

**OPEN DOOR PROCEDURE  
FOR ONSHORE AREAS  
ON DISKO ISLAND AND  
THE NUUSSUAQ PENINSULA 2020**

MODEL

JOINT OPERATING AGREEMENT

FOR

EXCLUSIVE LICENCE NO. [YYYY]/[XX]

FOR EXPLORATION FOR AND EXPLOITATION OF HYDROCARBONS  
IN AN ONSHORE AREA [ON DISKO ISLAND]/[THE NUUSSUAQ  
PENINSULA], WEST GREENLAND

**APPENDIX A**

**ACCOUNTING PROCEDURE**



Government of Greenland  
Ministry of Industry, Energy, Research and Labour  
[month] [year]

## Table of Contents

<b>1. Preface and General Provisions.....</b>	<b>1</b>
1.1 Preface	1
1.2 Reporting to Authorities .....	1
1.3 Change of Accounting Procedure .....	1
1.4 Currency	1
1.5 Definitions .....	2
1.6 Disagreements.....	2
1.7 Monetary Limits .....	2
1.8 Sole Risk.....	2
1.9 Separate Accounting.....	2
1.10 Adjustments .....	3
<b>2. Budgets and Forecasts .....</b>	<b>4</b>
2.1 Exploration and Appraisal Budgets .....	4
2.2. Exploitation Budgets .....	4
2.2.1 Development and Production .....	4
2.2.2 Abandonment.....	5
2.3 Budget Approval and Amendment .....	5
2.3.1 Capital Budgets.....	5
2.3.2 Administrative and Operating Expense .....	6
<b>3. Joint Account.....</b>	<b>7</b>
3.1 Charges	7
3.1.1 Investments .....	7
3.1.2 Licence Fees .....	8
3.1.3 Damages and Losses.....	8
3.1.4 Offices and Field Expenses .....	8
3.1.5 Insurance and Third Party Claims .....	8
3.1.6 Legal Costs .....	8
3.1.7 Material.....	8
3.1.8 Administrative costs .....	11

3.1.9	Personnel .....	11
3.1.10	Services.....	11
3.1.11	Taxes.....	11
3.1.12	Transportation other than of hydrocarbons .....	12
3.1.13	Sole Risk Charges.....	12
3.1.14	Other Expenditures .....	12
3.2	Credits	12
3.2.1	Disposals.....	12
3.2.2	Interests and Miscellaneous.....	12
3.2.3	Material and Property .....	12
3.2.4	Sole Risk Credits .....	13
3.2.5	Insurance.....	13
3.2.6	Claims.....	13
3.2.7	Other .....	13
<b>4.</b>	<b>Books and Records.....</b>	<b>14</b>
4.1	Accounting Records.....	14
4.1.1	Accounting Codes.....	14
4.1.2	Joint Account .....	14
4.1.3	Access .....	14
4.1.4	Investment Records .....	14
4.1.5	Presence in Greenland .....	14
4.1.6	AFE Reference .....	14
4.2	Bank Accounts.....	15
4.3	Material Classification.....	15
4.4	Other Property .....	15
4.5	Warehouse .....	15
4.5.1	Markings.....	15
4.5.2	Records .....	16
4.5.3	Major Material Handling Charges .....	16
4.5.4	Minor Material Handling Charges.....	16
4.5.5	Forwarding.....	16
<b>5.</b>	<b>Material.....</b>	<b>17</b>
5.1	Disposals.....	17
5.1.1	Surplus Materials .....	17
5.1.2	Notification to Non-Operators.....	17
5.1.3	Bidding .....	17
5.1.4	Disposal .....	17
5.1.5	Donations.....	17
5.1.6	Limitation of Disposals .....	17
5.1.7	Condition "D" Material.....	18

5.2	Purchases .....	18
5.2.1	Warranty .....	18
5.2.2	Charges to Joint Account.....	18
5.3	Sales and Loans .....	18
<b>6.</b>	<b>Cash Call, Billing and Reporting Requirements .....</b>	<b>19</b>
6.1	Cash Calls and Advances.....	19
6.1.1	Cash Calls .....	19
6.1.2	Specification .....	19
6.1.3	Currency .....	20
6.1.4	Payments.....	20
6.1.5	Limitations.....	20
6.1.6	Interest .....	20
6.1.7	Forecast.....	21
6.2	Billing Statement and Schedules .....	21
6.2.1	Monthly Billing Statement .....	21
6.2.2	Classifications.....	21
6.2.3	Currency .....	22
6.3	Monthly Cash Reconciliation .....	22
6.4	Cost Control Report.....	22
6.4.1	Capital Expenditures.....	22
6.4.2	Administrative and Operating Expenditures .....	22
6.5	Inventories .....	23
6.5.1	Inventories .....	23
6.5.2	Notice.....	23
6.5.3	Surpluses, Shortages and Adjustments.....	23
6.5.4	Special Inventories .....	23
6.6	Production Report.....	23
<b>7.</b>	<b>Control Procedures.....</b>	<b>25</b>
7.1	Audits 25	
7.1.1	Access .....	25
7.1.2	Notice.....	25
7.1.3	Costs .....	25
7.1.4	Report .....	25
7.1.5	Adjustments .....	25
7.1.6	Disagreements .....	26
7.1.7	Time Limits .....	26
7.1.8	Proprietary and Confidential Information .....	26
7.1.9	Third Party Contract .....	26
7.1.10	Independent outside auditor.....	26

