

FARMIN AGREEMENT

BLOCK 01

Lion Petroleum Corporation

("Farmor")

and

East African Exploration (Kenya) Ltd

("Farmee")

FARMIN AGREEMENT

BLOCK 01

THIS AGREEMENT is made on the _____ day of January 2009 between:

PARTIES

Lion Petroleum Corporation a company incorporated in Canada with its registered office at 2610 1066 West Hastings St, Vancouver BC V6E 3X2, Canada (hereinafter referred to as **Farmor**);
and

East African Exploration (Kenya) Ltd registered in Kenya and a wholly-owned subsidiary of East African Exploration Ltd a company organized and existing under the laws of the British Virgin Islands and having its registered office at P.O. Box 3140, Romasco Place, Wickhams Cay 1, Road Town, Tortola, VG 1110, British Virgin Islands, (hereinafter referred to as **Farmee**).

RECITALS:

- A. Farmor has a Production Sharing Contract (PSC) agreement with the Government of the Republic of Kenya for Block 01 and holds a 100 % Participating Interest in it
- B. The Parties have agreed that, subject to satisfaction of the Conditions Precedent, Farmee will earn;
 - the Initial Farmin Interest from Farmor by funding the Initial Farmin Costs; and
 - should Farmee elect, the Additional Farmin Interest from Farmor by funding the Additional Farmin Costs.

IT IS AGREED as follows:

1. Definitions and Interpretation

1.1. Definitions

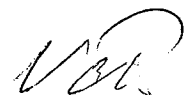
In this Agreement:

Additional Farmin Costs means all costs and expenses in undertaking the Additional Program up to a total of US\$6MM (Six million US\$)

Additional Farmin Costs Cap has the meaning set out in the definition of Additional Farmin Costs

Additional Farmin Interest means up to a 30% Participating Interest;

- i) in and under the PSC; and



ii) in all benefits and obligations relating to the PSC, including cost recovery and tax deductibility with respect to expenditures arising after the Effective Date and all inventories, accounts receivable, prepaid expenditures and all other assets, properties, rights and obligations of every kind, tangible and intangible, contingent or otherwise (including the proceeds of benefits from the realisation of such assets) attributable to the PSC, excluding all and any liabilities arising up to the Effective Date, except as specifically provided herein and under the PSC and JOA; to be assigned by Farmor to Farmee;

Additional Program means, at Farmee's option and under the Additional Farmin Costs Cap, either;

- (a) the acquisition and processing of up to 600km of 2D seismic to meet the minimum work obligation seismic set out in the PSC for the Initial Exploration Period or
- (b) the drilling of the Contingent Exploration Well in lieu of the acquisition and processing of the Additional Seismic.

Affiliate means with respect to each Party any corporation, partnership or other entity or association that directly or indirectly controls a Party or is controlled by such Party, "control" meaning the right to exercise more than fifty percent (50%) of the voting share or stock or the control of management for decisional authority.

Assignment Documents means the Deed of Assignment.

Block or Block 01 means the block the subject of the Block 01 PSC.

Conditions Precedent means the conditions precedent specified in clause 4.

Contingent Exploration Well means the exploration well that may be drilled in Block 01 under the Additional Program.

Contractor has the same meaning as in the PSC.

Cost Oil has the same meaning as in the PSC.

Deed of Assignment is defined in clause 3.6

Effective Date is 11 November 2008.

Encumbrance means any mortgage, charge, lien, writ, caveat, royalty, net profit interest or other encumbrance or third party interest.

Farmin Interest means the Initial or Additional Farmin Interest, as the case may be.

Farmin Operations means the operations comprising the Initial Program and the Additional Program, as the case may be.

Government means the government of the Republic of Kenya and, where the context requires, any minister, ministry, authority, agency, organisation, department, office or bureau of that government

Initial Exploration Period has the same meaning as in the PSC.

Initial Farmin Costs means all costs relating to the acquisition of the first 600km of 2D seismic in the initial work programme, capped at US\$6MM (Six Million US\$).

Initial Farmin Costs Cap has the meaning set out in the definition of Initial Farmin Costs

Initial Farmin Interest means a 50% Participating Interest;

- i) in and under the PSC; and
- ii) in all benefits and obligations relating to the PSC, including cost recovery and tax deductibility with respect to expenditures arising after the Effective Date and all inventories, accounts receivable, prepaid expenditures and all other assets, properties, rights and obligations of every kind, tangible and intangible, contingent or otherwise (including the proceeds of benefits from the realisation of such assets) attributable to the PSC, excluding all and any liabilities arising up to the Effective Date, except as specifically provided herein and under the PSC and JOA; to be assigned by Farmor to Farmee;

Initial Program means:

- (a) the acquisition and processing of the initial 600km of 2D land seismic.
- (b) the minimum work obligation for the Initial Exploration Period of the PSC to acquire and process gravity and magnetic data over the Block, being a minimum expenditure of US\$500,000

Interest Assignment is defined in clause 3.6.

