

PETROLEUM MINING RULES 1968

PU(A) 155/1968

IN exercise of the powers conferred by section 12 (1) (i) and (iii) of the Petroleum Mining Act, 1966, the Yang di-Pertuan Agong hereby makes the following rules:

1. Citation and commencement.

These rules may be cited as the **Petroleum Mining Rules 1968**, and shall be deemed to have come into force on the 1st day of December, 1966.

2. Off-shore Petroleum Agreement.

The model Petroleum Agreement in respect of off-shore land shall be in the form contained in Annex I to these Rules.

3. On-shore Petroleum Agreement.

The model Petroleum Agreement in respect of on-shore land shall be in the form contained in Annex II to these Rules.

4. Fees.

The fees payable under section 5 (2) of the Petroleum Mining Act shall be RM500 in respect of an application for petroleum licence and RM1,000 in respect of an application for a Petroleum Agreement.

ANNEX I

MODEL PETROLEUM AGREEMENT IN RESPECT OF OFF-SHORE LANDS

THIS AGREEMENT is made the day of
. 19 BETWEEN the Government of the Federation (in this Agreement called "the Government") of the one part AND
. . . (in this Agreement called "the Company" which expression shall where the context allows include its successors and assigns) of the other part.

WHEREAS —

(A) The Company has applied to the Government under the Petroleum Mining Act, 1966, for a petroleum agreement in respect of certain lands specified in the First Schedule to this Agreement and has entered into a bond in the form set out in the Second Schedule in the sum of
. ringgit conditioned for the due and faithful carrying out of the provisions contained in this Agreement.

(B) The Government has agreed to enter into a petroleum agreement under the terms and together with the benefit of but subject to the provisions in this Agreement specified.

Now THIS AGREEMENT WITNESSETH as follows —

PART I

DEFINITIONS

1. Meaning of expressions in Agreement.

In this Agreement the following expressions (except where the context otherwise requires) have the following meanings —

"Agreement Period" means the period during which this Agreement subsists as determined under the provisions of Clause 59, and **"Agreement Year"** means a year commencing on the date or anniversary of the commencement of the Agreement Period;

"barrel" means 42 U.S. gallons or 9702 cubic inches, being equivalent to 34.9726 Imperial gallons;

"casinghead petroleum spirit" means any liquid hydrocarbons obtained from natural gas (before the crude oil from which it is derived has been measured for royalty) by separation or by any chemical or physical process;

"crude oil" means mineral oil in its natural state before the same has been refined or otherwise treated but excluding water and foreign substances;

"development phase " means the period which the Company's activities are directed towards the production of petroleum from the Scheduled Lands;

"exploration phase " means the period during which the Company's activities are directed towards the finding and searching for petroleum on the Scheduled Lands, and shall include the extended exploration phase as hereunder defined;

"extended exploration phase" means the period of exploration extended under Clause 59 (3);

"Minister" means Minister charged with the responsibility for lands and mines;

"natural gas" means obtained from boreholes and wells and consisting primarily of hydrocarbons;

"Part" and **"Clause"** means respectively a Part and a Clause of this Agreement;

"petroleum" means any mineral oil or relative hydrocarbon and natural gas existing in its natural condition and casinghead petroleum spirit but does not include coal or bituminous shales or other stratified deposits from which oil can be extracted by destructive distillation;

"petroleum in commercial quantity" means the discovery of reserves of petroleum in such quantities which will permit their being economically developed, taking into consideration the location of the reserves, the depths and number of wells required to be drilled and the transport and terminal facilities needed to exploit the reserves which have been discovered;

"posted price" means the f.o.b price published by the Company in accordance with Clause 18 (a) for each grade, gravity and quality of petroleum offered for sale to buyers generally for export at the relevant point of export, which price shall be a price established with due regard to any posted prices for petroleum of comparable grade, gravity and quality in the Persian Gulf and having regard to geographical location;

"Scheduled Lands" means the area of continental shelf specified in the First Schedule to this Agreement and subject to the provisions of Part IV and the following proviso shall be deemed to be square miles:

Provided that if following the more particular determination of the boundaries of such Scheduled Lands after the signing of this Agreement the area thereof as fixed by survey shall be ascertained to be greater or less than square miles the area so ascertained shall thereupon for the purpose of this Agreement be deemed to be the area comprised therein at the date hereof in substitution for the said area of square miles, and any payments which may have been made under Clause 11 (fixed yearly payment) hereof before such ascertainment shall be adjusted accordingly.

PART II

AGREEMENT

2. General grant.

In consideration of the expenditure commitments and payments to be made by the company specified in Parts V and VI, the Government hereby GRANTS to the Company the rights specified in Part III in respect of the Scheduled Lands To EXERCISE AND ENJOY all and every the said rights for the Agreement Period subject to the provisions for surrender contained in Part IV and together with the benefit of but subject to the other stipulations and provisions contained in Parts VII to XII inclusive.

PART III

RIGHTS OVER SCHEDULED LANDS

3. Rights of the Company.

The Company shall hold the exclusive right —

- (a) to enter upon and explore and search the Scheduled Lands for petroleum and for that purpose to make geological, geophysical and topographic examinations of the Scheduled Lands;
- (b) to enter upon the Scheduled Lands and to search, bore for, win and work all or any petroleum lying or being within, under or throughout the Scheduled Lands;
- (c) to carry away and dispose of any petroleum the produce of the Scheduled Lands to and for the use and benefit of the Company;
- (d) to enter upon, use and occupy a sufficient part of the Scheduled Lands as may be necessary and convenient for carrying on the work of the said borings and operations;
- (e) to refine or otherwise treat the aforesaid petroleum on and upon any lands within the Federation, whether for purposes of sale or otherwise, save as hereafter provided;
- (f) to store, take, lead, pipe and carry away on under or over the Scheduled Lands the aforesaid petroleum and the products thereof and to dispose of the same at its own will and pleasure save as hereinafter provided;
- (g) to erect, set up, make and operate in, upon and over the Scheduled Lands and the sea lying over any part thereof —
- (i) such structures, drilling platforms, steam and other engines, machinery, pipelines, storage tanks, telephone and power lines, and conveniences, chattels and effects as shall be necessary or convenient for effectually carrying out of any operations hereunder; and

(ii) radio transmitting and receiving apparatus, loading places, wharves for ships, air-craft and helicopter landing strips, necessary or convenient for the effectual carrying out of any operations hereunder:

Provided that before erecting, setting up or making telephone lines, radio apparatus or systems, loading places or wharves for ships, the Company shall secure permission or approval as may be required by any written law for the time being in force; and

(h) to search for, dig and obtain free of charge water, gravel, sand, clay and stone lying or being within, under or throughout the Scheduled Lands for the purposes of the Company's operations hereunder, but the Company shall not hold the right to sell these things.

PART IV

SURRENDER PROVISIONS

4. Company to surrender Scheduled Lands compulsorily.

(1) The Company shall —

(i) on the expiration of five (5) Agreement Years from the date of this Agreement, surrender its rights in respect of such area or areas of the Scheduled Lands (if any), as, together with any area or areas in respect of which such rights have already been surrendered under Clause 5 amount to 50% of the area originally contained in the Scheduled Lands;

(ii) on the expiration of ten (10) Agreement Years from the date of this Agreement, surrender its rights in respect of such further area or areas of the Scheduled Lands (if any), as together with any area or areas in respect of which such rights have already been surrendered under this Clause and/or Clause 5 amount to 75% of the area originally contained in the Scheduled Lands:

Provided that if the Company satisfies the Minister, by representations made to him in writing not less than three (3) calendar months before the due date of any surrender prescribed by this sub-clause, that by reason of such surrender the area or areas of the Scheduled Lands retained by the Company would be too small to permit of effective development, the Minister may waive its right to such and any subsequent surrender.

(2) Subject to Clause 6, the Company shall be free to select for surrender under this Clause such area or areas of the Scheduled Lands as the Company shall decide.

(3) The Company shall not less than two (2) calendar months before the due date of surrender notify the Minister in writing of the area or areas of the Scheduled Lands to be surrendered.

(4) After any such surrender, if the Scheduled Lands retained do not form a single entity, the Company shall be granted such wayleaves over any Scheduled Lands surrendered for the laying, operating and maintenance of pipes, telephone and power lines and intercommunication and passage between the Scheduled Lands retained as the Company may require for the purposes of this Agreement. Such grant shall be subject to such reasonable payment and to such other stipulations and provisions as may be agreed between the Government and the Company. The said wayleaves shall not be included in the calculation of the amount of the Scheduled Lands retained.

(5) The Minister may, in his discretion on application in writing by the Company, re-include in this Agreement at any time any part of the lands surrendered under this Clause or in respect of which all rights have been surrendered under Clause 5 (Right of Company to surrender portions of the Scheduled Lands) hereof:

Provided that, if such resumption would make the aggregate of the Scheduled Lands greater than the amount authorised by sub-clause (1) at the time of such resumption, the Company shall at the time of such resumption surrender other parts of the Scheduled Lands so that the aggregate of the lands included in the Agreement (including the area or areas resumed) does not exceed the amount authorised for the time being by sub-clause (1):

And provided further that no rights inconsistent with the rights under this Agreement in the part or parts which the Company desires to resume have in the meantime been granted to any third party and in the event of mining rights for minerals other than petroleum or any other rights having previously been granted over any area resumed by the Company under this sub-clause not being inconsistent with the petroleum rights, the Company shall exercise its rights in the area subject to such rights so as not to hinder or interfere with the rights and privileges of the owner of such rights.

5. Company may surrender Scheduled Lands voluntarily.

Without prejudice to any obligation imposed by this Agreement and subject to Clause 6 the Company shall be entitled to surrender its rights in respect of any area or areas of the Scheduled Lands at any time during the Agreement Period. Such surrender may be made by the Company by giving not less than two (2) calendar months' notice to the Government and shall take effect as from the expiration of such notice.

6. Areas to be surrendered.

Any area or areas of the Scheduled Lands which is or are surrendered in accordance with the provisions of this Part shall, so far as is reasonable, be an area or areas which is or are, at the date of surrender, of sufficient size and convenient shape, having regard to adjacent areas not then the subject of petroleum Agreements, to enable oil operations to be effectively carried out thereon.

7. Reduction of Scheduled Lands.

As from the date upon which any area or areas of the Scheduled Lands are surrendered in accordance with the provisions of this part, such area or areas shall for all purposes (except as provided in Clause 4), be deemed no longer to be contained in the Scheduled Lands. Furthermore, any reference to the Scheduled Lands shall thereafter (except as aforesaid) mean only the Scheduled Lands as reduced by such surrender.

8. Lands included by inadvertance in the Scheduled Lands.

In the event of the inclusion by inadvertance in the Scheduled Lands of any area or areas over which it may subsequently be proved that the Government is not entitled to the petroleum rights or of lands or areas in respect of which the petroleum rights have already been granted to other individuals or companies, this Agreement shall be deemed to have been amended by the exclusion from the Scheduled Lands of any such lands or areas from the date of such proof or grant.

9. Establishment of boundary marks.

The Company shall, unless the Minister otherwise determines, carry out its own expense such survey operations as are necessary to connect every angle and corner of the boundary line of the Scheduled Lands to fixed marks co-ordinated on the Where any angle or corner is at a place which is above low water or where any boundary crosses a place which is above low water the Company may be required to forthwith erect and at all times maintain

in the ninth year	...	...	...	...	...	...	2,000,000
in the tenth year	...	...	...	...	...	...	2,000,000
if exploration phase is extended in accordance with Clause 59 (3), then —							
in the eleventh year	...	...	...	...	...	...	RM3,000,000
in the twelfth year	...	...	...	...	...	...	3,000,000
in the thirteenth year	...	...	...	...	...	...	3,000,000
in the fourteenth year	...	...	...	...	...	...	3,000,000
in the fifteenth year	...	...	...	...	...	...	3,000,000;

(5) save as provided in sub-clause (6) and Clause 68 (*Force Majeure*),

(a) if in either the first or second five Agreement Years or any lesser period within the first or second five Agreement Years resulting from the sooner determination of this Agreement the sum so expended falls short of that required to be expended in either of the said five Agreement Years or such lesser period, then the Company shall pay to the Accountant-General in Kuala Lumpur within three months of the end of either of the said five Agreement Years or such lesser period a sum representing the difference between its liability under this Clause for the years in question and its actual expenditure during the said years or such lesser period as shown by the audited accounts submitted under sub-clause (2) of this Clause;

(b) if at the end of the extended exploration phase, or any lesser period resulting from the sooner determination of this Agreement, the sum so expended falls short of that stated, then the Company shall pay to the Government, within three months of the end of the said phase, a sum representing the difference between its liability under this Clause and its actual expenditure as shown by the audited accounts submitted under sub-clause (2) of this Clause;

(6) if a short fall occurs during any five Agreement Years which in the opinion of the Government is not due to lack of diligence on the part of the Company, then such shortfall may be carried forward and made good in the next succeeding five Agreement Years; and if the total actual expenditure by the Company during any five Agreement Years exceeds the total amount required to be spent under this Clause during the said five Agreement Years, then such excess shall be carried forward to set off against any short fall which may occur or any sum which shall be expended in the next succeeding five Agreement Years:

Provided that the amount to be carried forward may not exceed 25% of the total expenditure to be incurred in the next succeeding five Agreement Years;

(7) where the Scheduled Lands held by the Company under this Agreement during the first five Agreement Years exceeds 4,000 square miles or during the second five Agreement Years exceeds 2,000 square miles or thereafter in any subsequent Agreement Year exceeds 1,000 square miles, in addition to the expenditure to be incurred under sub-clause (4) the Company shall spend for

each and every square mile or part of a square mile of the Scheduled Lands held in such excess a further sum of—

- (a) RM170 per annum during the first five Agreement Years;
- (b) RM1,000 per annum during the second five Agreement Years;
- (c) RM3,000 per annum during the third five Agreement Years.

11. Fixed yearly payments.

(1) The Company shall in respect of each square mile or part of a square mile of the Scheduled Lands pay to the Government the following fixed yearly payments —

- (a) during the exploration phase and extended exploration phase—

	Malaysian currency per square mile or part of a square mile.
--	--

in respect of each year during the first five years	Nil
in respect of each of the sixth, seventh, eighth, ninth and tenth years	RM20
if exploration phase is extended, then in respect of the eleventh year and each of the subsequent years	40;

- (b) during the development phase —

in respect of each year during the first five years	50
in respect of each year of the sixth, seventh, eighth, ninth and tenth years	1,000
in respect of the eleventh year and each of the subsequent years	2,000.

(2) The said fixed yearly payments shall be made by equal half-yearly instalments on the first day of January and the first day of July in every year. The first of such instalments shall be paid on the first of the said days next after the commencement of the sixth Agreement Year. The last of such instalments shall be paid on the last of the said days in the Agreement Period.

(3) During the first five years of the development phase, the said fixed yearly payments under this Clause in respect of any year may subject to sub-clause (4) be deducted from the amount of royalties payable in that year under the provisions of Part VI; and thereafter —

(a) those fixed yearly payments due in respect of acreage within a petroleum field in the Scheduled Lands in respect of any year may subject to sub-clause (4) be deducted from the amount of the royalties payable in that year on petroleum produced from that petroleum field; and

(b) those fixed yearly payments due in respect of acreage outside such petroleum field may in respect of any year be reduced by expenditures incurred in that year in connection with exploration for petroleum on such acreage that may be undertaken by the Company within the Scheduled Lands.

For the purpose of this sub-clause the expression "acreage within a petroleum field" means the area occupied by petroleum at the time of its discovery plus 20%. Such petroleum may occur in one reservoir or several overlapping reservoirs occupying a geologic feature or features. For a

structure or complex of structures the limits will normally be taken as the lowest closing contour. For petroleum occurring in reservoirs partly or wholly the result of stratigraphic conditions the limits will be determined by the best geologic and engineering methods. Because geologic features customarily have irregular limits the petroleum field areas as herein defined may include non-productive areas up to 20% of the area originally productive to permit the petroleum field to be included in rectilinear boundaries. The boundaries of petroleum fields, once established, will continue throughout the Agreement Period but may be extended by application of the above-mentioned principles if additional petroleum bearing areas are subsequently discovered.

(4) Any deduction of fixed yearly payments from royalties under sub-clause (3) or under paragraph (a) of that sub-clause shall be treated as part or full payment of such royalties as the case may be: Provided the such part or full payment of royalties, as the case may be, shall be treated for income tax purposes as if it were fixed yearly payments under Clause 11 (1) and (2).

12. Refund of fixed yearly payments.

When the Company's rights under this Agreement are determined or when the rights granted by this Agreement are surrendered in respect of any area or areas of the Scheduled Lands then the Government shall refund to the Company an apportioned part of any fixed yearly payments made by the Company in advance in respect of the Scheduled Lands or any such area or areas thereof. This refund shall be in respect of the date of such determination or surrender for which payment has already been made.

PART VI

ROYALTIES AND TAXES

13. Royalties.

Subject to sub-clause (3) of Clause 14, within 2 months after the first day of January and the first day of July in each year of the Agreement Period the Company shall pay to the Government in Malaysian currency (unless otherwise agreed) the royalties set out in Clauses 14, 15 and 16 in respect of the half-year period ending on the said dates (and so that for the purposes of this and such said Clauses the period between the date of this Agreement and the first of the foregoing days next following the date of this Agreement shall be deemed to be a half-year period):

Provided that if there is any dispute or failure to agree between the parties affecting the amount of the royalties in respect of any half-year period, such amount only as is admitted by the Company to be the minimum amount of royalties payable shall be paid as above specified. No further royalties shall be payable in respect of that half-year period until the amount is finally determined.

14. Royalty on crude oil.

(1) A royalty shall be paid, as specified in Clause 13 on all crude oil won and saved by the Company from the Scheduled Lands in the preceding half-year period at a rate equal to 12½% of the value thereof:

Provided that any crude oil used (or the products of which are used) during such year by the Company for the purpose of carrying on drilling and production operations shall be excluded when calculating the quantity of crude oil obtained in that year for the purpose of this Clause.

(2) The value of crude oil for the purpose of royalty shall be the value obtained by applying the rate of posted price effective at the end of the half-year period in respect of which the royalty is to be paid:

Provided that where it is shown to the satisfaction of the Minister that any part of the crude oil is consumed within Malaysia, such value shall be the actual selling price obtained by the Company from the sale of such crude oil.

(3) If no posted price is published by the Company in accordance with Clause 18 (a), in respect of crude oil not exported, the value for the purpose of royalty shall be ascertained in a manner to be agreed between the Company and the Minister.

(4) The Government may, in lieu of the royalty prescribed in sub-clause (1) of this Clause, elect to take a proportion of each type of crude oil not exceeding 12½% of the total volume of that type of crude oil in respect of which royalty would have been payable under sub-clause (1). Such election may be made upon the Government giving not less than four (4) calendar months' notice to the Company, and when made shall continue for such period as was stated in such notice, or, if no period was stated, until terminated by the Government giving not less than four (4) calendar months' further notice to the Company. Delivery of crude oil which the Government has elected to take shall be effected at main field storage tanks or at such other point of delivery as may be agreed.

15. Royalty on casinghead petroleum spirit.

(1) A royalty shall be paid, as specified in Clause 13, on all casinghead petroleum spirit recovered by the Company in the preceding half-year period at a rate equal to 12% of the value thereof:

Provided that any casinghead petroleum spirit used during such year by the Company for the purpose of carrying on drilling and production operations shall be excluded when calculating the quantity of casinghead petroleum spirit recovered in that year for the purposes of this Clause.

(2) The value of natural gas for the purpose of royalty shall be the value in the field of production. Such value shall be the actual selling price obtained by the Company from the sale of natural gas in respect of which royalty is to be paid less an appropriate allowance for the cost of processing such natural gas when necessary and for its transportation from the field of production to the point of sale.

16. Royalty on natural gas.

(1) A royalty shall be paid, as specified in Clause 13, on all natural gas obtained from the Scheduled Lands and sold by the Company in the preceding half-year period at a rate equal to 12% of the value thereof.

(2) The value of natural gas for the purpose of royalty shall be the value in the field of production. Such value shall be the actual selling price obtained by the Company from the sale of natural gas in respect of which royalty is to be paid less an appropriate allowance for the cost of processing such natural gas when necessary and for its transportation from the field of production to the point of sale.

17. Measurement of petroleum for royalty purposes.

(1) The Company shall measure or weigh by a method or methods customarily used in good oilfield operations and from time to time approved by the Minister —

(a) all crude oil obtained and casinghead petroleum spirit recovered from the Scheduled Lands; and

(b) all natural gas obtained from the Scheduled Lands and sold. (The volume of it shall be calculated at an absolute pressure of 1 atmosphere and at a temperature of 60 degrees F.).

(2) Any officer authorised by the Minister shall be entitled to be present at any time when such measurement or weighing takes place.

(3) Any measuring or weighing appliances found to be false at any time shall be deemed to have existed in that condition during the period of three months prior to the discovery thereof or the period elapsed since the last occasion upon which the same was examined or tested (whichever shall be the less) if the Minister so determines after considering any representations made by the Company. The royalties payable in respect of such period shall then be adjusted in accordance with this provision.

(4) The Company shall not make any alteration in the method or methods of measurement or weighing used by it or any appliances used for that purpose without first informing the Minister. The Minister may require on any occasion that no alteration shall be made except in the presence of an officer authorised by him.

(5) When calculating the quantity of crude oil obtained and casinghead petroleum spirit recovered for the purposes of Clauses 14 and 15, the quantity of crude oil and casinghead petroleum spirit which is to be excluded shall be ascertained according to a method approved by the Minister.

18. Pricing.

The Company hereby undertakes —

(a) if and when it commences to export crude oil, to publish posted price for such crude oil; and

(b) if and so often as called upon to do so by the Minister or an officer authorised in writing by him, to justify the posted price of its crude oil, the price at which its crude oil is sold in the Federation and prices at which its natural gas and casinghead petroleum spirit are sold: provided that such prices shall be obtained as if the buyer and the seller had been independent persons dealing at arm's length.

19. Taxation.

For the Agreement Period —

(a) the Company shall be liable to pay to the Government a total amount of income tax which shall be neither greater nor less than it would be liable to pay by the application of the provisions of the Petroleum (Income Tax) Act, 1967, in force at the date of this Agreement, in respect of its income arising from petroleum operations within the meaning of the said Act in relation to petroleum produced under this Agreement, and no tax shall be imposed under any other Act on such income, or dividends paid out of such income;

(b) the Company shall be free from all taxation, charges and fees payable to the government or to any governmental authority in the Federation in relation to such petroleum operations, except the following —

(i) payments which would be made in accordance with this Agreement and the provisions of the Petroleum (Income Tax) Act, 1967, in force at the date of this Agreement;

(ii) charges and fees for services rendered by governmental authorities on request or to the public generally, provided that such charges and fees are reasonable and non-discriminatory; -

(iii) taxes and fees (however described) of general application such as import duties, stamp duties and registration fees, provided that they are at rates no higher than those generally applicable in the Federation.

20. Audit.

(1) The Government shall have the right from time to time to appoint an auditor, who shall be qualified and independent of the Government and such auditor shall have the right to audit for the purposes of Government revenues and not otherwise the books and accounts of the Company.

(2) For the purposes of such audit the Company shall make available to the auditor all such books, records, accounts, and other documents and information as may be reasonably required of the Company by him.

PART VII

RIGHTS RESERVED BY GOVERNMENT

21. Government may work other substances in Scheduled Lands.

The Government or any other person authorised by the Government for that purpose shall hold the right —

(a) to enter into and upon the Scheduled Lands and the seas over any part thereof in order to search for, dig for and take any substances other than petroleum therein or for all and every purpose other than those for which this Agreement is entered into;

(b) to sink, build and use such pits, shafts, levels, drains, water-courses, tunnels, buildings, engines, machinery, and other things on, in or under the Scheduled Lands as the Government thinks necessary or desirable for the purposes specified in paragraph (a) of this Clause;

(c) to grant such rights, permits or wayleaves over the Scheduled Lands as may reasonably be required by other persons for the purpose of laying, operating and maintaining pipes, cables, telephone and power lines and intercommunication and passage to the shore:

Provided that the said rights shall be exercised in a manner which does not interfere with the rights of the Company under this Agreement:

Provided also that fair compensation shall be paid for all loss or damage which the Company may incur because of the exercise of the said rights.

PART VIII

RESTRICTION ON COMPANY'S RIGHTS

22. Limitation of rights over sea areas and reclamation.

Nothing in this Agreement shall be deemed to give any rights to the Company over the sea over the Scheduled Lands other than such rights as may be necessary for carrying out its operations under this Agreement and obtaining petroleum from the Scheduled Lands in a proper and efficient manner or other than such rights as may be expressly mentioned in this Agreement.

23. Installations in sea areas.

Any works or installations erected by the Company under this Agreement in or over any part of the sea-bed for the time being comprised in the Scheduled Lands shall be of such sort and shall be made, placed, marked and buoyed, equipped and maintained in such a way as to leave at all times and in any conditions safe and convenient channels for shipping in the area and as not unreasonably to interfere with any shipping. The Company (if required to do so by the Government) shall maintain audible and visible navigational aids and illuminate between the hours of sunset and sunrise all derricks, piers, survey marks or any other installations erected in or over such part of the sea-bed in such manner and by such means as is satisfactory to the Minister.

24. Pollution.

The Company shall adopt all practicable precautions (which shall include the provision of modern equipment) to prevent pollution of the high seas or coastal waters by oil, mud or other fluid or substance which might contaminate the sea water or shore line or which might cause harm or destruction to marine life.

