

**ANNEX "C"**  
**ACCOUNTING PROCEDURE**

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## **ARTICLE 1 GENERAL PROVISIONS**

### 1.1 Definitions

The definitions contained in Article 1 of the Production Sharing Contract to which this is annexed shall apply to this Accounting Procedure and have the same meaning except that references herein to Articles refer to Articles hereof unless otherwise indicated.

### 1.2 Precedence of Documents

In the event of any inconsistency or conflict between the provisions of this Accounting Procedure and the provisions of the Contract, the provisions of the Contract shall prevail.

### 1.3 Statements

Within Sixty (60) days from the end of each Calendar Quarter Contractor shall supply the Minister with the following statements:

- (a) A statement of expenditure classified in accordance with Articles 2, 3 and 5 hereof containing the information required by Article 10;
- (b) A statement of receipts in accordance with Article 5;
- (c) An inventory statement containing the information required by Article 7;
- (d) A production statement in accordance with Article 8;

- (e) A control statement containing the information required by Article 11, and
- (f) A statement of Local Content in accordance with Article 12.

Consolidated annual summaries of each of these statements shall also be provided to the Minister within Sixty (60) days after the end of the relevant Calendar Year.

#### 1.4 Books of Account

Contractor's books for Petroleum Operations shall be kept on the accrual basis in United States dollars. Such books of account shall be kept in Trinidad and Tobago, in the English language and in accordance with International Financial Reporting Standards and the provisions of the Contract and this Accounting Procedure. All U.S. dollar expenditures shall be charged in the amount incurred. All expenditures incurred in Trinidad and Tobago currency shall be translated into United States Dollars in conformity with Article 22.2 of the Contract, and all other non-United States Dollar expenditures incurred shall be translated into United States Dollars at prevailing international exchange rates. Contractor shall maintain a record and documentation of the exchange rates used in translating Trinidad and Tobago currency or other non-United States Dollar expenditures to United States Dollars.

#### 1.5 Revision of Accounting Procedure

This Accounting Procedure may be revised from time to time by written agreement between the Minister and Contractor.

#### 1.6 Detailed Outline of Accounting System

Within Ninety (90) days after the Effective Date, Contractor shall present to the Minister the following:

- Chart of accounts with detailed classification by cost centres as specified by Article 3 hereof.
- Copy of its financial regulations and accounting procedures manual
- Name of the electronic management information system to be used by the Contractor
- Names of the accounting and other reports which will be generated by the information system
- Authorization to access the modules of the information system which will record the transactions and generate the reports required under this Contract
- Detailed organization chart
- Format of the monthly reporting system

#### 1.7 Procurement Procedure

Within Ninety (90) days after the Effective Date Contractor shall furnish to the Minister the procurement procedures to be followed by Contractor for obtaining materials, equipment and services under the Contract.

#### 1.8 Basis for all charges

Transactions shall be recorded to include without limitation such costs as broker's fees, transportation charges, loading and unloading fees, demurrage, import duties, surcharges and license fees associated with the procurement of materials and equipment, and applicable taxes.

With respect to costs incurred under this Contract, Minister expects that Contractor will purchase equipment, materials or services at a price that shall not exceed Fair Market Value. The Contractor shall keep such records as may be appropriate to substantiate the determination of Fair Market Value for materials and services purchased. Where materials or services are purchased without a competitive bidding process or from a party who is not at Arm's Length, the Contractor shall document at the date of the transaction the basis for concluding at the recorded price. Only the portion of such purchase price that does not exceed Fair Market Value shall be eligible for cost recovery and any amount of such purchase price in excess of Fair Market Value shall be a non-recoverable cost as provided for in Article 6 of this Accounting Procedure.

Where equipment, materials or services are acquired in the Caribbean-Latin American region, the market conditions in this region shall be considered in determining the Fair Market Value.

## 1.9 Prepayments

Deposits for or prepayments for goods or services shall not result in cost recovery until these goods and services are fully received.