JOA or Block 01 JOA means the Joint Operating Agreement to be entered into between Farmor and Farmee pursuant to this Agreement.

JOA Principles means the principles set out in Schedule 3.

Legal Requirements means obligations arising under present or future legislation, regulations, by-laws or orders of any statutory or public authority, including notices requiring the carrying out of any works.

Minister means the Minister for Energy of the Republic of Kenya or any successor in office or any other person for the time being responsible for carrying out the functions at present carried out by the Minister for Energy of the Republic of Kenya in relation to the PSC and the operations carried out hereunder.

NOCK means the National Oil Corporation of Kenya.

Operator means, in relation to the Block, the Operator under the JOA, which is from the Effective Date, East African Exploration Ltd.

Participating Interest means an undivided legal and beneficial interest in and under the PSC the joint venture and all related agreements (including, without limitation, any JOA) as amended from time to time.

Party means a party to this Agreement and "Parties" shall be construed accordingly.

Permitted Encumbrance means Encumbrances related to or arising from:

- (i) royalties payable to Government;
- (ii) Legal Requirements; and
- (iii) the terms and conditions of the PSC.

PSC or Block 01 PSC means the Production Sharing Contract Agreement in respect of onshore Block 01 entered into by the Government of the Republic of Kenya and Farmor dated 19th November, 20007 and as amended from time to time.

2. Farmee to participate in Farmin Operations

2.1. Farmee's funding obligations

Subject to the terms and conditions of this Agreement, the Parties agree that:

- (a) Farmee will pay the Initial Farmin Costs ; and
- (b) Should it elect pursuant to clause 3.3, Farmee will pay the total Additional Farmin Costs.

2.2. Costs in excess of the Costs Caps

If any of the actual costs of the Initial Farmin Costs or Additional Farmin Costs exceeds Initial Farmin Costs Cap or Additional Farmin Costs Cap (as the case may be), Farmee and Farmor will pay the relevant costs in excess of the relevant Costs Cap in proportion to their Participating Interest.

2.3. Past Costs

Farmee will pay its Participating Interest share of costs incurred and accounted for under the JOA on and from 1 October 2008, which are not Initial Farmin Costs or Additional Farmin Costs.

Farmee and Farmor will agree the pre-assignment back-costs related to Block 01 prior to the signing of this Agreement. Such costs will then be held as credit by Farmor against their share of future cash-calls relating to the ongoing operations of the block. Such agreement shall be made by agreed external audit of such back costs.

2.4. Cost recovery

Each Party shall be entitled to recover for its account all costs which it has incurred and paid, from Cost Oil which is allocated to the Contractor pursuant to the PSC, and priority with respect to the receipt of such entitlement to Cost Oil shall be based on when the relevant costs were incurred.

Farmee shall be entitled to recover for its account, as Cost Oil, all costs incurred and paid by the Farmee (including the promote costs in excess of its Participating Interest) provided such costs are available to the Contractor as Cost Oil pursuant to the PSC.

2.5. Payment of cash calls

Nothing in this Agreement shall require Farmee to make any payments before all necessary consents and waivers are provided and all Conditions Precedent mentioned in this Agreement have been satisfied.

3. Assignment of Farmin Interest

3.1. Assignment of Initial Farmin Interest

In consideration for Farmee agreeing to pay the Initial Farmin Costs, Farmor hereby assigns to Farmee the Initial Farmin Interest.

3.2. Assignment from Effective Date

The assignment of the Initial Farmin Interest shall, as between the Parties and subject to the terms of this Agreement, be deemed for all purposes to be made with effect on and from the Effective Date.

Farmee has the right to farmout all or part of the Initial Farmin Interest acquired, and Farmor shall have no right of pre-emption or right of First right of refusal to such interest, and consents to any such farmout.

3.3. Assignment of Additional Farmin Interest

In consideration for Farmee agreeing to undertake to pay the Additional Farmin Costs, Farmor assigns to Farmee the Additional Farmin Interest.

At any time in the Initial Exploration Period, Farmee may at its election and on 30 days written notice to Farmor, elect to carry out the Additional Program.

Should Farmee elect to acquire the Additional Farmin Interest and subsequently propose to farmout part of the Additional Farmin Interest acquired, Farmor shall have a first right of refusal to take up the farm out interest on terms equal or superior to any third party offer.

