

**UGANDAN OIL AND GAS
INSURANCE SYNDICATE**

OIL AND GAS INSURANCE MANUAL

THE INSURANCE INSTITUTE OF UGANDA

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Introduction

All oil and gas insurance in Uganda must be effected in Uganda

This is supported by:

- **Uganda Insurance Law**
- **Production Sharing Contract between Ministry of Energy and Mineral Resources and Foreign Oil Companies (FOCs) that requires approval.**
- **The PSC provision that requires PRIORITY to be given to Uganda products and services.**
- **Government initiative promoting local content**

Policies provided by The Uganda Oil and Gas Insurance Syndicate in this sector include

- **Operator's Extra Expenses cover (OEE)**
- **Comprehensive General Liability (CGL)**
- **Offshore Builders Risks (OBR)**
- **Construction All Risks (CAR)**
- **Project cargo**
- **Operational All Risks Onshore and offshore**

CHAPTER ONE

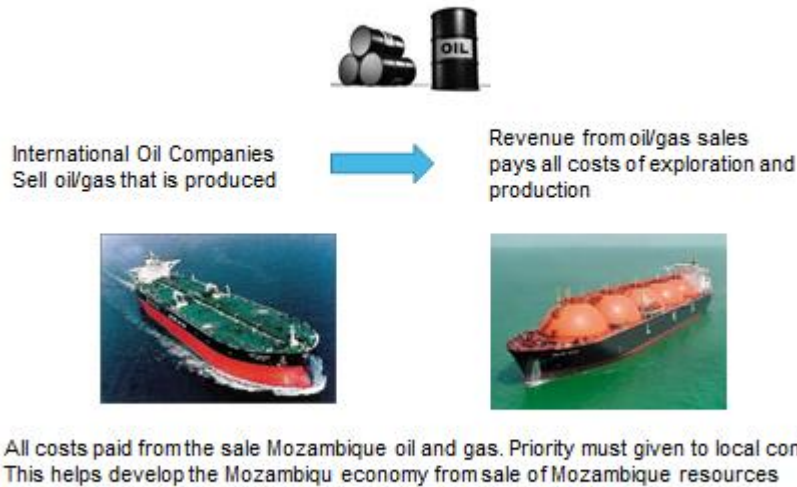
GLOSSARY OF TERMINOLOGY IN OIL AND GAS INSURANCE

The Contract

- **PSC- Production Sharing Contract. The contract between the Host Nation Government and the Foreign Oil Company**
- **EPC- Exploration and Production Contract. Another type of PSC**
- **PSA- Production Sharing Agreement. Another type of PSC**
- **Cost Recovery- The mechanism by which ALL costs of exploration and production are recovered by the Foreign Oil Companies from the Host Nation**
- **Cost Oil or Gas is the product which is sold by the Foreign Oil Company from which cost are reimbursed (cost recovered)**

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COST OIL or GAS



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- Profit Oil or Gas the surplus product (after all costs have been reimbursed) which is shared between Host Nation and Foreign Oil Companies in 5 as agreed by the contract.

PROFIT OIL or GAS



- FOC- Foreign Oil Company who contract with the Host Nation under a PSC
- IOC- International Oil Company different terminology for FOC

- **Local Content-** The requirement that FOCs should purchase goods and services within the host nation if possible to stimulate the local economy.



Drilling oil or gas wells

- **Drilling Rig-** Equipment used to drill a well
- **Jack-up-** a type of offshore drilling unit (shallow water)

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Jack-Up Rigs



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- **Semi-Submersible- another type of drilling rig (deeper water)**

Semi-Submersible Rigs

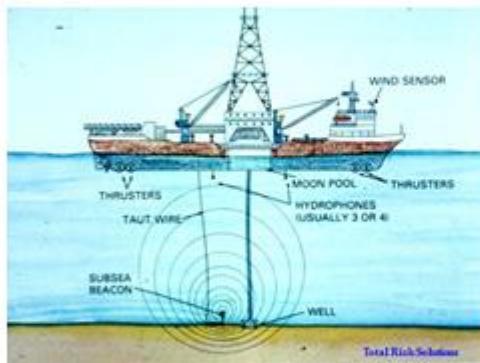


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- **Drill Ship- Another type of drilling unit (deepwater)**

Drill Ships

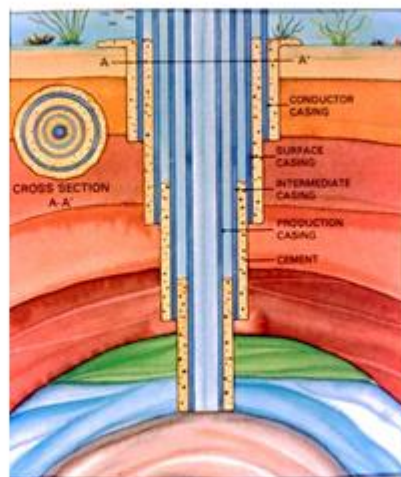


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- Deepwater drilling rig- another type of drilling unit designed to drill in very deep water
- The Well

Well Layout



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- Drilling mud- Combination of chemicals that are pumped in to a drilling well to keep the well stable. In hole pressure must be kept greater

than down hole pressure or hydrocarbons will flow up the drill bore and possibly cause a blow out

- Blow out- is an unintended flow of oil gas or water above the surface of the ground or water bottom which cannot be stopped by:

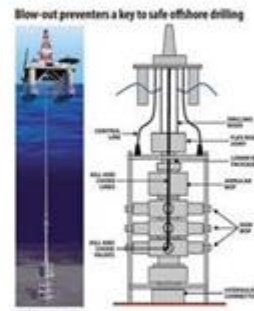
a) The Blowout preventer or other wellhead equipment

b) increasing the volume of drilling fluid (weight of the drilling mud)

c) diverting the flow in to production

- BOP- Blow out preventer installed on the wellhead designed to shut in the well if it starts to flow.