## ARTICLE 2 COST AND EXPENDITURE

### 2.1 Classification of Costs and Expenditures

The detailed chart of accounts will be submitted to the Minister pursuant to Article 1.6 hereof. However, as a minimum, costs and expenditures subject to cost recovery shall be accounted for in accordance with the following classifications:

(a) Surface Use Rights

All direct costs attributable to the acquisition, renewal or relinquishment of surface use rights for areas required by Contractor for installations and operations forming part of Petroleum Operations.

(b) Labour

- (i) Actual salaries and wages of Contractor's employees directly engaged in Trinidad and Tobago in the various activities under the Contract, including salaries and wages paid to geologists, engineers and other employees temporarily assigned to and employed in such activities.
- (ii) Actual salaries and wages of employees of Contractor's Affiliates, whose services are not covered by paragraph (f) (ii) or (l) hereof, attributable to time worked within or outside of Trinidad and Tobago on Petroleum Operations under the Contract and documented by time sheets.
- (iii) Cost of overseas service premiums, living and housing allowances, and

other customary allowances applicable to salaries and wages of expatriate employees chargeable under paragraph (b) (i) hereof.

(iv) Paid bonuses, overtime and other customary allowances applicable to salaries and wages of national employees chargeable under paragraph (b) (i) hereof.

(v) Expenditures or contributions if any made pursuant to law or assessments imposed by Government which are applicable to labour costs chargeable under paragraph (b) (i) hereof.

(c) Employee Benefits

(i) Cost of Contractor's established plans and policies for employee group life insurance, social security, hospitalization, pension, retirement, stock purchase, thrift, expatriate tax equalization, dependent education and other benefits of a like nature attributable to salaries and wages chargeable under paragraphs (b) (i) or (b) (ii) hereof.

(ii) Severance pay to national employees charged at a fixed rate applied to the national payroll, which will equal an amount equivalent to the maximum liability for such severance payments under applicable Trinidad and Tobago law.

(d) Materials, Equipment and Supplies



- (i) Material, equipment and supplies purchased or furnished by Contractor valued in accordance with the provisions of Article 4 hereof.
- (ii) Material and equipment rented, charged at actual cost.

(e) Transportation

- (i) Transportation of equipment, Materials and supplies necessary for the conduct of Contractor's activities under the Contract.
- (ii) Business travel and transportation expenses to the extent covered by established policies of Contractor, as incurred and paid by, or for expatriate and national employees in the conduct of Contractor's business.
- (iii) Employee relocation costs for expatriate and national employees to the extent covered by established policy of Contractor; for expatriates, this will include all travel and relocation costs of such employees and their families to and from the employee's point of origin at the time of employment, at time of separation and for vacations, and travelling expenses for employees and their families incurred as a result of a transfer from one location to another within Trinidad and Tobago.

(f) Services

(i) Outside Services

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

(ii) Affiliated Services

Cost of services, including laboratory analysis, drafting, geophysical processing and interpretation, geological interpretation, engineering and data processing which are performed by Contractor's Affiliates in facilities inside or outside Trinidad and Tobago that are not covered by paragraph (b) (ii) or (k) hereof.

(g) Damages and Losses

All costs or expenses necessary to replace or repair damage or losses incurred by fire, flood, storm, theft, accident or any other cause not controllable by Contractor through the exercise of reasonable diligence and not resulting through Contractor's failure to file timely claims and to diligently pursue such against the insurers. Contractor shall furnish the Minister written notice of damage or losses incurred in excess of Twenty-Five Thousand United States Dollars (USD 25,000.00) per occurrence, as soon as practicable after report of the same has been received by Contractor.

(h) Insurance and Claims

The cost of insurance, including public liability, property damage and other insurances including the coverage against liabilities of Contractor to its employees and/or outsiders as may be carried by Contractor, or required by the laws, rules and regulations of Trinidad and Tobago or as the Minister and Contractor may agree upon. If no insurance is carried for a particular risk, all related actual expenditures incurred and paid by Contractor in settlement of any and all losses, claims, damages, judgments and any other expenses, including legal services, shall be charged to the appropriate expenditure account, provided such loss, claim or damage did not result from Contractor's failure to operate in accordance with the standards required by the Contract or failed to obtain insurance where good business practices would have justified such insurance.