3.4. Contingent Exploration Well

Where, at Farmee's option, it has elected to carry out the Additional Program by the drilling of the Contingent Exploration Well, in lieu of the acquisition and processing of the Additional Seismic, the following provisions will apply:

- (a) The location and target of the well is to be identified by the Farmee;
- (b) The obligation to drill the Contingent Exploration Well (the Additional Program) is deemed satisfied if Farmee encounters impenetrable substances, basement, commercial quantities of oil or gas at a lesser depth or is forced to abandon the well because of difficulties insurmountable by employing modern drilling technology in conformity with sound, cost effective practices generally accepted in the international petroleum industry.



3.5. Assignment from Date of Notice

The assignment of the Additional Farmin Interest shall, as between the Parties and subject to the terms of this Agreement, be deemed for all purposes to be made with effect on and from the date of the written notice given under clause 3.3.

3.6. Assignment Documents

- (a) As soon as reasonably practicable following satisfaction of the Conditions Precedent, the Parties shall enter into a deed of assignment for the PSC substantially in the form set out in Schedule 1 (**Deeds of Assignment**) subject to, any amendments reasonably required thereto by the Minister.
- (b) The Parties shall also execute such document and do all other acts and things, in addition to those specifically contemplated under this Agreement, as may reasonably be required in order to effect the assignment and transfer of the Farmin Interest to Farmee hereunder and otherwise carry out the true intent of this Agreement.

3.7. Government Back-in

Pursuant to the PSC, the Government of Kenya may elect to back-in to the Block up to a total of 18%. It is intended that each of the Parties would contribute pro rata to such Government back-in in proportion to their Participating Interests at the time.

4. Conditions

4.1. Ministerial consent

- (a) The Parties acknowledge that no assignment of the rights and obligations of the Contractor in respect of the PSC may be made without the consent of the Minister and that, in accordance with the PSC, such consent must be obtained prior to the execution of the Deeds of Assignment, drafts of which must be approved by the Minister.
- (b) Farmor shall promptly use all reasonable endeavours to apply for and diligently cause or procure the consent of the Minister to the assignment and appointment of Farmee as Operator as required by the PSC. The Parties will use all reasonable endeavours and do all necessary acts and things to cause or procure the Minister's consent.

4.2. Conditions Precedent

This Agreement is subject to and conditional upon:

- a) Written Ministerial consent to the assignment of the rights and obligations of the Farmor in to the Farmee as set out in this Agreement;
- b) Farmee being furnished with and in its sole opinion being satisfied with the terms of any material contracts relating to the Farmin Interest;

- c) Farmee receiving written confirmation that Farmor has provided the 15% Bond to the Kenyan Authorities as required under the PSC and that the 85% Corporate Guarantee is in place, together with copies thereof;
- d) Farmee Board approval to this Agreement

4.3. Final date for satisfaction

If the Conditions Precedent have not been satisfied within 6 months from date of execution, or by such later date as the Parties may agree in writing, either Party shall have the right within 30 days to terminate this Agreement on 7 calendar days written notice given to the other Party. Unless the Conditions Precedent are satisfied or waived before the end of such notice period this Agreement shall terminate at the end of such notice period.

4.4. Waiver

The Conditions Precedent are for the benefit of both Parties and each and any of them may only be waived with the written consent of both Parties.

5. Indemnities

Notwithstanding any contrary provisions of the Assignment Documents and except as expressly provided to the contrary herein:

- (a) Farmor shall indemnify and hold harmless Farmee against any costs, expenses, claims and liabilities incurred in respect of the Farmin Interest before the Effective Date.
- (b) Farmee shall indemnify and hold harmless Farmor against any costs, expenses, claims and liabilities incurred in respect of the Farmin Interest after the Effective Date.

6. Operator and JOA

As soon as reasonably practicable following satisfaction of the Conditions Precedent, the Parties shall enter into the JOA effective from the Effective Date, to govern operations in Block 01 substantially in the form of the JOA Principles.

Pending execution of the JOA and satisfaction of the Conditions Precedent, and with effect from the Effective Date, the Parties shall conduct operations in Block 01 and pursuant to this Agreement in accordance with the terms of the JOA Principles.

With effect from the Effective Date, Farmee is appointed as the operator ("**Operator**") of the joint venture and under the PSC. Notwithstanding the foregoing, the Parties acknowledge that the appointment of Farmee as the Operator hereunder is contingent upon the approval of the Minister to such appointment and satisfaction of the Conditions Precedent.