Blowout Preventer

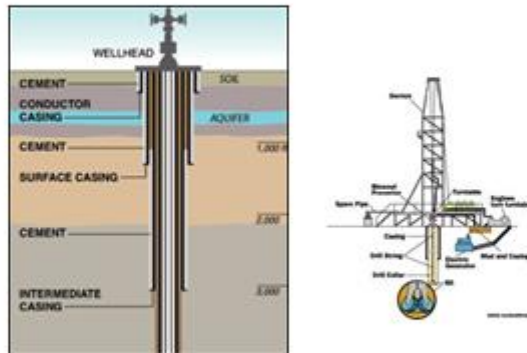


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- Casing- The steel cylinders installed in a well at periodic depths to make it stable

Well Casing

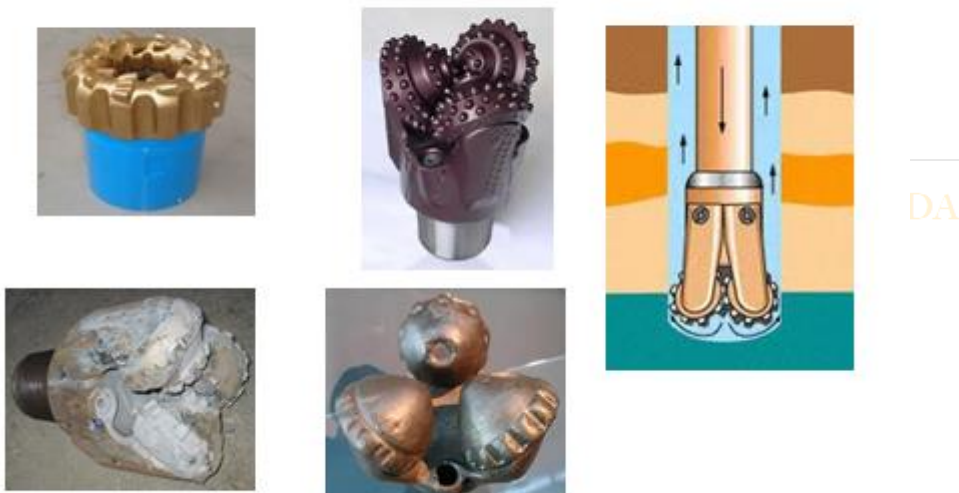


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- **Drill bit-** The sharp unit at the end of the drill string which is rotated and actually drills in to the formation creating the hole.

Drill Bits



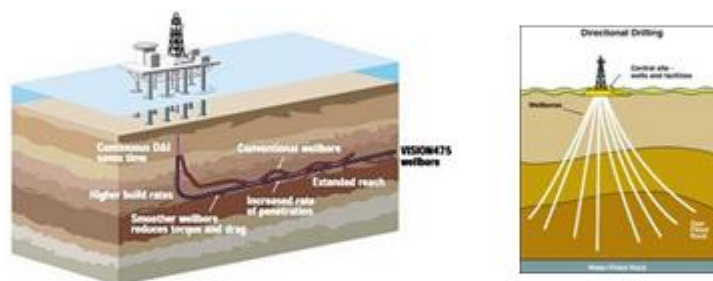
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- **AFE- Approved For Expenditure:** The budget cost for the well
- **Target Depth:** The intended depth to which the well will be drilled

- **Reservoir:** The underground strata or sands which contain hydrocarbons
- **Spudding:** The procedure of starting a drilling well before the rotating equipment starts the drilling process
- **Spud Date:** The date that spudding commences
- **Vertical well:** A well which is drilled straight
- **Directional well:** A well which is drilled at an angle

Directional Drilling



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- **Kick-off point:** The point in drilling where the drilling changes direction (from vertical to either directional or horizontal)
- **Horizontal well:** A well that is drilled horizontally
- **Relief well:** A well which is drilled to relieve pressure in a well that is out of control.
- **Wildcat:** A first oil or gas well drilled in a previously unexplored area
- **Exploration well:** A well drilled to establish if hydrocarbons are present in a given area
- **Appraisal well:** A well drilled to establish the extent of a reservoir that has already been found through exploration drilling
- **Production well:** A well drilled in to a proven reservoir with a view to producing hydrocarbons

- **Work-over:** Entering a well to maintain or clean or repair an existing well
- **Injection well:** A well drilled to be used to increase reservoir pressure by pumping water or steam in to the reservoir or to re-inject unwanted gases such as carbon dioxide once separated from the original gas produced.
- **Shut-in well:** A well that has been temporarily suspended either to await production or to await completion.
- **Perforation:** The process of punching a hole or holes in the casing of a well so that the well bore is connected to the reservoir and hydrocarbons can flow
- **Plugged and Abandoned (P and A):** A well which is plugged because it is dry (no hydrocarbons) or which is no longer required for production.

Well Insurance

- **OEE insurance:** Operators Extra Expenses insurance. The insurance taken out for oil and/or gas and/or geothermal wells.
- **EED 8.86 (Energy Exploration and Development):** The most widely used policy wording covering OEE
- **Control of Well:** Section A of EED 8.86 covers cost incurred to control a blow out
- **Redrilling/Extra Expense:** Section B of EED 8.86 covers cost incurred to re-drill a well lost as a result of a blow out
- **Clean up of seepage and pollution:** Section C of EED 8.86 covers clean-up of pollution and liability arising from pollution as a result of a blow out
- **Assureds net retention:** The expression used in EED 8.86 as the deductible for the insurance
- **CSL: Combined Single Limit** any one occurrence to apply over all three EED 8.86 sections combined
- **Blow out Preventer Warranty:** A warranty found in EED 8.86

WARRANTIES:

- a. It is warranted that where the Assured is the operator or joint operator on any insured well being drilled, deepened, serviced, worked over, completed and/or reconditioned, a blowout preventer(s) of standard make will, when in accordance with all regulations, requirements and normal and customary practices in the industry, be set on surface casing, or on the wellhead and installed and tested in accordance with usual practice.

When the Assured is a non-operator on any insured well, he will endeavour to see that the operator complies with the warranties set out in this paragraph 15a.

- b. It is further warranted that the Assured will use every endeavour to ensure that they and/or their contractors comply with all regulations and requirements in respect of fitting storm chokes and other equipment to minimise damage or pollution, and that all equipment (including drilling and/or workover rigs) will be manned by properly certified personnel where required by regulatory authorities.
- c. It is further warranted that in the event of a well becoming out of control or other escape or flow of drilling fluid, oil, gas or water, the Assured will use every endeavour to control the well or stop the escape or flow.

