will be entitled to take and sell or otherwise dispose of to recover its unrecovered recoverable costs as reflected in the "Recoverable Costs Control Account" maintained in accordance with the Accounting Procedure, (Hereinafter called cost oil). The Contractor shall be entitled to take and receive and freely export such cost oil.
- 14.3 For purposes of determining the quantity of cost oil delivered to the Contractor required to recover said recoverable costs, the fair market value as determine pursuant to clause 16 will be used, recoverable costs unrecovered at the end of any calendar year, shall be recovered in next succeeding years, but not after termination of this Agreement.

15. PRODUCTION SHARING

15.1 After all recoverable costs have been recovered pursuant to the provisions of clause 14, the Government and the Contractor shall be entitled to take and receive in kind of each calendar year, the percentage set out below. Such oil shall hereinafter be referred to as "profit oil". The Government's share of profit oil shall be made available to the Government at the Contractor's outlet flange of its export storage facilities.

GOVERNMENT	CONTRACTOR
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for the portion of production up to 80,000 barrels per day	
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for the portion of production exceeding 80,000 barrels per day up to 160,000 barrels per day	
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for the portion of production exceeding 160,000 barrels per day up to 240,000 barrels per day	
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for the portion of production exceeding 240,000 barrels per day up to 320,000 barrels per day	
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for the portion of production exceeding 320,000 barrels per day.	
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15.2 Upon commencement of development operations the Contractor and the Government shall consult for purposes of agreeing to lifting and nominating procedures. Such procedures shall include right of Contractor to take and sell for export or otherwise all or any portion of Government's Royalty Oil and/or of the Government profit oil which the Government is unable or unwilling to take and dispose of. All such oil taken by the Contractor and sold shall be for the account of the Government and shall be valued at the market price determined in accordance with clause 16 less a service fee of one per cent (1) per barrel of crude oil so taken and sold.

15.3 In the absence of any agreement to the contrary between the parties, the Government and the Contractor shall share in each type and grade of crude oil in proportion to their respective shares in net production.

15.4 Title to the Contractor's portion of crude oil under this clause shall pass to the Contractor at the outlet flange of Contractor's export storage facilities.

15.5 The market price of crude oil for all purposes relevant to this Agreement shall be determined in accordance with clause 16.

#### 16. QUALITY, QUANTITY AND PRICE

16.1 The quality analysis of crude oil produced and delivered under this Agreement shall be carried out by the agency designated and pursuant to procedures and standards issued by the Minister which shall be in accordance with those generally accepted in the international petroleum industry.

16.2 Crude oil specifications shall include but not be limited to the following factors-

- (a) specific gravity, at 60 degrees Fahrenheit and normal atmospheric pressure;
- (b) sulphur content;
- (c) water and sediment; and
- (d) product yield pattern

16.3 Quantities of crude oil produced and delivered under this Agreement shall be determined using positive displacement meters or such other meters as the parties shall agree, pursuant to procedures and standards issued by the minister and generally accepted in the international petroleum industry.

16.4 All measurements shall be made at the joint outlet flange (at the delivery point) and the agency designated by the Minister shall calibrate all measuring devices at appropriate regular intervals, conduct quality testing, and issue certifications with respect thereto.

- 16.5 The Contractor shall have the right to install the Contractor check meters, and to observe the calibration of measuring devices and the conduct of all sampling and analyses procedures at appropriate regular intervals.
- 16.6 If the Contractor believes that any metering device or testing appliance is inaccurate or that sampling or analysis procedures are inaccurate or improperly performed, the Contractor shall so notify the Minister and the Minister shall promptly investigate the matter and make such adjustments with respect to quantities and entitlements, in accordance with clauses 14 and 15 hereof, as the Minister shall determine to be appropriate in the circumstances.
- 16.7 If the Contractor is not satisfied with the Minister's determination, the matter shall be referred to a mutually acceptable independent international testing organisation for final determination and the Minister shall then make such adjustments with respect to quantities in accordance with clauses 14 and 15 hereof, as shall be consistent therewith.
- 16.8 The market price for crude oil delivered to the Contractor hereunder shall be established by the Minister in accordance with the relevant provisions of the Regulations.
- 16.9 The market price shall be designated in United States Dollars per barrel of forty-two (42) United States gallons at 60 degrees Fahrenheit and normal atmospheric pressure.
- 16.10 The Minister may change the designated currency and unit of measurement should another currency or unit of measurement be used by major petroleum producing countries in international markets.
- 16.11 The Minister shall notify the Contractor of the market price for each calendar month not later than sixty (60) days after the end of that calendar month (hereinafter in this clause called a "price notification date").
- 16.12 If the Contractor believes that the market price referred to in subclause 8 of this clause for any calendar month is not representative of the

international market price, the Contractor shall so notify the Minister not later than ten (10) days after a price notification date and shall have the opportunity to present its views and submit relevant information to the Minister not later than twenty (20) days thereafter. The Minister shall make a final determination not later than forty (40) days after the price notification for that calendar month.

- 16.13 If the parties are unable to agree on the market price for a calendar month within forty (40) days of a price notification date, the matter shall be considered a dispute to be determined by arbitration in accordance with clause 30 hereof. Until the arbitration award is made, the market price for that calendar month shall be the market price established by the Government for the previous calendar month. Appropriate adjustments shall be made in accordance with the arbitration award.
17. NATURAL GAS
- 17.1 Associated gas shall be utilised primarily for gas injection, gas-lift, other production operations, and power generation all for the purpose of development and enhancement of production of the field.
- 17.2 The Government may take any associated gas in excess of the quantity required for purposes specified in sub-clause hereof, at a delivery point agreed by the parties. The costs of collecting and utilising such associated gas shall be borne by the Government.
- 17.3 Should the Government and the Contractor determine by mutual agreement that the production, processing and utilisation of natural gas is economical, then the construction and installation of facilities for such processing and utilisation shall be carried out pursuant to an approved work programme. It is hereby agreed that all costs and revenues derived from such production, processing utilisation and sale of natural gas shall be treated on a basis equivalent to that provided for herein concerning petroleum operations and disposition of crude oil.
- 17.4 In the event, however, the Contractor considers that the production, processing and utilisation of natural gas is not economical, then the Government shall be entitled, at its discretion, to develop, and take and utilise such natural gas, all costs of taking and handling such natural gas shall be borne by the Government.