25. Company not to use lands other than for purposes of Agreement.

The Company shall not, except with the consent of the Minister, use the Scheduled Lands in any manner except for the purposes of this Agreement.

26. Company not to obstruct working of other minerals.

The Company shall not whenever reasonably avoidable exercise the rights granted by this Agreement in a manner which may obstruct or interrupt the development and working of any minerals (other than petroleum) within the Scheduled Lands or lands adjacent to them. The Company shall at all times (so far as lies within its power) give the holders of licences or leases in respect of any such minerals reasonable means of access and passage on and across the Scheduled Lands to such minerals for the purpose of searching for, digging for, taking and carrying away such minerals.

27. Distance of boreholes or wells from boundaries.

No borehole or well shall be drilled —

(a) within a distance of 600 feet from the boundaries of the Scheduled Lands except with the consent of the Minister; or

(b) so as to deviate at any point out of the Scheduled Lands.

28. Report of discovery of petroleum.

The Company shall without avoidable delay report to the Minister the discovery of petroleum or petroleum bearing strata.

29. Notice of the site and commencement of boreholes and wells.

(1) As soon as the site of any borehole or well has been decided the Company shall notify the Minister of the site of it. The borehole or well shall be described by a certain number in the records, maps and plans which the Company is required to keep under the provision of this Agreement. The Company shall notify the Minister of any change of the number of any such borehole or well which may be made.

(2) No borehole or well shall be commenced and no borehole or well shall be recommenced after work has been discontinued thereat for more than six months unless seven clear days' notice in writing shall have first been given to the Minister:

Provided that the operation of this Clause shall not apply to cleaning out operations in a producing well.

30. Abandonment and plugging of boreholes.

(1) No borehole or well shall be abandoned and no cemented string or other permanent from of casing shall be withdrawn from any borehole or well which it is proposed to abandon without the prior consent of the Minister or in case of an exploration borehole or well without notification to the Minister as soon as practicable. Consent shall not be unreasonably withheld in respect of boreholes or wells which have become or are unproductive.

(2) Every borehole or well which the Company intends to abandon shall be securely plugged by the Company in order to prevent entry and exit of water in and from any portion of the strata bored through, unless the Minister otherwise determines.

(3) The Minister may require on any occasion that no borehole or well shall be plugged except in the presence of an officer authorised by him.

31. Methods of working.

(1) The Company shall proceed with all due diligence to carry out exploration and development work at a reasonable and economically justifiable rate.

(2) The Company shall maintain all apparatus and appliances and all boreholes and wells capable of producing petroleum in good repair and condition. The Company shall carry out all operations under this Agreement in a workmanlike manner and in accordance with generally accepted standards of good petroleum field operations and conservation practices. Without prejudice to the general nature of the foregoing provisions the Company shall take all steps practicable in order —

(a) to control the flow and to prevent the escape or waste of petroleum discovered in the Scheduled Lands;

(b) to prevent damage to adjoining petroleum bearing strata;

(c) to prevent the fortuitous entrance of water through boreholes and wells to petroleum bearing strata; and

(d) to prevent the pollution of any water-well, spring, stream, river, lake, reservoir, estuary or harbour, the high seas or coastal waters and shoreline by oil or mud or other fluid or substance which might contaminate the sea water or shoreline or which might cause harm or destruction to marine life.

(3) The Company shall obey any instructions from time to time given by the Minister in writing relating to any of the matters specified in paragraphs (a) to (d) of sub-clause (2) of this Clause:

Provided that if the Company objects to any such instruction for the reason that it is unreasonable it may refer the matter to arbitration within 28 days after the date when such instruction was given.

32. Provision of storage tanks.

The Company shall use generally accepted standards of good petroleum field operations for confining the petroleum obtained from the Scheduled Lands in tanks, gasholders, pipes, pipelines or other receptacles constructed for the purpose.

33. Disposal of waste oil.

The Company shall drain all waste oil, salt water and refuse from tanks, gasholders, boreholes and wells into proper receptacles, which shall be constructed and maintained by it for that purpose, at a safe distance from such tanks, gasholders, boreholes, wells and other structures whether situated within the Scheduled Lands or not. The Company shall dispose of such waste oil, salt water and refuse in a manner from time to time approved by the Minister.

34. Health and safety.

The Company shall comply with any instructions given from time to time by the Minister for maintaining the health and safety of persons employed by the Company in or about the Scheduled Lands.

35. Refinery.

The Company shall be prepared if requested by the Government to supply as much of its production of crude oil in the Federation as shall be necessary for the supply of refined products for local consumption in the Federation, in a proportion of total demand in the Federation similar to the proportion that its production of crude oil bears to total production in the Federation. If and when total demand in the Federation appears likely within a short period to exceed refining capacity for local consumption in the Federation the Company shall consider with the Government the economic feasibility of erecting a refinery or extending any refinery it owns already to a capacity capable of processing shares of predicted local consumption proportionate to its share of local crude oil production.

36. Unit development.

If at any time during the Agreement Period —

(a) other petroleum agreements are at the time in force in respect of the common petroleum reservoir;

(b) the Government shall consider that it is in the interest of the Federation, in order to secure the maximum ultimate recovery of petroleum and to avoid unnecessary competitive drilling, that the common petroleum reservoir should be worked and developed as a unit in co-operation by all the persons, including the Company, whose petroleum agreements extend to or include any part of the common petroleum reservoir;

then the following provisions shall apply —

(i) the Minister may require the Company by notice to co-operate with such other persons as are parties to petroleum agreements with the Government in respect of any part or parts of the common petroleum reservoir as may be specified in the said notice (in this Clause called "the other Operators") in the preparation of a scheme (in this Clause called "a development scheme") for the working and development of the common petroleum reservoir as a unit by the Company and the other Operators in co-operation. The said notice shall contain a description by reference to a map of the area or areas in respect of which the Minister requires a development scheme to be submitted and shall state the period within which such scheme is required to be submitted for approval by the Minister;

(ii) upon receipt of such notice the Company shall be bound to submit such a scheme jointly with the other Operators for the approval of the Minister;

(iii) if a development scheme is not submitted to the Minister within the period limited by the said notice, or, if a development scheme is so submitted but is not approved by the Minister, then the Minister may prepare a development scheme which shall be fair and equitable to the Company and the other Operators. Moreover the Company shall obey all the provisions of any development scheme applicable to the Company:

Provided that if the Company objects to any such development scheme prepared by the Minister it may refer the matter to arbitration within 28 days from the date when notice of such development scheme has been given to it by the Minister. Notwithstanding any such reference to arbitration however the Company shall obey the provisions of the development scheme pending the decision of the Arbitrator unless the Arbitrator otherwise determines.

37. Right of pre-emption in emergency.

Whenever a Proclamation of Emergency has been issued under Article 150 of the Constitution of Malaysia, the following provisions shall apply —

(a) the Government shall hold the first right to purchase all crude oil obtained by the Company from the Scheduled Lands under this Agreement and all the products of that crude oil;

(b) the Company shall use its best endeavours to increase as far as reasonably possible with facilities that then exist, the supply of crude oil and/or products of that crude oil to the extent required by the Government;

(c) with all reasonable speed, the Company shall endeavour to deliver all crude oil or products of that crude oil which are purchased by the Government under this Clause in the quantities, at the time and in the manner required by the Government at a convenient place of shipment or at a place of storage in the Federation to be determined by the Minister, (whether belonging to the Government or otherwise). If a vessel employed to carry any such crude oil or products of such crude oil on behalf of the Government is detained on demurrage at the port of loading, then the Company shall pay the amount owing for demurrage according to the terms of the charter party and/or the rate of loading previously agreed unless the delay is due to causes outside the control of the Company;

(d) the price to be paid for all crude oil or products of it which are purchased by the Government shall be either—

(i) separately agreed by the parties; or

(ii) in default of agreement, a fair price at the places and on the dates of delivery to be settled by arbitration. To assist in arriving at a fair price at the places and on the dates of delivery the Company shall give particulars to the Government and the Arbitrators, if so required, in respect of the quantities, descriptions and prices of crude oil or products previously sold to other customers and of charters or contracts entered into for carriage. The Company shall also show to the Government and the Arbitrators original or authenticated copies of contracts or charter parties entered into for the sale or carriage of such crude oil or products. The foregoing information shall be treated as confidential;

(e) the Government shall also hold the right to take control of the plant and premises of the Company in the Federation, and if this happens the Company shall conform to and obey all directions issued by the Minister or on his behalf. Reasonable compensation shall be paid to the

Company for any loss or damage that may be proved to have been incurred by the Company by reason of the exercise by the Government of the powers given by this paragraph of this Clause.

PART IX

RECORDS, ACCOUNTS, ETC

38. Company to keep and give records.

(1) The Company shall keep full and accurate records, in a form from time to time approved by the Minister, containing particulars of the following matters —

- (a) the drilling, deepening, plugging or abandonment of all boreholes and wells;
- (b) the strata and subsoil through which all boreholes and wells are drilled;
- (c) the casing inserted in all boreholes and wells and any alteration to such casing;
- (d) any petroleum, water and other economic minerals encountered;
- (e) the areas in which any geological or geophysical work has been carried out;
- (f) such other matters as the Minister may from time to time require;

and shall also keep accurate geological maps and plans and geophysical records and interpretations relating to the Scheduled Lands. Such maps, plans, records, and interpretations and all geological and geophysical reports made by or for the Company shall be available for inspection by the Minister or his duly authorised representatives, and the Company shall deliver copies of such maps, plans, records, interpretations and reports to the Minister whenever required.

(2) The Company shall give to the Minister —

- (a) within one month after the end of each quarter-year period —
 - (i) a summary of all geological and geophysical work carried out;
 - (ii) a summary of all drilling activity and results obtained;
 - (iii) a list of maps, a list of reports and a list of other geological and geophysical data prepared by or for the Company;
 - (iv) notification of future exploration plans;
- (b) within two months after the first day of January and the first day of July in each year, estimates of crude oil and natural gas production and exports for each of the 4 half-year periods immediately following the said date;
- (c) within four months after the end of each calendar year —
 - (i) estimates of economically recoverable reserves of crude oil and natural gas at the end of that year;
 - (ii) a record, in a form approved by the Minister, which describes the results of all exploration, development and other works carried out by the Company during that year in connection with searching for, boring for and obtaining petroleum;

(d) summaries of exploration wells, including general lithological groups, letter classification boundaries, and hydrocarbon zones, within six months of completion of drilling, such information as cannot reasonably be obtained within this period shall be submitted as soon as available;

(e) from time to time, such other plans and information as to the progress and results of the Companys operations as the Minister may reasonably require; and

(f) on relinquishment of any part of the Scheduled Lands, such maps, plans, reports, records, interpretations and data, made or obtained by or for the Company, relating to exploration, development, production, and any operations, in the surrendered lands, as the Minister may require.

39. Company to keep samples.

The Company shall as far as reasonably practicable correctly label and keep for reference for a period of one calender year characteristic samples of the water encountered in any borehole or well and samples of any petroleum found in the Scheduled Lands and for a period of two calender years characteristic samples of the strata found in any borehole or well. The Minister or his representative shall have access to such samples at all reasonable times and shall be entitled to require that representative specimens of any such samples delivered to him. Furthermore the Minister may retain any specimens so delivered.

40. Company to keep accounts.

(1) The Company shall keep full and correct accounts, in a form from time to time approved by the Minister, at all times during the Agreement Period. These accounts shall contain accurate entries of —

(a) the gross quantity of —

(i) crude oil obtained from the Scheduled Lands;

(ii) untreated natural gas obtained from the Scheduled Lands and separated and introduced into main gas pipeline networks;

(b) the method and results of tests made on the crude oil and natural gas;

(c) the quantity sold of —

(i) crude oil;

(ii) natural gas;

(iii) casinghead petroleum spirit;

(iv) each refined petroleum product, including liquified petroleum gases;

together with the names of the purchasers, the quantity purchased and the price paid by each purchaser;

(d) the quantity injected into the formation of —

(i) crude oil;

(ii) natural gas;

(iii) casinghead petroleum spirit;

(iv) each refined petroleum product, including liquified petroleum gases;

(v) water and other liquids or gases;

(e) the quantity consumed for drilling and other production operations (other than quantities reported under (d) above) and consumed in pumping to field storage and refineries in the Federation of —

(i) crude oil;

(ii) natural gas;

(iii) casinghead petroleum spirit;

(iv) each refined petroleum product, including liquified petroleum gases;

(f) the quantity of crude oil refined in the Federation and the quantity of each refined product, including liquified petroleum gases, obtained from it;

(g) the quantity of natural gas treated in the Federation for the removal of casinghead petroleum spirit or other liquids and liquified petroleum gases and the quantity of —

(i) casinghead petroleum spirit;

(ii) butane;

(iii) propane;

(iv) other liquids or gases obtained from it;

(h) the quantity of natural gas flared;

(i) such further information as the Minister may reasonably require from time to time.

(2) The Company shall within 2 calendar months after the first day of January and the first day of July in each year deliver to the Minister a summary of the said accounts for each such half-year period, in a form from time to time approved by the Minister, together with a statement of all royalties payable in respect of each such half-year period.

41. Company to furnish copies of agreements.

The Company shall within 2 calendar months of the date of execution give to the Minister copies of all conveyances, leases, assignments, agreements and deeds relating to the Scheduled Lands or any interest therein and to which the Company is a party or under which the Company either directly or indirectly obtains any benefit or incurs any liability.

42. Treatment of information supplied by Company.

All maps, plans, reports, records, interpretations and data, which the Company is required or may be required to give from time to time under this Agreement shall be supplied at the expense of the Company and subject as hereinafter mentioned shall be treated as confidential during the term of the Agreement and five years thereafter, except as otherwise agreed. The Government shall nevertheless be entitled —

(a) at any time, to make use of any information received from the Company, for the purpose of preparing and publishing aggregated returns and general reports on the extent of operations under petroleum agreements in the Federation;

- (b)* at any time, to make use of topographical survey information, including submarine topography, for any purpose whatsoever;
- (c)* at any time, to make use of any information received from the Company for the purpose of any arbitration or litigation between the parties;
- (d)* at any time, to make use of any information regarding economic minerals other than petroleum;
- (e)* to publish summaries of exploration wells, including lithological groups, letter classification boundaries, and hydrocarbon zones,
- (i)* in the case of discovery wells, two years after completion of drilling;
- (ii)* in other cases, at any time;
- (f)* on relinquishment of any part of the Scheduled Lands to incorporate geological and geophysical information (including interpretative information) relating to the surrendered lands in general and regional accounts and on regional maps up to 1:500,00 scale;
- (g)* two years after relinquishment of any part of the Scheduled Lands, to publish well records relating to the surrendered land, including electric logs, lithologies of cored samples, well cuttings, and sidewall samples; drill stem tests; flow records and faunal and floral lists;
- (h)* five years after relinquishment of any part of the Scheduled Lands, to use in any way, any maps, plans, reports, records, interpretations and data, relating to the surrendered lands.

43. Power of Government to inspect plant, records, etc.

The Minister or his duly authorised representatives shall hold the right at all reasonable times to enter into and upon any installations erected by the Company or the seas over any part of the Scheduled Lands for the following purposes —

- (a)* to examine the boreholes, wells, plants, equipment, buildings and other things made or done by the Company under this Agreement and the state of repair and condition of such things;
- (b)* to inspect and check the accuracy of the weighing or measuring appliances, weights, measurements, records, maps and plans which the Company is required to keep or make under this Agreement;
- (c)* to inspect and make abstracts or copies of any records, maps, plans or accounts which the Company is required to keep or make under this Agreement;
- (d)* to inspect the samples of strata, petroleum or water which the Company is required to keep under this Agreement; and
- (e)* to carry out any operations which the Government may be entitled to carry out under this Agreement.

PART X

MISCELLANEOUS PROVISIONS

44. Compensation.

The Company shall pay reasonable compensation for all injury to the property and rights of third persons which may be done by the Company, its agents and servants in the exercise of the rights granted by this Agreement.

45. Land required by the Company for its operations.

(1) The Government shall grant to the Company such rights, permits or wayleases over the continental shelf outside the Scheduled Lands and use its best endeavours to procure the grant of such rights, permits or wayleases over territorial waters for the purpose of laying, operating and maintaining pipes, cables, telephone and power lines and intercommunication and passage between the Scheduled Lands and the shore as the Company may reasonably require for the exercise of its rights under this Agreement or carrying out its operations hereunder.

(2) The Government shall also at the request of the Company use its best endeavours to make available to the Company at the Company's expense such land on shore, on the mainland or islands for use by the Company and for the erection, operation and maintenance of shore installations, storage, processing, residential and recreational facilities, and facilities for the appropriation of water and pipelines, harbours and jetties and all other buildings and works as the Company may reasonably require for the exercise of its rights under this Agreement or carrying out its operations hereunder:

Provided that where such land is an alienated land the Company shall first have made an offer to the owner thereof to acquire or lease the carrying at a reasonable price or on reasonable terms.

46. Indemnity against third party claims.

The Company shall at all times indemnify the Government, the Minister and every public officer of the Federation against all actions, costs, charges, claims and demands whatsoever which may be made or brought by any third person in connection with anything done or purported to be done by the Company under this Agreement.

47. Statements, prospectuses, etc.

(1) No statement shall be made by or with the consent of the Company claiming or suggesting whether expressly or by implication that any Government Department or any person or body acting on behalf of the Government has or have formed or expressed any opinion that the Scheduled Lands are from their geological formation or otherwise likely to contain petroleum.

(2) The foregoing provisions of this Clause or a statement to the effect thereof shall be included in or endorsed on any prospectus, statement in lieu of prospectus, notice, circular, advertisement or other invitation issued by or with the consent of the Company offering to the public for subscription or purchase any shares or debentures of a company proposed to be brought into existence.

48. Notice of fresh issues of capital.

The Company shall report to the Minister particulars of any fresh issues of capital which may be made by it from time to time and any alteration which may be made in the Memorandum and Articles of Association or in the constitution of the Company.

49. Consent to assignment.

The Company shall not transfer its interest under this Agreement nor any of the rights hereby granted to any person or persons whomsoever without the previous consent in writing of the Government. The Government (without limiting its rights to make such consent subject to any conditions it may think fit) may require that, as a condition of giving such consent, the person or person taking such interest or rights at his or their expense shall agree by agreement to observe and perform the obligations imposed on the Company by this Agreement.

50. Power for Government to perform Company's obligations.

If the Company at any time fails to comply with any of the obligations which must be complied with by the Company under Clauses 17, 30, 31, 32, 33, 34, 66 and 67, then and in any such case the Government shall be entitled, after giving to the Company reasonable notice, to do any of the things which in the opinion of the Government may be necessary to ensure compliance with such obligations and to recover the costs and expenses of so doing from the Company.

51. Training and employment of citizens of the Federation.

The Company shall, subject to the availability of suitable candidates, use its best endeavours to employ and train citizens of the Federation in and for the Company's operations and management.

52. Sale of surplus gas to Government.

(1) In respect of natural gas which is surplus to —

(a) the requirements of the Company for its own use or the use of its employees; and

(b) the requirements of any associate of the Company for its own use in respect of the refining and/or exporting of petroleum; and

(c) such contractual obligations of the Company as are then current;

the Company shall, before entering into any contract for the sale thereof, give to the Government the first option to purchase the same for consumption in the Federation (including the manufacture of derivatives whether for local consumption or for export).

(2) The price at which such surplus natural gas shall be offered shall in no case be higher than the price at which the Company could otherwise sell the same, and in the case of approved Federal economic projects shall be at lower prices to be agreed between the Government and the Company. Nothing in this sub-clause shall exempt the Company from paying any royalties as provided in Clause 16 due on such surplus natural gas.

(3) If the Government shall not accept any such offer within a period of 28 days, the offer shall be deemed to have been refused.

53. Local Resident Manager.

The Company shall before commencing any operations in the Scheduled Lands furnish to the Minister the name and address of the manager resident in the locality of the Scheduled Lands under whose supervision such operations are to be carried on.

54. Foreign currency.

The Company shall have the right —

(a) to remit and retain abroad all funds or assets acquired including but not limited to the proceeds of sales and to dispose freely of such funds or assets (including the payment of dividends) provided:

(i) that the Malaysian Government shall have the option to demand payment of royalty and income tax in foreign currencies, in direct proportion to the various currencies received by the Company from the sale of Malaysian petroleum;

(ii) that the Malaysian Exchange Control formalities, where required, for the remittance of funds to and for the retention of funds or assets held abroad are complied with; and

(b) to convert freely into foreign currencies acceptable to the Company any Malaysian currency that the Company may have in its possession which the Company considers surplus to its requirements in Malaysia and to purchase Malaysian currency with foreign currencies at rates of exchange no less favourable than those available to any other purchasers and sellers of foreign exchange, provided that the Malaysian Exchange Control formalities, where required, for the conversion of Malaysian currency into foreign currencies are complied with.

55. Cash bonus.

The Company shall on the signing of this Agreement pay to the Government a sum of ringgit.

56. Right of distress.

If and whenever any of the fixed yearly payment or royalties reserved by this Agreement or any part thereof respectively shall be in arrear or unpaid for the space of two calendar months next after any of the days whereon the same ought to be paid (whether the same shall have been legally demanded or not), then and so often as the same may happen the Government may by any officer duly authorised thereto (as an additional remedy and without prejudice to any other rights and remedies to which it would be entitled) enter into and upon any area which shall for the time being be possessed or occupied by the Company for the purposes of this Agreement or the exercise of any of the rights hereby granted and may seize and distrain and sell as landlords may do for rent in arrear all or any of the stocks of petroleum and products thereof, engines, machinery, tools, implements, chattels and effects belonging to the Company which shall be found in or upon the area so entered upon and out of the moneys arising from the sale of such distress may retain and pay all the arrears of the said fixed yearly payments and royalties and also the costs and expenses incidental to any distress and sale rendering the surplus (if any) to the Company.

57. Quiet enjoyment.

The Company paying the fixed yearly payments and royalties hereby reserved and observing and performing the covenants and provisions herein contained and on the Company's part to be observed and performed, shall and may peaceably and quietly hold and enjoy the rights and privileges hereby demised (subject as herein expressed) for and during the Agreement Period and any extension thereof without any lawful interruption from or by the Government or any person rightfully claiming from or under it.

58. Reciprocity.

This Agreement shall be determined if the Company shall be or become controlled directly or indirectly by a national of or by a Company incorporated in any country the laws and customs of which do not permit companies incorporated in that country controlled directly or indirectly by

citizens of Malaysia to acquire, hold and operate petroleum concessions on conditions which in the opinion of the Minister are reasonably comparable with the conditions upon which such rights are granted to nationals of this country with the addition of conditions corresponding to those imposed by this clause.

PART XI

EXTENSION AND DETERMINATION

59. Agreement Period.

(1) Subject to the provisions of the following sub-clauses, and Clauses 60, 61 and 62, this Agreement shall subsist for a period of 40 years from the date hereof and shall be divided into the following two phases —

(a) exploration phase; and

(b) development phase.

(2) The exploration phase shall commence from the date of this Agreement and shall, subject to any extension that may be granted under sub-clause (3), subsist for a period of 10 years from the date hereof, unless sooner terminated under sub-clause (5).

(3) If it appears to the Company that no petroleum in a commercial quantity is likely to be found on the Scheduled Lands before the expiry of the exploration phase, upon the Company making an application not later than three months before the expiry thereof, the Company shall be entitled to an extension (in this Agreement referred to as "extended exploration phase") for a total period not exceeding five years from the date of the expiry of the exploration phase:

Provided that —

(a) such extension shall be granted only in respect of not more than 25% of the area originally contained in the Scheduled Lands; and

(b) the Company shall undertake in respect of its operations under Clause 10 to spend the sum stated in sub-clause (4) of that Clause.

(4) If at the expiry of the exploration phase or, in the case of the exploration phase having been extended under sub-clause (3), at the expiry of the extended exploration phase, the Company has not notified the Minister that it has discovered on the Scheduled Lands petroleum in a commercial quantity, pursuant to sub-clause (5), this Agreement shall be automatically determined, but without prejudice to the rights and obligations of the parties accrued or arising prior to such determination.

(5) If the Company notifies the Minister that it has discovered petroleum in a commercial quantity, this Agreement shall continue to subsist but the exploration phase or the extended exploration phase as the case may be shall thereupon automatically terminate and the Company shall enter upon the development phase. The development phase shall commence from the date of such notification and subject to the following proviso shall subsist for a period of 30 years:

Provided that —

(a) where such notification is given during the exploration phase, the development phase shall be automatically extended for such further period as represents the balance of the exploration phase; and

(b) there shall be no such extension where such notification is given during the extended exploration phase.

60. Extension.

(1) If the Company makes all payments which must be made and complies with all the other obligations which must be complied with by the Company under this Agreement, then the Company, on giving to the Government not less than 12 months' previous notice and not more than 2 years nor less than 1 year before the end of the Agreement Period, shall hold the right to an extension of the rights of the Company under this Agreement in respect of the Scheduled Lands.

(2) Such extension shall be for a further period to be agreed upon with the Government and shall be granted upon the terms and conditions contained in any written law and regulations then in force relating to petroleum mining concessions in the Federation, and applicable to such concessions during their last year or, if or so far as there shall not be any such terms and conditions, upon the then applicable terms and conditions of this Agreement (other than this present Clause):

Provided that, if the payments which must be made by the Company during such extended period cannot be determined precisely under such law and regulations, such payments shall be fixed by agreement or in default of such agreement shall be decided by arbitration. If such arbitration occurs the arbitrators shall fix the payments by way of fixed yearly payments and rates of royalty which shall be fair and reasonable having regard to the conditions prevailing at the end of the Agreement Period and the rates of royalty in force in the Federation and in other producing countries at the date of such extension.