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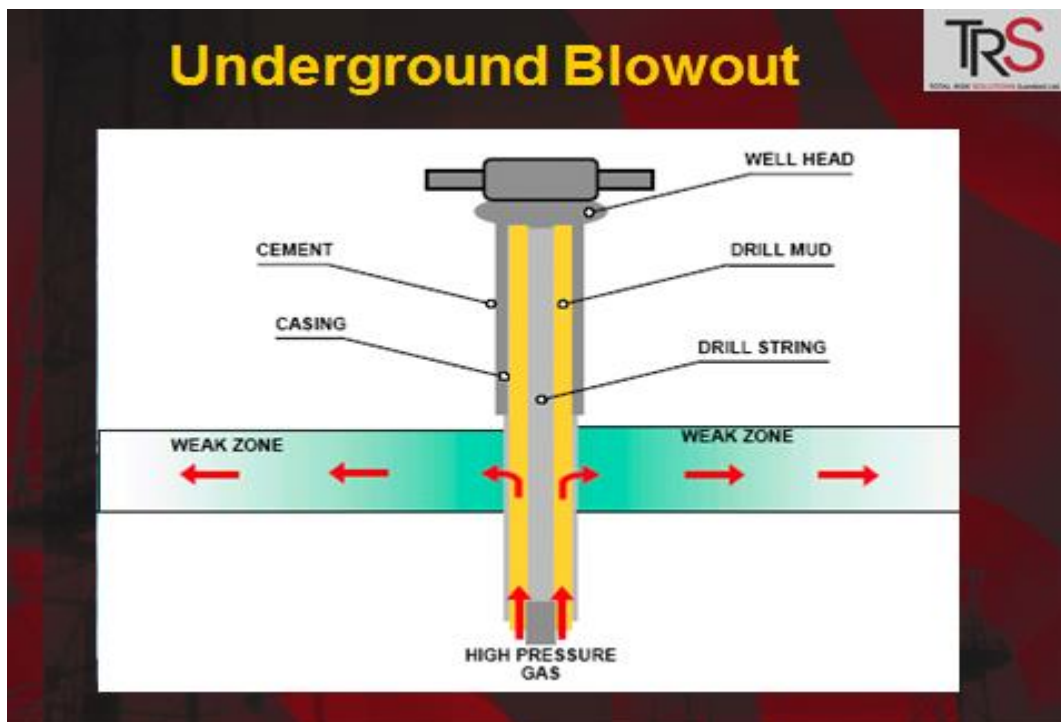
Due Diligence: Requirement in EED 8.86

DUE DILIGENCE CLAUSE:

It is a condition of this insurance that the Assured shall exercise due care and diligence in the conduct of all operations covered hereunder, utilising all safety practices and equipment generally considered prudent for such operations, and in the event any hazardous condition develops with respect to an insured well, the Assured shall at their sole

expense make all reasonable efforts to prevent the occurrence of a loss insured hereunder.

- **Underground blowout-** An endorsement to the basic EED 8.86 which extends the coverage to pay costs of control of an underground blowout



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- **Evacuation Expenses:** Extension to EED8.86 allows a claim to be made for costs of evacuation of third parties following a well blow out.
- **Extended re-drill:** Extension of EED 8.86 section B to allow for re-drilling well if it is lost from other named perils other than blow out
- **Unlimited re-drill:** Extension to EED.8.86 removing the inner limits included in Section B

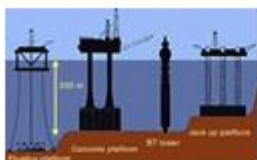
- **Making Wells safe:** Extension to EED 8.86 whereby reinsurers will reimburse the costs of preventing a blow-out following the occurrence of certain named perils which put the well at risk.
- **CCC: Care Custody and Control** is an extension of EED 8.86 providing physical damage cover for non- owned equipment which the operator is contractually liable for.
- **Deliberate well firing:** An extension to EED 8.86 providing coverage as follows:
In respect of any wells insured hereunder this Section is extended to include coverage if the well becomes out of control as defined herein and is fired for safety reasons or on the instruction of any governmental authority.
- **PFD: Per foot drilled.** The traditional method of rating OEE coverage is by applying a \$ rate per foot drilled.

Other Useful terms

- **Upstream:** The phase of operations at the wellhead includes production and storage at well site
- **Midstream:** The pipeline and or other equipment taking product from the upstream location to the process plant onshore
- **Downstream:** Is the process and distribution phase of the operation includes refining, LNG, Chemicals etc plus pipelines to end user and or storage of product awaiting offtake,
- **LNG:** Liquefied Natural Gas
- **LPG:** Liquefied Petroleum Gas
- **CNG:** Compressed Natural Gas
- **Distillation:** Basic oil refining method
- **FLNG:** Floating LNG plant
- **FPSO:** Floating Production Storage and Offloading system
- **FSO:** Floating Storage and Offloading
- **SBM:** Single Buoy Mooring
- **CALM Buoy:** Catenary Anchor Leg Mooring (A type of SBM)

- **Production platform: A fixed structure offshore from which wells are drilled and hydrocarbons produced and may be processed**

Construction of Fixed Platform



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- **WHP: Well Head Platform, a fixed platform from which wells are drilled. Normally wellhead platform have multiple “slots” so that many wells can be drilled from the same offshore structure. Normally no processing is done on a WHP.**
- **CPP: Central processing platform. A platform which gathers oil or gas from remote Wellhead platforms and processes the hydrocarbon so that it can either be stored in FSO or sent by pipeline to shore**
- **Subsea completion: Where wells are completed on the seabed and then joined together by a network of pipelines with hydrocarbons being sent directly from the wells to a CPP.**

Offshore Builders Risks

- **WELCAR 2001: The Standard form used to insure Offshore builders Risks (Wellington Construction All Risks named after the Lloyds syndicate that drafted this policy form in 2001)**

Covered activities-

procurement, construction, fabrication, load out, loading/unloading, transportation by land, sea or air (including call(s) at port(s) or place(s) as may be required), storage, towage, mating, installation, burying, hook-up, connection and/or tie-in operations, testing and commissioning, existence, initial operations and maintenance, project studies, engineering, design, project management, testing, trials, pipelaying, trenching, and commissioning. Covered activities may also include direct consequences from drilling operations, but only where declared to and agreed by Underwriters.