(i) Field Offices, Camps, Warehouses, Miscellaneous Facilities

Cost of establishing and operating field offices, camps, and other facilities such as shore bases, warehouses, water systems, and road or other transportation systems necessary for the conduct of Contractor's activities under the Contract.

(j) Legal Expenses

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the Contract Area and facilities or infrastructure provided under the Contract; Petroleum Operations and facilities against third party claims,

including outside attorney's fees and expenses, together with all judgments obtained against the Parties or any of them on account of the operations under the Contract; and actual expenses incurred by a Party in securing evidence for the purpose of defending against any action or claim prosecuted or urged in connection with the operations or the subject matter of the Contract. In the event actions or claims affecting the interests hereunder shall be handled by the legal staff of Contractor or its Affiliates the cost of such personnel shall be chargeable under paragraph (b) (i) or (ii) hereof.

(k) General Expenses

Cost of staffing and maintaining Contractor's office or offices in Trinidad and Tobago except offices covered by paragraph (i)), excepting salaries of employees of Contractor or an Affiliate who are assigned to the various activities under the Contract which will be charged as provided in Article 2.1(b) hereof.

(l) Administrative Overhead

- (i) Contractor's administrative overhead outside Trinidad and Tobago applicable to the Petroleum Operations under the Contract prior to the date of the first Declaration of Commercial Discovery in the Contract Area shall be charged in accordance with the following rates with respect to all expenditures allowable for Cost Recovery other than administrative overheads:

Three percent (3%) of the first Ten Million United States Dollars (USD 10,000,000.00) of such expenditures paid during the Calendar Year;

Two percent (2%) of the next Six Million United States Dollars (USD 6,000,000.00) such expenditures paid during the Calendar Year; and

One percent (1%) of amounts exceeding Sixteen Million United States Dollars (USD 16,000,000.00) of such expenditures paid during the Calendar Year.

- (ii) Contractor's administrative overhead outside Trinidad and Tobago applicable to Petroleum Operations under the Contract after the date of the first Declaration of Commercial Discovery in the Contract Area shall be charged in accordance with the following rates with respect to all expenditures allowable for Cost Recovery other than administrative overhead:

Five-tenths of one percent (0.5%) of the first Forty Million United States Dollars (USD 40,000,000.00) United States Dollars of such expenditures paid during the Calendar Year;

Four-tenths of one percent (0.4%) of amounts exceeding Forty Million United States Dollars (USD 40,000,000.00) but not greater than One Hundred Million United States Dollars (USD 100,000,000.00) of such expenditures paid during the Calendar Year; and

Three-tenths of one percent (0.3%) of amounts exceeding One Hundred Million United States

Dollars (USD 100,000,000.00) of such expenditures paid during the Calendar Year.

(iii) Contractor shall make provisional monthly charges to the accounts based on the above rates.

(iv) Such overhead charges shall be considered full compensation to Contractor's Affiliates wherever located for the following types of assistance provided:

(A) Executive

Time of executive officers above the rank of regional exploration manager.

(B) Treasury

Financial and exchange problems and payment of invoices.

(C) Purchasing

Procuring and forwarding materials, equipment and supplies.

(D) Exploration

Direction, advising and Production and controlling the entire project.

(E) Services

All direct services of Contractor's Affiliates not chargeable as direct charges under Articles 2.1(b) or 2.1(f)

hereof, provided by other departments such as legal, engineering, employee relations and personnel recruiting, administrative, accounting and audit which contribute time, knowledge and experience to the operation.

(F) Import Duties and Taxes

All taxes, duties, levies or any other imposts, if any, paid in Trinidad and Tobago by Contractor under Article 23 of the Contract.

(G) Bank Charges

Bank charges, bond fees and charges for any guarantees required under Article 8 of the Contract and routine bank charges for transfers of funds and currency exchange.

