

## ARTICLE 25

### Danger to Persons, Property or Environment

- 25.1 If any works or installations erected by Licensee or any operations conducted by Licensee endanger or may endanger persons or third party property or cause pollution or harm wildlife or the environment to a degree unacceptable to Government in accordance with international environmental standards and local circumstances, the Licensee shall take appropriate remedial measures approved by Government within a reasonable period and to repair as far as it is reasonably possible any damage to the environment so caused. If, and to the extent necessary for this purpose, Licensee shall discontinue Petroleum Operations in whole or in part until Licensee has taken such remedial measures or has repaired any damage. In the event that Licensee fails to take the appropriate remedial measures within a reasonable time period, the Government may, after consultation with Licensee, carry out such remedial measures for Licensee's account.
- 5.2 Before commencing any works or operations hereunder, or recommencing any works or operations which have been discontinued for more than three (3) Calendar Months, in any part of the Contract Area which includes the area of a National Park or Game Reserve (as so designated under applicable Uganda law), Licensee shall consult with the Government regarding the nature and extent of the work or operations to be conducted in such areas taking into consideration Good Oilfield Practices. In carrying out such works and operations in such areas, Licensee shall give due regard to the importance of minimising the damage and disturbance to the environment and wildlife and, where any damage or disturbance would result, shall take all reasonable steps to limit the extent of the damage or disturbance so caused
- 5.3 In the event of protest from responsible concerned third parties within or outside Uganda regarding the conduct of Petroleum Operations in any National Park or Game Reserve and the consequent effects upon the environment or wildlife, the Government and Licensee shall meet to determine what if any action should be taken.





THE REPUBLIC OF UGANDA

25.4 The Licensee shall:

- (a) conduct the Petroleum Operations in a manner likely to promote conservation of the natural resources of Uganda and the protection of environment;
- (b) employ the most advanced techniques for the prevention of environmental damage which may be caused by Petroleum Operations, and for minimisation of the effect of Petroleum Operations on adjoining neighbouring lands; and
- (c) Implement the proposals contained in its Development Plan regarding the prevention of pollution and take any further action as may be necessary for the treatment of wastes; the safeguarding of natural resources and the progressive reclamation and rehabilitation of lands disturbed by petroleum production.

25.5 The Licensee undertakes, for the purposes of this Agreement, to take all necessary and adequate steps

- (a) to ensure adequate compensation for injury to persons or damage to property caused by the effect of the Petroleum Operations; and
- (b) to avoid irremediable environmental damage to the Contract Area and adjoining or neighbouring lands.

25.6 If the Licensee fails to comply with the terms of paragraph (b) of Clause 25.5 or contravenes any law on the prevention of environmental damage and such failure or contravention results in any environmental damage, the Licensee shall take all necessary and reasonable measures to remedy such failure or contravention and the effects hereof.

25.7 The measures and methods to be used by the Licensee for purposes of complying with the terms of paragraph (b) of Clause 25.5 shall be determined in timely consultation with the Minister upon the commencement of Petroleum Operations or whenever there is a significant change in the scope or method of carrying out Petroleum Operations, and the Licensee shall take into account the international standards applicable in similar circumstances and the relevant environmental impact



study carried out in accordance with Clause 25.8. The Licensee shall notify the Minister in writing of the nature of the measures and methods finally determined by the Licensee and shall cause such measures and methods to be reviewed from time to time in view of prevailing circumstances, provided however, that any consultations or approval given pursuant to this Agreement shall not be deemed to limit the obligations of the Licensee as provided herein or the right of the Minister to take appropriate regulatory or other action where Petroleum Operations pose a material danger to public health and safety or may result in significant irreversible damage to the environment.

25.8 The Licensee shall cause a consulting firm or individuals of international standing to carry out environmental impact studies (together with the updating of the latter referred to in Clause 25.11), in order

- (a) to determine the prevailing situation relating to the environment, human beings, wildlife or marine life in the Contract Area and in the adjoining or neighbouring areas at the time of the studies; and
- (b) to establish what the effect will be on the environment, human beings, wildlife or marine life in the Contract Area in consequence of the Petroleum Operations to be undertaken under this Agreement, and to submit for consideration by the Parties measures and methods contemplated in paragraph 25.7 for minimising environmental damage and carrying out site restoration in the Contract Area.

25.9 The timing of the above studies shall be determined by the Minister.

25.10 Such studies shall be updated and submitted to the Minister:

- (i) with each application for a subsequent Production Licence (such updated study to form part of its Development Plan relating thereto);
- (ii) with each application for a renewal of the Exploration Licence under Article 3.2, or for relinquishment under Article 3.5;
- (iii) not less than three months prior to the termination of the Exploration Licence; and

...threatened environmental damage resulting from or relating to the Petroleum Operations.