7.2	AFEs	27
7.2.1	Request for AFE .....	27
7.2.2	Information .....	27
7.2.3	Approval .....	27
7.2.4	Deemed Approval.....	27
7.2.5	Authority for the Operator .....	28
7.3	Cost Control.....	28

# **1. Preface and General Provisions**

## **1.1 Preface**

The purpose of this Accounting Procedure is to establish accounting principles and procedures, which will aid the proper and efficient carrying out of the Joint Operations and will result in the true cost of the Joint Operations being reflected in the Joint Account. It is the intent and understanding of the Parties that the Operator shall, subject to the provisions of the Agreement, neither gain nor lose by reason of the fact that he acts as the Operator. Each of the Parties shall provide funds sufficient to cover all costs of the Joint Operations, such funds to be provided to the Operator by each Party in proportion to its Percentage Interest at the time of the incurrence of the costs.

## **1.2 Reporting to Authorities**

The Operator shall at all times ensure that all accounting data and other information relating to the Joint Operations is available in such a form as to facilitate all required reporting to governmental authorities, both for the Operator and for the Non-Operators. Each Party shall receive a copy of all reports and information relating to the Joint Operations, which is forwarded to governmental authorities by the Operator.

## **1.3 Change of Accounting Procedure**

If one (1) of the Parties is of the opinion that a change in the Accounting Procedure is desirable to rectify an inequity, or for other reasons, it may forward a proposal for amendment of the Accounting Procedure to the Operator who will arrange for the matter to be discussed at an Operating Committee meeting, or at a meeting of an appropriate sub-committee. The Accounting Procedure may be amended with the agreement of all the Parties, subject to the approval of the Hydrocarbon Authority (HA).

## **1.4 Currency**

The Joint Account shall be maintained in Kroner and Dollars. All Budgets, forecasts and reports shall be presented in Kroner and Dollars. Translation of foreign currency transactions into Kroner shall be based on the rates published by Danmarks Nationalbank (the central bank of Denmark) and procedures approved by the Operating Committee. Any loss or gain to the Joint Account resulting from the translation or exchange of currency required for the use of the Joint Operations shall be charged or credited to the Joint Account.

## **1.5 Definitions**

In addition to the definitions in the Agreement, the following shall apply in this Accounting Procedure:

- (a) "Accounting Committee" means an accounting sub-committee established by the Operating Committee pursuant to the Agreement.
- (b) "Accruals" means recording of charges and credits for work performed at the end of the accounting period, regardless of whether invoices or credits have been received.
- (c) "Agreement" means the Joint Operating Agreement of which this Accounting Procedure forms part.
- (d) "Cash Call" means a request for payment of cash by the Operator to the Parties.
- (e) "Controllable Material" means the Material, which in the petroleum industry usually is subject to record, control and inventory.

## **1.6 Disagreements**

In the event of a conflict between the Parties with respect to this Accounting Procedure, the Accounting Committee, if any, or the Operating Committee shall meet and in good faith attempt to settle the conflict with the intent that no Party shall gain or lose at the expense of the other Parties.

## **1.7 Monetary Limits**

It is the intent that the monetary limits set forth in various sections of this Accounting Procedure shall be reviewed and adjusted from time to time by agreement of all the Parties in order to be in accordance with changes in prices and operating conditions.

## **1.8 Sole Risk**

In the event that one (1) or more of the Parties engages in sole risk operations, then, to the extent appropriate, the Accounting Procedure will apply to such sole risk operations, but separate accounts, books, bank accounts, and other records shall be established and maintained for such sole risk operations in such a manner that the statements and billings relating to the Joint Account do not reflect the sole risk operations.

## **1.9 Separate Accounting**

If it becomes appropriate to segregate Joint Account matters, whether for the purpose of "ring-fence" tax treatment or otherwise, the Operator will maintain books and records

and act otherwise with respect to the Joint Operations in order to facilitate such segregation. If requests from other Parties for special records should cause a significant additional workload and/or costs, such costs should be borne by the requesting Party(ies).

#### **1.10 Adjustments**

All billings and statements presented by the Operator to the other Parties shall be presumed to be true and correct until shown otherwise, and shall be paid as presented except for obvious errors. Such payment shall not prejudice the right of any Non-Operator to question the charges or credits accruing to the Joint Account, and the Operator shall take immediate steps to clarify, explain and adjust any queried charges or credits. Requests for corrections shall be made within the time limit specified in Section 7.1.7.

## **2. Budgets and Forecasts**

### **2.1 Exploration and Appraisal Budgets**

Each exploration and appraisal Budget, including delineation and feasibility studies, prepared under the Agreement shall contain commitments and expenditures in accordance with normal practice in the petroleum industry and shall include;

- (a) an estimate of the total cost of the relevant Programme in Kroner and Dollars and a sub-division of such total into each main classification of cost and with a reference to assumptions regarding exchange rates, inflation etc.;
- (b) an estimate by Year of the amount of each currency (if significant) in which such total cost is to be paid, except for the first Budget Year, which will be stated separately for each Quarter of such Year;
- (c) a schedule of estimated Joint Account warehouse stock movement;
- (d) an estimate of the manpower requirements, analysed by local (Greenland) and expatriate staff and whether they are to be employees or contracted, to carry out the relevant Programme;
- (e) an estimate of the timing and value of the commitments by Quarter (being contracts or other orders placed or goods purchased) to be made under the Budget, identifying main components separately; and
- (f) such other estimates relating to expenditures to be made during the three (3) Years after the period covered by such Budget as shall be requested by any Party;

Exploration obligations and expenses qualifying against the exploration obligations and expenses specified or stipulated in Sections 6.01-6.07 of the Licence shall be clearly identified.