- **Procurement: Purchase and delivery of equipment (cargo coverage) risk attaches as soon as title passes (FOB, C&F ex warehouse etc)**
- **Construction: Building of the units at the builders yard**
- **Fabrication: Manufacture or assembly of smaller parts at a yard other than at main Builders premises. Including pipe lining and coating**
- **Load out: The act of transferring the main constructed units to site. These can be by barge, heavy lift vessel or even floating out of individual units.**
- **Transportation and Cargo not just for import of cargo from supplier but movement of fabricated equipment to builders yard for incorporating in the main unit construction.**
- **Storage: Wherever it might occur in builders yard or elsewhere**
- **Towage: Of cargo by barge or of main units to offshore installation site.**

Launch-

- **The word “launch” shall be deemed to include skidding onto and off launch barge/vessel and/or mating and/or floating in dry dock and/or flooding thereof and/or transfer of the property insured into water and/or emplacement and/or positioning in water at site.**
- **Mating: The joining together of one or more individual parts of the project.**
- **Installation: The physical work of installing each unit on site**

- **Burying:** The act of burying pipelines or cables
- **Trenching:** The digging or excavation of trenches in which to lay and/or bury pipelines or cables etc
- **Hook up and connection:** The joining together of units such as FPSO to SBM at the field
- **Tie-in:** Of wells to pipelines and of pipelines to the main platform(s)
- **Testing and commissioning:** Preparing for first gas or oil, then the testing of all units to design capacity before handover of the completed project to the Principal.
- **Project management, design, engineering etc:** All included in the project value and if recurring for repair or replacement included in a valid claim under the policy
- **Existence:** The period where installed units are “silent” awaiting other parts of the project to be completed so that these can be brought in to service
- **Initial operation:** Early production if required and declared usually of individual units whilst awaiting the testing of the project as a whole.
- **Maintenance:** The period after handover in which the contractor is contractually bound to repair or replace items. A maintenance period will be included in the policy which coincides with this contractual period.
- **ECV:** Estimated Contract value
- **Schedule A value:** Full Contract value plus 25% being the maximum aggregate amount that insurers can pay as claims under the policy
- **Schedule B values:** Breakdown of value of project into individual major components. Schedule B values should be reviewed throughout the project. Latest Schedule B values plus 25% represents the any one occurrence limit of insurers. This **INCLUDES** any amount for Sue and Labour and Removal of Wreck (ROW) or Debris.
- **Escalation:** The ability for Schedule B values to be increased during the project period up to 25%. If escalation is declared then the any one occurrence limit will be Schedule B values plus 50% (including escalation, Sue and labour and ROW

- **Mob and Demob: Mobilisation and Demobilisation costs.** Sometimes insurers will limit their liability to the “original costs” of these activities.
- **Standby Charges:** The costs of mobile construction equipment incurred during periods of a repair where work cannot be continued because of bad weather etc. This will be the subject of a policy limit.
- **Defective part coverage:** The basic policy excludes defective part but this can be “bought back” subject to an inner limit and an Additional Premium. Note there must be physical loss or damage to the part for it to be indemnifiable.
- **Tests, Leaks or Damage Search costs:** The costs which may be incurred by the insured to try and establish leak or damages. This will be subject to a sub limit.
- **QA/QC: Quality Assurance and/or Quality Control condition**
- **DSU: Delay in Start-up.** This is NOT covered by the standard WELCAR policy but can be insured if and as required
- **DTEP: Damage to Existing Property.** This can be purchased for a limit and additional premium under the Liability section of WELCAR.

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CHAPTER TWO

DISCLOSURE OF MATERIAL FACTS INFORMATION REQUIRED FOR UNDERWRITING OIL AND GAS RISKS

General required for all policies

- **Past loss experience**
- **Name of operator**

OEE (Operators Extra Expenses) Insurance of wells

- **Number of wells**
- **Depth of wells**
- **Type of wells**
- **AFE of wells**
- **Drilling Contractor and experience**
- **Type of Rig/capacity**
- **Location**
- **If offshore water depth**
- **Coverage required EED 8.86**
- **Extensions required**
- **Combined Single Limit required**

N.B Insurers may require a desk top survey see addendum 1 attached

BUILDERS RISK OFFSHORE (WELCAR)

- **Project scope of work**
- **Total contract value**
- **Breakdown of project values in to main components**
- **Project period (bar chart) including testing and commissioning periods**
- **Name of contractor**
- **Details of the construction yard**
- **Details of offsite fabrication yards**
- **Details of Load out and installation methods**
- **Details of pipelines, diameter, routing, laying methodology etc**
- **Is there any directional drilling if so specify details and name the subcontractor for this part of the contract?**
- **Plot plan or field schematic showing proposed project**
- **Quality Assurance and Quality control criteria**
- **Disaster contingency planning**
- **Copy of the contract**
- **Details of any existing property**
- **Maintenance period required**
- **Sub limits required for**
 - i) **Defective part buy-back**
 - ii) **Leak Search costs**
 - iii) **Mobilisation and demobilisation**
 - iv) **Standby charges**

CAR ONSHORE

- **Project scope of work**
- **Is there any prototype machinery being installed**
- **Total contract value**
- **Breakdown of project values in to main components, civil works, wet works, utilities, major process areas,**

- **Project period (bar chart) including testing and commissioning periods**
- **Name of contractor**
- **Details of the construction site**
- **Details of offsite fabrication yards if any**
- **Is inland transit cover required? If so details, values means of transport limit any one conveyance etc.**
- **Plot plan of facilities to be built**
- **Details of wet works and values**
- **Design criteria for earthquake flood etc**
- **Details of pipelines if any, laying methodology diameter of pipes type values etc**
- **Copy of the contract**
- **Details of any existing property**
- **Proximity of third party property**
- **Security arrangements at site**
- **Details of fire prevention on site**
- **Details of laydown areas and warehousing**
- **Arrangements for cargo delivery and inspection as cargo damage prior to arrival at site will need to be identified**
- **Design cover required**

PROJECT CARGO

- **Values of cargo to be shipped to the project**
- **Limit any one vessel**
- **Limit any one barge**
- **Details of critical equipment to be shipped to project**
- **Origins of shipments**
- **Will shipment be direct or transhipped**
- **Intermediate storage required Y/N**
- **Will cargo be quay discharged or lighter/barged to shore**
- **Are there barge shipments (details)**

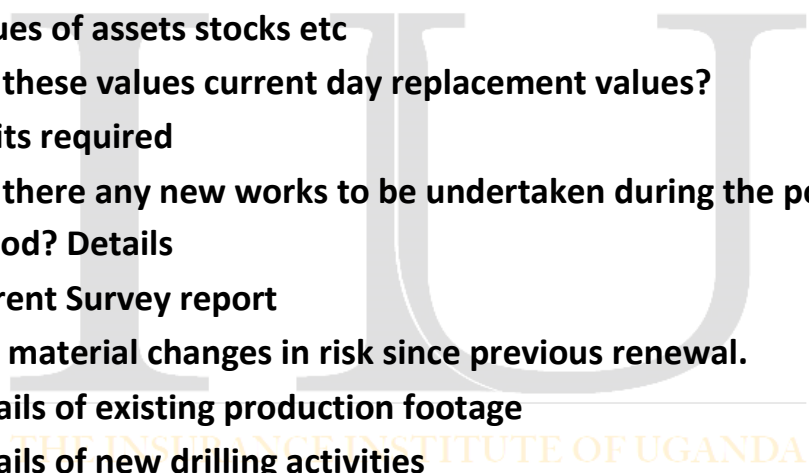
- Distance from port of discharge to site and means of transport
- Inspection procedures on arrival at site
- Is storage required after arrival? If so period and details of storage areas warehouses etc.