25.11 The studies mentioned in Clause 25.8 shall contain proposed environmental guidelines to be followed in order to avoid irreparable environmental damage and shall include, but not be limited to

- (a) access cutting;
- (b) clearing and timber salvage;
- (c) wildlife and habitat protection;
- (d) fuel storage and handling;
- (e) use of explosives;
- (f) camps and staging areas;
- (g) liquid and solid waste disposal;
- (h) cultural and archaeological sites;
- (i) selection of drilling sites;
- (j) terrain stabilisation;
- (k) protection of freshwater horizons;
- (l) blowout prevention plan;
- (m) flaring during completion and testing of gas and oil wells;
- (n) well abandonment;
- (o) rig dismantling and site completion;
- (p) reclamation for abandonment; and
- (q) noise control.



25.12 In addition to the studies mentioned in paragraph 25.8, the Licensee shall include in each Work Programme and Budget to be submitted annually to the Minister in accordance with Article 6, and in any amendment thereto, an environmental impact statement relating to the work to be undertaken as provided in that document and reporting on work undertaken in accordance with the preceding Work Programme. The Licensee will also, on a regular basis report how environmental matters are being addressed with respect to the Environmental Impact Statement and any new aspects that come up during the operations that may not have been envisaged at the time of the Environment Impact Assessment.

25.13 The Licensee shall ensure that:

- (a) Petroleum Operations are carried out in an environmentally acceptable and safe manner consistent with good international industry practice and applicable laws and that such operations are properly monitored;
- (b) the pertinent completed environmental impact studies are made available to its employees and to its Sublicensees to develop adequate and proper awareness of the measures and methods of environmental protection to be used in carrying out the Petroleum Operations; and
- (c) any agreement entered into between the Licensee and its Sublicensees relating to the Petroleum Operations shall include the terms set out in this Agreement and any established measures and methods for the implementation of the Licensee's obligations in relation to the environment under this Agreement.

5.14 The Licensee shall, before carrying out any drilling, prepare and submit for review by the Minister an oil spill and fire contingency plan designed to achieve rapid and effective emergency response in the event of an oil spill or fire.

5.15 In the event of:





THE REPUBLIC OF UGANDA

- (a) an emergency or accident arising from Petroleum Operations affecting the environment, the Licensee shall forthwith notify the Minister accordingly;
  - (b) any fire or oil spill, the Licensee shall promptly implement the relevant contingency plan; and
  - (c) any other emergency or accident arising from the Petroleum Operations affecting the environment, the Licensee shall take such action as may be prudent and necessary in accordance with good international petroleum industry practice in such circumstances.
- 25.16 If the Licensee fails to comply with any terms contained in this Article within a period determined by the Minister under any such terms, the Minister may, after giving the Licensee reasonable notice, take any action which may be necessary to ensure compliance with such term, and recover, immediately after having taken such action, all expenditure incurred in connection with such action from the Licensee together with such interest as may be determined in accordance with Section 1.4(c) of Annex C to this Agreement.

- 25.17 The Licensee shall on the expiration or termination of this Agreement or on relinquishment of part of the Contract Area
- (a) remove all equipment and installation from the Contract Area or relinquished area in a manner agreed with the Minister in terms of an abandonment or decommissioning plan;
  - (b) take all action necessary to prevent hazards to human life or to property of others or the environment; and
  - (c) take all action necessary in accordance with Good Oilfield Practice to reclaim and rehabilitate all lands disturbed by Petroleum development and production.



## ARTICLE 26

### Arbitration

Any dispute arising under the Agreement which cannot be settled amicably within sixty (60) days, shall be referred to Arbitration in accordance with the United Nations Commission for International Trade Law (UNCITRAL) Arbitration Rules. The arbitration shall be conducted by three (3) arbitrators appointed in accordance with the said Rules. The said arbitration shall take place in London, England. Judgement on the award rendered may be entered in any court having jurisdiction or application may be made in such court for a judicial acceptance of the award and an order of enforcement, as the case may be. The Arbitration award shall be final and binding on the Parties to this Agreement.

Any matter in dispute between the Government and Licensee arising under paragraphs 5.4, 7.6, 10.3, 15.2 and 35.2 may, at the election of either of such parties by written notice to the other, be referred for determination by a sole expert to be appointed by agreement between the Government and Licensee. If the Government and Licensee fail to appoint the expert within sixty (60) days after receipt of such written notice, either of such parties may have such expert appointed by the then President of the Institute of Petroleum (London). If the aforesaid President shall be disqualified to act by reason of professional, personal or social interest or contract with the parties in dispute or their Affiliated companies, the next highest officer for the time being of said Institute of Petroleum, who is not disqualified shall act in lieu of said President. No person shall be appointed to act as an expert under this section:

unless he shall be qualified by education, experience and training to determine the subject matter in dispute; or

- ) if at the time of his appointment or at any time before he makes his determination under such an appointment, he has or may have some interest of duty which conflicts or may conflict with his function under such appointment.