### **2.2. Exploitation Budgets**

#### **2.2.1 Development and Production**

Each development and production Budget prepared under the Agreement shall contain commitments and expenditures in accordance with normal practice in the petroleum industry and shall include;

- (a) an estimate of the annual costs and the total cost of the relevant investment Programme in Kroner and Dollars with sub-division of such total into each main

category of cost and with a reference to assumptions regarding exchange rates, inflation etc.;

- (b) an estimate by Year of the amount of each currency (if significant) in which such total cost is to be paid, except for the first Budget Year, which will be stated separately for each Quarter of such Year;
- (c) a schedule of estimated Joint Account warehouse stock movement;
- (d) an estimate of the manpower requirements, analysed by local (Greenland) and expatriate staff and whether they are to be employees or contracted, to carry out the relevant Programme;
- (e) an estimate of the timing and value of the commitments by quarter (being contracts or other orders placed or goods purchased) to be made under the Budget, identifying main components separately;
- (f) an estimate of annual operating costs for the first five (5) years of production.
- (g) a five (5) Year production forecast;
- (h) contingencies for unknown price, scope or value deviations in a development Budget shall appear as separate budget items; and
- (i) such other estimates relating to the expenditures to be made during the three (3) years after the period covered by such Budgets as shall be requested by any Party.

### **2.2.2 Abandonment**

In the year prior to the first Year in which expenditures in accordance with an abandonment plan are to be made, and in each subsequent Year thereafter, the production Budget shall include information of such abandonment expenditures.

With reference to Sections 3.18.3 and 5.4.1(h) of the Agreement, each abandonment Budget prepared under the Agreement shall contain commitments and expenditures in accordance with the abandonment plan and the Abandonment Agreement and shall include such estimates and information as agreed by the Operating Committee prior to the preparation of the Budget.

## **2.3 Budget Approval and Amendment**

### **2.3.1 Capital Budgets**

Approval of capital Budgets does not permit the Operator to enter into any commitments or incur any expenditures for any item included in said Budgets until an AFE is approved by the Operating Committee as provided in the Agreement Section 5.10 and Section 7.2 herein.

### **2.3.2 Administrative and Operating Expense**

Approval of administrative and operating expense Budgets permits the Operator without prior approval of the Parties to issue AFEs covering the full Year and to record such expenditures in the Joint Account, except for major exceptional operating expenditures (e.g. work over of wells) that shall require a separate approved AFE as stated in Section 2.3.1 above.

### **3. Joint Account**

Charges and credits are included in the Joint Account on the basis of an accrual principle.

According to the accrual principle transactions and other events are included in the Joint Account in the period where they occur, regardless of the time of payment or receipt of invoice. Investments and materials are included in the Joint Account at the time of delivery (risk transfer).

Credits are included in the Joint Account when realized. Credits have been realized, when the usual criteria for recognizing income in accordance with international accounting standards have been fulfilled (risk transfer has occurred).

#### **3.1 Charges**

Subject to the limitations hereinafter set forth, and to the other relevant provisions of the Agreement, the Operator shall, with proper documentation, charge the Joint Account with the following items of expenditure in so far as the expenditure has been duly authorized and relates to and is necessary for the conduct of the Joint Operations:

##### **3.1.1 Investments**

Investments (CAPEX) incurred in so far as the capital items carry a reference number to the AFE(s) under which the expenditures / charges have been approved (see section 4.1.6 of this Appendix A). Investments can be defined as expenditures / charges held in accordance with a development plan approved by the Operating Committee and Hydrocarbon Authority (HA), comprising property, production facilities, installations, pipelines, storage facilities etc.

For contracts with defined installments relative to milestones, the installments are included in the Joint Account as investments, when the terms for raising the installment invoice have been fulfilled.

For invoicing of hours (services) it is a requirement that the hours invoiced have been used, and for invoicing of hardware, that the hardware has been delivered to the platform or shore facility under construction.

Prepayments do not constitute investments in the Joint Account. Any currency gain or loss arising between the time of prepayment and delivery is regarded as a financial item in the Joint Account.

### **3.1.2 Licence Fees**

Licence fees incurred by the Operator on behalf of the Parties in connection with the Joint Operations.

### **3.1.3 Damages and Losses**

All expenses incurred for the repair or replacement of damaged or lost Joint Property, provided that all insurance coverage shall be appropriately credited. The Operator shall separately and without delay inform the Non-Operators in writing of any incident involving expenses estimated to be in excess of five hundred thousand Kroner (DKK 500,000), with documentation as may be reasonably requested. Incidents involving smaller amounts shall be reported on a monthly basis.

### **3.1.4 Offices and Field Expenses**

The net cost of establishing and operating offices, field offices, warehouses, shore bases and other facilities used for the Joint Operations. If any such facilities serve more than the Joint Operations, the costs shall be allocated in an equitable manner as approved by the Operating Committee.

### **3.1.5 Insurance and Third Party Claims**

Premiums incurred for insurance coverage obtained in accordance with the Agreement, and expenditures incurred in settlement of claims from third parties.