(3) If any extension of the rights of the Company under this Agreement is granted in respect of the whole or any part of the Scheduled Lands as provided in sub-clause (1) of this Clause, then the Company shall be released from all liability to do anything which is expressly required to be done under this Agreement by the Company at the end of the Agreement Period in relation to such lands.

61. Right of Company to determine.

The Company shall hold the right to determine this Agreement at any time during the Agreement Period by giving to the Government not less than 12 months' previous notice in writing to that effect.

62. Right of Government to determine.

If —

(a) any payments which must be made by the Company under this Agreement are unpaid for the space of 6 calendar months following after any of the dates on which the same ought to have been made; or

(b) there is any failure by the Company to comply with any other obligations which must be complied with by the Company under this Agreement; or

(c) the Company ceases to exist either voluntarily or compulsorily (except a voluntary cessation of a solvent company for the purpose of amalgamation or reconstruction), or a receiver is appointed of any part of its undertaking; or

(d) the Company fails to comply with any unit development scheme prepared in accordance with the provisions of Clause 36; or

(e) five years after the commencement of the development phase the Company fails to produce petroleum,

then and in any such case the Government shall hold the right to determine this Agreement:

Provided that the said power shall not be exercised unless and until —

(i) notice has been given to the Company specifying the particular matter causing the said power to arise, and if the matter is capable of remedy requiring the Company to remedy the matter, and requiring the Company to make reasonable compensation in money for the matter in any case where such compensation may reasonably be required; and

(ii) within a reasonable time thereafter the Company fails to remedy the matter, if it is capable of remedy, and to make reasonable compensation in money, if such compensation is required, to the satisfaction of the Government.

63. Effect of determination.

On the determination of this Agreement under any of the provisions hereof, this Agreement and all the respective rights and obligations of the parties under this Agreement shall altogether cease to have effect:

Provided that such determination shall be subject and without prejudice to —

(a) any rights and obligations of the parties respectively expressed to arise under this Agreement on the determination thereof; and

(b) any liability of either party arising out of an earlier failure to comply with any obligation which must be complied with by such party.

64. Right of Government to assets at end of Agreement Period.

(1) Subject to the occupation rights of the Company (if any) under another petroleum agreement, at the end of the Agreement Period or any earlier determination of this Agreement the Company shall if requested so to do by the Government deliver up to the Government at a price not exceeding the written down value for tax purposes any buildings, plant, railways, pipelines, pumps, machinery and other assets of a fixed or permanent nature constructed, put up or built and used or employed by the Company in or on the Scheduled Lands and which are either at that time necessary for the continued production of any petroleum field therein or are in the nature of public utilities (such as utilities providing electrical, gas, water and telecommunications services to the Government or the public). The Company shall if so requested by the Government also sell to the Government at that time (at a price which, if agreement fails, shall be fixed by arbitration) any moveable assets owned and used or employed by the Company in or on the Scheduled Lands which are then necessary for the continued production of any petroleum field therein and which the Government may wish to purchase:

Provided that —

(a) the foregoing provisions of this Clause shall not apply to moveable assets which are still required by the Company for use or employment in respect of lands held under any other petroleum agreement nor to assets of a fixed or permanent nature which are still required by the Company as aforesaid so long as such assets are so required;

(b) the Government shall give notice of any purchase it wishes to make hereunder at least 6 calendar months before the end of the Agreement Period (or, if this Agreement shall be determined before the end of the Agreement Period, at any time within 3 calendar months thereafter).

(2) The Company shall not within 5 years before the end of the Agreement Period remove from the Scheduled Lands or sell any assets of a fixed or permanent nature which might be deliverable to the Government under this Clause, and at no time shall remove or sell any such asset which is in the nature of a public utility while it is required for that purpose.

65. Right of Company over assets during Agreement Period.

Subject to Clause 64 and the rights of surface owners, the Company from time to time may remove and may sell or otherwise dispose of any assets in or on the Scheduled Lands which are no longer required by the Company for the purpose of its operations under this Agreement, and pending such or other disposal may deal with such assets as the Company thinks fit.

66. Delivering up of productive boreholes and wells at end of Agreement Period.

Within two months after the end of the Agreement Period or any earlier determination of this Agreement, the Company shall deliver up to the Government all productive boreholes or wells made by the Company in good repair and condition and fit for further working (unless ordered by the Minister to plug them as provided in Clause 67 and except such boreholes and wells as shall have been previously abandoned with the consent of the Minister).

67. Plugging of boreholes and wells at end of Agreement Period.

Within two months after the end of the Agreement Period or at any earlier determination of this Agreement the Company shall plug all boreholes and wells as provided in Clause 30, if required so to do by the Minister.

PART XII

ANCILLARY PROVISIONS

68. Force majeure.

Failure on the part of the Company to fulfill any of its obligations under this Agreement shall not give the Government any claim against the Company or be deemed a breach of this Agreement in so far as such fulfilment has been delayed, hindered, interfered with or prevented by any exceptional or unforeseeable circumstances which are not within the control of the Company or by reason of compliance with any order or request or any national, port, transportation, local or other similar authority or of any body or person purporting to be or act for such authority.

69. Arbitration.

Subject to Clause 70, whenever any matter must be referred to arbitration under the provisions of this Agreement or if at any time (whether during the Agreement Period or thereafter) any question or dispute shall arise regarding this Agreement or any matter or thing connected therewith or the rights or obligations of the Government or the Company under this Agreement or any matter arising out of these rights or obligations or connected with them, or if with respect to any matter requiring the agreement of the Government and the Company agreement cannot be reached within six months of the date consultations commence or such extended period as may be agreed, then and in all such cases the matter shall be referred to arbitration in Geneva,

Switzerland or such other place as may be mutually agreed. The parties shall seek to agree upon the joint appointment of a single arbitrator. Failing such agreement within three calendar months of the time that the matter is referred to arbitration, each party shall have the right to appoint one arbitrator, and these two arbitrators shall jointly appoint a third arbitrator who shall be the chairman. If the first two arbitrators shall fail to agree within two calendar months of their appointment upon the appointment of a third arbitrator or if either party shall fail to appoint an arbitrator within one calendar month of the failure to agree on a single arbitrator then the appointment shall be referred to the competence of the President of the Federal Tribunal of Switzerland at the request of either party. Such arbitration shall be conducted in accordance with the laws and customs of the place of arbitration and the award of the arbitrator or arbitrators shall be final and binding upon both parties. Each party shall pay for its own costs and shall contribute fifty per cent of the fees and expenses of the arbitrators.

70. Price Committee.

If any dispute shall arise between the Government and the Company as to any matter to be justified under Clause 18 the dispute shall not be referred to arbitration but either of the parties may refer the dispute to an expert or a Committee of experts to be similarly appointed and to have similar powers of procedure and decision as the Price Committee to which the Controller may refer pricing questions under the Petroleum (Income Tax) Act, 1967.

71. Applicable law.

This Agreement shall be construed in accordance with the laws of the Federation.

72. Notices.

(1) All notices and other communications to be given under this Agreement shall be given in writing.

(2) Any notice which the Government or any other person is required or entitled to give to the Company may be given or sent to the Company either at its registered office (if any) in the Federation or at its Statutory address for service of notices. Any notice which the Company is required or entitled to give to the Government or to any other person may be given or sent to the Minister as representative of the Government or such other person either at any address notified by the Minister or such other person, or, if no notification is given, at the office of the Minister.

(3) Any notice sent by registered post shall be deemed to have been received 3 days after the date of posting in the Federation.

73. Compliance with written laws.

Nothing in this Agreement shall entitle the Company to exercise the rights, privileges and powers conferred upon it by this Agreement in a manner which would contravene any written laws in force in the Federation.

74. Index and marginal notes.

The index and marginal notes are for convenience only and do not form part of this Agreement.

75. Alteration of terms of Agreement.

If as a result of changes in the Middle East operating under royalty expensing conditions comparable to those in Malaysia an increase in benefits to Governments in the Middle East

should come generally to be received by them the Company will on request consult with the Government whether in the light of all relevant circumstances including the conditions in which operations are carried out and taking into account all payments made, any alteration to the terms of this Agreement would be equitable to the parties.

IN WITNESS WHEREOF the Minister has, by the direction of and for and on behalf of the Government, hereunto set his hand and the Company has caused its Common Seal to be hereunto affixed the day and year first herein above written.

SIGNED BY

The Minister for and on behalf of the Government in the presence of

THE COMMON SEAL OF was hereunto affixed in the presence of

SECOND SCHEDULE

(Preamble of Petroleum Agreement)

BOND IN RESPECT OF PETROLEUM AGREEMENT

BY THIS BOND the a Company whose registered office in is at , , binds itself to the Government of the Federation in the sum of dollars (Malaysian currency) to be paid to the and his successors in office.

Sealed with the Common Seal of the Company this day of ,196.

WHEREAS by Agreement of even date herewith and made between the Government of the Federation of the one part and the said of the other part the sole

right and licence was granted to the said to search, bore for, win and work all or any petroleum lying or being within under or throughout that part of prescribed in the First Schedule of the said Agreement subject to the term, conditions and covenants therein contained.

Now the condition of the above-written bond or obligation is such that if the said

shall well and truly observe and perform all and every the covenants and agreements by it to be observed and performed as hereinbefore mentioned and shall in a proper and workmanlike manner do all and every the acts, matters and things by it to be done under the said Agreement to the satisfaction of the Government of the Federation or such other person as the said Government may by writing appoint for that purpose THEN the above-written bond or obligation shall be void; otherwise the same shall remain in full force and effect.

THE COMMON SEAL OF the Company

was hereunto affixed in the presence

of:

Directors.

Secretary.

ANNEX II

MODEL PETROLEUM AGREEMENT IN RESPECT OF ON-SHORE LANDS

THIS AGREEMENT is made the day of
....., 196, BETWEEN the Government of the state of
.. (in this Agreement called "the Government") of the one part AND
..... (in this Agreement called "the (in this Agreement called "the
Company" which expression shall where the context allows include its successors and assigns) of the other
part.

WHEREAS —

(A) The Company has applied to the Government under the Petroleum Mining Act, 1966, for a petroleum agreement in respect of certain lands specified in the First Schedule to this Agreement and has entered into a bond in the form set out in the Second Schedule in the sum of ringgit conditioned for the due and faithful carrying out of the provisions contained in this Agreement.

(B) The Government has agreed to enter into a petroleum agreement under the terms and together with the benefit of but subject to the provisions in this Agreement specified.

Now THIS AGREEMENT WITNESSETH as follows —

PART I

DEFINITIONS

1. Meaning of expressions in Agreement.

In this Agreement the following expressions (except where the context otherwise requires) have the following meanings —

"Agreement Period" means the period during which this Agreement subsists as determined under the provisions of Clause 70; and "Agreement year means a year commencing on the date or anniversary of the commencement of the Agreement Period;

"barrel" means 42 U.S. gallons or 9,702 cubic inches, being equivalent to 34.9726 Imperial gallons;

"casinghead petroleum spirit" means any liquid hydrocarbons obtained from natural gas (before the crude oil from which it is derived has been measured for royalty) by separation or by any chemical or physical process;

"crude oil" means mineral oil in its natural state before the same has been refined or otherwise treated but excluding water and foreign substances;

"development phase" means the period during which the Company's activities are directed towards the production of petroleum from the Scheduled Lands;

"exploration phase" means the period during which the Company's activities are directed towards the finding and searching for petroleum on the Scheduled Lands and shall include the extended exploration phase as hereunder defined;

"extended exploration phase" means the period of exploration extended under Clause 70 (3);

"Minister" means the Menteri Besar or the Chief Minister of a state;

"natural gas" means gas obtained from boreholes and wells and consisting primarily of hydrocarbons;

"Part" and "Clause" mean respectively a Part and a Clause of this Agreement;

"petroleum" means any mineral oil or relative hydrocarbon and natural gas existing in its natural condition and casinghead petroleum spirit but does not include coal or bituminous shales or other stratified deposits from which oil can be extracted by destructive distillation;

"petroleum in commercial quantity" means the discovery of reserves of petroleum in such quantities which will permit their being economically developed, taking into consideration the location of the reserves, the depths and number of wells required to be drilled and the transport and terminal facilities needed to exploit the reserves which have been discovered;

"posted price" means the f.o.b. price published by the Company in accordance with Clause 19 (a) for each grade, gravity and quality of petroleum offered for sale to buyers generally for export at the relevant point of export, which price shall be a price established with due regard to any posted prices for petroleum of comparable grade, gravity and quality in the Persian Gulf and having regard to geographical location;

"Scheduled Lands" means the area of continental shelf specified in the First Schedule to this Agreement and subject to the provisions of Part IV and the following proviso shall be deemed to be square miles:
. square miles:

Provided that if following the more particular determination of the boundaries of such Scheduled Lands after the signing of this Agreement the area thereof as fixed by survey shall be ascertained to be greater or less than square miles the area so ascertained shall thereupon for the purpose of this Agreement be deemed to be the area comprised therein at the date hereof in substitution for the said area of square miles, and any payments which may have been made under Clause 11 (fixed yearly payments) hereof before such ascertainment shall be adjusted accordingly.

PART II

AGREEMENT

2. General grant.

Inconsideration of the expenditure commitments and payments to be made by the Company specified in Parts V and VI, the Government hereby GRANTS to the Company the rights specified in Part III in respect of the Scheduled Lands to EXERCISE AND ENJOY all and every the said rights for the Agreement Period subject to the provisions for surrender contained in Part IV and together with the benefit of but subject to the other stipulations and provisions contained in Parts VII to XII inclusive.

PART III

RIGHTS OF THE COMPANY OVER SCHEDULED LANDS

3. Rights of the Company.

The Company shall have the sole and exclusive rights —

(a) to enter upon and explore and search the Scheduled Lands for petroleum and for that purpose to make

geological, geophysical and topographic examinations of the Scheduled Lands;

(b) to enter upon the Scheduled Lands and search, bore for, win and work all or any petroleum lying or being within under or throughout the Scheduled Lands;

(c) subject to the approval of the Government, to appropriate and use for any purpose connected with the borings or works or refining operations connected therewith the water upon or within any of the Scheduled Lands and to collect, impound and bore for the same for the purpose of working the said borings or works or carrying out refining operations but so that in the exercise of this right the Company shall not deprive any lands, villages, houses or watering places for cattle of a reasonable supply of water as heretofore accustomed;

(d) to enter upon, use and occupy a sufficient part of the Scheduled Lands adjoining any borings for depositing thereon the products of the said borings and all the earth, soil and other substances brought to the surface and for otherwise carrying on the works of the said borings and operations hereunder;

(e) to refine or otherwise treat the aforesaid petroleum in and upon the Scheduled Lands whether for purposes of sale or otherwise save as hereinafter provided;

(f) to store, take, lead, pipe and carry away on, under or over the Scheduled Lands the aforesaid petroleum and the products thereof and to dispose of the same at its own will and pleasure save as hereinafter provided;

(g) to erect, set up, make and operate in, upon and over the Scheduled Lands offices, dwelling houses, schools, hospitals or other buildings whatsoever, clubs, recreation grounds and all other sports facilities and amenities, sheds, engines, machinery, furnaces, erections, pipelines, storage tanks, refineries and other installations, telephone and power lines, railroads and other roads, tramways, loading places, wharves for ships, aircraft landing strips, reservoirs, waterworks, sewage works and all other works whatsoever necessary for the exercise of the several rights and privileges hereby granted;

(h) to search for, dig, get and treat gravel, sand, clay and stone in any State land within the Scheduled Lands for the exercise of the several rights and privileges hereby granted but not for sale provided that at the expiration of this Agreement any excavations shall be fenced or filled in or levelled and left otherwise fit for cultivation and occupation as far as may be reasonably practicable if so required by the Government;

(i) to cut down the brushwood and undergrowth and fell any timber (except protected trees) now standing or growing or which at any time hereafter may grow on the Scheduled Lands for the purpose of facilitating ingress and egress to and from the Scheduled Lands and also for the purposes of clearing lands for the erection of machinery and plant in connection with the Company's operations and also for the purpose of clearing lands for protection against damage by fire and for erecting and making habitable the said dwelling houses:

Provided that if required so to do by the Government, the Company shall pay a reasonable price for all timber and undergrowth cut down or felled by the Company or taken or used by the Company such price to be assessed in default of agreement by arbitration as provided in Clause 80 (Arbitration). This paragraph shall not apply to any land that may have been proclaimed to be a reserved forest without the prior consent of the Government in writing; and

(j) to enclose with a fence the surface of any of the Scheduled Lands subject to the provisions of this Agreement provided that, before so doing, the Company shall secure such permission or approval as may be required by any written law for the time being in force.

PART IV

SURRENDER PROVISIONS

4. Company to surrender Scheduled Lands compulsorily.

(1) The Company shall —

(i) on the expiration of five (5) Agreement Years from the date of this Agreement, surrender its rights in respect of such area or areas of the Scheduled Lands (if any), as, together with any area or areas in respect of which such rights have already been surrendered under Clause 5 amount to 50% of the area originally contained in the Scheduled Lands;

(ii) on the expiration of ten (10) Agreement Years from the date of this Agreement, surrender its rights in respect of such further area or areas of the Scheduled Lands (if any), as together with any area or areas in respect of which such rights have already been surrendered under this Clause and/or Clause 5 amount to 75% of the area originally contained in the Scheduled Lands:

Provided that if the Company satisfies the Minister, by representations made to him in writing not less than three (3) calendar months before the due date of any surrender prescribed by this sub-clause, that by reason of such surrender the area or areas of the Scheduled Lands retained by the Company would be too small to permit of effective development, the Minister may waive its right to such and any subsequent surrender.

(2) Subject to Clause 6, the Company shall be free to select for surrender under this Clause such area or areas of the Scheduled Lands as the Company shall decide.

(3) The Company shall not less than two (2) calendar months before the due date of surrender notify the Minister in writing of the area or areas of the Scheduled Lands to be surrendered.

(4) After any such surrender, if the Scheduled Lands retained do not form a single entity, the Company shall be granted such wayleaves over any Scheduled Lands surrendered for the laying, operating and maintenance of pipes, telephone and power lines and intercommunication and passage between the Scheduled Lands retained as the Company may require for the purposes of this Agreement. Such grant shall be subject to such reasonable payment and to such other stipulations and provisions as may be agreed between the Government and the Company. The said wayleaves shall not be included in the calculation of the amount of the Scheduled Lands retained.

(5) The Minister may, in his discretion on application in writing by the Company, re-include in this Agreement at any time any part of the lands surrendered under this Clause or in respect of which all rights have been surrendered under Clause 5 (Right of Company to surrender portions of the Scheduled Lands) hereof:

Provided that, if such resumption would make the aggregate of the Scheduled Lands greater than the area authorised by sub-clause (1) at the time of such resumption, the Company shall at the time of such resumption surrender other parts of the Scheduled Lands so that the aggregate of the lands included in the Agreement (including the area or areas resumed) does not exceed the area authorised for the time being by sub-clause (1):

And provided further that no rights inconsistent with the rights under this Agreement in the part or parts which the Company desires to resume have in the meantime been granted to any third party and in the event of mining rights for minerals other than petroleum or any other rights having previously been granted over any area resumed by the Company under this sub-clause not being inconsistent with the petroleum rights, the Company shall exercise its rights in the area subject to such rights so as not to hinder or interfere with the rights and privileges of the owner of such rights.

5. Company may surrender Scheduled Lands voluntarily.

Without prejudice to any obligation imposed by this Agreement and subject to Clause 6 the Company shall be entitled to surrender its rights in respect of any area or areas of the Scheduled Lands at any time during the Agreement Period. Such surrender may be made by the Company by giving not less than two (2) calendar months' notice to the Government and shall take effect as from the expiration of such notice.

6. Areas to be surrendered.

Any area or areas of the Scheduled Lands which is or are surrendered in accordance with the provisions of this Part shall, so far as is reasonable, be an area or areas which is or are, at the date of surrender, of sufficient size and convenient shape, having regard to adjacent areas not then the subject of petroleum agreements, to enable oil operations to be effectively carried out thereon.

7. Reduction of Scheduled Lands.

As from the date upon which any area or areas of the Scheduled Lands are surrendered in accordance with the provisions of this Part, such area or areas shall for all purposes (except as provided in Clause 4), be deemed no longer to be contained in the Scheduled Lands. Furthermore, any reference to the Scheduled Lands shall thereafter (except as aforesaid) mean only the Scheduled Lands as reduced by such surrender.

8. Lands included by inadvertance in the Scheduled Lands.

In the event of the inclusion by inadvertance in the Scheduled Lands of any area or areas over which it may subsequently be proved that the Government is not entitled to the petroleum rights or of lands or areas in respect of which the petroleum rights have already been granted to other individuals or companies, this Agreement shall be deemed to have been amended by the exclusion from the Scheduled Lands of any such lands or areas from the date of such proof or grant.

9. Establishment of boundary marks.

The Company shall, unless the Minister otherwise determines, carry out at its own expense such survey operations as are necessary to connect every angle and corner of the boundary line of the Scheduled Lands to fixed marks co-ordinated on the Where any angle or corner is at a place which is above low water or where any boundary crosses a place which is above low water the Company may be required to forthwith erect and at all times maintain substantial boundary marks of brick stone or concrete not less than one foot high. Such boundary marks shall be connected by survey to fixed marks co-ordinated on the in such a manner that the boundaries of the Scheduled Lands can be accurately traced on the ground. The Company shall ensure that the area demarcated on the ground shall conform as closely as possible to the area delineated on the plan hereto annexed.

PART V

EXPENDITURE COMMITMENT AND FIXED YEARLY PAYMENTS

10. Working obligation.

During the exploration phase or extended exploration phase the following sub-clauses shall apply —

(1) the Company shall with due diligence carry out such scheme of prospecting including such geological and geophysical surveys and examination of the Scheduled Lands and such testing thereof, by means of the drill or trial borings, as may be necessary for the purpose of arriving at the petroleum producing prospects of the same and for this purpose may employ contractors who provide geological, geophysical, drilling or other

services;

(2) during the first month of each Agreement Year the Company shall submit to the Minister a programme of the prospecting which the Company intends to carry out during that year, together with its estimated cost;

(3) within three months of the end of each Agreement Year, the Company shall submit to the Government detailed audited accounts showing the sum of money expended by the Company in carrying out prospecting during such year;

(4) the Company shall, in respect of its operations under this Agreement, spend on exploration as described in sub-clause (1) above including expenditure directly related to the exploration and reasonably incurred outside the Federation a sum which shall, without prejudice to sub-clause (7), not be less than —

in the first year	....	....	....	....	....	RM200,000
in the second year	....	....	....	....	....	200,000
in the third year	....	....	....	....	....	500,000
in the fourth year	....	....	....	....	....	500,000
in the fifth year	....	....	....	....	....	2,000,000
in the sixth year	....	....	....	....	....	2,000,000
in the seventh year	....	....	....	....	....	2,000,000
in the eighth year	....	....	....	....	....	2,000,000
in the ninth year	....	....	....	....	....	2,000,000
in the tenth year	....	....	....	....	....	2,000,000

if exploration phase is extended in accordance with Clause 70 (3), then —

in the eleventh year	....	....	....	....	....	RM3,000,000
in the twelfth year	....	....	....	....	....	3,000,000
in the thirteenth year	....	....	....	....	....	3,000,000
in the fourteenth year	....	....	....	....	....	3,000,000
in the fifteenth year	....	....	....	....	....	3,000,000;

(5) save as provided in sub-clause (6) and Clause 79 (*Force Majeure*) —

(a) if in either the first or second five Agreement Years or any lesser period within the first or second five Agreement Years resulting from the sooner determination of this Agreement the sum so expended falls short of that required to be expended in either of the said five Agreement Years or such lesser period, then the Company shall pay to the Accountant-General in Kuala Lumpur within three months of the end of either of the said five Agreement Years or such lesser period a sum representing the difference between its liability under this Clause for the years in question and its actual expenditure during the said years or such lesser period as shown by the audited accounts submitted under sub-clause (3) of this Clause;

(b) if at the end of the extended exploration phase, or any lesser period resulting from the sooner determination of this Agreement, the sum so expended falls short of that stated, then the Company shall pay to the Government, within three months of the end of the said phase, a sum representing the difference between its liability under this Clause and its actual expenditure as shown by the audited accounts submitted under sub-clause (3) of this Clause;

(6) if a short fall occurs during any five Agreement Years which in the opinion of the Government is not due to lack of diligence on the part of the Company, then such short fall may be carried forward and made good in the next succeeding five Agreement Years; and if the total actual expenditure by the Company during any five Agreement Years exceeds the total amount required to be spent under this Clause during the said five Agreement Years, then such excess shall be carried forward to set off against any short fall which may occur or any sum which shall be expended in the next succeeding five Agreement Years:

Provided that the amount to be carried forward may not exceed 25% of the total expenditure to be incurred in the next succeeding five Agreement Years;

(7) where the Scheduled Lands held by the Company under this Agreement during the first five Agreement Years exceeds 4,000 square miles or during, the second five Agreement Years exceeds 2,000 square miles or thereafter in any subsequent Agreement Year exceeds 1,000 square miles, in addition to the expenditure to be incurred under sub-clause (4) the Company shall spend for each and every square mile or part of a square mile of the Scheduled Lands held in such excess a further sum of—

- (a) RM170 per annum during the first five Agreement Years;
- (b) RM1,000 per annum during the second five Agreement Years;
- (c) RM3,000 per annum during the third five Agreement Years.