The expert shall render his decision within (60) days after the date of this appointment, unless the Parties otherwise agree. In rendering his decision, the expert shall do so within the context of the provisions of this Agreement, the Act and the standards of Good Oilfield Practices. The decision of the expert shall be





THE REPUBLIC OF UGANDA

ARTICLE 28

Force Majeure

is otherwise provided in this Article, each party shall be excused from complying with the terms of this Agreement, except for the payment of monies due, for so long as compliance is prevented or delayed by strikes, wars (declared or undeclared), blockades, embargoes, unavailability or rationing of supplies, materials and/or instructions imposed by law, decree, regulation and/or instruction at the insistence or of any Government authority, insurrection, civil disorder, terrorist acts, sabotage, epidemics, accidents, riots, labour disturbance, any act or failure of a Governmental agency or local body, acts of God, perils of navigation, storm, earthquake, lightning and other exceptional adverse weather conditions, explosion, or any act or cause that is reasonably beyond the control of such party, such as whether similar or dissimilar to the events listed above, being herein called "Force Majeure". In the event that either party hereto is rendered unable, wholly or in part, by any of these causes to carry out its obligations under this Agreement, such party shall be excused from the details of Force Majeure in writing to the other Party within seven (7) days after the occurrence. In such cases, the obligations of the Party giving the notice shall be suspended during the continuance of any inability so caused. Such Party shall do all that is reasonably within its power to remove such cause. If through Force Majeure, the performance of any of the obligations under this Agreement shall be delayed, the time of such delay, shall be added to the time allowed under this Agreement for the performance of such obligations or the exercise of any right dependent thereon.



## ARTICLE 29

### Annual Surface Rentals

- 29.1 Licensee shall pay an annual charge in respect of surface rentals for the area subject to an Exploration Licence or any Production Licence granted hereunder as follows:
- (a) annual surface rental for the area which remains subject to an Exploration Licence:
    - (i) First Exploration Period:  
US\$2.50 per square kilometer or part thereof;
    - (ii) Second Exploration Period:  
US\$5.00 per square kilometer or part thereof;
    - (iii) Third Exploration Period:  
US\$7.50 per square kilometre or part thereof.
  - (b) Annual surface rental in respect of a Development Area subject to a Production Licence: US\$500.00 per square kilometre or part thereof.
- 29.2 Annual surface rentals payable pursuant to this Article shall be paid to the Government in advance and without demand commencing with the date on which the Licence or any renewal thereof is granted and thereafter on each anniversary of such date during the term of said Licence. No rebates of surface rentals shall be made by the Government in respect of any area which ceases to be subject to a Licence mid-year.
- 29.3 Annual surface rentals do not replace other charges that may be levied for entry into parts of the Licence Area arising out of specialized land use, such as national parks or nature reserves, for purposes other than Petroleum Operations.





## Termination

Agreement shall be deemed to have been terminated if the Exploration Licence granted to Licensee pursuant to Article 3 and any Production Licence granted to Licensee under Article 7 have either expired, or have under and in accordance with the Act, or any relevant provision of this Agreement, been surrendered by the Licensee or been lawfully cancelled or terminated by the Government, but save as aforesaid shall continue in full force and effect so long as Licensee continues to hold, or has a pending application for, any of the said Licences.

Government shall have the right to terminate this Agreement and any Exploration Licence and Production Licences granted hereunder, upon giving (30) days written notice of its intention to do so, if Licensee:

- 1 fails to make any monetary payment required by law or under this Agreement for a period of thirty (30) days after the due date for such payment unless Licensee is contesting the obligation to make such payment and has commenced arbitration proceedings in respect thereof pursuant to paragraph 26.1 in which case the period of thirty (30) days after notice shall be counted from the date of issuance of an arbitration award requiring Licensee to pay the amount in dispute;
- 2 has otherwise committed a material breach of the terms and conditions of this Agreement or any Licence granted pursuant to Articles 3 and 7;
- 3 fails to comply with the Act or any lawful acts, Regulations, orders or instructions issued by the Government or the terms of this Agreement; or
- 4 becomes bankrupt, or goes into liquidation because of insolvency or makes a composition with its creditors.

circumstances that would result in termination under paragraph 30.2.1 and 2 are remedied by Licensee within the thirty (30) day period following the date of termination as aforesaid, such termination shall not become effective.