### **3.1.6 Legal Costs**

All legal costs and expenses arising from the handling of claims and disputes in connection with the Joint Operations except those arising in connection with disputes among the Parties. All such costs and expenses shall be subject to the provisions contained in Section 3.13 of the Agreement.

### **3.1.7 Material**

Material is charged to the Joint Account on the basis of consumption. Accordingly, an inventory ledger shall be kept and material shall be charged to the Joint Account on the basis of purchases in the year with the addition of the value of inventory at the beginning of the year and the deduction of the value of inventory at the year-end.

- (a) Material purchased by the Operator from third parties for use in the Joint Operations shall be charged to the Joint Account at cost after deducting all trade

and discounts received. Transport costs and handling, insurance, duties and other related costs are also chargeable to the Joint Account.

- (b) Material transferred from the Operator or its Affiliates for use in the Joint Operations shall be charged to the Joint Account at a value determined as follows:

New Material - Condition "A"

Material, which has not been used and is in a new condition, shall be classified as Condition "A" and charged to the Joint Account at direct cost (stipulated in (a) above) to the Operator, but not exceeding the current market value (replacement value).

Used Material - Condition "B"

Material which has been used, but is in sound and serviceable condition and suitable to be reused without repair, shall be classified as Condition "B" and charged to the Joint Account at seventy-five per cent (75%) of what its value would be if it were in Condition "A".

Used Material - Condition "C"

Material, which is suitable for use after reconditioning, shall be classified as Condition "C" and charged to the Joint Account at fifty per cent (50%) or less of what its value would be if it were in Condition "A". After reconditioning the Material shall not exceed the Condition "B" value.

Material - Condition "D"

Material, which is not usable for its original purpose, shall be priced at a value commensurate with its use.

- (c) Obsolete material in inventory is expensed at the time of returning, disposing or physically scrapping of the inventory items.
- (d) Accumulation of surplus stocks of Material shall be avoided.
- (e) Material, which will be used partially or on a temporary basis, may be charged to the Joint Account on terms and conditions to be agreed by the Operating Committee. Such charges shall never exceed market rates available through third parties for comparable Material.
- (f) When material is supplied through the Operator, the Operator shall promptly credit the Joint Account for Material returned to the Operator or with any rebates or other adjustments received from a supplier or manufacturer.
- (g) The Operator shall be entitled to make a reasonable charge to cover storage cost of drawing Material from the Operator's stock. The basis for such charge shall be reviewed in connection with the annual budget and be subject to the prior approval of the Operating Committee.



### **3.1.8 Administrative costs**

No administrative overhead costs relating to the Operator's direct costs charged to the Joint Account, are chargeable to the Joint Account.

Accordingly, only charges of direct expenses held by the Operator or the Operator's affiliated companies are chargeable to the Joint Account.

### **3.1.9 Personnel**

All costs for the Operator's and Affiliates' personnel directly engaged for the benefit of the Joint Operations shall be computed and charged to the Joint Account on an equitable basis, primarily taking into consideration the percentage of the total cost of each such employee to the Operator that is equivalent to the percentage of such employee's entire working time which is spent on the Joint Operations.

For the avoidance of doubt, the total cost of such employees to the Operator shall take into consideration allowances and benefits, retirement benefits, relocation expenses and similar costs.

The cost of personnel of other Parties or third parties who are working under the direct control of the Operator shall be charged to the Joint Account. Any travel and relocation expenses incurred by such personnel and required for the conduct of the Joint Operations shall also be charged to the Joint Account.

### **3.1.10 Services**

The costs of services and facilities provided by the Operator or its Affiliates shall be charged to the Joint Account on an equitable basis, provided that such charges shall not exceed the rates for comparable services available to the Joint Operations from third parties and that the prior approval of the Operating Committee is necessary if the Operator or its Affiliates wish to provide services or facilities the charges of which will individually exceed five hundred thousand Kroner (DKK 500,000).

### **3.1.11 Taxes**

Taxes, duties and other governmental levies, except for royalties, corporate income taxes and withholding taxes on dividends etc., which have been incurred and paid by the Operator on behalf of the Joint Operations, shall be chargeable to the Joint Account. For the avoidance of doubt, sales royalty, surplus royalty, and direct taxes imposed on the Parties are not chargeable to the Joint Account.

### **3.1.12 Transportation other than of hydrocarbons**

- (a) Travel and relocation expenses, when these are required for the conduct of the Joint Operations. All charges to the Joint Account shall be in accordance with the Operator's normal practice, and include expenses for families and households, when appropriate. Relocation expenses at the termination of work for the Joint Operations will be based on a return to the home of record, except if the employee is relocated for the benefit of another operation, in which case the costs shall not be charged to the Joint Account.
- (b) All costs to transport and handle Material for use in the Joint Operations, unless otherwise chargeable under this Accounting Procedure.

### **3.1.13 Sole Risk Charges**

No expenditures in connection with sole risk operations shall be charged to the Joint Account without the prior approval of all the Parties.

### **3.1.14 Other Expenditures**

Any other expenditure not covered by the expenditures otherwise described in this Accounting Procedure which the Operator in accordance with the Agreement incurs and which are necessary and proper for the Joint Operations.

## **3.2 Credits**

The Operator shall credit to the Joint Account the following:

### **3.2.1 Disposals**

Any amounts realized from the disposal of Material or other Joint Property.