11. Fixed yearly payments.

(1) The Company shall in respect of each square mile or part of a square mile of the Scheduled Lands pay to the Government the following fixed yearly payments —

(a) during the exploration phase and extended exploration phase —

Malaysian

currency per

square mile

or part of a

square mile.

in respect of each year during the first five years	Nil
in respect of each of the sixth, seventh, eighth, ninth and tenth years	RM20
if exploration phase is extended, then in respect of the eleventh year and each of the subsequent years	40;
<i>(b)</i> during the development phase —	
in respect of each year during the first five years	50
in respect of each year of the sixth, seventh, eighth, ninth and tenth years	1,000
in respect of the eleventh year and each of the subsequent years	2,000.

(2) The said fixed yearly payments shall be made by equal half-yearly instalments on the first day of January and the first day of July in every year. The first of such instalments shall be paid on the first of the said days next after the commencement of the sixth Agreement Year. The last of such instalments shall be paid on the last of the said days in the Agreement Period.

(3) During the first five years of the development phase, the said fixed yearly payments under this Clause in respect of any year may subject to sub-clause (4), be deducted from the amount of royalties payable in that year under the provisions of Part VI; and thereafter —

(a) those fixed yearly payments due in respect of acreage within a petroleum field in the Scheduled Lands in respect of any year may subject to sub-clause (4) be deducted from the amount of the said royalties payable in that year on petroleum produced from that petroleum field; and

(b) those fixed yearly payments due in respect of acreage outside such petroleum field may in respect of any

year be reduced by expenditures incurred in that year in connection with exploration for petroleum on such acreage that may be undertaken by the Company within the Scheduled Lands.

For the purpose of this sub-clause the expression "acreage within a petroleum field" means the area occupied by petroleum at the time of its discovery plus 20%. Such petroleum may occur in one reservoir or several overlapping reservoirs occupying a geologic feature or features. For a structure or complex of structures the limits will normally be taken as the lowest closing contour. For petroleum occurring in reservoirs partly or wholly the result of stratigraphic conditions the limits will be determined by the best geologic and engineering methods. Because geologic features customarily have irregular limits the petroleum field areas as herein defined may include non-productive areas up to 20% of the area originally productive to permit the petroleum field to be included in rectilinear boundaries. The boundaries of petroleum fields, once established, will continue throughout the Agreement Period but may be extended by application of the above-mentioned principles if additional petroleum bearing areas are subsequently discovered.

(4) Any deduction of fixed yearly payments from royalties under sub-clause (3) or under paragraph (a) of that sub-clause shall be treated as part or full payment of such royalties as the case may be: Provided that such part or full payment of royalties, as the case may be, shall be treated for income tax purposes as if it were fixed yearly payments under Clause 11(1) and (2).

12. Refund of fixed yearly payments.

When the Company's rights under this Agreement are determined or when the rights granted by this Agreement are surrendered in respect of any area or areas of the Scheduled Lands then the Government shall refund to the Company an apportioned part of any fixed yearly payments made by the Company in advance in respect of the Scheduled Lands or any such area or areas thereof. This refund shall be in respect of the period after the date of such determination or surrender for which payment has already been made.

13. Additional yearly payments for surface occupation.

The Company shall during the subsistence of this Agreement pay to the Government additional yearly payments of (Malaysian Currency) per acre or part of an acre of the surface State lands actually occupied by the Company for any of the purposes of this Agreement. Such payments shall be made in accordance with the provisions of the National Land Code and Rules made thereunder.

PART VI

ROYALTIES AND TAXES

14. Royalties.

Subject to sub-clause (3) of Clause 15, within 2 months after the first day of January and the first day of July in each year of the Agreement Period the Company shall pay to the Government in Malaysian currency (unless otherwise agreed) the royalties set out in Clauses 15, 16 and 17 in respect of the half-year period ending on the said dates (and so that for the purposes of this and such said Clauses the period between the date of this Agreement and the first of the foregoing days next following the date of this Agreement shall be deemed to be a half-year period):

Provided that if there is any dispute or failure to agree between the parties affecting the amount of the royalties payable in respect of any half-year period, such amount only as is admitted by the Company to be the minimum amount of royalties payable shall be paid as above specified. No further royalties shall be payable in respect of that half-year period until the amount is finally determined.

15. Royalty on crude oil.

(1) A royalty shall be paid, as specified in Clause 14 on all crude oil won and saved by the Company from the Scheduled Lands in the preceding half-year period at a rate equal to 12½% of the value thereof:

Provided that any crude oil used (or the products of which are used) during such year by the Company for the purpose of carrying on drilling and production operations shall be excluded when calculating the quantity of crude oil obtained in that year for the purpose of this Clause.

(2) The value of crude oil for the purpose of royalty shall be the value obtained by applying the rate of posted price effective at the end of the half-year period in respect of which the royalty is to be paid:

Provided that where it is shown to the satisfaction of the Minister that any part of the crude oil is consumed within Malaysia, such value shall be the actual selling price obtained by the Company from the sale of such crude oil.

(3) If no posted price is published by the Company in accordance with Clause 19(a), in respect of crude oil not exported, the value for the purpose of royalty shall be ascertained in a manner to be agreed between the Company and the Minister.

(4) The Government may, in lieu of the royalty prescribed in sub-clause (1) of this Clause, elect to take a proportion of each type of crude oil not exceeding 12½% of the total volume of that type of crude oil in respect of which royalty would have been payable under sub-clause (1). Such election may be made upon the Government giving not less than four (4) calendar months' notice to the Company, and when made shall continue for such period as was stated in such notice, or, if no period was stated, until terminated by the Government giving not less than four (4) calendar months' further notice to the Company. Delivery of crude oil which the Government has elected to take shall be effected at main field storage tanks or at such other point of delivery as may be agreed.

16. Royalty on casinghead petroleum spirit.

(1) A royalty shall be paid, as specified in Clause 14, on all casinghead petroleum spirit recovered by the Company in the preceding half-year period at a rate equal to 12½% of the value thereof:

Provided that any casinghead petroleum spirit used during such year by the Company for the purpose of carrying on drilling and production operations shall be excluded when calculating the quantity of casinghead petroleum spirit recovered in that year for the purposes of this Clause.

(2) The value of natural gas for the purpose of royalty shall be the value in the field of production. Such value shall be the actual selling price obtained by the Company from the sale of natural gas in respect of which royalty is to be paid less an appropriate allowance for the cost of processing such natural gas when necessary and for its transportation from the field of production to the point of sale.

17. Royalty on natural gas.

(1) A royalty shall be paid, as specified in Clause 14 on all natural gas obtained from the Scheduled Lands and sold by the Company in the preceding half-year period at a rate equal to 12½% of the value thereof.

(2) The value of natural gas for the purpose of royalty shall be the value in the field of production. Such value shall be the actual selling price obtained by the Company from the sale of natural gas in respect of which royalty is to be paid less an appropriate allowance for the cost of processing such natural gas when necessary and for its transportation from the field of production to the point of sale.

18. Measurement of petroleum for royalty purposes.

(1) The Company shall measure or weigh by a method or methods customarily used in good oilfield operations and from time to time approved by the Minister —

(a) all crude oil obtained and casinghead petroleum spirit recovered from the Scheduled Lands; and

(b) all natural gas obtained from the Scheduled Lands and sold. (The volume of it shall be calculated at an absolute pressure of 1 atmosphere and at a temperature of 60 degrees F).

(2) Any officer authorised by the Minister shall be entitled to be present at any time when such measurement or weighing takes place.

(3) Any measuring or weighing appliances found to be false at any time shall be deemed to have existed in that condition during the period of 3 months prior to the discovery thereof or the period elapsed since the last occasion upon which the same was examined or tested (whichever shall be the less) if the Minister so determines after considering any representations made by the Company. The royalties payable in respect of such period shall then be adjusted in accordance with this provision.

(4) The Company shall not make any alteration in the method or methods of measurement or weighing used by it or in any appliances used for that purpose without first informing the Minister. The Minister may require on any occasion that no alteration shall be made except in the presence of an officer authorised by him.

(5) When calculating the quantity of crude oil obtained and casinghead petroleum spirit recovered for the purposes of Clauses 15 and 16, the quantity of crude oil and casinghead petroleum spirit which is to be excluded shall be ascertained according to a method approved by the Minister.

19. Pricing.

The Company hereby undertakes —

(a) if and when it commences to export crude oil to publish posted price for such crude oil; and

(b) if and so often as called upon to do so by the Minister or an officer authorised in writing by him, to justify the posted price of its crude oil, the price at which its crude oil is sold in the Federation and the prices at which its natural gas and casinghead petroleum spirit are sold provided that such prices shall be obtained as if the buyer and the seller had been independent persons dealing at arm's length.

20. Taxation.

For the Agreement Period —

(a) the Company shall be liable to pay to the Government a total amount of income tax which shall be neither greater nor less than it would be liable to pay by the application of the provisions of the Petroleum (Income Tax) Act, 1967, in force at the date of this Agreement in respect of its income arising from petroleum operations within the meaning of the said Act in relation to petroleum produced under this Agreement, and no tax shall be imposed under any other Act on such income, or dividends paid out of such income;

(b) the Company shall be free from all taxation, charges and fees payable to the Government or to any governmental authority in the Federation in relation to such petroleum operations, except the following —

(i) payments which would be made in accordance with this Agreement and the provisions of the Petroleum (Income Tax) Act, 1967, in force at the date of this Agreement;

(ii) charges and fees for services rendered by governmental authorities on request or to the public generally, provided that such charges and fees are reasonable and non-discriminatory; and

(iii) taxes and fees (however described) of general application such as import duties, stamp duties and registration fees, provided that they are at rates no higher than those generally applicable in the Federation.

21. Audit.

(1) The Government shall have the right from time to time to appoint an auditor, who shall be qualified and independent of the Government and such auditor shall have the right to audit for the purposes of Government revenues and not otherwise the books and accounts of the Company.

(2) For the purposes of such audit the Company shall make available to the auditor all such books, records, accounts, and other documents and information as may be reasonably required of the Company by him.

PART VII

RIGHTS RESERVED BY GOVERNMENT

22. Government may work other substances in Scheduled Lands.

The Government or any other person authorised by the Government for that purpose shall hold the right —

(a) to enter into and upon the Scheduled Lands and the seas over any part thereof in order to search for, dig for and take any substances other than petroleum therein or for all and every purpose other than those for which this Agreement is entered into;

(b) to sink, build and use such pits, shafts, levels, drains, watercourses, tunnels, buildings, engines, machinery, and other things on, in or under the Scheduled Lands as the Government thinks necessary or desirable for the purposes specified in paragraph (a) of this Clause; and

(c) to grant such rights, permits or wayleaves over the Scheduled Lands as may reasonably be required by other persons for the purpose of laying, operating and maintaining pipes, cables, telephone and power lines and intercommunication and passage to the shore:

Provided that the said rights shall be exercised in a manner which does not interfere with the rights of the Company under this Agreement: Provided also that fair compensation shall be paid for all loss or damage which the Company may incur because of the exercise of the said rights.

23. Government may enter Scheduled Lands for other purposes.

The Government or any other person authorised by the Government for that purpose shall hold the right —

(a) to enter into and upon the Scheduled Lands in order to make and maintain on the Scheduled Lands such reservoirs, pumping stations, generating stations, radio transmitting and receiving apparatus, waterways, roads, railways, telegraph and telephone lines and pipelines or other things as in the opinion of the Government, are necessary or desirable for any purpose;

(b) to obtain from and out of the Scheduled Lands such stone, earth and other, minerals as may be necessary or required for making, and maintaining the things specified in paragraph (a) of this Clause;

(c) at all times to draw water from the Scheduled Lands and to have free access thereto; and

(d) to go to and for at all times on and through the Scheduled Lands for all such purposes as may be required:

Provided always that the said rights shall be exercised in a manner which does not interfere with the rights of the Company under this Agreement : Provided also that fair compensation shall be paid for all loss or damage (but not including the value of any materials taken) which the Company may incur because of the exercise of the said rights.

24. Government may alienate Scheduled Lands to third parties subject to Company's rights.

The Government shall hold the right at any time to alienate to any person all or any area or areas of the Scheduled Lands for any purpose provided that such alienation shall be made subject to the rights of the Company under this Agreement.

25. Government may alienate surface in certain cases so as to interfere with Company's rights.

(1) The Government may, at any time or times, give notice to the Company that application has been made to the Government to acquire rights over the surface of such area or areas of any Scheduled Lands as is mentioned in such notice.

(2) If the Company shall not give notice to the government that it objects to the Government consenting to such application within ninety days after receipt of such notice, then the Government shall hold the right at any time or times thereafter to alienate all or any part of the surface of such area or areas:

Provided that such alienation shall not exclude the said area or areas of Scheduled Lands but only exclude the Company's right to enter on and occupy the surface thereof.

(3) If any such objection shall be made by the Company within the said period and the Government shall desire to effect the alienation notwithstanding such objection, then the question whether the proposed alienation ought or ought not to be effected shall be referred to arbitration.

(4) If the arbitrators decide that the proposed alienation may be made without seriously harming the rights of the Company under this Agreement, then it shall be lawful for them to award that it may be made either —

(a) freed from the right of the Company under this Agreement to occupy the surface; or

(b) subject to the right of the Company under this Agreement in relation to the surface of all or any parts of such area or areas (in whatsoever way defined) as the Arbitrators may determine:

Provided that such rights may nevertheless be exercised only on condition that before the exercise of any right in respect of the surface the Company —

(i) shall give to the acquirer and his successors in title 60 days' previous notice of the Company's intention to exercise such rights; and

(ii) shall make an agreement with him to pay compensation (to be assessed in case of dispute by arbitration) for all loss or damage which he may incur because of the exercise of such rights.

(5) Whenever an award is made under paragraph (b) of sub-clause (4) of this Clause, the proposed alienation, if made, shall be made expressly subject to the provisions of the award.

(6) The Company shall hold a prior right to have any area or areas alienated under this Clause again included in the Scheduled Lands over which the Company holds the right to occupy the surface under this Agreement, if such area or areas shall subsequently become available for this purpose.

(7) The foregoing provisions of this Clause shall not prevent the Company obtaining the right by agreement to occupy the surface of any area or areas alienated under the provisions of this Clause if the title of the

acquirer and his successors in title so allows.

26. Government may exclude lands for public purposes.

(1) The Government shall hold the right at any time to withdraw the Company's right to occupy the surface of any area or areas of any Scheduled Lands if such area or areas are required for existing villages or new villages, village extensions, water reserves, harbour limits, navigational purpose or any other public purposes whatsoever:

Provided that —

(a) during the Agreement Period the area or areas so excluded shall not exceed 10 square miles as regards any one area, and in all shall not exceed 50 square miles; and

(b) the area or areas excluded under this Clause shall continue to form part of any Scheduled Lands subject to this Agreement:

Provided that no operations shall be carried on, in or under such area or areas other than searching for or mining petroleum by means of deviated drilling Schedule Lands not so excluded; and

(c) the exclusion of any area or areas shall not be required if —

(i) any active operations such as well-drillings, road construction, water-works and/or other operations relating to the obtaining of petroleum have previously been commenced or are in progress therein; or

(ii) the Company has given notice that such area or areas is or are required for occupation and paid or offered compensation in respect thereof under sub-clause (3) of Clause 28.

Instead, some other equal area or areas of the Scheduled Lands shall be excluded which are suitable in the opinion of the Government for the said public purposes.

(2) The Government shall have the power at any time to require the Company not to exercise the rights conferred upon it under this Agreement in such a manner as unreasonably to interfere with any fishing.

PART VIII

RESTRICTION ON COMPANY'S RIGHTS

27. Restriction as to alienated lands.

Notwithstanding the foregoing provisions of Part III, to the extent that any part or parts of the Scheduled Lands are at the date of this Agreement held by third parties under the provisions of any written law relating to land tenure —

(a) the rights granted to the Company in respect of such part or parts of the Scheduled Lands shall be subject to the provisions of such written law relating thereto as now existing; and

(b) the Company shall not exercise any of the rights granted under Part III in respect of any area or areas of such part or parts of the Scheduled Lands without the previous consent of the Minister who shall give such consent upon proof to his satisfaction that —

(i) it would not tend to the religious prejudice of the community; and that either

(ii) the Company has agreed with the registered owner or owners of the surface of such area or areas for payment of compensation to such registered owner or owners in respect of any damage which may be done to such area or areas or to any cultivation or building thereon because of the exercise of such rights; or

(iii) the Company has made reasonable efforts to make such an agreement but has failed to do so through no fault of the Company; or

(iv) the Company is unable to make such an agreement because such registered owner or owners or any of them cannot be found, or are out of the State or are for any reason incapable because of law of making such an agreement.

28 Occupation of Scheduled Lands for surface purposes.

(1) Before occupying any area or areas of State Land within the Scheduled Lands for the purposes of surface operations the Company shall give to the Minister not less than 28 days' previous notice specifying by name, amount or other sufficient designation the area or areas proposed to be occupied and the purpose for which the area or areas are required.

(2) The Minister shall state his objections, if any, on grounds of public interest to the proposed site within 28 days after the receipt of such notice. The validity of such objections, if a dispute occurs, shall be determined by reference to arbitration.

(3) The Company shall always pay or offer reasonable compensation to the occupiers of any area or areas of the Scheduled Lands before the Company occupies such area or areas. Thereafter the Company shall be entitled to occupy such area or areas (subject to any adverse award by the Arbitrators) but shall pay the amount of compensation. Compensation hereunder shall be determined by agreement between the Government and the Company and in case there shall be a dispute shall be assessed by reference to arbitration.

29. Company not to cause damage.

The Company shall not exercise the rights granted by this Agreement in a way which may cause damage by water or otherwise to land not occupied by the Company.

30. Timber cutting in reserved forest restricted.

The following restrictions on the rights granted by paragraph (i) of Clause 3 shall apply to any Scheduled Lands that may have been proclaimed to be a Reserved Forest —

(a) a plan of the whole of any area or areas which it is proposed to develop shall be given to the State Forest Officer;

(b) a plan of any portion of the area or areas to be cleared shall be given to the State Forest Officer and the proposed locations for well sites shall be shown on it. Such plans shall be made from actual survey and shall, if practicable, be on the same scale as the plan referred to in paragraph (a) of this Clause with points of connection to enable them to be plotted on that plan;

(c) clearings shall be strictly limited to the actual area or areas necessary for the efficient conduct of the operations under this Agreement together with such additional clearings as may be necessary for the protection of such operations from fire and other hazards;

(d) due care shall be exercised in felling all trees so as not to damage other trees outside the area or areas being cleared;

(e) the clearings for well sites shall not usually exceed 2 acres.

31. Limitation of right over foreshore.

The rights granted by this Agreement shall be exercised on the foreshore lying between high water mark and

low water mark at usual spring tides only when it is necessary to carry out effectually any operations under this Agreement. The Company shall not cause any reasonably avoidable obstruction to the use of such foreshore for other purposes through exercising such rights.

32. Limitation of rights over sea areas and reclamation.

Nothing in this Agreement shall be deemed to give any rights to the Company over the sea over the Scheduled Lands other than such rights as may be necessary for carrying out its operations under this Agreement and obtaining petroleum from the Scheduled Lands in a proper and efficient manner or other than such rights as may be expressly mentioned in this Agreement.

33. Installations in sea areas.

Any works or installations erected by the Company under this Agreement in or over any part of the sea-bed for the time being comprised in the Scheduled Lands shall be of such sort and shall be made, placed, marked and buoyed, equipped and maintained in such a way as to leave at all times and in any conditions safe and convenient channels for shipping in the area and as not unreasonably to interfere with any shipping. The Company (if required to do so by the Government) shall maintain audible and visible navigational aids and illuminate between the hours of sunset and sunrise all derricks, piers, survey marks or any other installations erected in or over such part of the sea-bed in such manner and by such means as is satisfactory to the Minister.

34. Pollution.

The Company shall adopt all practicable precautions (which shall include the provision of modern equipment) to prevent pollution of the high seas or coastal waters by oil, mud or other fluid or substance which might contaminate the sea water or shore line or which might cause harm or destruction to marine life.

35. Company not to use lands other than for purposes of Agreement.

The Company shall not, except with the consent of the Minister, use the Scheduled Lands in any manner except for the purposes of this Agreement.

36. Company not to obstruct working of other minerals.

The Company shall not whenever reasonably avoidable exercise the rights granted by this Agreement in a manner which may obstruct or interrupt the development and working of any minerals (other than petroleum) within the Scheduled Lands or lands adjacent to them. The Company shall at all times (so far as lies within its power) give the holders of licences or leases in respect of any such minerals reasonable means of access and passage on and across the Scheduled Lands to such minerals for the purposes of searching for, digging for, taking and carrying away such minerals.

37. Distance of boreholes or wells from boundaries.

No borehole or well shall be drilled —

(a) within a distance of 600 feet from the boundaries of the Scheduled Lands except with the consent of the Minister; or

(b) so as to deviate at any point out of the Scheduled Lands.

38. No drilling operations to be carried on near railways, etc.

Except with the previous consent of the Minister or of any officer authorised by him and subject to any

conditions which may be connected with such consent, no drilling operations shall be carried on by the Company on the Scheduled Lands at any place within 100 yards of any reservoir, canal, railway or public road which is not constructed by the Company, or within 100 yards of any other public works or any building or inhabited site which is not the property of the Company, other than for the maintenance or repair of existing wells. Moreover no storage tanks shall be erected at any point within 300 yards of such places:

Provided that if such places are situated on or within any of the areas falling under the operation of Clauses 24, 25 or 26 the provisions of this Clause shall not apply.

39. Report of discovery of petroleum.

The Company shall without avoidable delay report to the Minister the discovery of petroleum or petroleum bearing strata.

40. Notice of the site and commencement of boreholes and wells.

(1) As soon as the site of any borehole or well has been decided the Company shall notify the Minister of the site of it. The borehole or well shall be described by a certain number in the records, maps and plans which the Company is required to keep under the provisions of this Agreement. The Company shall notify the Minister of any change of the number of any such borehole or well which may be made.

(2) No borehole or well shall be commenced and no borehole or well shall be recommenced after work has been discontinued thereat for more than six months unless seven clear days' notice in writing shall have first been given to the Minister:

Provided that the operation of this Clause shall not apply to cleaning out operations in a producing well.

41. Abandonment and plugging of boreholes.

(1) No borehole or well shall be abandoned and no cemented string or other permanent form of casing shall be withdrawn from any borehole or well which it is proposed to abandon without the prior consent of the Minister or in case of an exploration borehole or well without notification to the Minister as soon as practicable. Consent shall not be unreasonably withheld in respect of boreholes or wells which have become or are unproductive.

(2) Every borehole or well which the Company intends to abandon shall be securely plugged by the Company in order to prevent entry and exit of water in and from any portion of the strata bored through, unless the Minister otherwise determines.

(3) The Minister may require on any occasion that no borehole or well shall be plugged except in the presence of an officer authorised by him.

42. Methods of working.

(1) The Company shall proceed with all due diligence to carry out exploration and development work at a reasonable and economically justifiable rate.

(2) The Company shall maintain all apparatus and appliances and all boreholes and wells capable of producing petroleum in good repair and condition. The Company shall carry out all operations under this Agreement in a workmanlike manner and in accordance with generally accepted standards of good petroleum field operations and conservation practices. Without prejudice to the general nature of the foregoing provisions the Company shall take all steps practicable in order —

(a) to control the flow and to prevent the escape or waste of petroleum discovered in the Scheduled Lands;

(b) to prevent damage to adjoining petroleum bearing strata;

(c) to prevent fortuitous entrance of water through boreholes and wells to petroleum bearing strata; and

(d) to prevent the pollution of any water-well, spring, stream, river, lake, reservoir, estuary or harbour, the high seas or coastal waters and shoreline by oil or mud or other fluid or substance which might contaminate the sea water or shoreline or which might cause harm or destruction to marine life.

(3) The Company shall obey any instructions from time to time given by the Minister in writing relating to any of the matters specified in paragraphs (a) to (d) of sub-clause (2) of this Clause:

Provided that if the Company objects to any such instruction for the reason that it is unreasonable it may refer the matter to arbitration within 28 days after the date when such instruction was given.

43. Provision of storage tanks.

The Company shall use generally accepted standards of good petroleum field operations for confining the petroleum obtained from the Scheduled Lands in tanks, gasholders, pipes, pipelines or other receptacles constructed for the purpose.

44. Disposal of waste oil.

The Company shall drain all waste oil, salt water and refuse from tanks, gasholders, boreholes and wells into proper receptacles, which shall be constructed and maintained by it for that purpose, at a safe distance from such tanks, gasholders, boreholes, wells and other structures whether situated within the Scheduled Lands or not. The Company shall dispose of such waste oil, salt water and refuse in a manner from time to time approved by the Minister.

45. Health and safety.

The Company shall comply with any instructions given from time to time by the Minister for maintaining the health and safety of persons employed by the Company in or about the Scheduled Lands.