The Participating Interests of the Parties following the assignment of the Initial Farmin Interest but with effect from the Effective Date will be:

THX)

Farmor	50%
Farmee	<u>50%</u>
Total	100%

Notwithstanding the relevant provisions of the JOA Principles, all decisions relating to the Farmin Operations that cannot be agreed unanimously shall, be made by the Parties in proportion to their relative contribution to the cost thereof, rather than their Participating Interests and the pass mark for such decisions shall be a vote of eighty one per cent (81%).

7. Warranties

7.1. Warranties of Farmor

Farmor hereby represents and warrants to Farmee, as of the date hereof, and as at the date of the Assignment of the Additional Farmin Interest, that the following is true and correct:

- (a) Farmor is a company duly organized and validly existing under the laws of the jurisdiction of its incorporation. Farmor has all requisite corporate power and authority to enter into this Agreement, to perform its obligations hereunder in and outside Kenya and to consummate the transactions contemplated hereby.
- (b) Subject to satisfaction of the Conditions Precedent, Farmor is entitled to assign the Farmin Interest to the Farmee in the manner contemplated by this Agreement.
- (c) All corporate acts required to be undertaken by Farmor to authorize the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby have been duly and properly taken, and no further shareholder action on the part of Farmor is required.
- (d) This Agreement has been duly executed and delivered by the Farmor and constitutes a legal, valid and binding obligation of Farmor, enforceable against Farmor in accordance with its term.
- (e) To Farmor's knowledge and belief, other than the assignment approvals mentioned in this Agreement and the PSC, Farmor need not give any notice to, make any filing with, or obtain any authorization, consent or approval of any third party or any governmental entity in order to consummate the transactions contemplated by this Agreement.
- (f) To Farmor's knowledge and belief, the Farmin Interest assigned to Farmee under this Agreement is not subject to any Encumbrance other than Permitted Encumbrances
- (g) To Farmor's knowledge and belief, Farmor has complied with its material obligations under the PSC and the Farmin Interest is in good standing.
- (h) To Farmor's knowledge and belief, Farmor has made disclosure to Farmee of all material information that Farmor should have in its possession relating to the Farmin Interest and the Block, and to the best of its knowledge none of the information provided to Farmee has been misleading in any material respect.

- (i) To Farmor's knowledge and belief, no investigation, action, suit, arbitration, injunction, judgment, order, decree, ruling or charge or other proceeding that relates to the Farmin Interest has been made in writing to Farmor.
- (j) To Farmor's knowledge and belief, all operations under the PSC have been conducted and are being conducted in compliance in all material respects with all applicable laws, except to the extent any failure of compliance would not have a material adverse effect on the Farmin Interest.

7.2. Other warranties negated

- (a) Subject to the express warranties given by Farmor under this Agreement, Farmor makes no warranty in relation to the Farmin Interest. relating to:
 - (1) the prospectivity of the Block;
 - (2) any geological, geophysical, engineering, economic or other interpretations, forecasts or evaluations; or
 - (3) the accuracy of any geological, geophysical, engineering or economic data, or any other data which forms the basis of any interpretations, forecasts or evaluations.
- (b) Farmee acknowledges that it has made its own enquiries and assessments and due diligence with respect to all of those matters affecting its decision to enter into this Agreement and has not relied on any representation made by or on behalf of Farmor, save for those expressed herein.

8. Confidentiality and public announcements

8.1 Compliance with JOA confidentiality obligations

All information obtained by Farmee under this Agreement in relation to the Block will be subject to the confidentiality obligations under the JOA.

8.2 Compliance with JOA public announcement obligations

Any public announcements to be made in relation to this Agreement will be subject to the public announcements obligations under the JOA.

9. Assignment

Farmor may not assign its interest under the JOA and PSC, unless the assignment preserves the rights and interests of Farmee under this Agreement.

TBN



10. General

10.1 Time of the essence

Time will be of the essence for the performance by each Party of its obligations under this Agreement.

10.2 Exclusion of indirect or consequential loss

- (a) Notwithstanding any other provision of this agreement, a Party shall not under any circumstances be liable to another Party or any third party under, arising out of or in any way connected with this agreement for any indirect or consequential loss or damage, (including any liquidated damages, exemplary or punitive damages) whether arising in contract or tort (including negligence or breach of any applicable law).
- (b) For the purposes of this clause, consequential loss includes any delay in performing any obligation, increased cost of working, any business interruption, inability to produce or transport Petroleum, lost production, loss of use, loss of contract, loss of income, loss of revenue or loss of profits howsoever arising.