- 30.4 If the circumstance or circumstances that would result in termination under paragraph 30.2.3 and 30.2.4 are remedied by Licensee within the sixty (60) day period following the notice of termination as aforesaid or where the breach cannot be remedied within a sixty (60) day period, Licensee has commenced the works or steps necessary to remedy such breach during such period and is diligently continuing such works thereafter, or, where it is otherwise impossible to remedy such breach, adequate compensation has been offered to and accepted by the Government in respect thereof within such sixty (60) day period, such termination shall not become effective.
- 30.5 If the circumstance or circumstances that would otherwise result in termination under paragraph 30.2.3 or 30.2.4 are the result of Force Majeure, then termination shall not take place so long as such Force Majeure continues and for such period thereafter as provided in Article 28.
- 30.6 Where two or more persons constitute Licensee, this Agreement may not be terminated:
- 30.6.1 pursuant to paragraphs 30.2.1, 30.2.2 or 30.2.3 above where, in respect of a liability which is a several liability, one or some only of the persons constituting Licensee is in breach of the provisions hereof or has so failed in compliance provided that the Petroleum Operations continue in accordance with the provisions of this Agreement.; or
- 30.6.2 pursuant to paragraph 30.2.4 above, where the bankruptcy, liquidation or composition relates to one or some only of the persons constituting Licensee, provided that the Petroleum Operations continue in accordance with the provisions of this Agreement.
- 30.7 In any case falling under paragraph 30.6 above, the Government, subject to paragraphs 30.3, 30.4 and 30.5 may, upon giving thirty (30) days written notice of its intention to do so, terminate the Participating or Joint Venture Interest herein, and in any related Licences, of the person or persons in breach, or which have failed in compliance, or, as the case may be, have become bankrupt, gone into liquidation or made a composition as aforesaid ("the Defaulting Party") but nothing in this paragraph shall affect the rights and obligations of any other person who constitutes Licensee which shall remain in full force and effect.





THE REPUBLIC OF UGANDA

ARTICLE 32

Notices

notices and other communications required or permitted hereunder or any notices that Party may desire to give to the other Party shall be in writing in the English language deemed to have been properly delivered if personally handed to an authorised representative of the Party for whom intended or sent by registered airmail or by cable, or fax, except as otherwise provided herein, at or to the address of such Party for whom intended as indicated below, or such other addresses as any Party may from time to time designate by notice in writing to the other Party:

Government:

Ministry of Energy and Mineral Development  
P. O. Box 7270  
Kampala  
UGANDA

Attention: Commissioner for Petroleum Exploration and Production

Telephone No: 256-41-320714

Telefax No: 256-41-320437

Licensee:

HERITAGE: In the first instance to:

Heritage Oil & Gas Limited  
Heritage Court  
Victoria Harbor  
Jersey  
Channel Islands, U.K.  
Tel: +44 (0) 1481 727664, Fax: +44 (0) 1481 724662



And copied to:

---

Heritage Oil & Gas Limited  
U.K. Representative Office  
11, Harbour Yard  
Chelsea Harbour  
London SW10 0XD, England

Tel: +44(0) 207 351 5555, Fax: +44 (0) 207 351 1122

**For ENERGY AFRICA**

Company Secretary  
Energy Africa Uganda Limited  
5 Parliament Square  
Castletown  
Isle of Man  
IM9 1LA

Tel: +44 (0) 1624827310, Fax: +44 (0) 1624 827301

**And copied to:**

---

Energy Africa Limited  
21<sup>st</sup> Floor, Metropolitan Centre  
7, Coen Steytler Avenue  
P.O. Box 5544  
Cape Town  
Republic of South Africa  
Tel: +27 21 400 7600, Fax: +27 21 400 7660



## Applicable Law

- 33.1 This agreement shall be governed by, interpreted and construed in accordance with the laws of Uganda.
- 33.2 If, following the Effective Date, there is any change, or series of changes, in the laws or regulations of Uganda which materially reduces the economic benefits derived or to be derived by Licensee hereunder, Licensee may notify the Government accordingly and thereafter the Parties shall meet to negotiate in good faith and agree upon, the necessary modifications to this Agreement to restore Licensee to substantially the same overall economic position as prevailed hereunder prior to such change(s). In the event that the Parties are unable to agree that Licensee's economic benefits have been materially affected, and/or are unable to agree on the modifications required to restore Licensee to the same economic position as prevailed prior to such change, within ninety (90) days of the receipt of the notice referred to hereinabove, then either Party may refer the matter for determination pursuant to paragraph 26.1



## ARTICLE 36

### Confidentiality

This Agreement and any confidential information of any Party hereto which becomes known to the other Party in connection with the performance of this Agreement shall not be published or disclosed to third parties without the former Party's written consent, except as otherwise provided herein, and provided however that such other Party may communicate confidential information to legal counsel, accountants, other professional consultants, underwriters, lenders, agents, licensees or shipping companies to the extent necessary in connection with this Agreement, with the obligation of the parties receiving such information to maintain confidentiality, or to an agency of the government of the country of Licensee having authority to require such disclosure.

The terms "confidential information" as used herein shall mean information identified as "confidential" by the Party originally in possession of it and disclosed to the other Party, excluding information previously known to the other Party or information which is publicly known (except through disclosure of the other Party in violation of this Article) or information that comes into the possession of such other Party other than through a breach of this confidentiality undertaking.

Except as otherwise provided in Article 8, the confidentiality obligations of this Article shall expire upon relinquishment of the area to which the information relates.





**Disclaimer**

- 37.1 Any reviews, provision of data or requests for information, data or otherwise from the Licensee by the Government or approvals by the Government or its Nominee under this Agreement is solely for the information of the Government and its satisfaction that the requirements of the Government as set forth herein have been satisfied by the Licensee. By making such reviews, requests or approvals, the Government makes no representation and the Licensee shall in no way so represent to third parties that such reviews, requests, approvals or otherwise are proof of the economic and technical viability of the Petroleum Operations to be undertaken by the Licensee.
- 37.2 The Government shall not be liable to the Licensee for and the Licensee shall defend and indemnify the Government from any claim, cost, loss, damage or liability arising out of any contrary representation by the Licensee.
- 37.3 The Licensee is solely responsible for the economic and technical feasibility, reliability or in case of discovery, realisation of the viability of the petroleum production and production activities.