46. Unit development.

If at any time during the Agreement Period —

(a) other petroleum agreements are at the time in force in respect of the common petroleum reservoir;

(b) the Government shall consider that it is in the interest of the Federation, in order to secure the maximum ultimate recovery of petroleum and to avoid unnecessary competitive drilling, that the common petroleum reservoir should be worked and developed as a unit in co-operation by all the persons, including the Company, whose petroleum agreements extend to or include any part of the common petroleum reservoir;

then the following provisions shall apply —

(i) the Minister may require the Company by notice to co-operate with such other persons as are parties to petroleum agreements with the Government in respect of any part or parts of the common petroleum reservoir as may be specified in the said notice (in this Clause called "the other Operators") in the preparation of a scheme (in this Clause called "a development scheme") for the working and development of the common petroleum reservoir as a unit by the Company and the other Operators in co-operation. The said notice shall contain a description by reference to a map of the area or areas in respect of which the Minister requires a development scheme to be submitted and shall state the period within which such scheme is required to be submitted for approval by the Minister;

(ii) upon receipt of such notice the Company shall be bound to submit such a scheme jointly with the other Operators for the approval of the Minister;

(iii) if a development scheme is not submitted to the Minister within the period limited by the said notice, or, if a development scheme is so submitted but is not approved by the Minister, then the Minister may prepare a development scheme which shall be fair and equitable to the Company and the other Operators. Moreover the Company shall obey all the provisions of any such development scheme applicable to the Company:

Provided that if the Company objects to any such development scheme prepared by the Minister it may refer the matter to arbitration within 28 days from the date when notice of such development scheme has been given to it by the Minister. Notwithstanding any such reference to arbitration however the Company shall obey the provisions of the development scheme pending the decision of the Arbitrator unless the Arbitrator otherwise determines.

47. Right of pre-emption in emergency.

Whenever a Proclamation of Emergency has been issued under Article 150 of the Constitution of Malaysia, the following provisions shall apply —

(a) the Government shall hold the first right to purchase all crude oil obtained by the Company from the Scheduled Lands under this Agreement and all the products of that crude oil;

(b) the Company shall use its best endeavours to increase as far as reasonably possible with facilities that then exist, the supply of crude oil and/or products of that crude oil to the extent required by the Government;

(c) with all reasonable speed, the Company shall endeavour to deliver all crude oil or products of that crude oil which are purchased by the Government under this Clause in the quantities, at the time and in the manner required by the Government at a convenient place of shipment or at a place of storage in the Federation to be determined by the Minister (whether belonging to the Government or otherwise). If a vessel employed to carry any such crude oil or products of such crude oil on behalf of the Government is detained on demurrage at the port of loading, then the Company shall pay the amount owing for demurrage according to the terms of the charter party and/or the rate of loading previously agreed unless the delay is due to causes outside the control of the Company;

(d) the price to be paid for all crude oil or products of it which are purchased by the Government shall be either —

(i) separately agreed by the parties; or

(ii) in default of agreement, a fair price at the places and on the dates of delivery to be settled by arbitration. To assist in arriving at a fair price at the places and on the dates of delivery the Company shall give particulars to the Government and the Arbitrators, if so required, in respect of the quantities, descriptions and prices of crude oil or products previously sold to other customers and of charters or contracts entered into for carriage. The Company shall also show to the Government and the Arbitrators original or authenticated copies of contracts or charter parties entered into for the sale or carriage of such crude oil or products. The foregoing information shall be treated as confidential; and

(e) the Government shall also hold the right to take control of the plant and premises of the Company in the Federation, and if this happens the Company shall conform to and obey all directions issued by the Minister or on his behalf. Reasonable compensation shall be paid to the Company for any loss or damage that may be proved to have been incurred by the Company by reason of the exercise by the Government of the powers given by this paragraph of this Clause.

PART IX

RECORDS, ACCOUNTS, ETC

48. Company to keep and give records.

(1) The Company shall keep full and accurate records, in a form from time to time approved by the Minister, containing particulars of the following matters —

- (a) the drilling, deepening, plugging or abandonment of all boreholes and wells;
- (b) the strata and subsoil through which all boreholes and wells are drilled;
- (c) the casing inserted in all boreholes and wells and any alteration to such casing;
- (d) any petroleum, water and other economic minerals encountered;
- (e) the areas in which any geological or geophysical work has been carried out;
- (f) such other matters as the Minister may from time to time require;

and shall also keep accurate geological maps and plans and geophysical records and interpretations relating to the Scheduled Lands. Such maps, plans, records and interpretations and all geological and geophysical reports made by or for the Company shall be available for inspection by the Minister or his duly authorised representatives, and the Company shall deliver copies of such maps, plans, records, interpretations and reports to the Minister whenever required.

(2) The Company shall give to the Minister —

(a) within one month after the end of each quarter-year period —

- (i) a summary of all geological and geophysical work carried out;
- (ii) a summary of all drilling activity and results obtained;
- (iii) a list of maps, a list of reports and a list of other geological and geophysical data prepared by or for the Company;
- (iv) notification of future exploration plans;
- (b) within two months after the first day of January and the first day of July in each year, estimates of crude oil and natural gas production and exports for each of the 4 half-year periods immediately following the said date;

(c) within four months after the end of each calendar year —

- (i) estimates of economically recoverable reserves of crude oil and natural gas at the end of that year;
- (ii) a record, in a form approved by the Minister, which describes the results of all exploration, development and other works carried out by the Company during that year in connection with searching for, boring for and obtaining petroleum;
- (d) summaries of exploration wells, including general lithological groups, letter classification boundaries, and hydrocarbon zones, within six months of completion of drilling. Such information as cannot reasonably be obtained within this period shall be submitted as soon as available; and
- (e) from time to time, such other plans and information as to the progress and results of the Company's

operations as the Minister may reasonably require;

(f) on relinquishment of any part of the Scheduled Lands, such maps, plans, reports, records, interpretations and data, made or obtained by or for the Company, relating to exploration, development, production, and any operations, in the surrendered lands, as the Minister may require.

49. Company to keep samples.

The Company shall as far as reasonably practicable correctly label and keep for reference for a period of one calendar year characteristic samples of the water encountered in any borehole or well and samples of any petroleum found in the Scheduled Lands and for a period of two calendar years characteristic samples of the strata found in any borehole or well. The Minister or his representative shall have access to such samples at all reasonable times and shall be entitled to require that representative specimens of any such samples delivered to him. Furthermore, the Minister may retain any specimens so delivered.

50. Company to keep accounts.

(1) The Company shall keep full and correct accounts, in a form from time to time approved by the Minister, at all times during the Agreement Period. These accounts shall contain accurate entries of —

(a) the gross quantity of —

(i) crude oil obtained from the Scheduled Lands;

(ii) untreated natural gas obtained from the Scheduled Lands and separated and introduced into main gas pipeline networks;

(b) the method and results of tests made on the crude oil and natural gas;

(c) the quantity sold of —

(i) crude oil;

(ii) natural gas;

(iii) casinghead petroleum spirit;

(iv) each refined petroleum product, including liquified petroleum gases;

together with the names of the purchasers, the quantity purchased and the price paid by each purchaser;

(d) the quantity injected into the formation of —

(i) crude oil;

(ii) natural gas;

(iii) casinghead petroleum spirit;

(iv) each refined petroleum product, including liquified petroleum gases;

(v) water and other liquids or gases;

(e) the quantity consumed for drilling and other production operations (other than quantities reported under (d) above) and consumed in pumping to field storage and refineries in the Federation of —

(i) crude oil;

(ii) natural gas;

(iii) casinghead petroleum spirit;

(iv) each refined petroleum product, including liquified petroleum gases;

(f) the quantity of crude oil refined in the Federation and the quantity of each refined product, including liquified petroleum gases, obtained from it;

(g) the quantity of natural gas treated in the Federation for the removal of casinghead petroleum spirit or other liquids and liquified petroleum gases and the quantity of —

(i) casinghead petroleum spirit;

(ii) butane;

(iii) propane;

(iv) other liquids or gases obtained from it;

(h) the quantity of natural gas flared;

(i) such further information as the Minister may reasonably require from time to time.

(2) The Company shall within 2 calendar months after the first day of January and the first day of July in each year deliver to the Minister a summary of the said accounts for each such half-year period, in a form from time to time approved by the Minister, together with a statement of all royalties payable in respect of each such half-year period.

51. Company to furnish copies of agreements.

The Company shall within 2 calendar months of the date of execution give to the Minister copies of all conveyances, leases, assignments, agreements and deeds relating to the Scheduled Lands or any interest therein and to which the Company is a party or under which the Company either directly or indirectly obtains any benefit or incurs any liability.

52. Treatment of information supplied by Company.

All maps, plans, reports, records, interpretations and data, which the Company is required or may be required to give from time to time under this Agreement shall be supplied at the expense of the Company and subject as hereinafter mentioned shall be treated as confidential during the term of the Agreement and five years thereafter, except as otherwise agreed. The Government shall nevertheless be entitled —

(a) at any time, to make use of any information received from the Company, for the purpose of preparing and publishing aggregated returns and general reports on the extent of operations under petroleum agreements in the Federation;

(b) at any time, to make use of topographical survey information, including submarine topography, for any purpose whatsoever;

(c) at any time, to make use of any information received from the Company for the purpose of any arbitration or litigation between the parties;

(d) at any time, to make use of any information regarding economic minerals other than petroleum;

(e) to publish summaries of exploration wells, including lithological groups, letter classification boundaries, and hydrocarbon zones —

- (i) in the case of discovery wells, two years after completion of drilling;
- (ii) in other cases, at any time;
- (f) on relinquishment of any part of the Scheduled Lands to incorporate geological and geophysical information (including interpretative information) relating to the surrendered lands in general and regional accounts and on regional maps up to 1:500,000 scale;
- (g) two years after relinquishment of any part of the Scheduled Lands, to publish well records relating to the surrendered land, including electric logs, lithologies of cored samples, well cuttings, and sidewall samples; drill stem tests; flow records and faunal and floral lists;
- (h) five years after relinquishment of any part of the Scheduled Lands, to use in any way, any maps, plans, reports, records, interpretations and data, relating to the surrendered lands.

53. Power of Government to inspect plant, records, etc.

The Minister or his duly authorised representatives shall hold the right at all reasonable times to enter into and upon any installations erected by the Company or the seas over any part of the Scheduled Lands for the following purposes —

- (a) to examine the boreholes, wells, plants, equipment, buildings and other things made or done by the Company under this Agreement and the state of repair and condition of such things;
- (b) to inspect and check the accuracy of the weighing or measuring appliances, weights, measurements, records, maps and plans which the Company is required to keep or make under this Agreement;
- (c) to inspect and make abstracts or copies of any records, maps, plans or accounts which the Company is required to keep or make under this Agreement;
- (d) to inspect the samples of strata, petroleum or water which the Company is required to keep under this Agreement; and
- (e) to carry out any operations which the Government may be entitled to carry out under this Agreement.

PART X

MISCELLANEOUS PROVISIONS

54. Land for shore installations, etc.

(1) The Government shall make State land available to the Company (if required) outside the Scheduled Lands but within the State for the erection of shore installations, residential areas, the appropriation of water and such other purposes as may be agreed to be necessary for the exercise by the Company of its rights under this Agreement. This land shall be of such a size, in such an area or areas and be made available on such conditions as may be agreed between the parties and in default of such agreement as may be decided by arbitration:

Provided that —

- (a) where any State land made available to the Company in accordance with the provisions of this Clause, is situated within the area of any other lands the subject of a petroleum agreement to which the Company is a party then such land shall be held on the same terms and conditions as if the land so made available had been occupied by the Company in accordance with the provisions of that petroleum agreement;
- (b) nothing in this Clause shall compel the Government compulsorily to acquire land for the above purposes

under the provisions of any written law relating to the compulsory acquisition of land by the Government.

(2) If the Company's rights over any lands, outside the Scheduled Lands and the subject of a petroleum agreement to which the Company is a party, are surrendered or in any way terminated, the Company shall have the right to occupy for the duration of this Agreement any area of such lands upon which stand shore installations, residential areas, supplies of water or any other building, construction or plant as are necessary for the exercise by the Company of its rights under this Agreement.

55. Compensation.

The Company shall pay reasonable compensation for all injury to the property and rights of third persons which may be done by the Company, its agents and servants in the exercise of the rights granted by this Agreement.

56. Indemnity against third party claims.

The Company shall at all times indemnify the Government, the Minister and every public officer of the Federation against all actions, costs, charges, claims and demands whatsoever which may be made or brought by any third person in connection with anything done or purported to be done by the Company under this Agreement.

57. Statements, prospectuses, etc.

(1) No statement shall be made by or with the consent of the Company claiming or suggesting whether expressly or by implication that any Government Department or any person or body acting on behalf of the Government has or have formed or expressed any opinion that the Scheduled Lands are from their geological formation or otherwise likely to contain petroleum.

(2) The foregoing provisions of this Clause or a statement to the effect thereof shall be included in or endorsed on any prospectus, statement in lieu of prospectus, notice, circular, advertisement or other invitation issued by or with the consent of the Company offering to the public for subscription or purchase any shares or debentures of a company or a company proposed to be brought into existence.

58. Notice of fresh issues of capital.

The Company shall report to the Minister particulars of any fresh issues of capital which may be made by it from time to time and any alteration which may be made in the Memorandum and Articles of Association or in the constitution of the Company.

59. Consent to assignment.

The Company shall not transfer its interest under this Agreement nor any of the rights hereby granted to any person or persons whomsoever without the previous consent in writing of the Government. The Government (without limiting its rights to make such consent subject to any conditions it may think fit) may require that, as a condition of giving such consent, the person or persons taking such interest or rights at his or their expense shall agree by agreement to observe and perform the obligations imposed on the Company by this Agreement.

60. Power for Government to perform Company's obligations.

If the Company at any time fails to comply with any of the obligations which must be complied with by the Company under Clauses 18, 41, 42, 43, 44, 45, 77 and '78, then and in any such case the Government shall be entitled, after giving to the Company reasonable notice, to do any of the things which in the opinion of the Government may be necessary to ensure compliance with such obligations and to recover the costs and

expenses of so doing from the Company.

61. Training and employment of citizens of the Federation.

The Company shall, subject to the availability of suitable candidates, use its best endeavours to employ and train citizens of the Federation in and for the Company's operations and management.

62. Sale of surplus gas to Government.

(1) In respect of natural gas which is surplus to —

(a) the requirements of the Company for its own use or the use of its employees;

(b) the requirements of any associate of the Company for its own use in respect of the refining and/or exporting of petroleum; and

(c) such contractual obligations of the Company as are then current;

the Company shall, before entering into any contract for the sale thereof, give to the Government the first option to purchase the same for consumption in the Federation (including the manufacture of derivatives whether for local consumption or for export).

(2) The price at which such surplus natural gas shall be offered shall in no case be higher than the price at which the Company could otherwise sell the same, and in the case of approved Federal economic projects shall be at lower prices to be agreed between the Government and the Company. Nothing in this sub-clause shall exempt the Company from paying any royalties as provided in Clause 17 due on such surplus natural gas.

(3) If the Government shall not accept any such offer within a period of 28 days, the offer shall be deemed to have been refused.

63. Local Resident Manager.

The Company shall before commencing any operations in the Scheduled Lands furnish to the Minister the name and address of the manager resident in the locality of the Scheduled Lands under whose supervision such operations are to be carried on.

64. Foreign currency.

The Company shall have the right —

(a) to remit and retain abroad all funds or assets acquired including but not limited to the proceeds of sales and to dispose freely of such funds or assets (including the payment of dividends) provided:

(i) that the Malaysian Government shall have the option to demand payment of royalty and income tax in foreign currencies, in direct proportion to the various currencies received by the Company from the sale of Malaysian petroleum;

(ii) that the Malaysian Exchange Control formalities, where required, for the remittance of funds to and for the retention of funds or assets held abroad are complied with; and

(b) to convert freely into foreign currencies acceptable to the Company any Malaysian currency that the Company may have in its possession which the Company considers surplus to its requirements in Malaysia and to purchase Malaysian currency with foreign currencies at rates of exchange no less favourable than those available to any other purchasers and sellers of foreign exchange, provided that the Malaysian Exchange Control formalities, where required, for the conversion of Malaysian currency into foreign

currencies are complied with.

65. Cash bonus.

The Company shall on the signing of this Agreement pay to the Government a sum of ringgit.

66. Right of distress.

If and whenever any of the fixed yearly payment or royalties reserved by this Agreement or any part thereof respectively shall be in arrear or unpaid for the space of two calendar months next after any of the days whereon the same ought to be paid (whether the same shall have been legally demanded or not), then and so often as the same may happen the Government may by any officer duly authorized thereto (as an additional remedy and without prejudice to any other rights and remedies to which it would be entitled) enter into and upon any area which shall for the time being be possessed or occupied by the Company for the purposes of this Agreement or the exercise of any of the rights hereby granted and may seize and distrain and sell as landlords may do for rent in arrear all or any of the stocks of petroleum and products thereof, engines, machinery, tools, implements, chattels and effects belonging to the Company which shall be found in or upon the area so entered upon and out of the moneys arising from the sale of such distress may retain and pay all the arrears of the said fixed yearly payments and royalties and also the costs and expenses incidental to any such distress and sale rendering the surplus (if any) to the Company.

67. Refinery.

The Company shall be prepared if requested by the Government to supply as much of its production of crude oil in the Federation as shall be necessary for the supply of refined products for local consumption in the Federation, in a proportion of total demand in the Federation similar to the proportion that its production of crude oil bears to total production in the Federation. If and when total demand in the Federation appears likely within a short period to exceed refining capacity for local consumption in the Federation the Company shall consider with the Government the economic feasibility of erecting a refinery or extending any refinery it owns already to a capacity capable of processing shares of predicted local consumption proportionate to its share of local crude oil production.

68. Quiet enjoyment.

The Company paying the fixed yearly payments and royalties hereby reserved and observing and performing the covenants and provisions herein contained and on the Company's part to be observed and performed, shall and may peaceably and quietly hold and enjoy the rights and privileges hereby demised (subject as herein expressed) for and during the Agreement Period and any extension thereof without any lawful interruption from or by the Government or any person rightfully claiming from or under it.

69. Reciprocity.

This Agreement shall be determined if the Company shall be or become controlled directly or indirectly by a national of or by a Company incorporated in any country the laws and customs of which do not permit companies incorporated in that country controlled directly or indirectly by citizens of Malaysia to acquire, hold and operate petroleum concessions on conditions which in the opinion of the Minister are reasonably comparable with the conditions upon which such rights are granted to nationals of this country with the addition of conditions corresponding to those imposed by this Clause.

PART XI

EXTENSION AND DETERMINATION

70. Agreement Period.

(1) Subject to the provisions of the following sub-clauses, and Clauses 71, 72 and 73, this Agreement shall subsist for a period of 40 years from the date hereof and shall be divided into the following two phases —

(a) exploration phase; and

(b) development phase.

(2) The exploration phase shall commence from the date of this Agreement and shall, subject to any extension that may be granted under sub-clause (3), subsist for a period of 10 years from the date hereof unless sooner terminated under sub-clause (5).

(3) If it appears to the Company that no petroleum in a commercial quantity is likely to be found on the Scheduled Lands before the expiry of the exploration phase, upon the Company making an application not later than three months before the expiry thereof, the Company shall be entitled to an extension (in this Agreement referred to as "extended exploration phase") for a total period not exceeding five years from the date of the expiry of the exploration phase:

Provided that —

(a) such extension shall be granted only in respect of not more than 25% of the area originally contained in the Scheduled Lands; and

(b) the Company shall undertake in respect of its operations under Clause 10 to spend the sum stated in sub-clause (4) of that Clause.

(4) If at the expiry of the exploration phase or, in the case of the exploration phase having been extended under sub-clause (3), at the expiry of the extended exploration phase, the Company has not notified the Minister that it has discovered on the Scheduled Lands petroleum in a commercial quantity, pursuant to sub-clause (5), this Agreement shall be automatically determined, but without prejudice to the rights and obligations of the parties accrued or arising prior to such determination.

(5) If the Company notifies the Minister that it has discovered petroleum in a commercial quantity, this Agreement shall continue to subsist but the exploration phase or the extended exploration phase as the case may be shall thereupon automatically terminate and the Company shall enter upon the development phase. The development phase shall commence from the date of such notification and subject to the following proviso shall subsist for a period of 30 years:

Provided that —

(a) where such notification is given during the exploration phase, the development phase shall be automatically extended for such further period as represents the balance of the exploration phase; and

(b) there shall be no such extension where such notification is given during the extended exploration phase.

71. Extension.

(1) If the Company makes all payments which must be made and complies with all the other obligations which must be complied with by the Company under this Agreement, then the Company, on giving to the Government not less than twelve months' previous notice and not more than two years nor less than one year before the end of the Agreement Period, shall hold the right to an extension of the rights of the Company under this Agreement in respect of the Scheduled Lands.

(2) Such extension shall be for a further period to be agreed upon with the Government and shall be granted upon the terms and conditions contained in any written law and regulations then in force relating to

petroleum mining concessions in the Federation, and applicable to such concessions during their last year or, if or so far as there shall not be any such terms and conditions, upon the then applicable terms and conditions of this Agreement (other than this present Clause):

Provided that, if the payments which must be made by the Company during such extended period cannot be determined precisely under such law and regulations, such payments shall be fixed by agreement or in default of such agreement shall be decided by arbitration. If such arbitration occurs the arbitrators shall fix the payments by way of fixed yearly payments and rates of royalty which shall be fair and reasonable having regard to the conditions prevailing at the end of the Agreement Period and the rates of royalty in force in the Federation and in other producing countries at the date of such extension.

(3) If any extension of the rights of the Company under this Agreement is granted in respect of the whole or any part of the Scheduled Lands as provided in sub-clause (1) of this Clause, then the Company shall be released from all liability to do anything which is expressly required to be done under this Agreement by the Company at the end of the Agreement Period in relation to such lands.

72. Right of Company to determine.

The Company shall hold the right to determine this Agreement at any time during the Agreement Period by giving to the Government not less than twelve months' previous notice in writing to that effect.

73. Right of Government to determine.

If —

(a) any payments which must be made by the Company under this Agreement are unpaid for the space of 6 calendar months following after any of the dates on which the same ought to have been made; or

(b) there is any failure by the Company to comply with any other obligations which must be complied with by the Company under this Agreement; or

(c) the Company ceases to exist either voluntarily or compulsorily (except a voluntary cessation of a solvent company for the purpose of amalgamation or reconstruction), or a receiver is appointed of any part of its undertaking; or

(d) the Company fails to comply with any unit development scheme prepared in accordance with the provisions of Clause 46; or

(e) five years after the commencement of the development phase the Company fails to produce petroleum, then and in any such case the Government shall hold the right to determine this Agreement:

Provided that the said power shall not be exercised unless and until —

(i) notice has been given to the Company specifying the particular matter causing the said power to arise, and if the matter is capable of remedy requiring the Company to remedy the matter, and requiring the Company to make reasonable compensation in money for the matter in any case where such compensation may reasonably be required; and

(ii) within a reasonable time thereafter the Company fails to remedy the matter, if it is capable of remedy, and to make reasonable compensation in money, if such compensation is required, to the satisfaction of the Government.

74. Effect of determination.

On the determination of this Agreement under any of the provisions hereof, this Agreement and all the

respective rights and obligations of the parties under this Agreement shall altogether cease to have effect:

Provided that such determination shall be subject and without prejudice to —

(a) any rights and obligations of the parties respectively expressed to arise under this Agreement on the determination thereof; and

(b) any liability of either party arising out of an earlier failure to comply with any obligation which must be complied with by such party.

75. Right of Government to assets at end of Agreement Period.

(1) Subject to the occupation rights of the Company (if any) under another petroleum agreement, at the end of the Agreement Period or any earlier determination of this Agreement the Company shall if requested so to do by the Government deliver up to the Government at a price not exceeding the written down value for tax purposes any buildings, plant, railways, pipelines, pumps, machinery and other assets of a fixed or permanent nature constructed, put up or built and used or employed by the Company in or on the Scheduled Lands and which are either at that time necessary for the continued production of any petroleum field therein or are in the nature of public utilities (such as utilities providing electrical, gas, water and telecommunications services to the Government or the public). The Company shall if so requested by the Government also sell to the Government at that time (at a price which, if agreement fails, shall be fixed by arbitration) any moveable assets owned and used or employed by the Company in or on the Scheduled Lands which are then necessary for the continued production of any petroleum field therein and which the Government may wish to purchase:

Provided that —

(a) the foregoing provisions of this Clause shall not apply to moveable assets which are still required by the Company for use or employment in respect of lands held under any other petroleum agreement nor to assets of a fixed or permanent nature which are still required by the Company as aforesaid so long as such assets are so required;

(b) the Government shall give notice of any purchase it wishes to make hereunder at least six calendar months before the end of the Agreement Period (or, if this Agreement shall be determined before the end of the Agreement Period, at any time within three calendar months thereafter).

(2) The Company shall not within five years before the end of the Agreement Period remove from the Scheduled Lands or sell any assets of a fixed or permanent nature which might be deliverable to the Government under this Clause, and at no time shall remove or sell any such asset which is in the nature of a public utility while it is required for that purpose.

76. Right of Company over assets during Agreement Period.

Subject to Clause 75 and the rights of surface owners, the Company from time to time may remove and may sell or otherwise dispose of any assets in or on the Scheduled Lands which are no longer required by the Company for the purpose of its operations under this Agreement, and pending such sale or other disposal may deal with such assets as the Company thinks fit.