- 17.5 In the event of a natural gas field discovery in the Agreement Area, the parties may agree to amend the provisions herein, so as to cause the achievement of commercial feasibility of the development and production of natural gas from such discovery. The amendments thus agreed will then be submitted for the approval of the Government.
18. EMPLOYMENT AND TRAINING OF LOCAL PERSONNEL AND TRANSFER OF TECHNOLOGY.
- 18.1 Citizens of Solomon Islands shall be given preference for employment by the Contractor in all its operations in Solomon Islands without sacrificing safety, efficiency and economy.
- 18.2 The Contractor shall, in accordance with the Act, prepare and implement in a phased manner a comprehensive program covering all aspects and all phases of petroleum operations, for training local personnel, and for the transfer of technology and of management and technical skills required for the efficient conduct of petroleum operations.
- 18.3 The Contractor shall regularly provide to the Minister information and data relating to worldwide petroleum science and technology, petroleum economics and law, and shall assist local personnel in attending international conference and other activities related to the technological, economic and legal aspects of the petroleum industry.
- 18.3 The expenses incurred by the Contractor under this clause shall be considered as exploration expenditures or, after the first date of establishment of a commercial field in the Agreement Area, development expenditures, for purposes of clause 14 hereof.
19. PROPERTY AND DATA OWNERSHIP
- 19.1 The Government shall be the sole and unconditional owner of-
- (a) petroleum produced and recovered as a result of petroleum operations;
  - (b) except those assets that are specified in sub clause 4 of this clause, all other assets purchased, installed, constructed or used by the Contractor in connection with petroleum operations, the cost of which assets has been included in exploration

expenditures, development expenditures or operating expenditures, and the Government's ownership shall become effective on the date when such cost is so included; and

- (c) all data, well logs, maps, magnetic tapes, core, samples and other geological and geophysical information obtained by the Contractor as a result of petroleum operations, and all geological, technical financial and economic reports, studies and analyses prepared by or for the Contractor relating to the Agreement Area or to petroleum operations.
- 19.2 The Contractor shall have the use of the assets referred to in subclause 6 of this clause, for its operations under this Agreement, provided that the Contractor shall remain liable for maintenance, insurance and other costs associated with such use. The Contractor shall indemnify the Government against all losses, damages, claims or legal action resulting from the Contractor's use of such assets.
- 19.3 The Contractor shall have the right to retain for the Contractor's use its own, use copies of data, well logs, maps, magnetic tapes, other geological and geophysical information, portions of cores and samples, and copies of reports, studies and analyses, all as referred to in subclauses 1(c) of this clause.
- 19.4 Equipment or any other assets, rented or leased by the Contractor, or owned or leased by sub-contractors imported into Solomon Islands for use in connection with petroleum operations shall not be deemed to be owned by the Government and such equipment or assets may be exported, subject to compliance with the applicable law.
20. ACCOUNTING AND AUDITING
- 20.1 The Contractor shall maintain, at the Contractor's Office in Solomon Islands books of account in United States dollars, or such other currency as the Government may designate, in accordance with clause 16.10 hereof. Such books of account shall be kept in accordance with accepted Accounting Procedure and in accordance with accepted accounting principles generally used in the petroleum industry. In the event of a conflict between the provisions of the Accounting Procedure and accepted accounting principles generally used in the petroleum industry, the provisions of the Accounting Procedure shall prevail.



20.2 The Government shall have the right to inspect and to audit the accounts kept by the Contractor. The Government shall not, in carrying out any such audit, unreasonably interfere with the conduct of the petroleum operations. The Contractor shall provide all necessary facilities for auditors appointed hereunder, including work space and access to all relevant personnel records files and other materials.

## 21. TAXATION

21.1 All income, received by the Contractor under this Agreement shall be subject to income taxes imposed by Solomon Islands in accordance with all applicable law and the Contractor shall be separately liable therefore.

21.2 Unless otherwise exempted under the applicable law, the Contractor is liable for payment of the following taxes -

- (i) sales tax
- (ii) export and import duties; and
- (iii) goods tax

21.3 The Government shall, through its appropriate authorities facilitate exemption from imput duties and taxes or charges to the Contractor, in respect of capital equipment imported into Solomon Islands pursuant to this Agreement.

## 22. WINDFALL PROFIT BENEFIT

22.1 This Agreement shall be subject to a threshold price determined in United State dollars in the following manner-

$$\text{Threshold Price} = b \times 50 a$$

in which:

“b” represents the consumer price index for the United States in the calendar year prior to the Agreement year in consideration; and

"a" represents the consumer price index for the United States for the year 1984.

- 22.2 Where on any day the price determined pursuant to clause 16 exceeds the threshold price, the Contractor shall provide Solomon Islands with a windfall profit per barrel calculated in the following manner-

$$\text{WPB} = 0.50 \times (\text{AP} - \text{LP}) \times (\text{I-Roy})$$

in which:

"AP" represents the actual price determined pursuant to clause Article 16; and

"LP" represents the threshold price; and

"Roy" represents the applicable royalty.

### 23. INSURANCE

- 23.1 After the effective date but not less than thirty (30) days before the commencement of petroleum operations, the Contractor shall submit to the Joint Management Committee for approval an insurance programme for the said operations. Before the commencement of petroleum operations, the Contractor shall, on behalf of both parties enter into the appropriate insurance contract, in accordance with the approved insurance programme.
- 23.2 The insurance programme to be submitted to the Joint Management Committee by the Contractor shall include but not be limited to, the following items-
- (a) losses and expenses incurred by any third party as a result of petroleum operations, including losses and expenses caused by pollution and the cleaning up thereof.
  - (b) expenses for controlling blowouts and losses caused by blowouts;

- (c) damage or loss to any installation, vessels and equipment used directly or indirectly in the petroleum operations; and
- (d) damage to petroleum production installations resulting from fire.