10.3 Notices

- (a) Any notice authorised or required pursuant to this Agreement (**Notice**), to or by a Party to this Agreement will be in writing and may be given in the following manner:
 - (1) by delivery in person, in which case the Notice will be deemed to have been received when delivered to the addressee;
 - (2) by post, in which case the Notice will be deemed to have been received 3 business days from and including the date of postage properly paid and addressed; or
 - (3) by facsimile, in which case the Notice will be deemed to have been received upon successful transmission to the addressee, or if the facsimile is not transmitted during a business day, at the commencement of the next business day.
- (b) Each Party's address and fax number are those set out below, or as the person notifies the sender:

Farmor

Address: 2610 1066 West Hastings St, Vancouver BC V6E 3X2, Canada
Fax number: +1 604 684 4601
Attention: Mike Devji

Farmee

Address: Office 1008, 10th Floor Fortune Tower, Jumeirah Lake Towers, PO Box 450307, DUBAI, UAE
Fax number: +971 4 423 3730
Attention: Jeff Hume

10.4 Legal costs

Each Party will bear its own costs associated with the preparation, negotiation and execution of this Agreement.

10.5 Stamp duty and Taxes

- a) If any stamp duty, registration fees, value added tax or other tax or duty are payable in Kenya on this Agreement or on the execution, delivery and performance of this Agreement, Farmor will be responsible for payment in Kenya of such stamp duty, registration fees, value added tax or other tax or duty, other than Farmee's income tax.
- b) If any Party brings an original or counterpart of this Agreement to any jurisdiction other than Kenya, where any stamp duty, registration fees, value added tax or other tax or duty are payable, on this Agreement or on the execution, delivery and performance of this Agreement, then, that party shall be responsible for the timely payment of any such stamp duty, and penalty and interest related thereto.
- (c) The Parties agree that:
 - (i) the area covered by the Farmin Interest is a greenfields exploration area with no proven reserves;
 - (ii) no petroleum reserves have been located in the Farmin Interest to date; and
 - (iii) the value of the Farmin Interest is nil.

10.6 Costs of implementation

Each Party will pay its own costs and expenses in respect of the implementation and performance of this Agreement.

10.7 Governing law and jurisdiction

- (a) This Agreement is governed by the laws in force in Kenya.
- (b) Each Party irrevocably submits to the exclusive jurisdiction of the courts of Kenya in relation to matters arising under this Agreement.

10.8 Waivers

No indulgence that a Party may grant to the other will constitute a waiver of any of the rights of the grantor thereof who will not thereby be precluded from exercising any rights against the grantee thereof that may have arisen in the past or may arise in the future.

10.9 Variation

A variation of any term of this Agreement will be in writing and signed by both Parties.

10.10 Further assurances

Each Party will do all things necessary to give full effect to this Agreement and the transactions contemplated by this Agreement.

10.11 Entire Agreement

This Agreement embodies the entire agreement between the Parties with respect to the subject matter of this agreement and supersedes any prior negotiation, arrangement, understanding or agreement with respect to the subject matter or any term of this Agreement. Any statement, representation, warranty, condition, promise or undertaking made, given or agreed outside this Agreement has no effect.

10.12 Counterparts

This Agreement may be executed in counterparts, and all counterparts collectively will comprise one instrument.

10.13 Interpretation

In this Agreement, unless the context otherwise requires:

- (a) headings are for convenience only and do not affect interpretation;
- (b) words importing the singular include the plural and vice versa;
- (c) a reference to a document includes all amendments and supplements to, or replacements or novations of, that document;
- (d) a reference to a Party to a document includes that Party's successors and permitted assigns;
- (e) no rule of construction applies to the disadvantage of a Party because that Party was responsible for the preparation of this Agreement or any part of it.

10.14 Business days

- (a) a reference to a business day is a reference to a day on which banks are open for business in Nairobi, excluding a Saturday, a Sunday or a public holiday.
- (b) If this Agreement requires a Party to do an act or make a payment on or by a day that is not a business day, then the Party must do that act or make that payment on or by the previous business day.

10.15 Force Majeure

If as a result of Force Majeure, any Party is rendered unable, wholly or in part, to carry out its obligations under this Agreement, other than the obligation to pay any amounts due, then the obligations of the Party giving such notice, so far as and to the extent that the obligations are affected by such Force Majeure, shall be suspended during the continuance of any inability so caused and for such reasonable period thereafter as may be necessary for the Party to put itself in the same position that it occupied prior to the Force Majeure, but for no longer period. The Party claiming Force Majeure shall notify the other Parties of the Force Majeure within a reasonable time after the occurrence of the facts relied on and shall keep all Parties informed of all significant developments. Such notice shall give reasonably full particulars of the Force Majeure and also estimate the period of time which the Party will probably require to remedy the Force Majeure. The

affected Party shall use all reasonable diligence to remove or overcome the Force Majeure situation as quickly as possible in a commercially reasonable manner but shall not be obligated to settle any labour dispute except on terms acceptable to it. All such disputes shall be handled within the sole discretion of the affected Party. For the purposes of this Agreement, "Force Majeure" shall have the same meaning as is set out in the PSC.