(H) Other Expenses

Any justified costs, expenses or expenditures, other than those which are covered, dealt with or excluded by Article 2 or Article 6, incurred by Contractor for the proper conduct of the Petroleum Operations under approved Work Programmes and budgets.

### ARTICLE 3 COST CENTRES

3.1 In order to provide for efficient control of the recoverable costs under the Contract, all costs must be presented for the Minister's review on the basis of cost centres and sub-divisions of these cost centres. The detailed division shall be presented to the Minister pursuant to Article 1.6 hereof. However, as a minimum the following divisions shall be established:

(a) The costs shall be allocated per area in the following manner:

(i) Each Exploration area;

(ii) Each individual Production area;  
and

(iii) Costs that cannot be related to a certain area.

(b) The costs shall be allocated per Petroleum Operation in the following manner:

(i) Exploration Operations, sub-divided further into:

(A) Geological, geochemical, paleontological, topographical and other surveys;

(B) Each individual geophysical survey;

(C) Each individual Exploration or Appraisal well;



- (D) Infrastructure (roads, airstrips, etc.);
  - (E) Support facilities (warehouses, etc.), including an allocation of common service costs (costs related to various Petroleum Operations);
  - (F) An allocation of the administrative overhead and general expenses; and
  - (G) Other costs.
- (ii) Development Operations, sub-divided further into:
- (A) Geological, geochemical, geophysical, and other surveys;
  - (B) Each individual Development Well;
  - (C) Gathering facilities;
  - (D) Field facilities;
  - (E) Tank farms and other storage facilities for Petroleum;
  - (F) Infrastructure:
    - Within Contract Area
    - Outside Contract Area;
  - (G) Support facilities, including an allocation of common service costs (cost related

to various Petroleum Operations);

(H) An allocation of the administrative overhead and general expenses; and

(I) Other Costs.

(iii) Other Costs, Costs described in Article 2 but not included under 3.1 (b) (i) and (ii) above.

(c) Costs shall be allocated to Crude Oil and to Natural Gas, where both are being produced and saved. The allocation shall be in accordance with the following principles:

(i) Where costs are exclusively related to either Crude Oil or Natural Gas, such costs shall be allocated completely to the respective hydrocarbon;

(ii) where costs can be attributed to both Crude Oil and Natural Gas, the costs shall be allocated pro-rata to the gross revenues earned from Crude Oil and Natural Gas in the Calendar Month in which these costs are being recovered or with the approval of the Minister on such other basis (in accordance with good practices in the international Petroleum industry).

## ARTICLE 4 VALUATION OF MATERIALS

4.1 Materials either charged to the accounts pursuant to Article 2 hereof or credited to the accounts pursuant to Article 5 hereof shall be valued in accordance with the principles of this Article.

### 4.2 Purchases

Material, equipment and supplies shall be purchased by Contractor directly from the supplier whenever practicable and in such event shall be charged at the price paid by Contractor after deduction of all discounts actually received.

### 4.3 Material Furnished by Contractor

Materials provided by Contractor from Contractor's Affiliate's stocks, whether or not within Trinidad and Tobago, at prices specified below:

#### (a) New Material (Condition "A")

New material transferred from Contractor's Affiliate's warehouses or other properties shall be priced at net cost provided that the cost of material supplied is no higher than prices in the Caribbean- Latin American region for material of similar quality, supplied on similar terms, prevailing at the time such material was supplied.

#### (b) Used Material (Conditions "B" and "C")

(i) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classified as Condition "B" and priced at Seventy-Five percent (75%) of allowable value of new material as defined in (a) above.

(ii) Material which cannot be classified as Condition "B" but which:

(A) After reconditioning will be further serviceable for original function; or

(B) is serviceable for original function but substantially not suitable for reconditioning shall be classified as Condition "C" and priced at Fifty percent (50%) of the allowable price of new material as defined in (a) above.

The cost of reconditioning shall be charged to the reconditioned material provided that the value of Condition "C" material plus the cost of reconditioning do not exceed the value of condition "B" material.

(c) Material which cannot be classified as Condition "B" or "C" shall be priced at a value commensurate with its use.