77. Delivering up of productive boreholes and wells at end of Agreement Period.

Within two months after the end of the Agreement Period or any earlier determination of this Agreement, the Company shall deliver up to the Government all productive boreholes or wells made by the Company in good repair and condition and fit for further working (unless ordered by the Minister to plug them as provided in Clause 78 and except such boreholes and wells as shall have been previously abandoned with

the consent of the Minister).

78. Plugging of boreholes and wells at end of Agreement Period.

Within two months after the end of the Agreement Period or at any earlier determination of this Agreement the Company shall plug all boreholes and wells as provided in Clause 41, if required so to do by the Minister.

PART XII

ANCILLARY PROVISIONS

79. Force majeure.

Failure on the part of the Company to fulfill any of its obligations under this Agreement shall not give the Government any claim against the Company or be deemed a breach of this Agreement in so far as such fulfilment has been delayed, hindered, interfered with or prevented by any exceptional or unforeseeable circumstances which are not within the control of the Company or by reason of compliance with any order or request or any national, port, transportation, local or other similar authority or of any body or person purporting to be or act for such authority.

80. Arbitration.

Subject to Clause 81, whenever any matter must be referred to arbitration under the provisions of this Agreement or if at any time (whether during the Agreement Period or thereafter) any question or dispute shall arise regarding this Agreement or any matter or thing connected therewith or the rights or obligations of the Government or the Company under this Agreement or any matter arising out of these rights or obligations or connected with them, or if with respect to any matter requiring the agreement of the Government and the Company agreement cannot be reached within six months of the date consultations commence or such extended period as may be agreed, then and in all such cases the matter shall be referred to arbitration in Geneva, Switzerland or such other place as may be mutually agreed. The parties shall seek to agree upon the joint appointment of a single arbitrator. Failing such agreement within three calendar months of the time that the matter is referred to arbitration, each party shall have the right to appoint one arbitrator, and these two arbitrators shall jointly appoint a third arbitrator who shall be the chairman. If the first two arbitrators shall fail to agree within two calendar months of their appointment upon the appointment of a third arbitrator or if either party shall fail to appoint an arbitrator within one calendar month of the failure to agree on a single arbitrator then the appointment shall be referred to the competence of the President of the Federal Tribunal of Switzerland at the request of either party. Such arbitration shall be conducted in accordance with the laws and customs of the place of arbitration and the award of the arbitrator or arbitrators shall be final and binding upon both parties. Each party shall pay for its own costs and shall contribute fifty per cent of the fees and expenses of the arbitrators.

81. Price Committee.

If any dispute shall arise between the Government and the Company as to any matter to be justified under Clause 19 the dispute shall not be referred to arbitration but either of the parties may refer the dispute to an expert or a committee of experts to be similarly appointed and to have similar powers of procedure and decision as the Price Review Committee to which the Controller may refer pricing questions under the Petroleum (Income Tax) Act, 1967.

82. Applicable law.

This Agreement shall be construed in accordance with the laws of the Federation.

83. Notices.

(1) All notices and other communications to be given under this Agreement shall be given in writing.

(2) Any notice which the Government or any other person is required or entitled to give to the Company may be given or sent to the Company either at its registered office (if any) in the Federation or at its Statutory address for service of notices. Any notice which the Company is required or entitled to give to the Government or to any other person may be given or sent to the Minister as representative of the Government or such other person either at any address notified by the Minister or such other person, or, if no notification is given, at the office of the Minister.

(3) Any notice sent by registered post shall be deemed to have been received three days after the date of posting in the Federation.

84. Compliance with written laws.

Nothing in this Agreement shall entitle the Company to exercise the rights, privileges and powers conferred upon it by this Agreement in a manner which would contravene any written laws in force in the Federation.

85. Index and marginal notes.

The index and marginal notes are for convenience only and do not form part of this Agreement.

86. Alteration of terms of Agreement.

If as a result of changes in the Middle East operating under royalty expensing conditions comparable to those in Malaysia an increase in benefits to Governments in the Middle East should come generally to be received by them the Company will on request consult with the Government whether in the light of all relevant circumstances including the conditions in which operations are carried out and taking into account all payments made, any alteration to the terms of this Agreement would be equitable to the parties.

IN WITNESS WHEREOF the Minister, has, by the direction of and for and on behalf of the Government, hereunto set his hand and the Company has caused its Common Seal to be hereunto affixed the day and year first herein above written.

SIGNED BY.....
..... The Minister for and on behalf of the Government in the presence of.....

THE COMMON SEAL OF was hereunto affixed in the presence of.....
.....

FIRST SCHEDULE

(Clause 1)

SCHEDULED LANDS

SECOND SCHEDULE

(Preamble of Petroleum Agreement)

BOND IN RESPECT OF PETROLEUM AGREEMENT

BY THIS BOND the a Company whose registered office in is at , , binds itself to the Government of the Federation in the sum of dollars (Malaysian currency) to be paid to the and his successors in office.

Sealed with the Common Seal of the Company this day of ,196.

WHEREAS by Agreement of even date herewith and made between the Government of the Federation of the one part and the said of the other part the sole

right and licence was granted to the said to search, bore for, win and work all or any petroleum lying or being within under or throughout that part of prescribed in the First Schedule of the said Agreement subject to the term, conditions and covenants therein contained.

Now the condition of the above-written bond or obligation is such that if the said

shall well and truly observe and perform all and every the covenants and agreements by it to be observed and performed as hereinbefore mentioned and shall in a proper and workmanlike manner do all and every the acts, matters and things by it to be done under the said Agreement to the satisfaction of the Government of the Federation or such other person as the said Government may by writing appoint for that purpose THEN the above-written bond or obligation shall be void; otherwise the same shall remain in full force and effect.

THE COMMON SEAL OF the Company

was hereunto affixed in the presence

of:

Directors.

Secretary.

ANNEX II

MODEL PETROLEUM AGREEMENT IN RESPECT OF ON-SHORE LANDS

THIS AGREEMENT is made the day of
....., 196, BETWEEN the Government of the state of
..... (in this Agreement called "the Government") of the one part AND
..... (in this Agreement
called "the (in this Agreement called "the Company" which expression shall where the context
allows include its successors and assigns) of the other part.

WHEREAS —

(A) The Company has applied to the Government under the Petroleum Mining Act, 1966, for a petroleum agreement in respect of certain lands specified in the First Schedule to this Agreement and has entered into a bond in the form set out in the Second Schedule in the sum of
..... ringgit conditioned for the due and faithful carrying out of the provisions contained in this Agreement.

(B) The Government has agreed to enter into a petroleum agreement under the terms and together with the benefit of but subject to the provisions in this Agreement specified.

Now THIS AGREEMENT WITNESSETH as follows —

PART I

DEFINITIONS

1. Meaning of expressions in Agreement.

In this Agreement the following expressions (except where the context otherwise requires) have the following meanings —

"Agreement Period" means the period during which this Agreement subsists as determined under the provisions of Clause 70; and "Agreement year means a year commencing on the date or anniversary of the commencement of the Agreement Period;

"barrel" means 42 U.S. gallons or 9,702 cubic inches, being equivalent to 34.9726 Imperial gallons;

"casinghead petroleum spirit" means any liquid hydrocarbons obtained from natural gas (before the crude oil from which it is derived has been measured for royalty) by separation or by any chemical or physical process;

"crude oil" means mineral oil in its natural state before the same has been refined or otherwise treated but excluding water and foreign substances;

"development phase" means the period during which the Company's activities are directed towards the production of petroleum from the Scheduled Lands;

"exploration phase" means the period during which the Company's activities are directed towards the finding and searching for petroleum on the Scheduled Lands and shall include the extended exploration phase as hereunder defined;

"extended exploration phase" means the period of exploration extended under Clause 70 (3);

"Minister" means the Menteri Besar or the Chief Minister of a state;

"natural gas" means gas obtained from boreholes and wells and consisting primarily of hydrocarbons;

"Part" and "Clause" mean respectively a Part and a Clause of this Agreement;

"petroleum" means any mineral oil or relative hydrocarbon and natural gas existing in its natural condition and casinghead petroleum spirit but does not include coal or bituminous shales or other stratified deposits from which oil can be extracted by destructive distillation;

"petroleum in commercial quantity" means the discovery of reserves of petroleum in such quantities which will permit their being economically developed, taking into consideration the location of the reserves, the depths and number of wells required to be drilled and the transport and terminal facilities needed to exploit the reserves which have been discovered;

"posted price" means the f.o.b. price published by the Company in accordance with Clause 19 (a) for each grade, gravity and quality of petroleum offered for sale to buyers generally for export

at the relevant point of export, which price shall be a price established with due regard to any posted prices for petroleum of comparable grade, gravity and quality in the Persian Gulf and having regard to geographical location;

"Scheduled Lands" means the area of continental shelf specified in the First Schedule to this Agreement and subject to the provisions of Part IV and the following proviso shall be deemed to be square miles:

Provided that if following the more particular determination of the boundaries of such Scheduled Lands after the signing of this Agreement the area thereof as fixed by survey shall be ascertained to be greater or less than square miles the area so ascertained shall thereupon for the purpose of this Agreement be deemed to be the area comprised therein at the date hereof in substitution for the said area of square miles, and any payments which may have been made under Clause 11 (fixed yearly payments) hereof before such ascertainment shall be adjusted accordingly.

PART II

AGREEMENT

2. General grant.

Inconsideration of the expenditure commitments and payments to be made by the Company specified in Parts V and VI, the Government hereby GRANTS to the Company the rights specified in Part III in respect of the Scheduled Lands to EXERCISE AND ENJOY all and every the said rights for the Agreement Period subject to the provisions for surrender contained in Part IV and together with the benefit of but subject to the other stipulations and provisions contained in Parts VII to XII inclusive.

PART III

RIGHTS OF THE COMPANY OVER SCHEDULED LANDS

3. Rights of the Company.

The Company shall have the sole and exclusive rights —

(a) to enter upon and explore and search the Scheduled Lands for petroleum and for that purpose to make geological, geophysical and topographic examinations of the Scheduled Lands;

(b) to enter upon the Scheduled Lands and search, bore for, win and work all or any petroleum lying or being within under or throughout the Scheduled Lands;

(c) subject to the approval of the Government, to appropriate and use for any purpose connected with the borings or works or refining operations connected therewith the water upon or within any of the Scheduled Lands and to collect, impound and bore for the same for the purpose of working the said borings or works or carrying out refining operations but so that in the exercise of this right the Company shall not deprive any lands, villages, houses or watering places for cattle of a reasonable supply of water as heretofore accustomed;

(d) to enter upon, use and occupy a sufficient part of the Scheduled Lands adjoining any borings for depositing thereon the products of the said borings and all the earth, soil and other substances

brought to the surface and for otherwise carrying on the works of the said borings and operations hereunder;

(e) to refine or otherwise treat the aforesaid petroleum in and upon the Scheduled Lands whether for purposes of sale or otherwise save as hereinafter provided;

(f) to store, take, lead, pipe and carry away on, under or over the Scheduled Lands the aforesaid petroleum and the products thereof and to dispose of the same at its own will and pleasure save as hereinafter provided;

(g) to erect, set up, make and operate in, upon and over the Scheduled Lands offices, dwelling houses, schools, hospitals or other buildings whatsoever, clubs, recreation grounds and all other sports facilities and amenities, sheds, engines, machinery, furnaces, erections, pipelines, storage tanks, refineries and other installations, telephone and power lines, railroads and other roads, tramways, loading places, wharves for ships, aircraft landing strips, reservoirs, waterworks, sewage works and all other works whatsoever necessary for the exercise of the several rights and privileges hereby granted;

(h) to search for, dig, get and treat gravel, sand, clay and stone in any State land within the Scheduled Lands for the exercise of the several rights and privileges hereby granted but not for sale provided that at the expiration of this Agreement any excavations shall be fenced or filled in or levelled and left otherwise fit for cultivation and occupation as far as may be reasonably practicable if so required by the Government;

(i) to cut down the brushwood and undergrowth and fell any timber (except protected trees) now standing or growing or which at any time hereafter may grow on the Scheduled Lands for the purpose of facilitating ingress and egress to and from the Scheduled Lands and also for the purposes of clearing lands for the erection of machinery and plant in connection with the Company's operations and also for the purpose of clearing lands for protection against damage by fire and for erecting and making habitable the said dwelling houses:

Provided that if required so to do by the Government, the Company shall pay a reasonable price for all timber and undergrowth cut down or felled by the Company or taken or used by the Company such price to be assessed in default of agreement by arbitration as provided in Clause 80 (Arbitration). This paragraph shall not apply to any land that may have been proclaimed to be a reserved forest without the prior consent of the Government in writing; and

(j) to enclose with a fence the surface of any of the Scheduled Lands subject to the provisions of this Agreement provided that, before so doing, the Company shall secure such permission or approval as may be required by any written law for the time being in force.

PART IV

SURRENDER PROVISIONS

4. Company to surrender Scheduled Lands compulsorily.

(1) The Company shall —

(i) on the expiration of five (5) Agreement Years from the date of this Agreement, surrender its rights in respect of such area or areas of the Scheduled Lands (if any), as, together with any area or areas in respect of which such rights have already been surrendered under Clause 5 amount to 50% of the area originally contained in the Scheduled Lands;

(ii) on the expiration of ten (10) Agreement Years from the date of this Agreement, surrender its rights in respect of such further area or areas of the Scheduled Lands (if any), as together with any area or areas in respect of which such rights have already been surrendered under this Clause and/or Clause 5 amount to 75% of the area originally contained in the Scheduled Lands:

Provided that if the Company satisfies the Minister, by representations made to him in writing not less than three (3) calendar months before the due date of any surrender prescribed by this sub-clause, that by reason of such surrender the area or areas of the Scheduled Lands retained by the Company would be too small to permit of effective development, the Minister may waive its right to such and any subsequent surrender.

(2) Subject to Clause 6, the Company shall be free to select for surrender under this Clause such area or areas of the Scheduled Lands as the Company shall decide.

(3) The Company shall not less than two (2) calendar months before the due date of surrender notify the Minister in writing of the area or areas of the Scheduled Lands to be surrendered.

(4) After any such surrender, if the Scheduled Lands retained do not form a single entity, the Company shall be granted such wayleaves over any Scheduled Lands surrendered for the laying, operating and maintenance of pipes, telephone and power lines and intercommunication and passage between the Scheduled Lands retained as the Company may require for the purposes of this Agreement. Such grant shall be subject to such reasonable payment and to such other stipulations and provisions as may be agreed between the Government and the Company. The said wayleaves shall not be included in the calculation of the amount of the Scheduled Lands retained.

(5) The Minister may, in his discretion on application in writing by the Company, re-include in this Agreement at any time any part of the lands surrendered under this Clause or in respect of which all rights have been surrendered under Clause 5 (Right of Company to surrender portions of the Scheduled Lands) hereof:

Provided that, if such resumption would make the aggregate of the Scheduled Lands greater than the area authorised by sub-clause (1) at the time of such resumption, the Company shall at the time of such resumption surrender other parts of the Scheduled Lands so that the aggregate of the lands included in the Agreement (including the area or areas resumed) does not exceed the area authorised for the time being by sub-clause (1):

And provided further that no rights inconsistent with the rights under this Agreement in the part or parts which the Company desires to resume have in the meantime been granted to any third party and in the event of mining rights for minerals other than petroleum or any other rights having previously been granted over any area resumed by the Company under this sub-clause not being inconsistent with the petroleum rights, the Company shall exercise its rights in the area subject to such rights so as not to hinder or interfere with the rights and privileges of the owner of such rights.

5. Company may surrender Scheduled Lands voluntarily.

Without prejudice to any obligation imposed by this Agreement and subject to Clause 6 the Company shall be entitled to surrender its rights in respect of any area or areas of the Scheduled Lands at any time during the Agreement Period. Such surrender may be made by the Company by giving not less than two (2) calendar months' notice to the Government and shall take effect as from the expiration of such notice.

6. Areas to be surrendered.

Any area or areas of the Scheduled Lands which is or are surrendered in accordance with the provisions of this Part shall, so far as is reasonable, be an area or areas which is or are, at the date of surrender, of sufficient size and convenient shape, having regard to adjacent areas not then the subject of petroleum agreements, to enable oil operations to be effectively carried out thereon.

7. Reduction of Scheduled Lands.

As from the date upon which any area or areas of the Scheduled Lands are surrendered in accordance with the provisions of this Part, such area or areas shall for all purposes (except as provided in Clause 4), be deemed no longer to be contained in the Scheduled Lands. Furthermore, any reference to the Scheduled Lands shall thereafter (except as aforesaid) mean only the Scheduled Lands as reduced by such surrender.

8. Lands included by inadvertance in the Scheduled Lands.

In the event of the inclusion by inadvertance in the Scheduled Lands of any area or areas over which it may subsequently be proved that the Government is not entitled to the petroleum rights or of lands or areas in respect of which the petroleum rights have already been granted to other individuals or companies, this Agreement shall be deemed to have been amended by the exclusion from the Scheduled Lands of any such lands or areas from the date of such proof or grant.

9. Establishment of boundary marks.

The Company shall, unless the Minister otherwise determines, carry out at its own expense such survey operations as are necessary to connect every angle and corner of the boundary line of the Scheduled Lands to fixed marks co-ordinated on the Where any angle or corner is at a place which is above low water or where any boundary crosses a place which is above low water the Company may be required to forthwith erect and at all times maintain substantial boundary marks of brick stone or concrete not less than one foot high. Such boundary marks shall be connected by survey to fixed marks co-ordinated on the in such a manner that the boundaries of the Scheduled Lands can be accurately traced on the ground. The Company shall ensure that the area demarcated on the ground shall conform as closely as possible to the area delineated on the plan hereto annexed.

PART V

EXPENDITURE COMMITMENT AND FIXED YEARLY PAYMENTS

10. Working obligation.

During the exploration phase or extended exploration phase the following sub-clauses shall apply —

(1) the Company shall with due diligence carry out such scheme of prospecting including such geological and geophysical surveys and examination of the Scheduled Lands and such testing thereof, by means of the drill or trial borings, as may be necessary for the purpose of arriving at the petroleum producing prospects of the same and for this purpose may employ contractors who provide geological, geophysical, drilling or other services;

(2) during the first month of each Agreement Year the Company shall submit to the Minister a programme of the prospecting which the Company intends to carry out during that year, together with its estimated cost;

(3) within three months of the end of each Agreement Year, the Company shall submit to the Government detailed audited accounts showing the sum of money expended by the Company in carrying out prospecting during such year;

(4) the Company shall, in respect of its operations under this Agreement, spend on exploration as described in sub-clause (1) above including expenditure directly related to the exploration and reasonably incurred outside the Federation a sum which shall, without prejudice to sub-clause (7), not be less than —

in the first year	....	....	....	....	....	RM200,000
in the second year	....	....	....	....	....	200,000
in the third year	....	....	....	....	....	500,000
in the fourth year	....	....	....	....	....	500,000
in the fifth year	....	....	....	....	....	2,000,000
in the sixth year	....	....	....	....	....	2,000,000
in the seventh year	....	....	....	....	....	2,000,000
in the eighth year	....	....	....	....	....	2,000,000
in the ninth year	....	....	....	....	....	2,000,000
in the tenth year	....	....	....	....	....	2,000,000
if exploration phase is extended in accordance with Clause 70 (3), then —						
in the eleventh year	....					RM3,000,000
in the twelfth year	....	....	....	....	....	3,000,000
in the thirteenth year	....	....	....	....	....	3,000,000
in the fourteenth year	....	....	....	....	....	3,000,000
in the fifteenth year	....	....	....	....	....	3,000,000;

(5) save as provided in sub-clause (6) and Clause 79 (*Force Majeure*) —

(a) if in either the first or second five Agreement Years or any lesser period within the first or second five Agreement Years resulting from the sooner determination of this Agreement the sum so expended falls short of that required to be expended in either of the said five Agreement Years or such lesser period, then the Company shall pay to the Accountant-General in Kuala Lumpur within three months of the end of either of the said five Agreement Years or such lesser period a sum representing the difference between its liability under this Clause for the years in question and its actual expenditure during the said years or such lesser period as shown by the audited accounts submitted under sub-clause (3) of this Clause;

(b) if at the end of the extended exploration phase, or any lesser period resulting from the sooner determination of this Agreement, the sum so expended falls short of that stated, then the Company shall pay to the Government, within three months of the end of the said phase, a sum representing the difference between its liability under this Clause and its actual expenditure as shown by the audited accounts submitted under sub-clause (3) of this Clause;

(6) if a short fall occurs during any five Agreement Years which in the opinion of the Government is not due to lack of diligence on the part of the Company, then such short fall may be carried forward and made good in the next succeeding five Agreement Years; and if the total actual expenditure by the Company during any five Agreement Years exceeds the total amount required to be spent under this Clause during the said five Agreement Years, then such excess shall be carried forward to set off against any short fall which may occur or any sum which shall be expended in the next succeeding five Agreement Years:

Provided that the amount to be carried forward may not exceed 25% of the total expenditure to be incurred in the next succeeding five Agreement Years;

(7) where the Scheduled Lands held by the Company under this Agreement during the first five Agreement Years exceeds 4,000 square miles or during, the second five Agreement Years exceeds 2,000 square miles or thereafter in any subsequent Agreement Year exceeds 1,000 square miles, in addition to the expenditure to be incurred under sub-clause (4) the Company shall spend for each and every square mile or part of a square mile of the Scheduled Lands held in such excess a further sum of—

(a) RM170 per annum during the first five Agreement Years;

(b) RM1,000 per annum during the second five Agreement Years;

(c) RM3,000 per annum during the third five Agreement Years.

11. Fixed yearly payments.

(1) The Company shall in respect of each square mile or part of a square mile of the Scheduled Lands pay to the Government the following fixed yearly payments —

(a) during the exploration phase and extended exploration phase —

Malaysian

currency per

square mile

or part of a

square mile.

in respect of each year during the first five years Nil

in respect of each of the sixth, seventh, eighth, ninth and tenth years ... RM20

if exploration phase is extended, then in respect of the eleventh year and each of the subsequent years ... 40;

(b) during the development phase —

in respect of each year during the first five years	50
in respect of each year of the sixth, seventh, eighth, ninth and tenth years	1,000
in respect of the eleventh year and each of the subsequent years	2,000.

(2) The said fixed yearly payments shall be made by equal half-yearly instalments on the first day of January and the first day of July in every year. The first of such instalments shall be paid on the first of the said days next after the commencement of the sixth Agreement Year. The last of such instalments shall be paid on the last of the said days in the Agreement Period.

(3) During the first five years of the development phase, the said fixed yearly payments under this Clause in respect of any year may subject to sub-clause (4), be deducted from the amount of royalties payable in that year under the provisions of Part VI; and thereafter —

(a) those fixed yearly payments due in respect of acreage within a petroleum field in the Scheduled Lands in respect of any year may subject to sub-clause (4) be deducted from the amount of the said royalties payable in that year on petroleum produced from that petroleum field; and

(b) those fixed yearly payments due in respect of acreage outside such petroleum field may in respect of any year be reduced by expenditures incurred in that year in connection with exploration for petroleum on such acreage that may be undertaken by the Company within the Scheduled Lands.

For the purpose of this sub-clause the expression "acreage within a petroleum field" means the area occupied by petroleum at the time of its discovery plus 20%. Such petroleum may occur in one reservoir or several overlapping reservoirs occupying a geologic feature or features. For a structure or complex of structures the limits will normally be taken as the lowest closing contour. For petroleum occurring in reservoirs partly or wholly the result of stratigraphic conditions the limits will be determined by the best geologic and engineering methods. Because geologic features customarily have irregular limits the petroleum field areas as herein defined may include non-productive areas up to 20% of the area originally productive to permit the petroleum field to be included in rectilinear boundaries. The boundaries of petroleum fields, once established, will continue throughout the Agreement Period but may be extended by application of the above-mentioned principles if additional petroleum bearing areas are subsequently discovered.

(4) Any deduction of fixed yearly payments from royalties under sub-clause (3) or under paragraph (a) of that sub-clause shall be treated as part or full payment of such royalties as the case may be: Provided that such part or full payment of royalties, as the case may be, shall be treated for income tax purposes as if it were fixed yearly payments under Clause 11(1) and (2).

12. Refund of fixed yearly payments.

When the Company's rights under this Agreement are determined or when the rights granted by this Agreement are surrendered in respect of any area or areas of the Scheduled Lands then the Government shall refund to the Company an apportioned part of any fixed yearly payments made by the Company in advance in respect of the Scheduled Lands or any such area or areas thereof. This refund shall be in respect of the period after the date of such determination or surrender for which payment has already been made.

13. Additional yearly payments for surface occupation.

The Company shall during the subsistence of this Agreement pay to the Government additional yearly payments of (Malaysian Currency) per acre or part of an acre of the surface State lands actually occupied by the Company for any of the purposes of this Agreement. Such payments shall be made in accordance with the provisions of the National Land Code and Rules made thereunder.

PART VI

ROYALTIES AND TAXES

14. Royalties.

Subject to sub-clause (3) of Clause 15, within 2 months after the first day of January and the first day of July in each year of the Agreement Period the Company shall pay to the Government in Malaysian currency (unless otherwise agreed) the royalties set out in Clauses 15, 16 and 17 in respect of the half-year period ending on the said dates (and so that for the purposes of this and such said Clauses the period between the date of this Agreement and the first of the foregoing days next following the date of this Agreement shall be deemed to be a half-year period):

Provided that if there is any dispute or failure to agree between the parties affecting the amount of the royalties payable in respect of any half-year period, such amount only as is admitted by the Company to be the minimum amount of royalties payable shall be paid as above specified. No further royalties shall be payable in respect of that half-year period until the amount is finally determined.