IN WITNESS WHEREOF, the Parties hereto have caused this Agreement prepared in the Republic of Uganda in the English language to be executed in six (6) originals by their respective duly authorised representatives as of the day and year first above written.

Signed for and on behalf of

The Government of Uganda

By: \_\_\_\_\_

HON. SYDA BBUMBA

MINISTER OF ENERGY AND MINERAL DEVELOPMENT

In the presence of:

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Signed for and on behalf of

Licensee:

Heritage Oil and Gas Limited

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

In the presence of:

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Energy Africa Uganda Limited

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

In the presence of:

Signature: \_\_\_\_\_

Name: \_\_\_\_\_



Area 3A comprises some 3,77  
along its outer margin by a co  
cal points and co-ordinates:

Uganda / Democratic Republic

30° 15'E to

30° 15'E to

30° 25'E to

30° 25'E to

30° 30'E to

30° 30'E to

30° 35'E to

30° 35'E to

30° 40'E to

30° 40'E to

30° 45'E to

30° 45'E to

30° 50'E to then

point due North to the Uganda/DI

Area 3A excludes the retained area  
which comprises some 11.0 square kilometers



ANNEX B-1

Form of Exploration Licence

\_\_\_\_\_, Minister of Energy and Mineral Development, pursuant to the powers conferred upon me by Section 8 of the Petroleum (Exploration and Production) Act chapter 150 Laws of Uganda 2000 ("the Act") hereby grant to \_\_\_\_\_, a company duly organised and existing under the laws of \_\_\_\_\_, ("Licensee") this Exploration Licence to conduct Exploration operations within and with respect to the Contract Area described in the Production Sharing Agreement entered into by and between the Government of the Republic of Uganda and Licensee, dated \_\_\_\_\_, 200\_\_ ("the Agreement"), hereby conferring upon Licensee the exclusive right to explore for petroleum in the said Contract Area and to carry on such operations and execute such works as necessary for that purpose for a term of \_\_\_\_\_] years from the Effective Date hereof [subject to renewal] in accordance with the provisions of the Act and the terms and conditions of said Agreement, which is an integral part of this Licence.

**WITNESS WHEREOF**, I have granted the licence aforesaid with effect from \_\_\_\_\_, 200\_\_ and set out my hand and seal this \_\_\_\_\_ day of \_\_\_\_\_ 200\_\_

Minister of Energy and Mineral Development.

Comments:

Description of Exploration Area(s)  
Location of Exploration Area(s)



## 1.5 Audit and Inspection Rights of Government

- (a) The Government shall have the right, upon fifteen (15) days' prior written notice to Licensee, to audit directly or through an independent accountant, at its own cost, Licensee's accounts and records maintained in relation to the Petroleum Operations carried out hereunder with respect to each Calendar Year within twenty four (24) Calendar Months after the closure of the subject year's accounts. Notice of any exception to Licensee's accounts of any Calendar Year must be notified to Licensee within thirty (30) Calendar Months of the closure of the subject year's accounts.

For purposes of auditing, the Government may examine and verify at reasonable times all charges and credits relating to the Petroleum Operations such as books of account, accounting entries, material records and inventories, vouchers, payrolls, invoices and any other documents, correspondence and records necessary to audit and verify the charges and credits. Furthermore, the auditors shall have the right in connection with such audit to visit and inspect at reasonable times all sites, plants, facilities, warehouses and offices of Licensee directly or indirectly serving the Petroleum Operations including visiting personnel associated with those operations.

If the Government desires verification of charges representing a proportionate share in the cost of Licensee's activities other than those carried out hereunder, it may require such verification to the extent Licensee is able to present the required information without infringing the confidential or proprietary nature of such information. In the event that such infringement would occur, the Government may require Licensee (at Licensee's expense) to obtain an audit certificate from an independent external auditor of international standing (selected by Licensee and acceptable to the Government) verifying such charge(s). If Government desires verification of charges from Affiliates of Licensee, Licensee shall, upon the Government's request and at Licensee's expense, obtain an audit certificate to such effect from the statutory auditors of the Affiliate concerned attesting that such rates do not include a profit element and have been consistently and reasonably applied. However, the percentage rates to be applied pursuant to paragraph 2.5(b) of this Accounting Procedure will not be subject to audit.





THE REPUBLIC OF UGANDA

(b) The Government shall make every reasonable effort to conduct audits in a manner, which will result in the minimum of inconvenience to Licensee. Licensee shall make every reasonable effort to co-operate with the Government and its statutory auditors or the independent auditors, as the case may be, will provide reasonable facilities and assistance. Subject to the provisions of paragraph 1.5(c) hereunder, only one audit may be carried out by the Government in respect of the accounts for any single Calendar Year.