10.16 Relationship of Parties

The rights, duties, obligations and liabilities of the Parties under this Agreement shall be individual, not joint or collective. It is not the intention of the Parties to create, nor shall this Agreement be deemed or construed to create, a mining or other partnership, joint venture or association or (except as explicitly provided in this Agreement) a trust. This Agreement shall not be deemed or construed to authorize any Party to act as an agent, servant or employee for any other Party for any purpose whatsoever except as explicitly set forth in this Agreement. In their relations with each other under this Agreement, the Parties shall not be considered fiduciaries except as expressly provided in this Agreement.

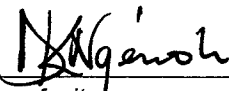
10.17 Third Party Rights

The Parties agree that none of the terms of this Agreement shall be enforceable by any person who is not a Party to this Agreement.



EXECUTED by the Parties as an Agreement

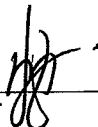
EXECUTED for and on behalf of **Lion Petroleum**
Corporation by:



Signature of witness

DANIEL K. A. NGENOH

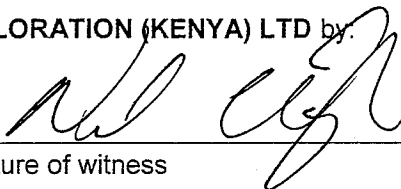
Name



Director

Name

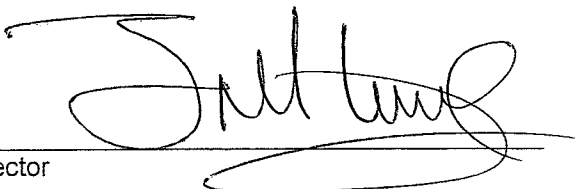
EXECUTED for and on behalf of **EAST AFRICAN**
EXPLORATION (KENYA) LTD by:



Signature of witness

NEIL O TAYLOR

Name



Director

JEFFREY M. HUME

Name

SCHEDULE 01
DEED OF ASSIGNMENT

DATED

2008

Lion Petroleum Inc.

and

East African Exploration Ltd

DEED OF ASSIGNMENT

Block 01 Kenya

DEED OF ASSIGNMENT

THIS DEED is made on the 31st day of October 2008

BETWEEN:

Lion Petroleum Corp (hereinafter referred to as Farmor), a company organised and existing under the laws of Canada and having a registered office at Suite 2610 – 1066 West Hastings Street, Vancouver, BC, V6E 3X2, Canada.

, and

East African Exploration (Kenya) Ltd (EAX) (hereinafter referred to as Farminee) registered in Kenya and a wholly-owned subsidiary of East African Exploration Ltd a company organized and existing under the laws of the British Virgin Islands and having its registered office at P.O. Box 3140, Romasco Place, Wickhams Cay 1, Road Town, Tortola, VG 1110, British Virgin Islands.

WHEREAS:

- A. Farmor has signed a Production Sharing Contract (PSC) for hydrocarbon exploration for Block 1 with the Ministry of Energy on behalf of the Government of the Republic of Kenya
- B. Pursuant to the Farmin Agreement (defined below), the Farminee has agreed to acquire from Lion, and Lion has agreed to assign to Farminee, a 50% interest in the rights and obligations of the Contractor under the PSC.
- C. The Minister for Energy of the Republic of Kenya (the **Minister**) has in a letter dated 30 September 2008 given his consent to the execution of this Deed subject to receiving the details of the Deed.

NOW THIS DEED WITNESSETH that:

1. Defined terms

In this Deed:

Effective Date means the date on which the Farmor and Farminee formally submit the Deed of Assignment to the Ministry of Energy.

Farmin Agreement means the Farmin Agreement between Lion and Farminee to be formally completed within one month of the Effective Date, as amended from time to time.

PSC means the Production Sharing Contract for Block 01, Republic of Kenya dated 17 September 2007 and effective 8 October 2008, as amended from time to time.

JOA means the Joint Operating Agreement between the Farmor and Farminee which is to be completed within two months of the Effective Date.

2. Assignment

With effect from the Effective Date, Lion hereby assigns to Farminee an undivided (50%) interest in the entire rights, interests, obligations and liabilities pursuant to and in respect of the PSC (the **Transferred Interest**) TO HOLD the same unto Farminee subject to the performance and observance by Farminee of the terms and conditions contained in the PSC and on the part of the Contractor therein described to be performed and observed, insofar as they relate to the Transferred Interest.