COMPREHENSIVE GENERAL LIABILITY

- Copies of relevant contracts liability and indemnity provisions
- Proximity of third party operations
- Limit required
- Details of any underlying policies taken out by subcontractors

OPERATIONAL RISKS

- Layout of facilities
- Values of assets stocks etc
- Are these values current day replacement values?
- Limits required
- Are there any new works to be undertaken during the policy period? Details
- Current Survey report
- Any material changes in risk since previous renewal.
- Details of existing production footage
- Details of new drilling activities
- Limits and coverage required for OEE





CHAPTER THREE

SUMMARY OF COVER OPERATORS EXTRA EXPENSE (OEE) insurance of wells

The EED 8.86 is the most common policy form used for OEE insurance

SECTION A Cost of Control

SECTION B Redrilling Extra Expense

SECTION C Clean up of seepage and pollution

Basic cover is to pay expenses under the 3 sections following a blowout of an insured well;

Blowout is defined as:

DEFINITIONS:

- a. **Well Out of Control:**

For the purposes of this insurance, a well(s) shall be deemed to be out of control only when there is an unintended flow from the well(s) of drilling fluid, oil, gas or water above the surface of the ground or water bottom,

- (1) which flow cannot promptly be:
 - (a) stopped by use of the equipment on site and/or the blowout preventer, storm chokes or other equipment required by the Due Diligence and Warranties clauses herein; or
 - (b) stopped by increasing the weight by volume of drilling fluid or by the use of other conditioning materials in the well(s); or
 - (c) safely diverted into production; or
- (2) which flow is declared to be out of control by the appropriate regulatory authority.

Nevertheless and for the purposes of this insurance, a well shall not be deemed out of control solely because of the existence or occurrence of a flow of oil, gas or water into the well bore which can, within a reasonable period of time, be circulated out or bled off through the surface controls.

b. Well Brought under Control:

A well(s) deemed out of control in accordance with Paragraph 2a of this Section A shall, for the purposes of this insurance, be deemed to be brought under control at the time that:

- (1) the flow giving rise to a claim hereunder stops, is stopped or can be safely stopped; or

- (2) the drilling, deepening, servicing, working over, completing, reconditioning or other similar operation(s) taking place in the well(s) immediately prior to the occurrence giving rise to a claim hereunder is (are) resumed or can be resumed; or
- (3) the well(s) is (are) or can be returned to the same producing, shut-in or other similar status that existed immediately prior to the occurrence giving rise to a claim hereunder; or
- (4) the flow giving rise to a claim hereunder is or can be safely diverted into production;

whichever shall first occur, unless the well(s) continues at that time to be declared out of control by the appropriate regulatory authority, in which case, for the purposes of this insurance, the well(s) shall be deemed to be brought under control when such authority ceases to designate the well(s) as being out of control.

c. Expenses:

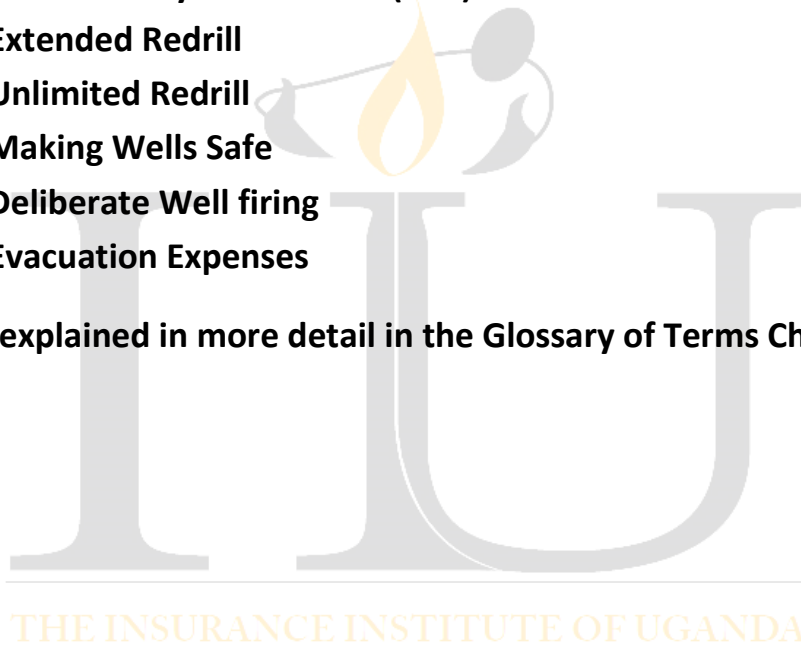
Expenses recoverable hereunder shall include costs of materials and supplies required, the services of individuals or firms specialising in controlling wells, and directional drilling and similar operations necessary to bring the well(s) under control, including costs and expenses incurred at the direction of regulatory authorities to bring the well(s) under control, and other expenses included within Clause 1 of this Section A.

CHAPTER FOUR

EXTENSIONS TO EED 8.86

- **Underground Blowout**
- **Care Custody and Control (CCC)**
- **Extended Redrill**
- **Unlimited Redrill**
- **Making Wells Safe**
- **Deliberate Well firing**
- **Evacuation Expenses**

These are all explained in more detail in the Glossary of Terms Chapter 1



CHAPTER FIVE

SUMMARY OF WELCAR OFFSHORE BUILDERS RISKS

This policy covers all aspects of an offshore construction project.