## 24. CONFIDENTIALITY

- 24.1 The Government shall treat all information supplied by then Contractor pursuant to this Agreement as confidential and shall not reveal such information to third parties except with the consent of the Contractor for a period of one (1) calendar year in the case of technical information and three (3) calendar years in the case of financial information, from the date of submission of such information. The Government may use any such information received from the Contractor for the purpose of preparing and publishing general reports on petroleum in Solomon Islands, for purposes of unitisation, or in connection with any dispute between the Government and the Contractor.
- 24.2 The Contractor shall not disclose technical and financial information, data, or reports pertaining to the Agreement Area to any third party not directly concerned in the petroleum operations without the consent of the Government which consent shall not unreasonably be withheld. The Contractor's obligations to maintain confidentiality hereunder shall continue in force after the termination of this Agreement except to the extent that the Government has granted its consent of the disclosure, sale, offering or publication of such information, data or reports.
- 24.3 With the consent of the Joint Management Committee, either party may disclose relevant information and data to the following third parties-
  - (a) any bank or other financial institution which might finance the petroleum operations;
  - (b) sub-contractors who may participate in the petroleum operations; or
  - (c) any third parties who have signified in writing their possible intention to be assignees hereof.

24.4 The party supplying any information or data hereunder shall ensure that the third party to whom such information or data is supplied maintains confidentiality thereof in accordance with this Clause.

## 25 AGREEMENT

25.1 This Agreement shall not be assigned directly or indirectly, in whole or in part without the prior consent of the Minister where consent is given under this clause, the Minister may impose such conditions which the Minister deems appropriate in the circumstances. Any such assignment shall bind the assignee to all of the terms and conditions of this Agreement. No assignment, however shall relieve the constructor of its obligation under this Agreement except to the extent that such obligation are actually performed by the assignee.

25.2 During the term of this Agreement, no shares of the capital stock of the Contractor may be transferred, nor any control of the Contractor be transferred, directly or indirectly, without the prior consent of the Minister.

## 26. TERMINATION OF AGREEMENT

26.1 The Agreement shall terminate -

- (a) on the relinquishment of the entire Agreement Area, pursuant to clause 5 hereof -
- (b) no commercial field is established in the Agreement Area before the end of the exploration period;
- (c) if development operations cease for a period of more than ninety (90) days, subject to the provisions of clause 27 hereof; or
- (d) on the expiration of the Agreement term provided in clause 4 hereof.

26.2 The Government may, subject to the provisions of subclause 4 of this clause 27, terminate this Agreement, if any of the following events shall occur -

- (a) submission by the Contractor to the Government of a statement which the Contractor knows or should have known is false;
- (b) the failure by the Contractor to fulfil the minimum work obligation during the exploration period;
- (c) failure by the Contractor substantially to comply with any of its obligations in accordance with clause 8 hereof;
- (d) an attempt by the Contractor to make an assignment or a transfer contrary to the provisions of clause 25 hereof;
- (e) if the Contractor becomes insolvent or commits any act of bankruptcy or is adjudged a bankrupt or enters into any agreement or composition with the Contractor's creditors, or takes advantage of any law for the benefit of debtors, or goes into liquidation or receivership, whether compulsory or voluntary;
- (f) the intentional extraction by the Contractor of any material other than as authorised by this Agreement, except for such extraction as may be unavoidable as the result of petroleum operations conducted in accordance with accepted petroleum industry practice, and such extraction was carried out with the knowledge of the Government and which are reported to the Government as soon as possible;
- (g) failure by the Contractor to make any payment of any sum due to the Government in connection with this Agreement within ten (10) days after receiving notice from the Government that such payment is due;
- (h) failure by the Contractor to comply with any decision reached as a result of arbitration proceedings conducted in accordance with clause 30 hereof
- (i) intentional and substantial overstatement by the Contractor of the amount of recoverable costs in accounts maintained by the Contractor in accordance with clause 20 hereof;

- (j) failure by the Contractor substantially to comply with any applicable law; and
- (k) conviction of the Contractor for a serious violation of any law.

26.3 If and whenever, the Government decides to terminate this Contract pursuant to subclause 2 of this clause, the Government shall give the Contractor notice specifying the event and permit the Contractor to remedy the same within thirty (30) days of such notice, or such longer period as the Government may specify in such notice as reasonable in the circumstances.

26.4 If the Contractor shall fail to remedy an event specified in subclause 2 of this within the stated period, or an event specified in subclause (3) shall occur, the Government may, by notice to the Contractors, terminate this Agreement.

26.5 In the event that the Contractor disputes whether such an event has occurred or whether an event specified in subclause 2 of this has been remedied and the Contractor shall within the period referred to in subclause 3 of this clause, refer the dispute to arbitration in accordance with clause 30 hereof, the Government shall not terminate this Agreement except as the same may be consistent with the terms of the final arbitration awards.

26.6 The Contractor may, subject to subclause 8 of this clause, terminate this Agreement by giving the Minister not less than thirty (30) days written notice in advance specifying its intention.

26.7 Upon termination of the Agreement every right of the Contractor hereunder shall cease except for such rights as may have accrued, but subject nevertheless and without prejudice to any obligation or liability imposed or incurred under this Agreement prior to the date of termination and to such rights as the Government may have under any applicable law.

26.8 Upon termination of the Agreement, the Contractor shall take all reasonable steps to remove any equipment, structure or material which may create a danger to the health or safety of persons or which may interfere with fishing, navigation or other activities.