### **3.2.2 Interests and Miscellaneous**

Any amounts accruing as interest or otherwise with respect to the Joint Property or accumulated in connection with the Joint Operations.

### **3.2.3 Material and Property**

Any amounts realized as a result of the return of Material or other property.

#### **3.2.4. Sole Risk Credits**

Any amounts realized from third parties or from Parties engaged in sole risk activities for services or for use of Joint Property.

#### **3.2.5 Insurance**

Any amounts realized pursuant to insurance claims made by the Operator in respect of insurance carried for the benefit of all the Parties.

#### **3.2.6 Claims**

Any amounts realized pursuant to claims made by the Operator on behalf of the Parties and any other event-giving rise to a receipt (including interest) by the Operator on behalf of the Parties.

#### **3.2.7 Other**

Any other amounts of revenues or credits, which accrue in any manner in connection with the Joint Operations.

## **4. Books and Records**

### **4.1 Accounting Records**

#### **4.1.1 Accounting Codes**

The Operator shall, upon request, provide the Non-Operators with a copy of any accounting codes it uses, or proposes to use, in connection with the Accounting Procedure.

#### **4.1.2 Joint Account**

The Joint Account shall be maintained to reflect the current status of the Joint Operations, to the extent that all major amounts for work carried out, but not yet paid, shall be included and identified in the accounts as Accruals in connection with month-end closings. At the end of each Year all significant outstanding identifiable debits and credits shall be recorded as Accruals.

#### **4.1.3 Access**

The Non-Operators shall with reasonable notice have free access to all books and records containing charges and credits to the Joint Account, including the supporting detail.

#### **4.1.4 Investment Records**

The Operator shall maintain detailed records of the investments carried in the Joint Account in such a manner as to enable an effective reconciliation of a physical inventory.

#### **4.1.5. Presence in Greenland**

All books and records, including the supporting detail or true copies thereof relating to the Joint Account, shall be physically present in Greenland.

#### **4.1.6 AFE Reference**

Investments recorded in the Joint Account shall carry a reference number to the AFE(s) under which the expenditure has been approved.

## **4.2 Bank Accounts**

The Operator shall establish separate bank accounts in Kroner and other currencies in which Cash Calls are made to cover transactions for the Joint Account. The Non-Operators shall be notified of the banks, the account numbers and other relevant information. The bank accounts shall at all times be kept at the lowest possible level consistent with an effective operation. The Operator shall obtain the best available terms for interest, and interest earned shall promptly be credited to the Joint Account or distributed.

The Operator shall not, without prior approval of the Operating Committee, transfer amounts between any of the bank accounts held for the Joint Account in different currencies.

Notwithstanding the above, subject to approval by all Parties of the terms to apply and until a Party objects, the Operator may use corporate bank accounts to cover transactions for the Joint Account. The audit rights of the Non-Operators remain unchanged.

## **4.3 Material Classification**

The Operator shall use a listing of Material Classification (for example the Material Classification Manual recommended by the Council of Petroleum Accountants Society of North America) as the basic guideline for classification of jointly owned Material. The Operating Committee shall approve such listing. The Operator shall also include such other Material in the Controllable Material category as is considered desirable for operational or financial control purposes.

## **4.4 Other Property**

Jointly owned property shall be marked in such a manner as to enable an effective reconciliation of a physical inventory.

## **4.5 Warehouse**

### **4.5.1 Markings**

Materials shall be marked or stored in such manner as to enable an effective reconciliation of a physical inventory.

#### **4.5.2 Records**

The Operator shall maintain detailed records of all Controllable Materials charged to and/or stored in a warehouse for the Joint Operations. The records shall be segregated by category and include all Materials which are physically present in the warehouse.

#### **4.5.3 Major Material Handling Charges**

Transportation costs, customs duties and other significant amounts shall be recorded as part of the Material cost.

#### **4.5.4 Minor Material Handling Charges**

Local and minor transportation and handling charges for Material, which are chargeable to the warehouse stock account, may be charged to expense when incurred.

#### **4.5.5 Forwarding**

Transportation and handling expenses from the warehouse to the operations - and return - shall be charged directly to the operation involved.

## **5. Material**

### **5.1 Disposals**

#### **5.1.1 Surplus Materials**

The Operator shall make timely disposal of idle and surplus Material charged to the Joint Account.

#### **5.1.2 Notification to Non-Operators**

For all items which have an original value of two hundred and fifty thousand Kroner (DKK 250,000) or more, the Non-Operators shall be notified of the intended disposal, the original purchase price, current book value and an estimate of the price which can be obtained by sale to a third party.

#### **5.1.3 Bidding**

Within twenty (20) days of receiving such a notice, the Non-Operators shall inform the Operator if they are interested in purchasing the item and at what price. Sales at prices below the estimated obtainable price shall be approved by the Operating Committee.

#### **5.1.4 Disposal**

If no Parties are interested in making a purchase, the Operator may proceed with the disposal, provided that all disposals of items having an original value in excess of two hundred and fifty thousand Kroner (DKK 250,000) shall be approved by the Operating Committee.

#### **5.1.5 Donations**

Non-Operators shall be advised in advance of donations of all jointly owned Material and obtain Operating Committee approval for donations with a total value in excess of ten thousand Kroner (DKK 10,000).