(c) Any Government audit shall be completed within (6) Calendar Months of its commencement. At the conclusion of each audit, the Government and Licensee shall endeavor to settle outstanding matters and a written report will be circulated to all parties within three (3) Calendar Months of the conclusion of each audit. The report shall include all claims arising from such audit together with comments pertinent to the operation of the accounts and records. Licensee shall reply to the report in writing as soon as possible and in any event not later than three (3) Calendar Months following receipt of the report. Should the Government consider that the report or reply requires further investigation of any items therein, the Government shall have the right to conduct further investigations in relation to such item notwithstanding that the said period of twenty-four (24) Months may have expired.

Such further investigation shall be commenced within thirty (30) days and be concluded within sixty (60) days of the receipt of such reply and the report related to such further investigation shall be circulated within ninety (90) days of the conclusion of such further investigation. All adjustments resulting from an audit, as agreed between Licensee and the Government, shall be made promptly by Licensee and be reported to the Government. Any unresolved dispute arising in connection with an audit shall be referred to the Advisory Committee and if not resolved thereby shall be referred for expert determination pursuant to paragraph 26 of the Agreement.

(d) Without prejudice to the finality of matters as described in subsection 1.5(a), all documents referred to in that subsection shall be maintained by the Licensee and made available for inspection by Government for five (5) Calendar Years following their date of issue.



- (c) All information obtained by the Government pursuant to the provisions of this paragraph 1.5 shall be subject to the confidentiality requirements specified in paragraphs 36.1 and 36.2 of this Agreement.

**6. Accrual Basis**

All books, accounts and records shall be prepared on an accrual basis. Contract Revenues shall be attributed to the accounting period in which they are earned, and costs and expenses to the accounting period in which they are incurred, without the need to distinguish whether cash is received or disbursed in connection with a particular transaction. Costs and expenses shall be deemed to have been incurred, in the case of physical items, in the accounting period when Licensee acquires title thereto, and in the case of services, in the accounting period when such services are performed.

**7. Arms Length Transactions**

Except as may be otherwise agreed in writing between the Government and Licensee or as may be provided in Article 13 of the Agreement, all transactions giving rise to revenues, costs or expenses under this Agreement which will be credited or charged to the books, accounts, records and reports prepared, maintained or submitted hereunder shall be conducted at arm's length or on such a basis as will assure that all such revenues, costs or expenses will not be materially higher or lower, as the case may be, than would result from a transaction conducted at arms length on a competitive basis with third parties.

**Allocation of Shared Costs**

To the extent that costs and expenses are incurred by Licensee in respect of activities which would only in part qualify as Contract Expenses hereunder, such costs and expenses shall be allocated to the books, accounts, records and reports maintained hereunder in such a manner as to avoid any duplication of cost, to fairly and equitably reflect the costs attributable to Petroleum Operations carried out hereunder and to exclude any costs and expenses which should otherwise be allocated to those activities which would not constitute Petroleum Operations hereunder.



## Classification, Definition and Allocation

Contract Expenses incurred in connection with Petroleum Reservoirs hereunder shall be classified, defined and allocated as follows:

Exploration Expenditures are all necessary, appropriate and allocated indirect costs incurred in the search for Petroleum Discoveries in the Contract Area, including:

- (a) aerial, geophysical, geochemical, palaeontological, topographical and seismic surveys and studies and
- (b) core hole drilling and water well drilling;
- (c) labour, materials and services used in drilling and testing for finding new Petroleum Reservoirs or for the production of or extent of or subsequently producing Petroleum Reservoirs discovered provided such wells are dry or are otherwise non-producing wells;
- (d) facilities used solely in support of these purposes and purchased geological and geophysical information;
- (e) a portion of all Service Costs (as hereinafter defined) for Exploration Operations.





THE REPUBLIC OF UGANDA

2.2 Development and Production Expenditures shall consist of all necessary, appropriate and economical expenditures (other than those referred to in paragraph 2.3) incurred in Development Operations in relation to a Development Area including:

- (a) drilling wells which are completed as producing wells and drilling wells for purposes of producing a Petroleum Reservoir already discovered provided such wells are completed as producing wells;
- (b) completing those wells described in paragraph 2.1(c) by way of installation of casing or equipment or otherwise after a well has been drilled for the purpose of bringing the well into use as a producing well;
- (c) the costs of field facilities including field gathering systems, field production and treatment units, wellhead equipment, subsurface equipment, Natural Gas separation facilities, enhanced recovery systems, offshore platforms, Petroleum storage facilities in the field and related facilities, and field access roads for production activities;
- (d) the costs of transportation facilities installed up to the Delivery Point, including but not limited to pipelines, compressors, and storage facilities;
- (e) engineering and design studies for field facilities;
- (f) a portion of all Service Costs allocated to the Development Operations on an equitable basis and consistently applied;
- (g) a portion of all General and Administrative Expenses allocated to the Development Operations based on projected budget expenditures which will be adjusted to actual expenditures at Calendar Year end; and
- (h) any other expenditure incurred in Development Operations prior to the commencement of Commercial Production in a Development Area, other than those incurred in respect of operations carried out beyond the Delivery Point.