Cover commences the moment the contract is signed and covers procurement shipping construction load out installation and testing all as per the wording

More details can be seen under Chapter one Glossary of Terms under the heading WELCAR



CHAPTER SIX

COVERAGE AND EXCLUSIONS (LIABILITY)

NOTE THIS IS A CLAIMS MADE FORM SO WILL PAY CLAIMS MADE DURING THE POLICY PERIOD AS LONG AS THEY DID NOT OCCUR PRIOR TO THE RETROACTIVE DATE MENTIONED

LSW 244

COVERAGE

In consideration of the payment of the premium set out in Item 9 of the Declarations and in reliance upon the statements in the proposal referred to in Item 11 of the Declarations and any supplementary information pertaining thereto, Underwriters agree subject to the Insuring Agreements, Conditions, Exclusions, Definitions and Declarations contained in this Policy, to indemnify the Insured in respect of their operations anywhere in the World, for Ultimate Net Loss by reason of the liability imposed upon the Insured by law or assumed under an indemnification contract, for damages in respect of a Claim for Bodily Injury and/or Personal Injury and/or Property Damage and/or Advertising Injury which the Insured neither intended nor expected nor reasonably should have expected, resulting from an Accident which first commences on an identifiable specific date on or after the retroactive date set out in Item 6 of the Declarations PROVIDED:

- a) such Claim made is first received by the Insured during the Policy period set out in Item 5 of the Declarations, OR
- b) the Insured gives written notification of such Accident which notification is received by Underwriters within 90 days of such Accident and the date of such receipt is during the Policy period set out in Item 5 of the Declarations, OR
- c) the Insured gives written notification of the discovery of his involvement in such Accident which consists of unintended fire or explosion; lightning; impact of aircraft, Automobile, railroad locomotive or rolling stock; impact, capsize or sinking of watercraft; but only if the notification is received by Underwriters within 90 days of such discovery and the date of such receipt is during the Policy period set out in Item 5 of the Declarations, OR

- d) the Insured gives written notification of the discovery of such Bodily Injury, Personal Injury, Property Damage and/or Advertising Injury to a named individual person or named individual entity arising out of such Accident; but only if the notification is received by Underwriters within 90 days of such discovery and the date of such receipt is during the Policy period set out in Item 5 of the Declarations. With respect to a) above, for the purpose of applying the underlying amount or the each Accident retention, Underwriters will treat such Bodily Injury, Personal Injury, Property Damage and/or Advertising Injury included in each Claim as resulting from a separate Accident.

With respect to b) and c) above, Underwriters will only provide indemnity for any Claims relating to such notification which Claims are first received by the Insured during a period of 7 years from the date such notification is received by Underwriters; in which case, for the purpose of applying the underlying amount or the each Accident retention, Underwriters will treat all such Bodily Injury, Personal Injury, Property Damage and/or Advertising Injury as resulting from one Accident; further such Accident will be treated as arising on the date such notification was received by Underwriters or the expiry date of this Policy, whichever is the earlier.

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With respect to d) above, Underwriters will only provide indemnity for any Claims relating to such notification which Claims are first received by the Insured during a period of 7 years from the date such notification is received by Underwriters; in which case, for the purpose of applying the underlying amount or the each Accident retention, Underwriters will treat such Bodily Injury, Personal Injury, Property Damage and/or Advertising Injury suffered by each named individual person or each such named individual entity as resulting from a separate Accident; further such Accident will be treated as arising on the

date such notification was received by Underwriters or the expiry date of this Policy, whichever is the earlier.

Where the Accident under b) above or the discovery under c) and d) above takes place within the last 90 days of the period set out in Item 5 of the Declarations, such period shall be extended for up to 90 days solely so as to treat any notification received by Underwriters within such extension of 90 days as if it had been received on the expiry date of the Policy period set out in Item 5 of the Declarations.

In no event shall the liability of Underwriters exceed the relevant limits of liability set out in Item 4 of the Declarations; such limits of liability shall apply to the period of this policy set out in Item 5 of the Declarations combined with the 7 year periods set out above.

EXCLUSIONS

This Policy does not apply to any actual or alleged liability:-

- 1. arising out of an accident, claim, potential claim, circumstance or loss discovered in respect of which the Insured either has given notice to the insurers of any other insurance before the inception date set out in Item 5 of the Declarations or where such notice is treated by any insurers as received by such insurers before the inception date set out in Item 5 of the Declarations;**
- 2. arising out of an event which commences prior to the retroactive date set out in Item 6 of the Declarations;**
- 3. arising out of a breach of contract;**
- 4. a) arising out of Occupational Disease;**

- b) arising under any workers' compensation, unemployment compensation, or disability laws, statutes, or regulations;
 - c) for Employers Liability where the Claim is made or the injury took place in any state(s) where the Insured is a non-participant or non-subscriber to regular programmes established by that state's workers' compensation, employment compensation or disability laws, statutes, or regulations; provided however, that this exclusion does not apply to liability of a Third Party assumed by the Insured under an indemnification contract;
 - d) which any Insured may have to its own employee arising out of the actions or omissions of another of its own employees;
5. arising out of any act, error or omission of the Insured, or any other person or entity for whose acts, errors or omissions the Insured is legally liable in respect of the Insured's Employee Benefits including, without limitation, liability under the Employment Retirement Income Security Act of 1974, as amended;
- As used in this exclusion, the term "Employee Benefits" includes, without limitation, Group Life Insurance, Group Accident or Health Insurance, Profit-Sharing Plans, Pension Plans, Employee Stock Subscription Plans, Workers' Compensation, Unemployment Insurance, Social Security and Disability Benefits Insurance.
6. for discrimination or humiliation;
7. for Property Damage to property
- a) owned, leased, rented or occupied by the Insured;
 - b) in the care, custody or control of the Insured;
8. for Property Damage to the Insured's Products arising out of such Products or any part of such Products;

9. for Property Damage to property worked on by or on behalf of the Insured arising out of such work or any portion thereof, or out of material, parts or equipment furnished in connection therewith;
10. for the withdrawal, recall, return, inspection, repair, replacement, or loss of use of the Insured's Products or work completed by or for the Insured or of any property of which such Products or work form a part;
11. for fines, penalties, punitive damages, exemplary damages, or any additional damages resulting from the multiplication of compensatory damages;
12. for Advertising Injury arising out of:-
 - a) failure to perform under any contract;
 - b) infringement of trademark, patent, service mark or trade name, other than copyright, titles or slogans;
 - c) incorrect description or mistake in advertised price of goods, products or services sold, offered for sale or advertised;
 - d) unfair competition;
13. for Bodily Injury, Personal Injury, Property Damage and/or Advertising Injury directly or indirectly caused by or arising out of seepage, pollution or contamination however caused whenever or wherever happening;

This exclusion shall not apply where all of the following conditions are shown by the Insured to have been met:-

- a) the seepage, pollution or contamination was caused by an event and
- b) the event first commenced on an identified specific date during the period set out in Item 5 of the Declarations and

- c) the event was first discovered by the Insured within 72 hours of such first commencement and
- d) written notification of the event was first received from the Insured by Underwriters within 90 days of the Insured's first discovery of the event and
- e) the event did not result from the Insured's intentional violation of any statute, rule, ordinance or regulation.