#### **5.1.6 Limitation of Disposals**

If disposal of Joint Property other than Material is required, the Operating Committee shall decide the terms and conditions of such disposal for all items having an original value of two hundred and fifty thousand Kroner (DKK 250,000) or more. Items with an

original value under two hundred and fifty thousand Kroner (DKK 250,000) may be disposed of with due regard to the Parties' interests.

#### **5.1.7 Condition "D" Material**

Material classified as Condition "D" (as defined under Section 3.1.7) may be disposed of as needed.

### **5.2 Purchases**

#### **5.2.1 Warranty**

The Operator does not warrant the Material charged to the Joint Account beyond the guarantees received from the supplier or manufacturer, but shall promptly credit the Joint Account with any adjustment received by a supplier or manufacturer. Material transferred from the Operator, Non-Operators or Affiliates which appears to be defective at the time it was transferred shall either promptly be repaired for the account of the transferring Party or returned for a full credit to the Joint Account.

#### **5.2.2 Charges to Joint Account**

Material purchased by the Operator shall be charged to the Joint Account as provided in Section 3.1.7.

### **5.3 Sales and Loans**

To the extent it can do so without any detrimental effect to the Joint Operations, the Operator may sell, rent or lend jointly owned Material to third parties. The Operator shall inform the Non-Operators and seek their prior approval if any financial or operational risk is involved, or if the amount involved is in excess of two hundred and fifty thousand Kroner (DKK 250,000).

## **6. Cash Call, Billing and Reporting Requirements**

### **6.1 Cash Calls and Advances**

#### **6.1.1 Cash Calls**

Not less than ten (10) days prior to the beginning of any Month in respect of which the Operator requires funds, the Operator shall furnish the Parties with a Cash Call requesting an Advance or Advances for such Month. The amount requested in a Cash Call shall be the Operator's estimate of the amount required from the Parties to enable the Operator to defray the net cash payments, being cash payments less cash receipts, due in the relevant Month under obligations properly incurred by the Operator in connection with the Joint Operations.

Notwithstanding this Section 6.1, the Operator may issue Cash Calls less frequently during periods of low activity in the exploration phase. When the Operator believes less frequent Cash Calls are merited because of low activity, the Operator shall give notice, in writing by mail, of its intent to reduce the frequency of Cash Calls and shall state the minimum frequency with which the Operator will issue Cash Calls. Unless or until a Party objects, the Operator may issue the Cash Calls at such lesser frequency. Such Cash Calls shall be made by electronic mail or if agreed with the Party by facsimile. If sent by facsimile, any Party may request that a mailed copy follow. Such Cash Calls shall be payable in accordance with Section 6.1.4 herein.

If during periods of low activity in the exploration phase the Operator has made no request for cash advances, the Operator may initially fund the expenditure. The Operator shall issue to each Party a request for payment (invoice) in accordance with the Operator's internal accounting timetable for each Party's Percentage Interest share of the cash expenditures incurred in such accounting period. The invoice shall cover the same period as, and be accompanied by, a billing statement as referenced in Section 6.2.1 herein. The Non-Operators shall pay their proportionate share within fifteen (15) days after transmission and confirmation of receipt of the invoice. Invoices shall be given by electronic mail or if agreed with the Party by facsimile. If sent by facsimile, the Party may request that a mailed copy follow.

Interest on daily cash balances shall be calculated and charged on the basis of the Cost of Funds Rate.

#### **6.1.2 Specification**

Each Cash Call shall specify, in respect of each Advance, the amount of each currency required by major AFE and/or Budget category as requested by the Operating Committee, the bank account or accounts to which payment is to be made and the due

date on which payment is required. The due date or dates on which payment of an Advance or Advances is or are required shall be the date or dates on which the Operator estimates that it will be making a substantial amount of the net cash payments described herein. The amount requested in each such Advance shall be the Operator's estimate of the net cash payments to be made on each such date together with any smaller sums which it estimates will be payable between the due date for payment of such Advance and the due date on which payment of the next Advance has been or will be required. Such estimate shall be based on the latest information available to the Operator at the time the Cash Call is made. If it becomes necessary to change the amount or the due date of any Advance, the Operator shall provide at least five (5) Working Days prior notice to the Parties.

### **6.1.3 Currency**

Unless otherwise agreed by the Operating Committee, Cash Calls shall be made in Kroner or Dollars or in such other currency, in which major expenditures are contractually required to be paid.

### **6.1.4 Payments**

Following a Cash Call, each Party shall pay to the Operator for the Joint Account a share of each Advance in proportion to its Percentage Interest in sufficient time to be credited to the bank account on the due date specified in the Cash Call. Following an invoice each Non-Operator shall pay to the Operator for his account its percentage share within fifteen (15) days after transmission and confirmation of receipt of the invoice. If any Party fails to pay in full its share of any Advance or invoice by the due date, the default provisions of Article XI in the Agreement shall apply.

### **6.1.5 Limitations**

The Operator shall restrict the funds of the Parties held for the Joint Account to a level consistent with that required for the current conduct of the Joint Operations in accordance with Section 6.1.2 above.

### **6.1.6 Interest**

Any interest from the joint bank accounts received by the Operator shall be credited to the Joint Account each Month or promptly distributed.

If Operator is allowed to use corporate bank accounts, interest shall be credited/charged on the Joint Operations' daily cash balances with the Operator for each currency as if

separate bank accounts in a first-class bank were established and used for the Joint Operations.

Interest and other conditions shall accordingly correspond to conditions, which a company with a similar cash flow can obtain in a first-class bank, and shall not be less than the interest obtained by the Operator.