3. Covenant by Farminee

Farminee agrees and covenants with Lion, that it will perform and observe the terms and conditions and be bound by the liabilities and obligations contained in the PSC, subsequent to the revised Minimum Work Programme as defined by the Ministry of Energy in its letter to Lion on 10 October 2008 and on the part of the Contractor therein described to be performed and observed, insofar as they relate to the Transferred Interest.

4. Covenant by all Parties in favour of Minister

Farminee and Lion jointly and severally covenant with and in favour of the Minister that they will perform and observe the terms and conditions contained in the PSC on the part of the Contractor therein described to be performed and observed.

5. General

5.1. Counterparts


This Deed may be executed in any number of counterparts with the same effect as if the signatures on the counterparts were upon a single engrossment of this Deed provided that this Deed shall not be effective until all the counterparts have been executed.

5.2. Governing law

The construction, validity and performance of this Deed shall be governed by Kenyan Law and each Party hereby submits to the jurisdiction of the Kenyan Courts.

IN WITNESS WHEREOF the Parties have executed this Deed as of the day and year first above written.

EXECUTED for and on behalf of Lion Petroleum
by its duly appointed attorney, in the presence of:


Signature of Witness

JAKUN GARCHA
Name



Signature of Attorney

Miraz Darsi
Name

EXECUTED for and on behalf of EAST
AFRICAN EXPLORATION (KENYA) LTD in
the presence of:


Signature of Witness

NEIL C TAYLOR
Name


Signature of Director

JEFFREY M. Hume
Name

SCHEDULE 2
JOA PRINCIPLES

The AIPN 2002 Model Form International Operating Agreement and AIPN 2004 Model Form International Accounting Procedure, incorporating these principles, are to be used as the basis for the JOA.

SUBJECT MATTER
<p style="text-align: center;">SCOPE</p> <ul style="list-style-type: none">• Exploration, appraisal, development, production and decommissioning.
<p style="text-align: center;">VOTING</p> <p style="text-align: center;">Affirmative Decision</p> <ul style="list-style-type: none">• All OCM decisions by Affirmative Decision of 2 or more Parties with 65% or more unless stated otherwise.• If cannot get Affirmative Decision for relinquishment of blocks or for the conduct of minimum work program and expenditure then Operator to make determination and perform work. <p style="text-align: center;">Unanimous Decisions</p> <ul style="list-style-type: none">• to shorten period for calling OCM or to determine non-agenda items at OCM• to amend PSC or JOA• voluntary surrender• to authorise well or data trades <p style="text-align: center;">Op. Com decisions bind the Parties</p>

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SUBJECT MATTER

OPERATOR – East African Exploration (Kenya) Ltd is appointed operator with exclusive charge of Joint Operations subject to overall supervision & direction of OCM – can delegate to Affiliate

Liability of Operator

- The Operator shall be released and indemnified in accordance with Article 4.6 of the AIPN 2002 form, and shall be liable only for "wilful misconduct" of senior supervisory personnel above the Facility Manager Tier and not in any case for lost profits, environmental, business interruption or other consequential or like losses

OCMs

- Operating Committee has overall supervision and direction of Joint Operations
- Need a minimum Participating Interest of 10% to have representative
- Representatives have authority to vote and bind Parties
- Operator calls OCMs on at least 14 days' notice of meetings;

- can vote by notice or proxy – 14 days but 24 hours in rig on location
- Affirmative Decisions by resolutions in writing will bind Parties

PROGRAMS & BUDGETS

- Operator to submit work program and budget on annual basis, or such other basis as set out in the PSC, in time to incorporate Parties' comments and meet requirements of PSC
- Operator to start Minimum Work Obligations if Work Program and Budget not approved in time.

CONTRACT AWARDS

- Competitive tenders where cost likely to be >\$250,000 unless Operator considers not practicable for commercial, operational or emergency reasons
- Specific procedures to be followed including obtaining Op. Com approval where expected contract cost likely to be at least -
 - for Exploration or Appraisal Operations - \$1 million
 - for development or production operations - \$5 million