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

## ARTICLE 5 RECEIPTS

5.1 Credits in favour of the Contractor as a result of the Petroleum Operations or incidental thereto shall be credited to the respective accounts and be included as credits in the statement of expenditures. Such credits shall include the following transactions:

(a) Claims Recovery

The proceeds of any insurance or claim in connection with the Petroleum Operations or any assets charged to the accounts.

(b) Third Party Revenues

Revenues received from third parties for the use of property, assets, for the delivery of any services by the Contractor, or for any information or data.

(c) Adjustments

Any discounts or adjustments received by the Contractor from the supplier/manufacturers or their agents in connection with goods purchased or defective equipment or materials, the costs of which were previously charged to the accounts.

(d) Refunds

Rentals, refunds or other credits received by the Contractor, which apply to any charge which has been made to the accounts.

(e) Sale or Export of Materials

In case Contractor sells or exports or transfers any material to Affiliates or other entities or persons, the value of such transfers shall be credited to the accounts, the costs of which were previously charged to the accounts. Such sale export or transfer shall not take place without the prior written consent of the Minister.

## ARTICLE 6 NON-RECOVERABLE COSTS

6.1 The following costs shall be non-recoverable for purpose of cost recovery under Article 18 of the Contract:

- (a) interest on financing charges on investment in the Contract Area including interest payments or financing charges under a finance lease;
- (b) Costs that are not reasonably justified with appropriate records which have been incorrectly accounted for (to the extent not corrected);
- (c) Costs incurred before the Effective Date of the Contract;
- (d) Costs of goods and services in excess of the Fair Market Value as provided for under Article 1.8.
- (e) Charges for goods in excess of the amount allowed by Article 4 hereof and/or which the condition of the material does not tally with their prices;
- (f) Costs incurred beyond the Measurement Point;
- (g) Taxes or impositions of whatever nature except for any applicable:
  - (i) customs duties and other import charges paid in Trinidad and Tobago on Materials and equipment required for Petroleum Operations and;

- (ii) Employer taxes or contributions permitted as part of labour costs under Article 2.1(b) (v) paid in or outside of Trinidad and Tobago;
- (h) costs or expenses which gave rise to a tax liability, (e. g. withholding tax, insurance premium tax, PAYE, etc.), which tax liability has not been settled by the Contractor;
- (i) amounts paid as a holding fee under Article 16.3 of the Contract;
- (j) payments made in accordance with Article 21 of the Contract;
- (k) costs of expert determination or arbitration pursuant to Article 33 of the Contract;
- (l) fines and penalties imposed by any authority;
- (m) donations or contributions, unless previously approved by the Minister; and
- (n) Payments on claims arising out of losses covered by any insurance.
- (o) The costs incurred for managing any joint venture or partnership or other commercial arrangement among various Contractor Parties
- (p) Costs which could have been covered by insurance but are incurred for failure to insure where insurance would have constituted a good business practice.



(q) Transportation costs chargeable for employees and their families incurred as a result of a transfer from Trinidad and Tobago to a location other than the point of origin shall not be charged as a cost under the Contract.

## ARTICLE 7 INVENTORIES AND INVENTORY STATEMENTS

### 7.1 Periodic Inventories, Notice and Representation

- (a) At reasonable intervals as agreed between the Minister and Contractor, but in any event at least once during each Calendar Year and on termination of the Contract, inventories shall be taken by Contractor of all Materials and physical assets required for Petroleum Operations under this Contract.
- (b) Written notice of intention to take an inventory shall be given by Contractor to the Minister at least Thirty (30) days before any inventory is to begin so that the Minister may be represented when any inventory is taken.
- (c) Failure of the Minister to be represented at an inventory shall bind the Minister to accept the inventory taken by Contractor who shall, in that event, promptly furnish the Minister with a copy of all inventory documents.

### 7.2 Reconciliation and Adjustment of Inventories

Reconciliation of inventory shall be made by Contractor and the Minister, with a list of shortages and overages being jointly determined, and the inventory shall be accordingly adjusted by Contractor.