- 26.9 No delay or omission of dealing with the Government shall impair any of its rights or be construed to be a waiver of an event specified in subclauses 1 and 2 of this clause, or an acquiescence therein.
- 27 OWNERSHIP OF ASSETS ON TERMINATION OR EXPIRATION
- 27.1 Upon the termination or expiration of this Agreement.
- (a) the Government shall, in pursuant of clause 19, retain ownership of all assets used by the Contractor in connection with petroleum operations, the cost of which has been included in exploration expenditures, development expenditures or operating expenditures;
  - (b) the Government shall, without charge acquire ownership of all casings and other appurtenances in wells or boreholes;
  - (c) any asset which is not the property of the Government under the provisions of clause 19 because it has not then been fully depreciated for tax purposes, shall be offered for sale to the Government within thirty 30 days from the date of such termination or expiration at depreciated cost. If the Government shall not accept such offer within thirty 30 days, the Contractor may sell, remove or otherwise dispose of all such property during a period of thirty 30 days after the expiration of such offer or such extended period as may be agreed. All such assets not so sold, removed or otherwise disposed of, shall become the property of the Government without charge.
- 27.2 Notwithstanding the provisions in subclauses 1(b) and (c) of this clause, the Minister may by notice to the Contractor require the removal or destruction of any assets of the Contractor in the production area or onshore lands and if the Contractor does not remove or destroy such assets within a period of thirty 30 days from the date of the notice, the Minister shall cause such removal or destruction at the expense of the Contractor.
- 27.3 The Contractor shall take all reasonable measures to ensure that all of the assets to be offered to the Government or transferred to the Government in accordance with this clause shall be maintained in the same condition which they were in at the date of the termination or

the date on which the Contractor reasonably knew that such termination would occur and any such assets shall not be disassembled or destroyed except as specifically provided in this clause.

27.4 Upon the termination or expiration of this Agreement, the Contractor shall leave the production area and onshore areas and everything thereon in a safe condition. The Contractor shall fill up or fence all holes and excavation that it has made on onshore land as may be required by the Minister. In addition, the Contractor shall take all reasonable measures to restore to their original condition, the surface of the onshore lands and all buildings and structures thereon not the property of the Contractor. In the event that the Contractor fails to do so, the Minister shall cause the production area and onshore lands and everything thereon to be made safe and the cost incurred shall be borne by the Contractor.

27.5 The Contractor shall have the right to enter upon the production area and the onshore lands for the aforesaid purposes, subject to the rights of surface owners or others, for a period of sixty 60 days from the effective date of the termination or such longer period as the Minister may provide.

## 28 FORCE MAJEURE

28.1 For the purposes of this Agreement, "force majeure" means an event which could not reasonably be expected to be prevented or controlled, including, but not limited to earthquake, storm, flood, lightning or other adverse weather condition, war, embargo, blockade, riot, or civil disorder, but shall not include any event caused by the negligence of a party, its sub-contractors or any of its employees, or by a failure to observe good petroleum industry practice.

28.2 The failure of a party to fulfil any of the terms and conditions of this Agreement shall not be considered as a default of this agreement insofar as such inability arises from force majeure, and that party has taken all appropriate precautions, due care and reasonable alternative measures with the objective of carrying out the terms and conditions of this Agreement. Both parties shall take reasonable measures to remove such inability and to fulfil the terms and conditions of this agreement with a minimum of delay.



- 28.3 Each party shall give notice to the other party of an even of force majeure as soon as possible, and similarly give notice of the restoration of normal conditions as soon as possible.
- 28.4 Both parties shall take all reasonable measures to minimise the consequences of any event of force majeure.
- 28.5 The term of this Agreement shall be extended for a period of time equal to the period of periods during which operations were suspended or delayed by an event of force majeure.

## 29. REVISION OF THE AGREEMENT

29.1 In the event that -

- (a) substantial changes in the general economic circumstances prevailing at the effective date due to factors outside the control of the parties; or
- (b) the determination that the fundamental assumptions on which the Agreement was based were invalid, erroneous or otherwise untenable; and such event are like to seriously effect the economic and financial terms of the Agreement both parties undertake, subject to the provision of clause 32.17 hereof, to meet and review this Agreement after five years from the date of commencement of commercial production, and every five year thereafter.

29.2 If either party considers that the meeting referred to in subclause 1 of this clause should take place, it shall give notice to the other party and they shall promptly meet in order to determine in good faith the economic and financial effects of the changed circumstances of the erroneous assumptions on the terms of the Agreement and shall make any necessary accommodations as may be equitable in the circumstances, so as to maintain the good faith prevailing when the Agreement was signed so that it may be carried out or continue to be carried out without disproportionate prejudice to any of the parties concerned.

## 30 SETTLEMENT OF DISPUTES

30.1 Parties shall use their best efforts to settle amicably through negotiations in good faith all disputes arising out of or in connection with this Agreement or the interpretation of any clause thereof.

- 30.2 All disputes between the parties, arising out of, or in connection with this Agreement which cannot be resolved amicably under this clause shall be finally settled under the UNCITRAL Arbitration Rules promulgated on 28th April 1976 by the United Nations Commission on International Trade Law (UNCITRAL) Arbitration Rules promulgated on 28th April 1976 by the United Nations Commission on International Trade Law (UNCITRAL). For such arbitration proceedings three (3) arbitrators shall be appointed in accordance with the aforesaid rules. The language to be used in the arbitral proceedings shall be English. The arbitration proceeding shall if the parties so agree be held in Solomon Islands and if there is no such agreement the venue of arbitration shall be (Geneva) unless another place is mutually agreed.
- 30.3 From the time any dispute arises and in the course of negotiation and arbitration pursuant to this clause, each party shall continue to exercise its rights and perform its obligations under this Agreement except for those rights or obligations under dispute.
- 30.4 The provisions of this clause shall remain in force even after the termination of this Agreement.

### 31 GOVERNING LAW

This Agreement shall be governed, construed and interpreted only in accordance with the laws of Solomon Islands and the Contractor shall notify its sub-contractors accordingly.

### 32 ADDITIONAL PROVISIONS

- 32.1 In the conduct of its operations hereunder the Contractor shall give preference to goods and services produced or provided in Solomon Islands.
- 32.2 Any transaction between the Contractor and an affiliated company shall be on the basis of competitive international prices and such other terms and conditions as would be fair and reasonable had such transactions taken place between unaffiliated parties.
- 32.3 The contractor shall notify the Joint Management Committee of any proposed transaction or series of related transactions, between it and an affiliated company where the amount exceeds US\$ ..... and shall supply such details relating to such transaction as the Joint Management Committee may require. No such transaction may be carried out without the prior approval of the Joint Management Committee.

- 33.4 Any service provided by an affiliated company which is normally provided by a contractor in accordance with petroleum industry practice shall be obtained only on an actual direct cost reimbursable basis, which cost shall be fair and reasonable.
- 33.5 Any material supplied by the Contractor from its own stocks shall be priced at cost but shall not in any event be higher than the then prevailing international competitive price for material of similar quality.
- 33.6 Any notice, application, request, agreement, approval, consent, direction, instruction, delegation, waiver or other significant communication hereunder shall be in writing and in the English language.