3 Operating Expenses are all necessary, appropriate and economical expenditures incurred in the Petroleum Operations hereunder after the start of the Commercial Production (but including intangible drilling costs such as, but not limited to, labour,







**3.1 Tax Accounting Principles**

The following tax accounting principles shall apply:

**3.1.1 Taxable Parties**

Income Tax shall be assessed on the basis of the Taxable Income of all corporations, individuals, partners, joint ventures, associates or other entities comprising Licensee from Petroleum Operations hereunder in accordance with the laws of Uganda.

**3.1.2 Consolidation Principles**

Income Tax in each Tax Year shall be assessed on the basis of the Aggregate Contract Revenues derived from, and allowable Contract Expenditures incurred in, the Petroleum Operations carried out hereunder.

**3.1.3 Carry Forward of Losses**

Commencing with the Tax Year in which initial Commercial Production commences, any deductions for Income Tax purposes in respect of Allowable Contract Expenditures which remain unrecovered in any Tax Year from Contract Revenues shall be treated as an operating loss and may be carried forward as an allowable deduction to subsequent Tax Years until fully recovered from Contract Revenues.

**3.2 Classification of Expenditures for Income Tax Purposes**

Contract Expenses shall be classified as follows for Income Tax purposes:





THE REPUBLIC OF UGANDA

3.2.1 Petroleum Capital Expenditures  
Petroleum Capital Expenditures are those Contract Expenses which fall within the category of Development and Production Expenditures as described in paragraph 2.2 of this Annex "C".

3.2.2 Petroleum Operating Expenditures

Petroleum Operating Expenditures are those Contract Expenses which fall within the categories of Exploration Expenditure and Operating Expenses as described in paragraphs 2.1 and 2.3 of this Annex "C".

**3.3 Capital Allowances**

Petroleum Capital Expenditures, as defined in paragraph 3.2.1 of this Annex "C", shall be depreciated for Income Tax purposes. In determining the amount of depreciation which is allowable as a deduction in any Tax Year, the following principles shall apply:

3.3.1 Petroleum Capital Expenditures will be depreciated using the straight line method over six (6) years, save in respect of those expenditures referred to in subparagraph 2.2(d) of this Annex "C" which will be depreciated on a "unit of production" basis. The "unit of production" depreciation charge in each Tax Year shall be determined by dividing the total expenditure referred to in subparagraph 2.2(d) which remains unrecovered at the beginning of each such year by the then recoverable reserves (in barrels of oil or barrels of oil equivalent) in the Contract Area and multiplying the resulting figure by the total number of barrels of oil produced in the Tax Year in question.

3.3.2 Deductions with respect to the depreciation of Petroleum Capital Expenditures shall be allowable commencing with (a) the Tax Year in which the capital asset is placed into service or if the Capital Expenditure does not relate to an asset which normally has a useful life beyond the year in which it is placed in service, the Tax Year in which the capital expenditure is incurred or (b) the Tax Year in which Commercial Production commences from the Contract Area, whichever is later.





THE REPUBLIC OF UGANDA

## SECTION 4

### Costs, Expenses, Expenditures and Credits of the Licensee

#### 4.1 Costs Recoverable Without Further Approval of the Government

Subject to the provisions of the Agreement, Licensee shall bear and pay the following costs and expenses in respect of the Petroleum Operations. These costs and expenses will be classified under the headings referred to in paragraph 2 of this Annex. They are recoverable Contract Expenses by Licensee under the Agreement.

##### (a) Surface Rights

This covers all direct costs attributable to the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the Contract Area.

##### (b) Labour and Associated Labour Costs

- (i) gross salaries and wages including bonuses and cost of living, housing and other customary allowance afforded to expatriate employees in similar operations elsewhere of Licensee's employees directly engaged in the Petroleum Operations, irrespective of the location of such employees;
- (ii) Licensee's costs regarding sickness and disability payments applicable to the salaries and wages chargeable under subparagraph (i) above;
- (iii) expenses or contributions made pursuant to assessments or obligations imposed under the laws of the Republic of Uganda which are applicable to Licensee's cost of salaries and wages chargeable under (i) above;



- (vi) Licensee's cost of established plans for employees' life insurance, hospitalisation, pensions, stock purchase and thrift plans and other
- (vii) benefits of a like nature customarily granted to Licensee's employees:
  - (v) reasonable travel and personnel expenses of employees of Licensee and their families including those made for travel and relocation of the expatriate employees assigned to the Republic of Uganda, all of which shall be in accordance with Licensee's normal practice, provided such is consistent with generally accepted practices in the international petroleum industry; and
  - (vi) any personal income taxes of the Republic of Uganda incurred by employees of Licensee and paid or reimbursed by Licensee.
- (c) Offices, Camps, Warehouses and other facilities