The amount of interest shall be specified in the first following Billing Statement. The Operating Committee shall from time to time approve the appropriate interest rate to apply.

#### **6.1.7 Forecast**

Each Cash Call forwarded by the Operator shall be accompanied by a forecast pursuant to which the Operator specifies the details of the anticipated Cash Calls for the two (2) Months after the Month covered by the Cash Call.

### **6.2 Billing Statement and Schedules**

#### **6.2.1 Monthly Billing Statement**

The Operator shall send a report to the Parties within twenty-five (25) days following the end of each Month on all payments made and all receipts obtained by the Operator in connection with the Joint Operations during such Month, in sufficient detail to form the basis for the annual tax return and other reports required by the Greenland authorities.

#### **6.2.2 Classifications**

Such report shall be made on a billing statement which shall show the net total of all payments (less all receipts) relating to the Joint Account and each Party's Percentage Interest share thereof and shall be accompanied by billing schedules dividing such payments and receipts into main classifications of expenditure indicative of the nature thereof and in accordance with the approved Budgets. The billing schedules shall also show cumulative net totals of all payments (less all receipts). In addition, any interest received and any unusual payments and receipts (e.g. escalations/de-escalation cost) shall be indicated separately.

The billing statement shall explicitly distinguish between expenses originating prior to and after a decision has been made pursuant to the Agreement Section 5.3 to request an extension of the Licence for the purpose of producing from a delimited deposit.

### **6.2.3 Currency**

All billing statements and schedules shall be in Kroner and Dollars. All payments made and receipts obtained in currencies other than Kroner and the rates used for their translation to Kroner shall be identified in the billing schedules.

In translation or exchange of currencies, affecting the Joint Operations, it is the intent that none of the Parties shall experience any gain or loss at the expense of the other Parties.

### **6.3 Monthly Cash Reconciliation**

As at the end of each Month, in which funds have been received by the Operator, the Operator shall make a separate reconciliation for each currency between:

- (a) the cumulative total of Advances received by the Operator from the Parties in such currency, and
- (b) the cumulative total of cash payments, net of cash receipts other than interest, made in such currency by the Operator as reflected in the billing statement for such Month.

### **6.4 Cost Control Report**

#### **6.4.1 Capital Expenditures**

The Operator shall, within twenty-five (25) days following the end of each Month, prepare and forward to the Non-Operators a report in Kroner and Dollars (status of open AFEs) showing a comparison between the approved AFE amount, the cost to date and the estimated final cost for the work covered by each AFE. In the case of a major project, the AFEs shall be grouped together and be included in the best estimate of the final cost for such project. The Operator shall make appropriate comments by budget breakdown relating to the progress of the project in relation to the amount expended to date and the estimated final cost.

#### **6.4.2 Administrative and Operating Expenditures**

The administrative and operating expenditures shall, within twenty-five (25) days following the end of each Month, be reported in Kroner and Dollars compared to the annual Budget.

## **6.5 Inventories**

### **6.5.1 Inventories**

A complete inventory shall be taken at reasonable intervals, and at least annually for warehouse stock, covering all Controllable Material charged to the Joint Account.

### **6.5.2 Notice**

The Non-Operators shall receive at least thirty (30) days' notice of the intention to take an inventory and shall have the right to be represented when the inventory is taken. If the Operator is taking an inventory on a continuous basis, the Non-Operators shall be informed of the schedule to enable them to be present if desired. Failure of a Non-Operator to be present after having received such notice shall bind such Non-Operator to accept the result of the inventory.

### **6.5.3 Surpluses, Shortages and Adjustments**

The Operator shall, within sixty (60) days of the completion of an inventory, furnish the Non-Operators with copies of the inventory, showing surpluses, shortages and adjustments made, with the relevant explanations.

### **6.5.4 Special Inventories**

Any Non-Operator may, with reasonable notice and at his own expense, require the Operator to take a special inventory of the Material charged to the Joint Account, and shall have the right to be represented when the inventory is taken.

## **6.6 Production Report**

The Operator shall, within twenty-five (25) days following the end of each Month after the commencement of any production prepare and forward to the Non-Operators a report containing at least the following information by category:

Opening Stock

Production at Wellhead

Consumption

Re-injection

Flared Quantities

Liftings

Closing Stock.

Within five (5) Working Days after the end of a Month a provisional report shall be forwarded by electronic mail or if agreed with the Party by facsimile. If sent by facsimile, the Party may request that a mailed copy follow.

If required due to the type of operation, a reconciliation of the Parties' share of production shall be included.

## **7. Control Procedures**

### **7.1 Audits**

#### **7.1.1 Access**

All Non-Operators shall at reasonable times during normal business hours have free access to all books, records, manuals, inventories and property maintained by the Operator and its Affiliates relating to the Joint Operations.

#### **7.1.2 Notice**

The Non-Operators shall give at least thirty (30) days' notice of their intention to conduct an audit and make every reasonable effort to conduct audits jointly or simultaneously in a manner, which will result in a minimum of inconvenience to the Operator. The Operator shall make all reasonable efforts to co-operate with any audit and will provide reasonable facilities and assistance therefor.

#### **7.1.3 Costs**

The cost of an audit by the Non-Operators is not chargeable to the Joint Account. A copy of the audit report shall be distributed to the Non-Operators bearing the cost of the audit within sixty (60) days of the completion of the audit.