### 7.3 Inventory Statement

- (a) Contractor shall maintain detailed records of property acquired for Petroleum Operations.
- (b) On a monthly basis, Contractor shall provide the Minister with an Inventory Statement containing:
  - (i) Description and codes of all controllable assets and Materials;
  - (ii) Amount charged to the accounts for each asset;
  - (iii) Date on which each asset was charged to the account; and
  - (iv) Whether the costs of such asset has been recovered pursuant to Article 18 of the Contract.

#### 7.4 Identification

To the extent practicable, all assets shall be identified for easy inspection with the respective codes specified in the manuals prepared by Contractor under Article 1.6 hereof.

## ARTICLE 8 PRODUCTION STATEMENT

8.1 Contractor's Production Statement shall contain the following information and shall be prepared in accordance with the following principles:

- (a) The production sharing shall be determined on the basis of all Petroleum produced and saved from the Contract Area and measured at the Measurement Point or Points during the respective Month in accordance with Article 18 of the Contract. The average daily production of Crude Oil, Condensates and Natural Gas by Fields for the purpose of applying the provisions of Article 18 of the Contract shall be determined by dividing the respective total measurements of Available Crude Oil and Available Natural Gas attributable to each Field for the Month by the number of days on which Crude Oil and/or Natural Gas was produced in such Month. Where different grades of Crude Oil, Condensates and/or Natural Gas are being delivered at the Measurement Point(s), the volumes, of each grade shall be determined separately. However, in the event that different grades of such Crude Oil, Condensates or Natural Gas are blended together for sale then the volume of such a blend shall prevail.
- (b) The volumes of such grades of Crude Oil, Condensates and Natural Gas will be determined separately at the Measurement Point.
- (c) The volumes of Crude Oil and Condensates shall be corrected for water and sediments, and shall be determined on the basis of

standard temperatures and pressures (Sixty (60) degrees Fahrenheit and 14.7 p.s.i.a.). The gravity, sulphur content, and other quality indicators of the Crude Oil shall be determined and registered regularly.

- (d) The volumes of Natural Gas shall be determined on the basis of standard temperatures and pressures (Sixty (60) degrees Fahrenheit and 14.7 p.s.i.a.). The energy content, sulphur content and other quality indicators of the Natural Gas shall be determined and registered regularly.

## ARTICLE 9 COST RECOVERY STATEMENT

9.1 Contractor shall establish cost recovery accounts for Crude Oil and/or Natural Gas and shall, render to the Minister in electronic format as a component of the management information system, and not later than Twenty-Five (25) days after each Calendar Month a cost recovery statement containing the following information:

- (a) Recoverable costs carried forward from the previous Calendar Month, if any;
- (b) Recoverable costs incurred during the Calendar Month;
- (c) Total recoverable costs for the Calendar Month;
- (d) Quantity and value of Cost Recovery Crude Oil and/or Cost Recovery Natural Gas available to the Contractor during the Calendar Month;
- (e) Amount of costs recovered from the applicable Cost Recovery Crude Oil and/or Cost Recovery Natural Gas account for the Calendar Month;
- (f) Amount of recoverable costs carried into succeeding Calendar Month, if any; and
- (g) Quantities of Crude Oil and/or Natural Gas allocated to Contractor and the Minister, respectively, during the Calendar Month as Cost Recovery Crude Oil, Cost Recovery Natural Gas, Profit Crude Oil and/or Profit Natural Gas.

## **ARTICLE 10 STATEMENT OF EXPENDITURE**

10.1 Contractor shall maintain accounts of expenditures incurred in respect of Petroleum Operations under the Contact and shall, pursuant to Article 1.3 hereof, prepare and render to the Minister not later than Twenty-Five (25) days after each Calendar Quarter a statement of expenditure. This statement shall show the following:

- (a) the expenditure contemplated for the budget year (Contract Year prior to Commercial Discovery and Calendar Year subsequent to Commercial Discovery), on the basis of the cost classification and cost centres as provided for in this Accounting Procedure;
- (b) The expenditure (less credits) accrued during the Month in question;
- (c) The cumulative expenditure (less credits) to date for the budget year under consideration;
- (d) Modifications to the budget;
- (e) The latest forecast of cumulative expenditure for year end; and
- (f) Variations between budget forecast (as amended by sub-paragraph (d) hereof, where applicable) and latest forecast and reasonable explanations thereof.