Notice shall be given by hand, telex or by registered mail the following addresses and telex numbers:

Notice to the Government -

Address  
Telex Number

Notice to the Contractor -

Address (in Solomon Islands)  
Telex Number

- 33.7 Either party may change its address, or add parties or addresses to which notice shall also be addressed, by giving ten (10) days' notice thereof to the other party.
- 33.8 Notice by hand shall be effective when made and receipt is obtained.
- 33.9 Neither the Contractor nor any affiliated company or sub-contractor, shall in any manner claim or suggest, whether expressly or by implication, that the Government or any other agency of the Solomon Islands Government or any official thereof, has, or has expressed any opinion with respect to petroleum in the Agreement Area and a statement to that effect shall be included in or endorsed on any prospectus, notice, circular, advertisement, press release, or similar document issued by the Contractor, any affiliated company or any sub-contractor which refers directly or indirectly to this Agreement.

- 33.10 The Contractor, the sub-contractors and all expatriate employees shall not engage directly or indirectly in any transaction or business activity that is in breach or is likely to be in breach of Agreement or any other applicable law.
- 33.11 Neither the Contractor, the sub-contractors, nor any expatriate employee shall engage in any transaction, directly or indirectly, with respect to petroleum produced from the Agreement Area, with any State, or an entity controlled by any State, which Solomon Islands has by law or official pronouncement declared to be hostile or unfriendly, or in respect of which such transactions have been prohibited by any applicable law.
- 33.12 Neither the Contractor, the sub-contractors, nor any expatriate employee shall engage in political activity of any kind in Solomon Islands nor make a donation, gift or grant to any political party or for political purposes in Solomon Islands.
- 33.13 This Agreement expresses the entire agreement between the parties, and no oral understanding or prior writing, including summaries which may have been signed prior to the effective date, shall modify the terms hereof.
- 33.14 All the Annexes to this Agreement shall be regarded as integral parts hereof. If there is any inconsistency between the provision of an Annex and the provisions of any clause of this Agreement, the provisions of the Agreement shall prevail.
- 33.15 The mutual consent of the parties shall be required to amend, modify or otherwise change any provisions of this Agreement. If during the term of this Agreement, the parties agree that any such change should be made, the authorised representatives of the parties shall sign a document incorporating such mutually agreed changes, and upon approval by relevant authorities of the Solomon Islands Government such changes shall be considered as an integral part of this Agreement.
- 33.16 The Agreement shall come into force at the date on which the Contractor receives notice from the Government of the approval of this Agreement by the relevant authorities of Solomon Islands.

## ANNEX 1

## ACCOUNTING PROCEDURE

## GENERAL PROVISIONS

## 1. Definitions

1.1 The words used in this Accounting Procedure shall have the same definitions as those contained in clause 1 of the Production Sharing Contract.

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

## 2. Statements

2.1 (a) Within sixty (60) days from the end of each calendar quarter the Contractor shall supply -

(i) a Statement of Expenditure classified in accordance with this clause and containing the information required by clause 11 hereof, and

(ii) an Inventory Statement containing the information required by clause 7 hereof. Consolidated annual summaries of these statements shall be provided to .... within sixty (60) days after the end of the relevant year.

2.3 Commencing with the calendar quarter in which commercial production of petroleum is initiated in the Agreement Area, the Contractor shall also supply within sixty (60) days from the end of each Calendar Quarter -

(i) a Statement of Receipts in accordance with clause 12 hereof;

(ii) A Cost Recovery Statement in accordance with clause 10 hereof;

- (iii) a Production Statement in accordance with clause 8 hereof; and
  - (iv) a value of Production Statement in accordance with clause 9 hereof.
- 2.4 Consolidated annual summaries of each of these statements shall be provided to within sixty (60) days after the end of the relevant year.
3. Book of Account
- 3.1 The Contractor's book for petroleum operations shall be kept on the accrual basis in United States dollars. Such books of account shall be kept in the English language and in accordance with internationally accepted accounting principles consistent with mordent petroleum industry practices and procedures set out in this Agreement and this Annex. All U.S. dollar expenditure shall be charged in the amount expended and all expenditures in other currency shall be translated into U.S. dollars in conformity with the Agreement, and all other non-U.S. dollar expenditures shall be translated into U.S. dollars at the documented cost of purchase. Contract shall maintain a record and documentation of the exchange rates used in translating other non-U.S. dollar expenditures to U.S.
- 3.2 This Accounting Procedure may be revised from time to time by mutual written agreement between \_\_\_\_\_ and the Contractor.
- 3.3 Within ninety (90) days after the effective date, the Contractor shall present a proposed outline of charts of accounts, detailed classifications of costs, detailed nature of cost centres as specified in clause 3 of this Annex, to be used and operating records and reports to be established in accordance with the Contract and this Accounting Procedure. Following discussions of such drafts the Contractor shall promptly prepare and provide with the Contractor's -
- (a) comprehensive charges of accounts; and
  - (b) organisation chart showing recording and reporting functions and manuals to be used in implementing this accounting Procedure.

- 3.4 Within thirty (30) days after the first commercial discovery in the Agreement Area the Contractor shall procure for \_\_\_\_\_'s approval procurement procedure to be followed thereafter by the Contractor for obtaining materials, equipment and services.
- 4 Classification of Costs and Expenditures
- 4.1 Costs and expenditures shall be accounted for in accordance with the following classifications -
- (a) all direct costs attributable to the acquisition, renewal or relinquishment of surface use rights for areas required by contractor for installations and operations forming part of petroleum operations.
  - (b)
    - (i) actual salaries and wages of the Contractor's employees directly engaged in \_\_\_\_\_ the various activities under the Agreement including salaries and wages paid to geologists, engineers and other employees temporarily assigned to and employed in such activities.
    - (ii) actual salaries and wages of employees of the Contractor's affiliates, whose services are not covered by paragraph (f)(ii) (1) hereof, attributable to time worked within or outside of the petroleum operations under the Contract and documented by time sheets;
    - (iii) cost of overseas service premiums, living and housing allowances, and other customary allowances applicable to salaries and wages of expatriate employees chargeable under (b)(i) of this subclause;
    - (iv) paid bonuses, overtime and other customary allowances applicable to salaries and wages of national employees chargeable under paragraph (b)(i) of this subclause;
    - (v) expenditures of contributions made pursuant to law or assessments imposed by Government which are applicable to labour costs chargeable under paragraph (b)(i), of this subclause;