15. Royalty on crude oil.

(1) A royalty shall be paid, as specified in Clause 14 on all crude oil won and saved by the Company from the Scheduled Lands in the preceding half-year period at a rate equal to 12½% of the value thereof:

Provided that any crude oil used (or the products of which are used) during such year by the Company for the purpose of carrying on drilling and production operations shall be excluded when calculating the quantity of crude oil obtained in that year for the purpose of this Clause.

(2) The value of crude oil for the purpose of royalty shall be the value obtained by applying the rate of posted price effective at the end of the half-year period in respect of which the royalty is to be paid:

Provided that where it is shown to the satisfaction of the Minister that any part of the crude oil is consumed within Malaysia, such value shall be the actual selling price obtained by the Company from the sale of such crude oil.

(3) If no posted price is published by the Company in accordance with Clause 19(a), in respect of crude oil not exported, the value for the purpose of royalty shall be ascertained in a manner to be agreed between the Company and the Minister.

(4) The Government may, in lieu of the royalty prescribed in sub-clause (1) of this Clause, elect to take a proportion of each type of crude oil not exceeding 12½% of the total volume of that type of crude oil in respect of which royalty would have been payable under sub-clause (1). Such election may be made upon the Government giving not less than four (4) calendar months' notice

to the Company, and when made shall continue for such period as was stated in such notice, or, if no period was stated, until terminated by the Government giving not less than four (4) calendar months' further notice to the Company. Delivery of crude oil which the Government has elected to take shall be effected at main field storage tanks or at such other point of delivery as may be agreed.

16. Royalty on casinghead petroleum spirit.

(1) A royalty shall be paid, as specified in Clause 14, on all casinghead petroleum spirit recovered by the Company in the preceding half-year period at a rate equal to 12½% of the value thereof:

Provided that any casinghead petroleum spirit used during such year by the Company for the purpose of carrying on drilling and production operations shall be excluded when calculating the quantity of casinghead petroleum spirit recovered in that year for the purposes of this Clause.

(2) The value of natural gas for the purpose of royalty shall be the value in the field of production. Such value shall be the actual selling price obtained by the Company from the sale of natural gas in respect of which royalty is to be paid less an appropriate allowance for the cost of processing such natural gas when necessary and for its transportation from the field of production to the point of sale.

17. Royalty on natural gas.

(1) A royalty shall be paid, as specified in Clause 14 on all natural gas obtained from the Scheduled Lands and sold by the Company in the preceding half-year period at a rate equal to 12½% of the value thereof.

(2) The value of natural gas for the purpose of royalty shall be the value in the field of production. Such value shall be the actual selling price obtained by the Company from the sale of natural gas in respect of which royalty is to be paid less an appropriate allowance for the cost of processing such natural gas when necessary and for its transportation from the field of production to the point of sale.

18. Measurement of petroleum for royalty purposes.

(1) The Company shall measure or weigh by a method or methods customarily used in good oilfield operations and from time to time approved by the Minister —

(a) all crude oil obtained and casinghead petroleum spirit recovered from the Scheduled Lands; and

(b) all natural gas obtained from the Scheduled Lands and sold. (The volume of it shall be calculated at an absolute pressure of 1 atmosphere and at a temperature of 60 degrees F).

(2) Any officer authorised by the Minister shall be entitled to be present at any time when such measurement or weighing takes place.

(3) Any measuring or weighing appliances found to be false at any time shall be deemed to have existed in that condition during the period of 3 months prior to the discovery thereof or the period elapsed since the last occasion upon which the same was examined or tested (whichever shall be the less) if the Minister so determines after considering any representations made by the Company. The royalties payable in respect of such period shall then be adjusted in accordance with this provision.

(4) The Company shall not make any alteration in the method or methods of measurement or weighing used by it or in any appliances used for that purpose without first informing the Minister. The Minister may require on any occasion that no alteration shall be made except in the presence of an officer authorised by him.

(5) When calculating the quantity of crude oil obtained and casinghead petroleum spirit recovered for the purposes of Clauses 15 and 16, the quantity of crude oil and casinghead petroleum spirit which is to be excluded shall be ascertained according to a method approved by the Minister.

19. Pricing.

The Company hereby undertakes —

(a) if and when it commences to export crude oil to publish posted price for such crude oil; and

(b) if and so often as called upon to do so by the Minister or an officer authorised in writing by him, to justify the posted price of its crude oil, the price at which its crude oil is sold in the Federation and the prices at which its natural gas and casinghead petroleum spirit are sold provided that such prices shall be obtained as if the buyer and the seller had been independent persons dealing at arm's length.

20. Taxation.

For the Agreement Period —

(a) the Company shall be liable to pay to the Government a total amount of income tax which shall be neither greater nor less than it would be liable to pay by the application of the provisions of the Petroleum (Income Tax) Act, 1967, in force at the date of this Agreement in respect of its income arising from petroleum operations within the meaning of the said Act in relation to petroleum produced under this Agreement, and no tax shall be imposed under any other Act on such income, or dividends paid out of such income;

(b) the Company shall be free from all taxation, charges and fees payable to the Government or to any governmental authority in the Federation in relation to such petroleum operations, except the following —

(i) payments which would be made in accordance with this Agreement and the provisions of the Petroleum (Income Tax) Act, 1967, in force at the date of this Agreement;

(ii) charges and fees for services rendered by governmental authorities on request to the public generally, provided that such charges and fees are reasonable and non-discriminatory; and

(iii) taxes and fees (however described) of general application such as import duties, stamp duties and registration fees, provided that they are at rates no higher than those generally applicable in the Federation.

21. Audit.

(1) The Government shall have the right from time to time to appoint an auditor, who shall be qualified and independent of the Government and such auditor shall have the right to audit for the purposes of Government revenues and not otherwise the books and accounts of the Company.

(2) For the purposes of such audit the Company shall make available to the auditor all such books, records, accounts, and other documents and information as may be reasonably required of the Company by him.

PART VII

RIGHTS RESERVED BY GOVERNMENT

22. Government may work other substances in Scheduled Lands.

The Government or any other person authorised by the Government for that purpose shall hold the right —

(a) to enter into and upon the Scheduled Lands and the seas over any part thereof in order to search for, dig for and take any substances other than petroleum therein or for all and every purpose other than those for which this Agreement is entered into;

(b) to sink, build and use such pits, shafts, levels, drains, watercourses, tunnels, buildings, engines, machinery, and other things on, in or under the Scheduled Lands as the Government thinks necessary or desirable for the purposes specified in paragraph (a) of this Clause; and

(c) to grant such rights, permits or wayleaves over the Scheduled Lands as may reasonably be required by other persons for the purpose of laying, operating and maintaining pipes, cables, telephone and power lines and intercommunication and passage to the shore:

Provided that the said rights shall be exercised in a manner which does not interfere with the rights of the Company under this Agreement: Provided also that fair compensation shall be paid for all loss or damage which the Company may incur because of the exercise of the said rights.

23. Government may enter Scheduled Lands for other purposes.

The Government or any other person authorised by the Government for that purpose shall hold the right —

(a) to enter into and upon the Scheduled Lands in order to make and maintain on the Scheduled Lands such reservoirs, pumping stations, generating stations, radio transmitting and receiving apparatus, waterways, roads, railways, telegraph and telephone lines and pipelines or other things as in the opinion of the Government, are necessary or desirable for any purpose;

(b) to obtain from and out of the Scheduled Lands such stone, earth and other, minerals as may be necessary or required for making, and maintaining the things specified in paragraph (a) of this Clause;

(c) at all times to draw water from the Scheduled Lands and to have free access thereto; and

(d) to go to and for at all times on and through the Scheduled Lands for all such purposes as may be required:

Provided always that the said rights shall be exercised in a manner which does not interfere with the rights of the Company under this Agreement : Provided also that fair compensation shall be paid for all loss or damage (but not including the value of any materials taken) which the Company may incur because of the exercise of the said rights.

24. Government may alienate Scheduled Lands to third parties subject to Company's rights.

The Government shall hold the right at any time to alienate to any person all or any area or areas of the Scheduled Lands for any purpose provided that such alienation shall be made subject to the rights of the Company under this Agreement.

25. Government may alienate surface in certain cases so as to interfere with Company's rights.

(1) The Government may, at any time or times, give notice to the Company that application has been made to the Government to acquire rights over the surface of such area or areas of any Scheduled Lands as is mentioned in such notice.

(2) If the Company shall not give notice to the government that it objects to the Government consenting to such application within ninety days after receipt of such notice, then the Government shall hold the right at any time or times thereafter to alienate all or any part of the surface of such area or areas:

Provided that such alienation shall not exclude the said area or areas of Scheduled Lands but only exclude the Company's right to enter on and occupy the surface thereof.

(3) If any such objection shall be made by the Company within the said period and the Government shall desire to effect the alienation notwithstanding such objection, then the question whether the proposed alienation ought or ought not to be effected shall be referred to arbitration.

(4) If the arbitrators decide that the proposed alienation may be made without seriously harming the rights of the Company under this Agreement, then it shall be lawful for them to award that it may be made either —

(a) freed from the right of the Company under this Agreement to occupy the surface; or

(b) subject to the right of the Company under this Agreement in relation to the surface of all or any parts of such area or areas (in whatsoever way defined) as the Arbitrators may determine:

Provided that such rights may nevertheless be exercised only on condition that before the exercise of any right in respect of the surface the Company —

(i) shall give to the acquirer and his successors in title 60 days' previous notice of the Company's intention to exercise such rights; and

(ii) shall make an agreement with him to pay compensation (to be assessed in case of dispute by arbitration) for all loss or damage which he may incur because of the exercise of such rights.

(5) Whenever an award is made under paragraph (b) of sub-clause (4) of this Clause, the proposed alienation, if made, shall be made expressly subject to the provisions of the award.

(6) The Company shall hold a prior right to have any area or areas alienated under this Clause again included in the Scheduled Lands over which the Company holds the right to occupy the surface under this Agreement, if such area or areas shall subsequently become available for this purpose.

(7) The foregoing provisions of this Clause shall not prevent the Company obtaining the right by agreement to occupy the surface of any area or areas alienated under the provisions of this Clause if the title of the acquirer and his successors in title so allows.

26. Government may exclude lands for public purposes.

(1) The Government shall hold the right at any time to withdraw the Company's right to occupy the surface of any area or areas of any Scheduled Lands if such area or areas are required for existing villages or new villages, village extensions, water reserves, harbour limits, navigational purpose or any other public purposes whatsoever:

Provided that —

(a) during the Agreement Period the area or areas so excluded shall not exceed 10 square miles as regards any one area, and in all shall not exceed 50 square miles; and

(b) the area or areas excluded under this Clause shall continue to form part of any Scheduled Lands subject to this Agreement:

Provided that no operations shall be carried on, in or under such area or areas other than searching for or mining petroleum by means of deviated drilling Schedule Lands not so excluded; and

(c) the exclusion of any area or areas shall not be required if —

(i) any active operations such as well-drillings, road construction, water-works and/or other operations relating to the obtaining of petroleum have previously been commenced or are in progress therein; or

(ii) the Company has given notice that such area or areas is or are required for occupation and paid or offered compensation in respect thereof under sub-clause (3) of Clause 28.

Instead, some other equal area or areas of the Scheduled Lands shall be excluded which are suitable in the opinion of the Government for the said public purposes.

(2) The Government shall have the power at any time to require the Company not to exercise the rights conferred upon it under this Agreement in such a manner as unreasonably to interfere with any fishing.

PART VIII

RESTRICTION ON COMPANY'S RIGHTS

27. Restriction as to alienated lands.

Notwithstanding the foregoing provisions of Part III, to the extent that any part or parts of the Scheduled Lands are at the date of this Agreement held by third parties under the provisions of any written law relating to land tenure —

(a) the rights granted to the Company in respect of such part or parts of the Scheduled Lands shall be subject to the provisions of such written law relating thereto as now existing; and

(b) the Company shall not exercise any of the rights granted under Part III in respect of any area or areas of such part or parts of the Scheduled Lands without the previous consent of the Minister who shall give such consent upon proof to his satisfaction that —

(i) it would not tend to the religious prejudice of the community; and that either

(ii) the Company has agreed with the registered owner or owners of the surface of such area or areas for payment of compensation to such registered owner or owners in respect of any damage which may be done to such area or areas or to any cultivation or building thereon because of the exercise of such rights; or

(iii) the Company has made reasonable efforts to make such an agreement but has failed to do so through no fault of the Company; or

(iv) the Company is unable to make such an agreement because such registered owner or owners or any of them cannot be found, or are out of the State or are for any reason incapable because of law of making such an agreement.

28 Occupation of Scheduled Lands for surface purposes.

(1) Before occupying any area or areas of State Land within the Scheduled Lands for the purposes of surface operations the Company shall give to the Minister not less than 28 days' previous notice specifying by name, amount or other sufficient designation the area or areas proposed to be occupied and the purpose for which the area or areas are required.

(2) The Minister shall state his objections, if any, on grounds of public interest to the proposed site within 28 days after the receipt of such notice. The validity of such objections, if a dispute occurs, shall be determined by reference to arbitration.

(3) The Company shall always pay or offer reasonable compensation to the occupiers of any area or areas of the Scheduled Lands before the Company occupies such area or areas. Thereafter the Company shall be entitled to occupy such area or areas (subject to any adverse award by the Arbitrators) but shall pay the amount of compensation. Compensation hereunder shall be determined by agreement between the Government and the Company and in case there shall be a dispute shall be assessed by reference to arbitration.

29. Company not to cause damage.

The Company shall not exercise the rights granted by this Agreement in a way which may cause damage by water or otherwise to land not occupied by the Company.

30. Timber cutting in reserved forest restricted.

The following restrictions on the rights granted by paragraph (i) of Clause 3 shall apply to any Scheduled Lands that may have been proclaimed to be a Reserved Forest —

(a) a plan of the whole of any area or areas which it is proposed to develop shall be given to the State Forest Officer;

(b) a plan of any portion of the area or areas to be cleared shall be given to the State Forest Officer and the proposed locations for well sites shall be shown on it. Such plans shall be made from actual survey and shall, if practicable, be on the same scale as the plan referred to in paragraph (a) of this Clause with points of connection to enable them to be plotted on that plan;

(c) clearings shall be strictly limited to the actual area or areas necessary for the efficient conduct of the operations under this Agreement together with such additional clearings as may be necessary for the protection of such operations from fire and other hazards;

(d) due care shall be exercised in felling all trees so as not to damage other trees outside the area or areas being cleared;

(e) the clearings for well sites shall not usually exceed 2 acres.

31. Limitation of right over foreshore.

The rights granted by this Agreement shall be exercised on the foreshore lying between high water mark and low water mark at usual spring tides only when it is necessary to carry out effectually any operations under this Agreement. The Company shall not cause any reasonably avoidable obstruction to the use of such foreshore for other purposes through exercising such rights.

32. Limitation of rights over sea areas and reclamation.

Nothing in this Agreement shall be deemed to give any rights to the Company over the sea over the Scheduled Lands other than such rights as may be necessary for carrying out its operations under this Agreement and obtaining petroleum from the Scheduled Lands in a proper and efficient manner or other than such rights as may be expressly mentioned in this Agreement.

33. Installations in sea areas.

Any works or installations erected by the Company under this Agreement in or over any part of the sea-bed for the time being comprised in the Scheduled Lands shall be of such sort and shall be made, placed, marked and buoyed, equipped and maintained in such a way as to leave at all times and in any conditions safe and convenient channels for shipping in the area and as not unreasonably to interfere with any shipping. The Company (if required to do so by the Government) shall maintain audible and visible navigational aids and illuminate between the hours of sunset and sunrise all derricks, piers, survey marks or any other installations erected in or over such part of the sea-bed in such manner and by such means as is satisfactory to the Minister.

34. Pollution.

The Company shall adopt all practicable precautions (which shall include the provision of modern equipment) to prevent pollution of the high seas or coastal waters by oil, mud or other fluid or substance which might contaminate the sea water or shore line or which might cause harm or destruction to marine life.

35. Company not to use lands other than for purposes of Agreement.

The Company shall not, except with the consent of the Minister, use the Scheduled Lands in any manner except for the purposes of this Agreement.

36. Company not to obstruct working of other minerals.

The Company shall not whenever reasonably avoidable exercise the rights granted by this Agreement in a manner which may obstruct or interrupt the development and working of any minerals (other than petroleum) within the Scheduled Lands or lands adjacent to them. The Company shall at all times (so far as lies within its power) give the holders of licences or leases in respect of any such minerals reasonable means of access and passage on and across the Scheduled Lands to such minerals for the purposes of searching for, digging for, taking and carrying away such minerals.

37. Distance of boreholes or wells from boundaries.

No borehole or well shall be drilled —

(a) within a distance of 600 feet from the boundaries of the Scheduled Lands except with the consent of the Minister; or

(b) so as to deviate at any point out of the Scheduled Lands.

38. No drilling operations to be carried on near railways, etc.

Except with the previous consent of the Minister or of any officer authorised by him and subject to any conditions which may be connected with such consent, no drilling operations shall be carried on by the Company on the Scheduled Lands at any place within 100 yards of any reservoir, canal, railway or public road which is not constructed by the Company, or within 100 yards of any other public works or any building or inhabited site which is not the property of the

Company, other than for the maintenance or repair of existing wells. Moreover no storage tanks shall be erected at any point within 300 yards of such places:

Provided that if such places are situated on or within any of the areas falling under the operation of Clauses 24, 25 or 26 the provisions of this Clause shall not apply.

39. Report of discovery of petroleum.

The Company shall without avoidable delay report to the Minister the discovery of petroleum or petroleum bearing strata.

40. Notice of the site and commencement of boreholes and wells.

(1) As soon as the site of any borehole or well has been decided the Company shall notify the Minister of the site of it. The borehole or well shall be described by a certain number in the records, maps and plans which the Company is required to keep under the provisions of this Agreement. The Company shall notify the Minister of any change of the number of any such borehole or well which may be made.

(2) No borehole or well shall be commenced and no borehole or well shall be recommenced after work has been discontinued thereat for more than six months unless seven clear days' notice in writing shall have first been given to the Minister:

Provided that the operation of this Clause shall not apply to cleaning out operations in a producing well.

41. Abandonment and plugging of boreholes.

(1) No borehole or well shall be abandoned and no cemented string or other permanent form of casing shall be withdrawn from any borehole or well which it is proposed to abandon without the prior consent of the Minister or in case of an exploration borehole or well without notification to the Minister as soon as practicable. Consent shall not be unreasonably withheld in respect of boreholes or wells which have become or are unproductive.

(2) Every borehole or well which the Company intends to abandon shall be securely plugged by the Company in order to prevent entry and exit of water in and from any portion of the strata bored through, unless the Minister otherwise determines.

(3) The Minister may require on any occasion that no borehole or well shall be plugged except in the presence of an officer authorised by him.

42. Methods of working.

(1) The Company shall proceed with all due diligence to carry out exploration and development work at a reasonable and economically justifiable rate.

(2) The Company shall maintain all apparatus and appliances and all boreholes and wells capable of producing petroleum in good repair and condition. The Company shall carry out all operations under this Agreement in a workmanlike manner and in accordance with generally accepted standards of good petroleum field operations and conservation practices. Without prejudice to the general nature of the foregoing provisions the Company shall take all steps practicable in order —

(a) to control the flow and to prevent the escape or waste of petroleum discovered in the Scheduled Lands;

(b) to prevent damage to adjoining petroleum bearing strata;

(c) to prevent to fortuitous entrance of water through boreholes and wells to petroleum bearing strata; and

(d) to prevent the pollution of any water-well, spring, stream, river, lake, reservoir, estuary or harbour, the high seas or coastal waters and shoreline by oil or mud or other fluid or substance which might contaminate the sea water or shoreline or which might cause harm or destruction to marine life.

(3) The Company shall obey any instructions from time to time given by the Minister in writing relating to any of the matters specified in paragraphs (a) to (d) of sub-clause (2) of this Clause:

Provided that if the Company objects to any such instruction for the reason that it is unreasonable it may refer the matter to arbitration within 28 days after the date when such instruction was given.

43. Provision of storage tanks.

The Company shall use generally accepted standards of good petroleum field operations for confining the petroleum obtained from the Scheduled Lands in tanks, gasholders, pipes, pipelines or other receptacles constructed for the purpose.

44. Disposal of waste oil.

The Company shall drain all waste oil, salt water and refuse from tanks, gasholders, boreholes and wells into proper receptacles, which shall be constructed and maintained by it for that purpose, at a safe distance from such tanks, gasholders, boreholes, wells and other structures whether situated within the Scheduled Lands or not. The Company shall dispose of such waste oil, salt water and refuse in a manner from time to time approved by the Minister.

45. Health and safety.

The Company shall comply with any instructions given from time to time by the Minister for maintaining the health and safety of persons employed by the Company in or about the Scheduled Lands.

46. Unit development.

If at any time during the Agreement Period —

(a) other petroleum agreements are at the time in force in respect of the common petroleum reservoir;

(b) the Government shall consider that it is in the interest of the Federation, in order to secure the maximum ultimate recovery of petroleum and to avoid unnecessary competitive drilling, that the common petroleum reservoir should be worked and developed as a unit in co-operation by all the persons, including the Company, whose petroleum agreements extend to or include any part of the common petroleum reservoir;

then the following provisions shall apply —

(i) the Minister may require the Company by notice to co-operate with such other persons as are parties to petroleum agreements with the Government in respect of any part or parts of the common petroleum reservoir as may be specified in the said notice (in this Clause called "the other Operators") in the preparation of a scheme (in this Clause called "a development scheme")

for the working and development of the common petroleum reservoir as a unit by the Company and the other Operators in co-operation. The said notice shall contain a description by reference to a map of the area or areas in respect of which the Minister requires a development scheme to be submitted and shall state the period within which such scheme is required to be submitted for approval by the Minister;

(ii) upon receipt of such notice the Company shall be bound to submit such a scheme jointly with the other Operators for the approval of the Minister;

(iii) if a development scheme is not submitted to the Minister within the period limited by the said notice, or, if a development scheme is so submitted but is not approved by the Minister, then the Minister may prepare a development scheme which shall be fair and equitable to the Company and the other Operators. Moreover the Company shall obey all the provisions of any such development scheme applicable to the Company:

Provided that if the Company objects to any such development scheme prepared by the Minister it may refer the matter to arbitration within 28 days from the date when notice of such development scheme has been given to it by the Minister. Notwithstanding any such reference to arbitration however the Company shall obey the provisions of the development scheme pending the decision of the Arbitrator unless the Arbitrator otherwise determines.

47. Right of pre-emption in emergency.

Whenever a Proclamation of Emergency has been issued under Article 150 of the Constitution of Malaysia, the following provisions shall apply —

(a) the Government shall hold the first right to purchase all crude oil obtained by the Company from the Scheduled Lands under this Agreement and all the products of that crude oil;

(b) the Company shall use its best endeavours to increase as far as reasonably possible with facilities that then exist, the supply of crude oil and/or products of that crude oil to the extent required by the Government;

(c) with all reasonable speed, the Company shall endeavour to deliver all crude oil or products of that crude oil which are purchased by the Government under this Clause in the quantities, at the time and in the manner required by the Government at a convenient place of shipment or at a place of storage in the Federation to be determined by the Minister (whether belonging to the Government or otherwise). If a vessel employed to carry any such crude oil or products of such crude oil on behalf of the Government is detained on demurrage at the port of loading, then the Company shall pay the amount owing for demurrage according to the terms of the charter party and/or the rate of loading previously agreed unless the delay is due to causes outside the control of the Company;

(d) the price to be paid for all crude oil or products of it which are purchased by the Government shall be either —

(i) separately agreed by the parties; or

(ii) in default of agreement, a fair price at the places and on the dates of delivery to be settled by arbitration. To assist in arriving at a fair price at the places and on the dates of delivery the Company shall give particulars to the Government and the Arbitrators, if so required, in respect of the quantities, descriptions and prices of crude oil or products previously sold to other customers and of charters or contracts entered into for carriage. The Company shall also show to the Government and the Arbitrators original or authenticated copies of contracts or charter parties

entered into for the sale or carriage of such crude oil or products. The foregoing information shall be treated as confidential; and

(e) the Government shall also hold the right to take control of the plant and premises of the Company in the Federation, and if this happens the Company shall conform to and obey all directions issued by the Minister or on his behalf. Reasonable compensation shall be paid to the Company for any loss or damage that may be proved to have been incurred by the Company by reason of the exercise by the Government of the powers given by this paragraph of this Clause.

PART IX

RECORDS, ACCOUNTS, ETC

48. Company to keep and give records.

(1) The Company shall keep full and accurate records, in a form from time to time approved by the Minister, containing particulars of the following matters —

(a) the drilling, deepening, plugging or abandonment of all boreholes and wells;

(b) the strata and subsoil through which all boreholes and wells are drilled;

(c) the casing inserted in all boreholes and wells and any alteration to such casing;

(d) any petroleum, water and other economic minerals encountered;

(e) the areas in which any geological or geophysical work has been carried out;

(f) such other matters as the Minister may from time to time require;

and shall also keep accurate geological maps and plans and geophysical records and interpretations relating to the Scheduled Lands. Such maps, plans, records and interpretations and all geological and geophysical reports made by or for the Company shall be available for inspection by the Minister or his duly authorised representatives, and the Company shall deliver copies of such maps, plans, records, interpretations and reports to the Minister whenever required.