## **ARTICLE 11 CONTROL STATEMENTS AND OTHER ACCOUNTS**

### 11.1 Control Statements

Contractor shall prepare each Calendar Month a control statement showing the accumulated accounts of costs and revenues verified by the Minister in accordance with Article 17 of the Contract. The statement shall include information in respect of the following:

- (a) The total amount of recoverable costs;
- (b) The amount of costs recovered;
- (c) The amount of costs remaining to be recovered.
- (d) The total quantity and value of Cost Recovery Crude Oil and/or Cost Recovery Natural Gas allocated to the Contractor; and
- (e) The total quantity and value of Profit Crude Oil and/or Profit Natural Gas allocated to the Minister and the Contractor respectively under the Contract.



## **ARTICLE 12 STATEMENT OF LOCAL CONTENT**

- 12.1 Contractor shall maintain records to facilitate the determination of the Local Content of expenditures incurred in respect of Petroleum Operations. These records shall include supporting documentation certifying the cost of local materials, labour and services used and shall be subject to audit.
- 12.2 Contractor shall, pursuant to Article 1.3 hereof, prepare and render to the Minister not later than Twenty-Five (25) days after each Calendar Quarter a statement of Local Content.
- 12.3 The Statement of Local Content shall include but not be limited to the following categories:
- (a) Payments made to Local Contractors who supply Local Goods and Local Services.
  - (b) Payments to Local Suppliers who supply Local Goods.
  - (c) Payments to Local Contractors and Local Suppliers for providing a service in the supply of non-local goods.
  - (d) Payments made to non- local contractors and suppliers who supply Local Goods.
  - (e) Payments of salaries, profits, dividends on shares and other tangibles paid to persons who are nationals of Trinidad and Tobago.
- 12.4 For the purpose of measurement, Local Content shall be comprised of all costs incurred as direct materials, direct sub-contracts, indirect

- materials, indirect subcontracts, construction management and other costs. Local Content shall not include any taxes or other statutory payments to government including payments made under this Contract.
- 12.5 The Contractor shall maximize to the satisfaction of the Minister the level of usage of Local goods and services, businesses, financing and the employment of nationals of Trinidad and Tobago. In this regard, the Contractor shall ensure that sub-contracts are sized, as far as it is economically feasible and practical to match the capability (time, finance and manpower) of local suppliers and shall manage the risk to allow their participation.
- 12.6 The Contractor shall provide the Minister at the beginning of each calendar year with a list of all projects to be undertaken as well as all goods and services that are required. The Minister and Contractor shall agree on a list of those projects and goods and services that is to be published in at least two local newspapers and on the Ministry's website.
- 12.7 All contracts are to be advertised and awarded in Trinidad and Tobago. The Contractor shall apply to Minister for prior approval where the circumstances warrant that any part of the tender process be conducted abroad.
- 12.8 The Contractor shall give preferential treatment to local suppliers by ensuring access to all tender invitations and by including high weighting on local value added in the tender evaluation criteria.
- 12.9 The Contractor shall give preference and assurance to local suppliers in respect of prompt payment for goods and services actually provided

to the Contractor and its sub-Contractors both foreign and local.

12.10 The Contractor shall ensure the development of people by imparting to nationals technology and business expertise in all areas of energy sector activity including but not limited to:

- (a) Fabrication
- (b) Information Technology support, including seismic data, acquisition, processing and interpretation support
- (c) Operations and maintenance support
- (d) Maritime services
- (e) Business support services, including accounting, human resource services, consulting, marketing and contract negotiations
- (f) Financing
- (g) Trading

12.11 The Contractor shall ensure that nationals are selected and trained consistent with Contractor's performance standards in relation to activities referred at 12.10.