- (c)
  - (i) cost of the Contractor's established plans and policies for employee group life insurance, social security, hospitalisation, pension, retirement, stock purchase, thrift, expatriate tax equalisation, dependent education and other benefits of a like nature attributable to salaries and wages chargeable under paragraphs (b)(i) or (b)(ii) of this subclause.
  - (ii) severance pay to national employees charged at a fixed rate applied to the national payroll which will equal an amount equivalent to the maximum liability for such severance payments under the applicable law.
- (d) material and equipment rented charged at actual cost;
- (e) Contractor does not warrant the materials furnished beyond or back of the supplier's or manufacturer's warranty and in case of defective materials, credit shall not be recorded until adjustment has been received by Contractor from supplier or manufacturer;
- (f) transportation of equipment, materials, and supplies necessary for the conduct of the Contractors activities under the Agreement -
  - (i) business travel expenses to the extent covered by established policies of Contractor, as incurred and paid by, or for expatriate and national employees in the conduct of Contractor's business.
  - (ii) employees relocation costs for expatriate and national employees shall be as provided for in their respective contract of employment.
- (g) the cost of consultants, contract services and utilities procured from their parties;
- (h) cost of services, including laboratory analysis, drafting, geophysical treatment and interpretation, geological interpretation, engineering and data processing, performed by



Contractor affiliates in facilities inside or outside that are not covered by paragraph (b)(ii) or (k) hereof. Use of all affiliate's 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 prevailing in at the time of usage. Other services performed by an affiliate shall be charged at a negotiated contract rate not exceeding the then prevailing rate for similar services performed in arms length transactions on a competitive basis;

- (i) all costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident or any other cause not controllable by the Contractor through the exercise of reasonable diligence and not resulting through the Contractor's failure to file claims and to diligently pursue such claims against the insurers. The Contractor shall furnish written notice of incurred in excess of ten thousand United States dollars as per occurrence as soon as practicable after report of the same has been received by the Contractor;
- (j) the cost of insurance including public liability, property damage and other insurance's including the coverage against liabilities of the Contractor to its employees and/or outsiders as may be carried by the Contractor, or required by the law, rules and regulations of \_\_\_\_\_ or as \_\_\_\_\_ the Contractor may agree upon. The Contractor shall not provide such insurance through affiliates or self-insure for a premium without prior specific written approval of Minister. The proceeds of any such insurance or claim collected shall be credited against the appropriate expenditure account and reduce recoverable costs. If no insurance is carried for a particular risk, all related actual expenditure incurred and paid by the Contractor in settlement of any and all losses, claims, damages, judgements and any other expenses, including legal services shall be charged to the appropriate expenditure account provided such loss, claim or damage did not result from Contractor's failure to operate in accordance with the standards required by the Contract;

- (k) field offices, camps, and other facilities such as shore bases, warehouses, water systems, and road or other transportation systems;
- (l) all costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the Agreement Area, petroleum operations and facilities against third party claims, including outside attorney's fees and expenses, together with all judge arrangement obtained against the parties or any of them on account of the operations under the Agreement, and actual expenses incurred by a party in securing evidence for the purpose of defending against any action or claim prosecuted or in connection with the operations or the subject matter of the Agreement. In the event that actions or claims affecting the interests hereunder shall be handled by the legal staff of the Contractor or its affiliates the cost of such personnel shall be chargeable under paragraph (b)(i) or (ii) hereof of this subclause.
- (m) (i) the Contractor's administrative overheads outside ..... applicable to the petroleum operation under this Agreement prior to the date of the first declaration of commercial discovery in the Agreement Area shall be charged in accordance with the following rates with respect to all expenditures allowable for cost recovery other than administrative overheads ..... five per cent (5%) of the first two million United States dollars (U.S.\$2 million) paid during the calendar year;
- (n) all indirect services of Contractor's affiliates not chargeable as direct charges under subclause (b)(f) of this clause provided by other departments such as legal, engineering, employee relations and personnel recruiting, administrative, accounting and audit which contribute time, knowledge and experience to the operation;
- (o) all taxes, duties, levies or any other imports, if any, paid in by ..... CONTRACTOR with respect to the Contract other than that covered by this clause;

- (p) bank charges for guarantees required under clause 7 of this Annex and routine bank charges for transfers of funds and currency exchange.
- (q) any justifiable costs, expenses or expenditures, other than those which are covered, dealt with or excluded by subclause 2, incurred by the Contractor for the proper conduct of the petroleum operations under approval work programmes and budgets.

### COST CENTRES

3 In order to provide for an efficient control of the recoverable costs under the Agreement all costs must be presented for review on the basis of Cost Centres and sub-divisions of these Cost Centres. The detailed division shall be agreed upon pursuant to clause 1(6). However, as a minimum the following divisions shall be established;

- (a) The costs shall be allocated per area in the following manner;
  - (i) exploration area;
  - (ii) each individual production area;
  - (iii) costs that cannot be related to a certain area.
- (b) The costs shall be allocated per petroleum operations in the following manner:-
  - (i) exploration operations, sub-divided further into -
    - (A) aerial, geological, geochemical, paleontological, topographical and other surveys;
    - (B) each individual seismic survey;
    - (C) each individual exploration or appraisal well;
    - (D) infrastructure (roads, airstrips, etc.);

- (E) support facilities (warehouses, etc), including an allocation of common service costs (costs related to various petroleum operations);
  - (F) an allocation of the administrative overhead and general expenses;
  - (G) other costs;
- (ii) development operations, sub-divided further into -
- (A) aerial, geological, geochemical, geophysical, and other surveys;
  - (B) each individual development well;
  - (C) gathering lines;
  - (D) field facilities;
  - (E) tank farms and other storage facilities for petroleum;
  - (F) infrastructure within the contract area;
  - (G) support facilities, including an allocation of common service costs (cost related to various petroleum operations);
  - (H) an allocation of the administrative overhead and general; and
  - (I) other costs; and
- (iii) production operations, sub-divided in the same manner as development operations;
- (c) The Costs shall be allocated to oil and to gas, where both are being produced and saved. The allocation shall be in accordance with the following principles -
- (i) where costs are exclusively related to either oil or natural gas, such costs shall be allocated completely to the respective fuel; and