Even if the above conditions a) to e) are satisfied, this Policy does not apply to any actual or alleged liability:-

- (i) to evaluate, monitor, control, remove, nullify and/or clean-up seeping, polluting or contaminating substances to the extent such liability arises solely from any obligations imposed by any statute, rule, ordinance, regulation or imposed by contract;
 - (ii) to abate or investigate any threat of seepage on to or pollution or contamination of the property of a Third Party;
 - (iii) for seepage, pollution or contamination of property which is or was, at any time, owned, leased, rented or occupied by any Insured, or which is or was, at any time, in the care, custody or control of any Insured (including the soil, minerals, water or any other substance on, in or under such owned, leased, rented or occupied property or property in such care, custody or control);
 - (iv) in respect of any seepage, pollution or contamination which is directly caused by or arises out of the drilling of, production from, servicing of, operation of, ownership of or participation in wells or holes;
14. arising out of the handling, processing, treatment, storage, disposal or dumping of any waste materials or substances, or arising out of such waste materials or substances during transportation;

- 15. directly or indirectly occasioned by, happening through or in consequence of war, invasion, acts of foreign enemies, hostilities (whether war be declared or not), civil war, rebellion, revolution, insurrection, military or usurped power or confiscation or nationalisation or requisition or destruction of or damage to property by or under the order of any government or public or local authority, except in respect of Accidents taking place in the United States of America, its territories, possessions, or Canada;**
- 16. not excluded by 15. above, as a result of the use of the Insured's Products insofar as they are used in connection with war, invasion, acts of foreign enemies, hostilities (whether war be declared or not), civil war, rebellion, revolution, insurrection, military or usurped power or confiscation or nationalisation or requisition or deliberate destruction of or deliberate damage to property;**
- 17. arising out of Aviation Products;**
- 18. a) arising out of ionising radiations from or contamination by radioactivity from any nuclear fuel or from any nuclear waste or from the combustion of nuclear fuel;**
b) arising out of the radioactive, toxic, explosive or other hazardous or contaminating properties of any nuclear installation, reactor or other nuclear assembly or nuclear component thereof;
c) arising out of any weapon of war employing atomic or nuclear fission and/or fusion or other like reaction or radioactive force or matter;
- 19. a) arising out of an Insured's capacity, duty or responsibility as an officer, director or trustee of a corporation by reason of any breach of fiduciary duty or improper conduct or conflict of interest in the performance of an Insured's duties, responsibilities or accountability as an officer, director or trustee, including without limitation, any actual or alleged**

misstatement, misleading statement, gain of personal profit or advantage to which the Insured was or is not entitled legally, any dishonest act, or bad faith conduct, in the Insured's capacity as an officer, director or trustee, or with respect to the capital, assets or securities of the corporation, or any action taken beyond the scope of the Insured's authority as an officer, director or trustee;

- b) arising out of any violation of any federal or state law regulating, controlling or governing stock bonds or securities of any type or nature, including without limitation, liability under The Securities Act of 1933, The Securities Exchange Act of 1934, The Trust Indenture Act of 1939, The Public Utility Holding Company Act of 1935, The Investment Company Act of 1940, The Investment Advisers Act of 1940, and the so called "Blue Sky" laws of the various states or other jurisdiction;
 - c) of any officer, director or trustee arising out of a shareholder's derivative action;
 - d) which would be payable under the terms of a Directors and Officers Liability Insurance Policy or a Directors and Company Reimbursement Indemnity Policy of the type issued by insurance companies in the United States of America, as if any Insured had obtained such coverage in an amount sufficient to pay the full amount being claimed against any Insured and any defence thereof, whether or not any Insured has obtained such coverage;
20. a) arising out of any violation of any federal or state law regulating, controlling or governing antitrust or the prohibition of monopolies, activities in restraint of trade, unfair methods of competition or deceptive acts and practices or conspiracies in trade and commerce including, without limitation, the Sherman Act, the Clayton Act, the Robinson-Patman Act, the Federal Trade Commission Act, the Hart-Scott-Rodino Antitrust

Improvements Act and the Racketeer Influenced And Corrupt Organisation Act;

- b) arising out of any Claim made by or on behalf of the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, the Resolution Trust Company, any other depository insurance corporation, the Comptroller of the Currency, the Federal Home Loan Bank board or any other federal or state bank regulatory agency, in its capacity as regulator, receiver, conservator, liquidator, shareholder, successor in interest or assignee of the Insured, whether such Claim is brought in the name of such agency or by or on behalf of such agency in the name of any other person;**

arising out of or contributed to by the dishonesty, infidelity or fraud of any Insured;

- 21. for any act, negligence, error or omission, malpractice or mistake arising out of professional services, committed or alleged to have been committed by or on behalf of the Insured in the conduct of any of the Insured's business activities. "Professional services" in this exclusion means the providing of or approval of opinions, advice, audits, reports, surveys, maps, plans, designs or specifications and supervisory, inspection, legal, medical, accounting, actuarial, architectural, insurance, investment or data processing services;**
- 22. for Bodily Injury, Personal Injury, Property Damage and/or Advertising Injury directly or indirectly caused by or arising out of: asbestos; tobacco; coal dust; polychlorinated biphenyls; silica; benzene; lead; talc; dioxin; pesticides or herbicides; electromagnetic fields; pharmaceutical or medical drugs/products/substances/devices; or any substance containing such material or any derivative thereof;**
- 23. for Bodily Injury, Personal Injury, Property Damage and/or Advertising Injury in the nature of: hearing loss or damage; human immune virus**

or acquired immune deficiency syndrome; cumulative trauma disorder, repetitive motion or strain injury, carpal tunnel syndrome;

24. for the Insured's failure to supply or from fluctuations in supply of any oil, gas, electricity, chemicals, products, materials or services.

Nothing contained in the above Exclusions shall extend this Policy to cover any liability which would not have been covered had these Exclusions not been incorporated herein.



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CHAPTER SEVEN

Oil and Gas insurance CLAIMS HANDLING

All claims must be notified IMMEDIATELY to:

THE INSURANCE INSTITUTE OF UGANDA

The Manager of the Ugandan Oil and Gas Insurance Syndicate with a copy to Total Risk Solutions (London) limited (Syndicate consultants on oil and Gas insurance)

Details required

- Type of loss
- Brief descriptions of the loss
- Location
- Estimated claim amount if known

N.B. DELAYS IN ADVISING CLAIMS CAN CAUSE SETTLEMENT DIFFICULTIES

The Syndicate will discuss with their lead reinsurer and a loss adjuster will be appointed.