12.12 The Contractor shall ensure that the development of people in key areas allow nationals to take more value-added, analytical and decision making roles in areas:

- (a) of a technical or professional nature including general management, design engineering, project management, seismic data processing, human resource development, legal and;
- (b) business strategic skills including leadership, business development,

commercial, analytical, negotiating, strategy development and trading know how and acumen.

12.13 The Contractor shall, pursuant to Article 12 hereof, prepare and submit to the Minister not later than Twenty-Five (25) days after each Calendar Quarter, a Monthly and Year to Date Statement of Local Content.

12.14 The Statement of Local Content shall include but not be limited to the following categories:

Payments made to

- (a) Local Contractors who supply Local Goods and Local Services.
- (b) Local Suppliers other than Contractors who supply Local Goods.
- (c) Local Sub-Contractors and local Suppliers who supply foreign goods.
- (d) Foreign Contractors and suppliers who supply Local Goods.
- (e) Foreign Contractors and suppliers who provide foreign goods and services.
- (f) Payment of salaries, wages, profits, dividends on shares and other tangibles to persons who are nationals of Trinidad and Tobago.
- (g) Statement on the development of people outlining the level of promotion of nationals in the key areas identified in Article 12.11.
- (h) The CIF of all foreign goods to be listed in the statement of local content.

12.15 The Contractor shall maintain records to facilitate the determination of the Local Content of expenditure incurred in respect of Petroleum

Operations. These records shall include supporting documentation certifying the cost of local materials, labour and services used and shall be subject to audit by the Minister.

12.16 For the purposes of this order the following definitions shall apply:

"Local Contractor or Local Supplier" means a person, firm or entity performing works, services and/or supplying goods and materials to the Contractor, whether as a Sub-contractor or otherwise, whose business enterprise is incorporated or otherwise organised under the laws of Trinidad and Tobago and whose principal place of business is in Trinidad and Tobago

"Local Goods" means materials and/or equipment mined, grown or produced in Trinidad and Tobago, whether through manufacturing, processing or assembly. An article, which is produced by manufacturing, processing or assembly, must differ substantially in its basic characteristics, purpose or utility from any of its imported components. Manufactured goods would be considered to be of local origin if the cost of the local materials, labour and services used to produce the item constitute not less than Fifty (50) percent of the cost of the finished product.

"Local Services" means works or services performed or supplied by a Local Contractor or Local Supplier.

**ARTICLE 13 TAX COMPUTATION**

Any Trinidad and Tobago income tax paid by the Minister on Contractor's behalf shall constitute additional income to Contractor. This additional income is included in "Contractor's Taxable Income" subject to Trinidad and Tobago income tax.

"Contractor's Taxable Income," as determined in Article 21 of the Contract, less the amount equal to Contractor's Trinidad and Tobago income tax, shall be "Contractor's Provisional Income." The "Gross-up Value" is an amount added to "Contractor's Provisional Income" to give "Contractor's Taxable Income" and is equal to the Contractor's Trinidad and Tobago income taxes.

Therefore,

Contractor's Taxable Income = Contractor's Provisional Income (C.P.I) plus Gross-up Value and

Gross-up Value = Contractor's Trinidad and Tobago income tax on taxable income.

Gross-up Value = Trinidad and Tobago Income Tax Rate x Contractor's Taxable Income.

Gross-up Value = 
$$\frac{\text{C.P.I} \times \text{Trinidad and Tobago Income Tax Rate}}{1 - \text{Trinidad and Tobago Income Tax Rate}}$$

Where the Tax Rate is expressed as a decimal.

The above computations are illustrated by the following numerical example. Assuming that the "Contractor's Provisional Income" is 1000 and the Trinidad and Tobago

Income Tax rate, including unemployment levy is 55 percent, then the Gross-up Value is equal to

$$\frac{1000 \times .55}{1 - .55} = 1222.22$$

Therefore

Contractor's Provisional Income	=	1000.00
Gross-up Value	=	1222.22
		-----
Contractor's Taxable Income		2222.22
Trinidad and Tobago Income Tax	=	1222.22
		-----
Contractor's Income after Tax		1000.00