- (ii) where costs can be attributed to both oil and gas, the costs shall be allocated on a basis agreed between the parties in accordance with good international practices in the oil and gas industry

#### 4 VALUATION OF MATERIALS

- 4.1 Materials either charged to the accounts pursuant to clause 3 or credited to the accounts pursuant to clause 5 shall be valued in accordance with the principles of this clause.
- 4.2 Material, equipment and supplies required shall be purchased by the Contractor directly from the supplier whenever practicable and in such event shall be charged at the price paid by the Contractor after deduction of all discounts actually received.
- 4.3 Materials provided by the Contractor from the Contractor's affiliate's stocks outside at prices specified in (a) and (b) -
  - (a) New material (Condition "A:")  
New material transferred from the Contractor's affiliate's ware-houses or other properties shall be priced at net cost provided that the cost of material supplied is no higher than prices in Solomon Islands of material of similar terms, prevailing at the time such material was supplied.
  - (b) Used material (Conditions "B" and "C")
    - (1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classified as Condition "B" and priced at seventy-five per cent (75%) of allowable value of new material as defined in (a) above.

- (2) materials which cannot be classified as Condition "B" but which -
- (i) after reconditioning will be further serviceable for original function; or
  - (ii) is serviceable for original function but substantially not suitable for reconditioning shall be classified as Conditioned "C" and priced at fifty percent (50%) of the allowable price of new material as defined in above. The cost of reconditioning shall be charged to the reconditioned material provided that the value of reconditioning do not exceed the value of Condition "B" material
    - (A) Material which cannot be classified as Condition "B" or shall be priced at a value commensurate with its use.
    - (B) Tanks, buildings and other equipment involving erection costs shall be charged at applicable percentage of knocked down allowable new price.

"C"

## 5 RECEIPTS

5.1 Receipts received by the Contractor as a result of the petroleum operations or incidental thereto shall be credited to the respective accounts. Such receipts shall include the following transactions :-

- (a) the proceeds of any insurance or claim in connection with the petroleum operations or any assets charge to the accounts;
- (b) revenues received from third parties for the use of property or assets, for the delivery of any services by the Contractor or for any information or data;
- (c) any discounts or adjustments received by the Contractor from the suppliers/manufacturers or their agents in connection with goods purchased or defective equipment or materials, the costs of which was previously charged to the accounts;

- (d) rentals, refunds or other credits received by the Contractor; which apply to any charge, which has been made to the accounts;
- (e) in case the Contractor sells or exports or transfers any material to affiliates or other entities or persons, the value of such transfers shall be credited to the accounts, the costs of which were previously charged to the accounts.

## 6 NON-RECOVERABLE COSTS

6.1 The following costs shall be non-recoverable for purposes of cost recovery under clause 13 of this Annex -

- (a) interest or financing charges on investment in the Agreement Area;
- (b) costs for which records do not exist or are not correct in any material respect;
- (c) costs that were not incurred within the relevant work program and budget, or are of a category not permitted by the Agreement or the Accounting Procedure.
- (d) costs of goods and services in excess of the international market price for goods or services of similar quality supplied on similar terms prevailing in ..... at the time such goods or services were contracted by the Contractor;
- (e) charges for goods and services which are not in accordance with the relevant Agreement with the sub-contractor or supplier
- (f) charges for goods in excess of the amount allowed by Clause 3 which the condition of the material does not tally with their prices;
- (g) any costs incurred beyond the measurement point;
- (h) costs incurred beyond the measurement point;

- (i) income taxes and other taxes incurred outside of Solomon Islands.
- (j) amounts paid under clause or of the contract;
- (k) costs of expert advice arbitration pursuant to clause 30 of the Agreement;
- (l) fines and penalties imposed by any authority; or
- (m) donations or contributions, unless previously approved by the Minister;

## 7 INVENTORIES AND INVENTORY STATEMENT

- 7.1 (1) At reasonable intervals as agreed between and the Contractor, but in any event at least once a year and on termination of the Agreement, inventories shall be taken by the Contractor of the operations material, which shall include all such material, physical assets and construction projects. Written notice of intention to take an inventory shall be given by the Contractor at least thirty (30) days before any inventory is taken. Failure of ..... to be represented at an inventory shall not affect the taking of such inventory by the Contractor and such inventory shall represent all operational materials as specified in this subclause.
- 7.2 Reconciliation of inventory shall be made by the Contractor and ..... with a list of shortages and averages being jointly determined, and the inventory shall be accordingly adjusted by Contractor -
- 7.3 (a) The contractor shall maintain detailed records of property acquired for petroleum operations on a quarterly basis. The Contractor shall provide an inventory statement containing -
- (i) description and codes of all controllable assets and materials;



- (ii) amount charged to the accounts for each asset;
- (iii) date on which each asset was charged to the account; and
- (iv) whether the costs of such asset has been recovered pursuant to the provisions of this Annex.

7.4 To the extent possible and reasonable, all assets shall be identified for easy inspection with the respective codes specified in the manual prepared by the contractor under clause 1.3 of this Annex.