#### **7.1.4 Report**

The audit report shall include all claims arising from the audit and comments relating to the settlement of outstanding matters, as well as comments to the accounts and records.

#### **7.1.5 Adjustments**

The Operator shall reply to the report in writing within sixty (60) days and promptly record all adjustments, which have been agreed between the Operator and the Non-Operators. If any such adjustment is in excess of one million Kroner (DKK 1,000,000) or equivalent in another currency in relation to a specific claim, consideration shall also be given to the gain or loss of interest which the Parties may have incurred during such period that the Parties either have had the use of or were denied the use of the relevant funds. The computation of any such interest shall be calculated on the basis of the Cost of Funds Rate.

#### **7.1.6 Disagreements**

Outstanding claims, which cannot be agreed upon, shall be referred to the Accounting Committee, if any, or the Operating Committee for settlement before going to arbitration.

#### **7.1.7 Time Limits**

The Parties' right to claim any adjustment shall cease twenty-four (24) Months after the end of each Year, unless a written request for such adjustment is given to the other Parties during such twenty-four (24) Month period. Adjustments involving or resulting from third party claims, physical inventories or statutory requirements are exempt from the twenty-four (24) Month limitation. Non-Operators shall have the right to further investigations in relation to the outstanding matter until such matter has been settled.

#### **7.1.8 Proprietary and Confidential Information**

If an audit of the Operator or its Affiliates by the Non-Operators involves information which is generally accepted as proprietary and confidential, the Operator may require that such audit is carried out by an external auditor of international standing acting under the instructions of the Non-Operators. Such assistance will, however, be chargeable to the Joint Account.

#### **7.1.9 Third Party Contract**

The Operator shall use his best efforts to obtain audit rights for the Non-Operators in all contracts where the Operator obtains such rights. Audits shall normally be carried out jointly, and in any case be arranged through the Operator.

#### **7.1.10 Independent outside auditor**

The Operator shall arrange for the account of the Parties for annual audit of the books and accounts covering the Joint Operations by an independent outside auditor, who shall be appointed by the Operating Committee. The Hydrocarbon Authority (HA) shall have the right to require the appointment of a second independent outside auditor.

The audit shall be finished for each calendar year not later than [month] [date] of the following calendar year and auditor's report given to the Parties not later than said date.

The cost of such audit shall be charged to the Joint Account of the Parties.

## **7.2 AFEs**

### **7.2.1 Request for AFE**

Before entering into a commitment, the Operator shall, with the exception of expenditures mentioned in Section 2.3.2, request the Parties to authorize an AFE as required under Section 5.10 of the Agreement at a time when the main details of the relevant commitment or expenditure can be ascertained, but consistent with giving the Parties sufficient time to consider the matter.

### **7.2.2 Information**

Each AFE shall set forth the following information:

- (a) a brief summary of the scope or work covered by the AFE,
- (b) an itemised breakdown of expenditures and allowance for contingencies in Kroner and Dollars,
- (c) the assumptions regarding the inflation rate and exchange rates,
- (d) an estimate of phasing of Cash Calls on a monthly basis or Quarterly if agreed by all Parties,
- (e) an estimate of the amounts of any alternative currencies required,
- (f) the Operator's direct and overhead charges, and
- (g) each Party's total share of expenditure.

Necessary further details to support estimated costs will be included as attachments to the AFE to the extent required by the Operating Committee.

### **7.2.3 Approval**

Any Party, which has voted in favour of an AFE, which has been approved by the Operating Committee, shall sign an AFE form indicating its authorization thereof. After approval by the Operating Committee, the Operator shall promptly distribute to the Parties a summary stating each Party's vote.

### **7.2.4 Deemed Approval**

If the Operator requests the Parties to authorise an AFE for a total expenditure not exceeding one million Kroner (DKK 1,000,000), or such other amount as may be determined by the Operating Committee, the AFE in question shall be deemed to be approved and shall be binding upon the Parties unless within fourteen (14) days after

the Parties have received the AFE, an objection thereto is made to the Operator by any Party. If an objection is made, approval shall take place in accordance with Section 7.2.3 above.

### **7.2.5 Authority for the Operator**

Approval of an AFE by the Operating Committee constitutes authority for the Operator to enter into any commitment or incur any expenditure properly made in relation thereto whether or not payments in respect of such commitments and expenditures will result in the final cost of such commitments and expenditure exceeding the total Budget amount or the AFE, provided that if at any time it becomes apparent that either,

- (a) commitments yet to be made will, or are likely to, cause the total annual Budget to be exceeded by five per cent (5%) in Kroner, or
- (b) expenditures to be incurred under commitments already made will cause an individual Budget item or AFE to be exceeded by the lesser of ten per cent (10%) in Kroner or seven million Kroner (DKK 7,000,000) or that the cumulative total of such excess expenditures shall, or are likely to, exceed five per cent (5%) in Kroner of the total annual Budget,

the Operator shall immediately notify the Parties and shall without delay prepare a revised AFE and if necessary a revised Budget, giving the reasons for the increased cost, and shall request approval of the revised AFE and Budget, and shall not enter into any new commitment in relation to the AFE until the revised AFE and Budget has been approved by the Operating Committee.

### **7.3 Cost Control**

The Operator shall establish and maintain an effective cost control system for the benefit of the Joint Operations. Such system shall include such controls as may be decided by the Operating Committee.