SUBJECT MATTER
<p>→ for drilling rigs - \$5 million</p> <p>→ copy tenders or contracts to Parties on request</p> <ul style="list-style-type: none"> • need Op. Com approval if variations take \$ to >10% above limits
<p>AFEs</p> <ul style="list-style-type: none"> • Not required for general and administration costs that are listed as separate line items in approved program & budget • for information only, when <\$250,000 if within approval Work Program & Budget. • where necessary, Operator may overrun by 10% • Operator must revise AFEs if apparent that overrun of >10% will occur
<p>INSURANCE</p> <ul style="list-style-type: none"> • Operator arranges certain cover as minimum: <ul style="list-style-type: none"> → Workers' comp. → Compulsory third party personal injury cover and motor vehicles → Otherwise as required by PSC or Op. Com • Subject to foregoing, Parties to arrange own 3rd party cover & control of well cover • Parties may arrange additional cover
<p>RELINQUISHMENT, & EXTENSION</p> <ul style="list-style-type: none"> • Relinquishment – <p>Operator to recommend area, at least 6 months before due date</p> <p>Operator can determine, if Parties have not done so in time or if venture is not able to agree, based on a simple majority Participating Interest vote.</p> <p>Venturers to try and agree on Work Program and Budget for extension period but if they can't highest proposal is put to Government</p>
<p>SOLE RISK AND NON CONSENT</p> <p>Non Consent not available for G & G or minimum work obligations</p> <p>Sole Risk is available for all activities, – based on a production premium 1500% of</p>

SUBJECT MATTER
cost of exploration wells, 700% of cost of appraisal wells and 400% of cost of development.
TRANSFER OF INTEREST
<ul style="list-style-type: none"> • Parties must maintain at least 5% Participating Interest • Pre-emptive rights only apply (including change of control & corporate acquisitions) prior to declaration of commerciality • EAX may assign some of its Participating Interest to third parties from time to time subject to consent of Parties not unreasonably withheld. • Assignment to Affiliates permitted without pre-emption but change of control clause applies and adjustment to Parental Guarantee.
<ul style="list-style-type: none"> • Incoming Party must first establish its financial and technical capability (consent required, not unreasonably withheld) • Assigning or Outgoing Parties remain liable for accrued obligations • Notice of exercise to be given within 30 days of receipt of notice sent by selling Party that offer has been made, and its terms
<ul style="list-style-type: none"> • Non cash and package deals – expert can determine after tax financial equivalent • Transfer not effective until approved • a Party may encumber its Participating Interest only if: <ul style="list-style-type: none"> → other Parties consent (consent shall not be unreasonably withheld) → the encumbrance is subordinated to the rights of the Parties • must use form of Assignment & Assumption Deed
DEFAULT <ul style="list-style-type: none"> • If default in payment of cash call, default provisions under 2002 AIPN Model JOA providing for forfeiture applies • if Default Notice served consequences are Defaulter is not entitled to - <ul style="list-style-type: none"> → call, attend or be represented at a meeting
<ul style="list-style-type: none"> → submit a matter for decision → vote - its right being apportioned to Non Defaulters

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SUBJECT MATTER

- receive or use any information (except to allow rectification of default)
- access the PSC Area or Joint Property
- Joint Petroleum or Joint Account credits (these being suspended)
- exercise any other rights (other than to cure the default)
- Defaulter is liable for interest (at Agreed interest Rate) and forfeiture of Participating Interest after service of Forfeiture Notice plus 1 month
- Operator is agent of Defaulter fully empowered to execute documents etc. and to give effect to forfeiture

WITHDRAWAL

- no withdrawal from part of PSC
- by notice – unconditional and irrevocable
- at least 2 months, but not more than 6 months, before Contract Year expires or if voted against renewal on terms of increased Minimum Work Obligation
- cannot withdraw until Minimum Work Obligation has been performed
- generally, no right to vote on Operations to be carried out after notice given

- not effective until-

- commitments of Operator prior to receipt of notice are satisfied
- all encumbrances are discharged
- any emergency has been contained, and its costs paid
- any decommissioning security has been provided

COSTS, ACCOUNTING & AUDIT

- \$ means US\$
- cash calls for next month, payable by end of month
- expenses, liabilities and credits shared as per Participating Interests

PUBLIC ANNOUNCEMENTS

- Operator may make routine public announcements etc.

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SUBJECT MATTER
<ul style="list-style-type: none">• Non-operators not to do so unless necessary to comply with law
<p>CONFIDENTIAL INFORMATION</p> <ul style="list-style-type: none">• Confidentiality obligations cover all information, until 3 years after PSC expires. The obligations and exceptions under the 2002 AIPN model joint operating agreement apply. <p>NOTICES – same provisions as in Farmin Agreement</p> <p>APPLICABLE LAW & DISPUTE RESOLUTION English Law and ICC rules of arbitration in English language, in London with 1 arbitrator, if agreed, otherwise 3 arbitrators, qualified by education and experience on matter in dispute.</p> <p>Independent Expert for technical matters</p>

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1/10/17