## 8 PRODUCTION STATEMENT

8.1 The Contractor's production statement shall contain the following information and shall be prepared in accordance with the following principles -

- (a) the production sharing shall be determined on the basis of all oil and Agreement gas produced and saved from the Agreement Area and measured at the measurement point or points during the respective quarter in accordance with clause 16 of the Agreement. The production of oil in barrels per day, for the purpose of applying the provisions of clause 16 of the Agreement, shall be determined by dividing the total measurements of oil for the quarter by the number of days in such quarter. Where different grades of oil are being delivered at the measurement point(s), the volumes of each grade shall be determined separately;
- (b) the volumes of such grades of oil will be determined separately at the measurement point;
- (c) the volumes of oil shall be corrected for water and sediments, and shall be determined on the basis of standard temperatures and pressures. The gravity, sulphur content, and other quality indicators of the oil shall be determined and registered regularly;

- (d) the volumes of gas shall be determined on the basis of standard temperatures and pressures. The energy content, sulfur content and other quality indicators of the gas shall be determined and registered regularly;
- (e) it is anticipated that the volumes of oil and gas used in the petroleum operations will be measured and registered on a daily basis and volumes of oil and gas used in the petroleum operations, will be the volumes used -
  - (i) for re-injection;
  - (ii) or re-cycling; and
  - (iii) for energy for the exploration, development and field operations, as well as for pipeline pumping requirements;
- (f) it is anticipated that the volumes of oil burned or gas flared or vented will be registered on a daily basis;
- (g) the size of the oil stocks shall be determined as a minimum at the beginning and the end of each calendar month.

8.2 For statistical purposes only, a preliminary version of the production statement shall be sent each calendar month or within fifteen (15) days following the month under consideration.

## 9 VALUE OF PRODUCTION STATEMENT

9.1 and the Contractor shall prepare a statement providing calculations of the value of the oil and gas produced and sold at the measurement point(s) in accordance with this Agreement. This value of production statement shall include -

- (a) the quantities and prices realised by the Contractor as a result of sales of oil to third parties during the month in question;
- (b) the quantities and prices realised by the Contractor as a result of sales of oil during the month in question to parties other than third parties;

- (c) the quantity of stocks owned by the Contractor at the beginning and end of the month;
- (d) information available to the Contractor concerning the prices of crude oil produced by the main petroleum exporting countries which is relevant for the determination of the value of the oil, including contract prices, discounts and premium and prices obtained in the spot market, in accordance with the clause 16 of the Agreement;
- (e) the quantities and prices realised by the Contractor and as a result of the sale of gas.

## 10. COST RECOVERY STATEMENT

10.1 The Contractor shall, pursuant to clause 1 hereof, render to .....not later than sixty (60) days after each calendar quarter a statement for the calendar quarter showing -

- (a) recoverable costs carried from the previous calendar quarter if any;
- (b) recoverable costs incurred during the current calendar quarter;
- (c) total recoverable costs for the calendar quarter;
- (d) quantity and value of cost oil or cost natural gas taken and separately disposed of by the Contractor during the calendar quarter;
- (e) amount of costs recovered for the calendar quarter;
- (f) amount of recoverable costs carried into succeeding calendar quarter, if any; and
- (g) quantity of profit sharing oil or natural gas taken and separately disposed of by the Contractor and during the calendar quarter.

## 11 STATEMENT OF EXPENDITURE

- 11.1 The contractor shall prepare each quarter a statement of expenditures. This statement shall show the following -
- (a) the expenditures contemplated for the contract year in the budget on the basis of the cost classification and cost centres as provided for in this Accounting Procedure;
  - (b) the expenditures accrued during the month in question;
  - (c) the cumulative expenditures for the calendar year under consideration;
  - (d) modifications to the budget agreed to in accordance with the Agreement but without prejudice to the provisions of clause 6 of this Annex, which provisions shall prevail regarding emergency expenditures;
  - (e) the latest forecast of cumulative expenditures for year end; and
  - (f) variations between budget forecast (as amended by sub-paragraph (d) hereof, where applicable) and latest forecast and reasonable explanations thereof.

## 12 STATEMENT OF RECEIPTS

- 12.1 The Contractor shall prepare in each quarter a statement of receipts showing -
- (a) the receipts contemplated for the contract year in the budget on the basis of the cost classification and cost centres as provided for in this Accounting Procedure;
  - (b) the receipts accrued during the month in question;
  - (c) the cumulative receipts for the calendar year under consideration;

- (d) modifications to the budget agreed to in accordance with the Contract but without prejudice to the provisions of clause 6 of this Annex, which provision shall prevail regarding emergency receipts;
- (e) the latest forecast of cumulative receipts for year end; and
- (f) variations between budget forecast (as amended by sub-paragraph (d) hereof where applicable) and latest forecast and reasonable explanations thereof.

### 13 CONTROL STATEMENT AND OTHER ACCOUNTS

- 13.1 The Contractor shall establish a cost recovery account and an offsetting contract account therein the amount of costs remaining to be recovered and the amount of costs recovered.
- 13.2 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 or natural gas.

### 14 AUDITS AND ADJUSTMENTS

- 14.1 Each statement of expenditure supplied by the Contractor shall be presumed to be true and correct with regard to the issue of whether the type of cost is subject to cost recovery unless within six (6) months after receipt thereof takes written exception to any item;
- 14.2 Each statement of expenditure and statement of receipts supplied by the Contractor shall be presumed to be true and correct, as to the sums charged as expenses or credited as receipts, twenty-four (24) months after receipt by unless within the said period takes written exception to any charge or credit.
- 14.3 Pending expiration of the periods referred to in sub clauses 1 and 2 hereof ..... shall have the right to inspect, with reasonable notice, the Contractor's accounts, records and supporting documents in.

- 14.4 The Contractor administrative overheads pursuant to clause 2 (1)(e) hereof shall not be subject to audit except as to their application in calculating sums charged as expenses.
- 14.5 The Minister may require the Contractor to engage the Contractor's parent company's auditors to examine at the Contractor's cost and in accordance with generally accepted auditing standards, the books and records of the Contractor's affiliate to verify the accuracy and compliance with the terms of the Agreement and the Accounting Procedure insofar as a charge from the affiliate of the Contractor (or of any entity comprising the Contractor) is included directly or through the Contractor or a reimbursable cost under the Agreement. Whenever audit of an affiliate's books is so requested, shall specify in writing the item or items for which it requires verification from such independent auditors. A copy of the independent auditor's findings shall be delivered to the Minister within thirty (30) days after completion of such audit.
- 14.6 All documents must be maintained by the Contractor and made available for inspection for five 5 years following their date of issue, or for such longer period as may be legally required.

ANNEX 2  
AGREEMENT

ANNEX 3  
FORM OF PERFORMANCE

Made at Honiara on this eighth day of February two thousand

Minister of Energy, Mines and Natural Resource