(2) The Company shall give to the Minister —

(a) within one month after the end of each quarter-year period —

(i) a summary of all geological and geophysical work carried out;

(ii) a summary of all drilling activity and results obtained;

(iii) a list of maps, a list of reports and a list of other geological and geophysical data prepared by or for the Company;

(iv) notification of future exploration plans;

(b) within two months after the first day of January and the first day of July in each year, estimates of crude oil and natural gas production and exports for each of the 4 half-year periods immediately following the said date;

(c) within four months after the end of each calendar year —

(i) estimates of economically recoverable reserves of crude oil and natural gas at the end of that year;

(ii) a record, in a form approved by the Minister, which describes the results of allexploration, development and other works carried out by the Company during that year inconnection with searching for, boring for and obtaining petroleum;

(d) summaries of exploration wells, including general lithological groups, letter classification boundaries, and hydrocarbon zones, within six months of completion of drilling. Such information as cannot reasonably be obtained within this period shall be submitted as soon as available; and

(e) from time to time, such other plans and information as to the progress and results of the Company's operations as the Minister may reasonably require;

(f) on relinquishment of any part of the Scheduled Lands, such maps, plans, reports, records, interpretations and data, made or obtained by or for the Company, relating to exploration, development, production, and any operations, in the surrendered lands, as the Minister may require.

49. Company to keep samples.

The Company shall as far as reasonably practicable correctly label and keep for reference for a period of one calendar year characteristic samples of the water encountered in any borehole or well and samples of any petroleum found in the Scheduled Lands and for a period of two calendar years characteristic samples of the strata found in any borehole or well. The Minister or his representative shall have access to such samples at all reasonable times and shall be entitled to require that representative specimens of any such samples delivered to him. Furthermore, the Minister may retain any specimens so delivered.

50. Company to keep accounts.

(1) The Company shall keep full and correct accounts, in a form from time to time approved by the Minister, at all times during the Agreement Period. These accounts shall contain accurate entries of—

(a) the gross quantity of—

(i) crude oil obtained from the Scheduled Lands;

(ii) untreated natural gas obtained from the Scheduled Lands and separated and introduced into main gas pipeline networks;

(b) the method and results of tests made on the crude oil and natural gas;

(c) the quantity sold of—

(i) crude oil;

(ii) natural gas;

(iii) casinghead petroleum spirit;

(iv) each refined petroleum product, including liquified petroleum gases;

together with the names of the purchasers, the quantity purchased and the price paid by each purchaser;

(d) the quantity injected into the formation of—

(i) crude oil;

- (ii) natural gas;
- (iii) casinghead petroleum spirit;
- (iv) each refined petroleum product, including liquified petroleum gases;
- (v) water and other liquids or gases;
- (e) the quantity consumed for drilling and other production operations (other than quantities reported under (d) above) and consumed in pumping to field storage and refineries in the Federation of —
 - (i) crude oil;
 - (ii) natural gas;
 - (iii) casinghead petroleum spirit;
 - (iv) each refined petroleum product, including liquified petroleum gases;
- (f) the quantity of crude oil refined in the Federation and the quantity of each refined product, including liquified petroleum gases, obtained from it;
- (g) the quantity of natural gas treated in the Federation for the removal of casinghead petroleum spirit or other liquids and liquified petroleum gases and the quantity of —
 - (i) casinghead petroleum spirit;
 - (ii) butane;
 - (iii) propane;
 - (iv) other liquids or gases obtained from it;
- (h) the quantity of natural gas flared;
- (i) such further information as the Minister may reasonably require from time to time.

(2) The Company shall within 2 calendar months after the first day of January and the first day of July in each year deliver to the Minister a summary of the said accounts for each such half-year period, in a form from time to time approved by the Minister, together with a statement of all royalties payable in respect of each such half-year period.

51. Company to furnish copies of agreements.

The Company shall within 2 calendar months of the date of execution give to the Minister copies of all conveyances, leases, assignments, agreements and deeds relating to the Scheduled Lands or any interest therein and to which the Company is a party or under which the Company either directly or indirectly obtains any benefit or incurs any liability.

52. Treatment of information supplied by Company.

All maps, plans, reports, records, interpretations and data, which the Company is required or may be required to give from time to time under this Agreement shall be supplied at the expense of the Company and subject as hereinafter mentioned shall be treated as confidential during the term of the Agreement and five years thereafter, except as otherwise agreed. The Government shall nevertheless be entitled —

(a) at any time, to make use of any information received from the Company, for the purpose of preparing and publishing aggregated returns and general reports on the extent of operations under petroleum agreements in the Federation;

(b) at any time, to make use of topographical survey information, including submarine topography, for any purpose whatsoever;

(c) at any time, to make use of any information received from the Company for the purpose of any arbitration or litigation between the parties;

(d) at any time, to make use of any information regarding economic minerals other than petroleum;

(e) to publish summaries of exploration wells, including lithological groups, letter classification boundaries, and hydrocarbon zones —

(i) in the case of discovery wells, two years after completion of drilling;

(ii) in other cases, at any time;

(f) on relinquishment of any part of the Scheduled Lands to incorporate geological and geophysical information (including interpretative information) relating to the surrendered lands in general and regional accounts and on regional maps up to 1:500,000 scale;

(g) two years after relinquishment of any part of the Scheduled Lands, to publish well records relating to the surrendered land, including electric logs, lithologies of cored samples, well cuttings, and sidewall samples; drill stem tests; flow records and faunal and floral lists;

(h) five years after relinquishment of any part of the Scheduled Lands, to use in any way, any maps, plans, reports, records, interpretations and data, relating to the surrendered lands.

53. Power of Government to inspect plant, records, etc.

The Minister or his duly authorised representatives shall hold the right at all reasonable times to enter into and upon any installations erected by the Company or the seas over any part of the Scheduled Lands for the following purposes —

(a) to examine the boreholes, wells, plants, equipment, buildings and other things made or done by the Company under this Agreement and the state of repair and condition of such things;

(b) to inspect and check the accuracy of the weighing or measuring appliances, weights, measurements, records, maps and plans which the Company is required to keep or make under this Agreement;

(c) to inspect and make abstracts or copies of any records, maps, plans or accounts which the Company is required to keep or make under this Agreement;

(d) to inspect the samples of strata, petroleum or water which the Company is required to keep under this Agreement; and

(e) to carry out any operations which the Government may be entitled to carry out under this Agreement.

PART X

MISCELLANEOUS PROVISIONS

54. Land for shore installations, etc.

(1) The Government shall make State land available to the Company (if required) outside the Scheduled Lands but within the State for the erection of shore installations, residential areas, the appropriation of water and such other purposes as may be agreed to be necessary for the exercise by the Company of its rights under this Agreement. This land shall be of such a size, in such an area or areas and be made available on such conditions as may be agreed between the parties and in default of such agreement as may be decided by arbitration:

Provided that —

(a) where any State land made available to the Company in accordance with the provisions of this Clause, is situated within the area of any other lands the subject of a petroleum agreement to which the Company is a party then such land shall be held on the same terms and conditions as if the land so made available had been occupied by the Company in accordance with the provisions of that petroleum agreement;

(b) nothing in this Clause shall compel the Government compulsorily to acquire land for the above purposes under the provisions of any written law relating to the compulsory acquisition of land by the Government.

(2) If the Company's rights over any lands, outside the Scheduled Lands and the subject of a petroleum agreement to which the Company is a party, are surrendered or in any way terminated, the Company shall have the right to occupy for the duration of this Agreement any area of such lands upon which stand shore installations, residential areas, supplies of water or any other building, construction or plant as are necessary for the exercise by the Company of its rights under this Agreement.

55. Compensation.

The Company shall pay reasonable compensation for all injury to the property and rights of third persons which may be done by the Company, its agents and servants in the exercise of the rights granted by this Agreement.

56. Indemnity against third party claims.

The Company shall at all times indemnify the Government, the Minister and every public officer of the Federation against all actions, costs, charges, claims and demands whatsoever which may be made or brought by any third person in connection with anything done or purported to be done by the Company under this Agreement.

57. Statements, prospectuses, etc.

(1) No statement shall be made by or with the consent of the Company claiming or suggesting whether expressly or by implication that any Government Department or any person or body acting on behalf of the Government has or have formed or expressed any opinion that the Scheduled Lands are from their geological formation or otherwise likely to contain petroleum.

(2) The foregoing provisions of this Clause or a statement to the effect thereof shall be included in or endorsed on any prospectus, statement in lieu of prospectus, notice, circular, advertisement or other invitation issued by or with the consent of the Company offering to the public for subscription or purchase any shares or debentures of a company or a company proposed to be brought into existence.

58. Notice of fresh issues of capital.

The Company shall report to the Minister particulars of any fresh issues of capital which may be made by it from time to time and any alteration which may be made in the Memorandum and Articles of Association or in the constitution of the Company.

59. Consent to assignment.

The Company shall not transfer its interest under this Agreement nor any of the rights hereby granted to any person or persons whomsoever without the previous consent in writing of the Government. The Government (without limiting its rights to make such consent subject to any conditions it may think fit) may require that, as a condition of giving such consent, the person or persons taking such interest or rights at his or their expense shall agree by agreement to observe and perform the obligations imposed on the Company by this Agreement.

60. Power for Government to perform Company's obligations.

If the Company at any time fails to comply with any of the obligations which must be complied with by the Company under Clauses 18, 41, 42, 43, 44, 45, 77 and '78, then and in any such case the Government shall be entitled, after giving to the Company reasonable notice, to do any of the things which in the opinion of the Government may be necessary to ensure compliance with such obligations and to recover the costs and expenses of so doing from the Company.

61. Training and employment of citizens of the Federation.

The Company shall, subject to the availability of suitable candidates, use its best endeavours to employ and train citizens of the Federation in and for the Company's operations and management.

62. Sale of surplus gas to Government.

(1) In respect of natural gas which is surplus to —

(a) the requirements of the Company for its own use or the use of its employees;

(b) the requirements of any associate of the Company for its own use in respect of the refining and/or exporting of petroleum; and

(c) such contractual obligations of the Company as are then current;

the Company shall, before entering into any contract for the sale thereof, give to the Government the first option to purchase the same for consumption in the Federation (including the manufacture of derivatives whether for local consumption or for export).

(2) The price at which such surplus natural gas shall be offered shall in no case be higher than the price at which the Company could otherwise sell the same, and in the case of approved Federal economic projects shall be at lower prices to be agreed between the Government and the Company. Nothing in this sub-clause shall exempt the Company from paying any royalties as provided in Clause 17 due on such surplus natural gas.

(3) If the Government shall not accept any such offer within a period of 28 days, the offer shall be deemed to have been refused.

63. Local Resident Manager.

The Company shall before commencing any operations in the Scheduled Lands furnish to the Minister the name and address of the manager resident in the locality of the Scheduled Lands under whose supervision such operations are to be carried on.

64. Foreign currency.

The Company shall have the right —

(a) to remit and retain abroad all funds or assets acquired including but not limited to the proceeds of sales and to dispose freely of such funds or assets (including the payment of dividends) provided:

(i) that the Malaysian Government shall have the option to demand payment of royalty and income tax in foreign currencies, in direct proportion to the various currencies received by the Company from the sale of Malaysian petroleum;

(ii) that the Malaysian Exchange Control formalities, where required, for the remittance of funds to and for the retention of funds or assets held abroad are complied with; and

(b) to convert freely into foreign currencies acceptable to the Company any Malaysian currency that the Company may have in its possession which the Company considers surplus to its requirements in Malaysia and to purchase Malaysian currency with foreign currencies at rates of exchange no less favourable than those available to any other purchasers and sellers of foreign exchange, provided that the Malaysian Exchange Control formalities, where required, for the conversion of Malaysian currency into foreign currencies are complied with.

65. Cash bonus.

The Company shall on the signing of this Agreement pay to the Government a sum of ringgit.

66. Right of distress.

If and whenever any of the fixed yearly payment or royalties reserved by this Agreement or any part thereof respectively shall be in arrear or unpaid for the space of two calendar months next after any of the days whereon the same ought to be paid (whether the same shall have been legally demanded or not), then and so often as the same may happen the Government may by any officer duly authorized thereto (as an additional remedy and without prejudice to any other rights and remedies to which it would be entitled) enter into and upon any area which shall for the time being be possessed or occupied by the Company for the purposes of this Agreement or the exercise of any of the rights hereby granted and may seize and distrain and sell as landlords may do for rent in arrear all or any of the stocks of petroleum and products thereof, engines, machinery, tools, implements, chattels and effects belonging to the Company which shall be found in or upon the area so entered upon and out of the moneys arising from the sale of such distress may retain and pay all the arrears of the said fixed yearly payments and royalties and also the costs and expenses incidental to any such distress and sale rendering the surplus (if any) to the Company.

67. Refinery.

The Company shall be prepared if requested by the Government to supply as much of its production of crude oil in the Federation as shall be necessary for the supply of refined products for local consumption in the Federation, in a proportion of total demand in the Federation similar to the proportion that its production of crude oil bears to total production in the Federation. If and when total demand in the Federation appears likely within a short period to exceed refining

capacity for local consumption in the Federation the Company shall consider with the Government the economic feasibility of erecting a refinery or extending any refinery it owns already to a capacity capable of processing shares of predicted local consumption proportionate to its share of local crude oil production.

68. Quiet enjoyment.

The Company paying the fixed yearly payments and royalties hereby reserved and observing and performing the covenants and provisions herein contained and on the Company's part to be observed and performed, shall and may peaceably and quietly hold and enjoy the rights and privileges hereby demised (subject as herein expressed) for and during the Agreement Period and any extension thereof without any lawful interruption from or by the Government or any person rightfully claiming from or under it.

69. Reciprocity.

This Agreement shall be determined if the Company shall be or become controlled directly or indirectly by a national of or by a Company incorporated in any country the laws and customs of which do not permit companies incorporated in that country controlled directly or indirectly by citizens of Malaysia to acquire, hold and operate petroleum concessions on conditions which in the opinion of the Minister are reasonably comparable with the conditions upon which such rights are granted to nationals of this country with the addition of conditions corresponding to those imposed by this Clause.

PART XI

EXTENSION AND DETERMINATION

70. Agreement Period.

(1) Subject to the provisions of the following sub-clauses, and Clauses 71, 72 and 73, this Agreement shall subsist for a period of 40 years from the date hereof and shall be divided into the following two phases —

(a) exploration phase; and

(b) development phase.

(2) The exploration phase shall commence from the date of this Agreement and shall, subject to any extension that may be granted under sub-clause (3), subsist for a period of 10 years from the date hereof unless sooner terminated under sub-clause (5).

(3) If it appears to the Company that no petroleum in a commercial quantity is likely to be found on the Scheduled Lands before the expiry of the exploration phase, upon the Company making an application not later than three months before the expiry thereof, the Company shall be entitled to an extension (in this Agreement referred to as "extended exploration phase") for a total period not exceeding five years from the date of the expiry of the exploration phase:

Provided that —

(a) such extension shall be granted only in respect of not more than 25% of the area originally contained in the Scheduled Lands; and

(b) the Company shall undertake in respect of its operations under Clause 10 to spend the sum stated in sub-clause (4) of that Clause.

(4) If at the expiry of the exploration phase or, in the case of the exploration phase having been extended under sub-clause (3), at the expiry of the extended exploration phase, the Company has not notified the Minister that it has discovered on the Scheduled Lands petroleum in a commercial quantity, pursuant to sub-clause (5), this Agreement shall be automatically determined, but without prejudice to the rights and obligations of the parties accrued or arising prior to such determination.

(5) If the Company notifies the Minister that it has discovered petroleum in a commercial quantity, this Agreement shall continue to subsist but the exploration phase or the extended exploration phase as the case may be shall thereupon automatically terminate and the Company shall enter upon the development phase. The development phase shall commence from the date of such notification and subject to the following proviso shall subsist for a period of 30 years:

Provided that —

(a) where such notification is given during the exploration phase, the development phase shall be automatically extended for such further period as represents the balance of the exploration phase; and

(b) there shall be no such extension where such notification is given during the extended exploration phase.

71. Extension.

(1) If the Company makes all payments which must be made and complies with all the other obligations which must be complied with by the Company under this Agreement, then the Company, on giving to the Government not less than twelve months' previous notice and not more than two years nor less than one year before the end of the Agreement Period, shall hold the right to an extension of the rights of the Company under this Agreement in respect of the Scheduled Lands.

(2) Such extension shall be for a further period to be agreed upon with the Government and shall be granted upon the terms and conditions contained in any written law and regulations then in force relating to petroleum mining concessions in the Federation, and applicable to such concessions during their last year or, if or so far as there shall not be any such terms and conditions, upon the then applicable terms and conditions of this Agreement (other than this present Clause):

Provided that, if the payments which must be made by the Company during such extended period cannot be determined precisely under such law and regulations, such payments shall be fixed by agreement or in default of such agreement shall be decided by arbitration. If such arbitration occurs the arbitrators shall fix the payments by way of fixed yearly payments and rates of royalty which shall be fair and reasonable having regard to the conditions prevailing at the end of the Agreement Period and the rates of royalty in force in the Federation and in other producing countries at the date of such extension.

(3) If any extension of the rights of the Company under this Agreement is granted in respect of the whole or any part of the Scheduled Lands as provided in sub-clause (1) of this Clause, then the Company shall be released from all liability to do anything which is expressly required to be done under this Agreement by the Company at the end of the Agreement Period in relation to such lands.

72. Right of Company to determine.

The Company shall hold the right to determine this Agreement at any time during the Agreement Period by giving to the Government not less than twelve months' previous notice in writing to that effect.

73. Right of Government to determine.

If —

(a) any payments which must be made by the Company under this Agreement are unpaid for the space of 6 calendar months following after any of the dates on which the same ought to have been made; or

(b) there is any failure by the Company to comply with any other obligations which must be complied with by the Company under this Agreement; or

(c) the Company ceases to exist either voluntarily or compulsorily (except a voluntary cessation of a solvent company for the purpose of amalgamation or reconstruction), or a receiver is appointed of any part of its undertaking; or

(d) the Company fails to comply with any unit development scheme prepared in accordance with the provisions of Clause 46; or

(e) five years after the commencement of the development phase the Company fails to produce petroleum,

then and in any such case the Government shall hold the right to determine this Agreement:

Provided that the said power shall not be exercised unless and until —

(i) notice has been given to the Company specifying the particular matter causing the said power to arise, and if the matter is capable of remedy requiring the Company to remedy the matter, and requiring the Company to make reasonable compensation in money for the matter in any case where such compensation may reasonably be required; and

(ii) within a reasonable time thereafter the Company fails to remedy the matter, if it is capable of remedy, and to make reasonable compensation in money, if such compensation is required, to the satisfaction of the Government.

74. Effect of determination.

On the determination of this Agreement under any of the provisions hereof, this Agreement and all the respective rights and obligations of the parties under this Agreement shall altogether cease to have effect:

Provided that such determination shall be subject and without prejudice to —

(a) any rights and obligations of the parties respectively expressed to arise under this Agreement on the determination thereof; and

(b) any liability of either party arising out of an earlier failure to comply with any obligation which must be complied with by such party.

75. Right of Government to assets at end of Agreement Period.

(1) Subject to the occupation rights of the Company (if any) under another petroleum agreement, at the end of the Agreement Period or any earlier determination of this Agreement the Company shall if requested so to do by the Government deliver up to the Government at a price not

exceeding the written down value for tax purposes any buildings, plant, railways, pipelines, pumps, machinery and other assets of a fixed or permanent nature constructed, put up or built and used or employed by the Company in or on the Scheduled Lands and which are either at that time necessary for the continued production of any petroleum field therein or are in the nature of public utilities (such as utilities providing electrical, gas, water and telecommunications services to the Government or the public). The Company shall if so requested by the Government also sell to the Government at that time (at a price which, if agreement fails, shall be fixed by arbitration) any moveable assets owned and used or employed by the Company in or on the Scheduled Lands which are then necessary for the continued production of any petroleum field therein and which the Government may wish to purchase:

Provided that —

(a) the foregoing provisions of this Clause shall not apply to moveable assets which are still required by the Company for use or employment in respect of lands held under any other petroleum agreement nor to assets of a fixed or permanent nature which are still required by the Company as aforesaid so long as such assets are so required;

(b) the Government shall give notice of any purchase it wishes to make hereunder at least six calendar months before the end of the Agreement Period (or, if this Agreement shall be determined before the end of the Agreement Period, at any time within three calendar months thereafter).

(2) The Company shall not within five years before the end of the Agreement Period remove from the Scheduled Lands or sell any assets of a fixed or permanent nature which might be deliverable to the Government under this Clause, and at no time shall remove or sell any such asset which is in the nature of a public utility while it is required for that purpose.

76. Right of Company over assets during Agreement Period.

Subject to Clause 75 and the rights of surface owners, the Company from time to time may remove and may sell or otherwise dispose of any assets in or on the Scheduled Lands which are no longer required by the Company for the purpose of its operations under this Agreement, and pending such sale or other disposal may deal with such assets as the Company thinks fit.

77. Delivering up of productive boreholes and wells at end of Agreement Period.

Within two months after the end of the Agreement Period or any earlier determination of this Agreement, the Company shall deliver up to the Government all productive boreholes or wells made by the Company in good repair and condition and fit for further working (unless ordered by the Minister to plug them as provided in Clause 78 and except such boreholes and wells as shall have been previously abandoned with the consent of the Minister).

78. Plugging of boreholes and wells at end of Agreement Period.

Within two months after the end of the Agreement Period or at any earlier determination of this Agreement the Company shall plug all boreholes and wells as provided in Clause 41, if required so to do by the Minister.

PART XII

ANCILLARY PROVISIONS

79. Force majeure.

Failure on the part of the Company to fulfill any of its obligations under this Agreement shall not give the Government any claim against the Company or be deemed a breach of this Agreement in so far as such fulfilment has been delayed, hindered, interfered with or prevented by any exceptional or unforeseeable circumstances which are not within the control of the Company or by reason of compliance with any order or request or any national, port, transportation, local or other similar authority or of any body or person purporting to be or act for such authority.

80. Arbitration.

Subject to Clause 81, whenever any matter must be referred to arbitration under the provisions of this Agreement or if at any time (whether during the Agreement Period or thereafter) any question or dispute shall arise regarding this Agreement or any matter or thing connected therewith or the rights or obligations of the Government or the Company under this Agreement or any matter arising out of these rights or obligations or connected with them, or if with respect to any matter requiring the agreement of the Government and the Company agreement cannot be reached within six months of the date consultations commence or such extended period as may be agreed, then and in all such cases the matter shall be referred to arbitration in Geneva, Switzerland or such other place as may be mutually agreed. The parties shall seek to agree upon the joint appointment of a single arbitrator. Failing such agreement within three calendar months of the time that the matter is referred to arbitration, each party shall have the right to appoint one arbitrator, and these two arbitrators shall jointly appoint a third arbitrator who shall be the chairman. If the first two arbitrators shall fail to agree within two calendar months of their appointment upon the appointment of a third arbitrator or if either party shall fail to appoint an arbitrator within one calendar month of the failure to agree on a single arbitrator then the appointment shall be referred to the competence of the President of the Federal Tribunal of Switzerland at the request of either party. Such arbitration shall be conducted in accordance with the laws and customs of the place of arbitration and the award of the arbitrator or arbitrators shall be final and binding upon both parties. Each party shall pay for its own costs and shall contribute fifty per cent of the fees and expenses of the arbitrators.

81. Price Committee.

If any dispute shall arise between the Government and the Company as to any matter to be justified under Clause 19 the dispute shall not be referred to arbitration but either of the parties may refer the dispute to an expert or a committee of experts to be similarly appointed and to have similar powers of procedure and decision as the Price Review Committee to which the Controller may refer pricing questions under the Petroleum (Income Tax) Act, 1967.

82. Applicable law.

This Agreement shall be construed in accordance with the laws of the Federation.

83. Notices.

(1) All notices and other communications to be given under this Agreement shall be given in writing.

(2) Any notice which the Government or any other person is required or entitled to give to the Company may be given or sent to the Company either at its registered office (if any) in the Federation or at its Statutory address for service of notices. Any notice which the Company is required or entitled to give to the Government or to any other person may be given or sent to the Minister as representative of the Government or such other person either at any address notified by the Minister or such other person, or, if no notification is given, at the office of the Minister.

(3) Any notice sent by registered post shall be deemed to have been received three days after the date of posting in the Federation.

84. Compliance with written laws.

Nothing in this Agreement shall entitle the Company to exercise the rights, privileges and powers conferred upon it by this Agreement in a manner which would contravene any written laws in force in the Federation.

85. Index and marginal notes.

The index and marginal notes are for convenience only and do not form part of this Agreement.

86. Alteration of terms of Agreement.

If as a result of changes in the Middle East operating under royalty expensing conditions comparable to those in Malaysia an increase in benefits to Governments in the Middle East should come generally to be received by them the Company will on request consult with the Government whether in the light of all relevant circumstances including the conditions in which operations are carried out and taking into account all payments made, any alteration to the terms of this Agreement would be equitable to the parties.

IN WITNESS WHEREOF the Minister, has, by the direction of and for and on behalf of the Government, hereunto set his hand and the Company has caused its Common Seal to be hereunto affixed the day and year first herein above written.

SIGNED BY.....
..... The Minister for and on behalf of the
Government in the presence of.....
.....

THE COMMON SEAL OF..... was hereunto affixed
in the presence of.....
.....