The insured should provide all the required information regarding the cause of loss and documentation supporting amounts being claimed to the adjuster.

The adjuster will report to the Syndicate who will consult with TRS and their lead reinsurer.

Negotiation of the claim amount will take place often with Insured, Adjuster The Syndicate, TRS and reinsurers.

Once the claim is agreed a PROOF OF LOSS will be issued and the claim will be collected from reinsurers and remitted to the insured.

CHAPTER EIGHT

RISK MANAGEMENT IN OIL AND GAS

IT IS IMPORTANT TO NOTE THAT UNINSURED LOSSES ARE RECOVERABLE FROM THE UGANDAN GOVERNMENT UNDER COST RECOVERY.

It is therefore very important that activities are adequately insured to MINIMUM standards set out by Ministry and that priority is given to loss prevention.

The Syndicate will partner with The Ministry/UNOC/PAU to develop minimum insurance requirements for ALL oil and gas activities in Uganda and to ensure professional risk management for all activities.

PROJECTS

Syndicate/Ministry/UNOC/PAU to work together from the time of contract negotiation to ensure contract conditions relating to insurance, liabilities and indemnities are drafted to fully protect Uganda interests.

To include input in design as required to advise on intended fire and safety provisions to be built in to the design of facilities.

OPERATIONAL

Syndicate/Ministry/UNOC/PAU should require Risk and valuation surveys to be undertaken at each site every 5 years.

Reinsurers contribute to survey costs.

Surveys should be effected either by independent surveyor appointed by Syndicate/Ministry/UNOC/PAU in conjunction with reinsurers .

The Syndicate should take note of any recommendations in reports and follow these up with FOCs periodically

LOSS PREVENTION IS VERY IMPORTANT IN THIS HIGH RISK SECTOR OF INSURANCE

DRILLING ACTIVITIES

In addition to the above drilling surveys may be required on individual drilling programmes this can often be done without a site visit

Desk top survey questionnaire is attached as addendum 1

Recommendations arising from the survey MUST be followed for the insurance to be maintained.



CHAPTER NINE

REINSURANCE

It is important that The Syndicate has secured, transparent and competitive reinsurance which tries to manage all interests.

The interests are

- **Syndicate/Ministry/UNOC/PAU**
- **Foreign Oil company, Contractors etc**

Premiums are ultimately paid by the Ugandan Government under cost recovery and it is The Syndicate's responsibility to ensure that they are spent in the best National interest.

However, the FOC interest must not be overlooked, therefore, wherever possible, The Syndicate must develop a process of obtaining reinsurance which can fulfil all these criteria.

- Preference given to place share to the Syndicate's Energy facility
- Utilise captives or FOC worldwide programmes
- Develop terms in conjunction with FOC preferred brokers
- Competitive price
- Transparent process

The Syndicate will develop the options available on a case by case basis in conjunction with the operator and Uganda.

IMPORTANT THIS IS A REINSURANCE OF THE SYNDICATE AND THEREFORE IT IS THE SYNDICATE THAT MUST BE IN CONTROL.



ADDENDUM NUMBER ONE

NSAL DESK TOP DRILLING SURVEY QUESTIONNAIRE

In order for NSAL to be able to prepare a 'Desktop Well Review' we will require the following information (in English – if it is in any other language, it will require to be translated into English before one of our Consultant Drilling Engineers can start the review).

All the relevant information required is normally included in any major oil operating company's DDP ('Detailed Drilling Programme')

Generally, from date of instruction NSAL will be able to provide a final report within two weeks, provided all the required information is included in the initial documents submitted. NSAL will endeavour to provide final reports as quickly as possible, but the quality/quantity of the initial information (as well as the language) is a very significant factor in the review process.

Required Information:

1. **Well Name:**
2. **Type of Well:**
(e.g. Development, Appraisal, Exploration, Wildcat, etc).
3. **Operator:**
Name of the company actually operating the well, if different from the broker's client.
4. **Location of planned wellhead:**
(Offshore/Onshore: Country, State/County/Province. Including details of drill site access, and supply points proximity.
5. **Well Description and Objectives:**
Whether a vertical or directional well, and the geological objectives of the well.
6. **Forecast Subsurface Conditions:**
To include details of prognosed formation pressures, formation temperature, anticipated drilling hazards (lost circulation, high pressure formations, H₂S, CO₂, faults etc). Full prognosed lithological column
7. **Offset Well Data:**
Other wells used to develop drilling plan and their proximity to the planned well. (Including offset formation and breakdown pressures - Any data on offset well Leak Off Tests and Formation Integrity Tests.) If

there have been any well control incidents on offset wells, please provide details.

8. Drilling Problems and Hazards:

Hole section by hole section identifying the drilling procedures to be used, the potential drilling hazards and the steps to be taken to mitigate these hazards.

9. Well Testing:

Details description of any planned DST/Well test(s) to be carried out, and procedures to be followed.

10. Casing Design:

Basis for the casing design, including design factors used in design calculations (Collapse, Burst, Axial and Triaxial). Specifications of the casing strings to be run including grade, weight, and connections. Kick Tolerance calculations and planned casing pressure tests.

11. Drilling Fluids:

Outline of the drilling fluids programme to be used, hole section by hole section, Mud system to be used (e.g. Water Based Polymer or Synthetic Oil Based) including minimum/maximum anticipated mud density by hole section, and other specific critical mud properties. Plans for dealing with lost circulation, and minimum weight material location stock.

THE INSURANCE INSTITUTE OF UGANDA

12. Cementing Programme:

Details of the cementing procedures to be used for each casing string: (e.g. Inner String, Single stage, Two Stage cement jobs), including slurry densities, and planned top of cement for each casing string. In addition, in the case of surface conductors/casing strings whether there are plans for a 'top gob' if cement returns are not noted at surface.

13. Well Control Equipment:

Detailed specifications and pressure rating of the Well Control equipment to be used hole section by hole section, including planned

pressure tests (and test pressures), the frequency/schedule additional pressure tests.

14. Drilling Rig:

Detailed specification of the drilling rig to be used for the drilling operation, including ratings for the derrick, substructure, drawworks, mud pumps, and Blow Out Prevention equipment.

15. Senior Field Operations Supervisors:

CV's/Resumes of the Senior Field Operations Supervisors.

With the above information NSAL will be able to provide Underwriters with a Desk Top Well Programme Review, which will include both recommendations and conclusions on the planned drilling operations.