The cost of establishing, maintaining and operating any offices, camps, warehouses, workshops, housing, water systems and other facilities for the purpose of carrying out the Petroleum Operations. The costs of those facilities, which are not used for the exclusive purpose of carrying out the Petroleum Operations, shall be apportioned on a consistent and equitable basis between the Petroleum Operations and the Licensee's other operations and those of its Affiliates.
- (d) Transportation

The cost of transportation of employees, equipment, materials and supplies necessary for the conduct of the Petroleum Operations.
- (e) Charges for Services
- (i) Third Party Contracts

The actual costs of contracts for technical and other services entered into by Licensee for the Petroleum Operations, made with third parties other than Affiliated Companies of Licensee are recoverable, provided that the





THE REPUBLIC OF UGANDA

prices paid by Licensee are in line with those generally charged by other international or domestic suppliers for comparable work and services.

(ii) Affiliated Companies of Licensee

Without prejudice to the charges to be made in accordance with paragraph 2.5 of this Annex, in the case of specific services rendered to the Petroleum Operations under contract with, and invoiced to, Licensee by an Affiliated Company of Licensee, the allowable charges will be based on actual costs without profits, will be no higher than the most favourable prices charged by the Affiliated Company to third parties for comparable services under similar terms and conditions elsewhere, will be included in any budget submitted to the Advisory Committee pursuant to Article 5 of the Agreement and will not exceed the charges billed to any Joint Operations in respect of such services pursuant to any Joint Operating Agreement relating to the Petroleum Operations carried out hereunder. The Licensee will, if requested by Government, specify the amount of such charges which represents an allocated proportion of the general material, management, technical and other costs of the Affiliated Company, and the amount which is the direct cost of providing the services concerned. If necessary (but subject to the provision of paragraph 1.5(a) of this Annex), certified evidence regarding the basis of prices charged may be obtained from the auditors of the Affiliated Company.

(f) Material

(i) General

So far as is practicable and consistent with efficient and economical operation, only such material shall be purchased or furnished by Licensee for use in the Petroleum Operations as may be required for use in the reasonably foreseeable future and the accumulation of surplus stocks will be avoided.

(ii) Warranty of Material

Licensee does not warrant material beyond the supplier's or manufacturer's guarantee and, in case of defective material or equipment, any adjustment received by Licensee from the suppliers/manufacturers or their agents will be credited to the accounts under the Agreement.



(iii) Value of Material Charged to the Accounts Under the Agreement

- (a) Except as otherwise provided in subparagraph (b) below, material purchased by Licensee for use in the Petroleum Operations shall be valued to include the invoice price less trade and cash discounts (if any), purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, loading and unloading fees, dock charges, forwarding and documentation fees, packing costs, freight to port of destination, insurance, taxes, customs duties, consular fees, other items chargeable against imported material and where practicable handling and transportation expenses from point of importation to warehouse or operating site, and its costs should not exceed those currently prevailing in normal arms length transactions on the open market.
- (b) Materials purchased from Affiliated Companies of Licensee shall be charged at prices not higher than the following:
- (1) New Material (Condition "A") shall be valued at the current international price which should not exceed the price prevailing in normal arms length transactions on the open market.
  - (2) Used Material (Conditions "B" and "C")
    - (i) Material which is in sound and serviceable condition and is suitable for reuse for its original function without reconditioning shall be classified as Condition "B" and priced at seventy-five percent (75%) of the current price of new material defined in subparagraph (1) above.
    - (ii) Material which cannot be classified as Condition "B" but which after repair and reconditioning will be further serviceable for original function as good secondhand material (Condition "B") shall be classified as Condition "C" and priced at fifty percent (50%) of the current price of new material as defined in subparagraph (1) above.



Agreement unless such costs have resulted solely from an act of willful misconduct or negligence of Licensee.

(i) Legal Expenses

All costs and expenses of litigation and legal or related services necessary or expedient for the producing, perfecting, retention and protection of the Contract Area, and in defending or prosecuting lawsuits involving the Area or any third party claim arising out of activities under the Agreement, or sums paid in respect of legal services necessary or expedient for the protection of the interest of Licensee are recoverable. Where legal services are rendered in such matters by salaried or regularly retained lawyers of Licensee or an Affiliated Company of Licensee, such compensation will be included instead under subparagraph 4.1(b) or 4.1(d) above, as applicable.

(j) Training Costs.

Except where otherwise provided herein, all costs and expenses incurred by Licensee in training of its Ugandan employees engaged in the Petroleum Operations and such other training as required under Article 18 of the Agreement.

(k) General and Administrative Expenses

The costs described in subparagraph 2.5(a) and the charge described in subsection 2.5(b).

(l) Interest and other financial charges incurred on loans raised by Licensee to finance Development Operations provided that such interest rates and charges do not exceed prevailing commercial rates and only to the extent that such interest and financial charges relate to debt raised by Licensee to finance such operations (including loans from both Affiliates and Non-Affiliates) do not exceed fifty per cent (50%) of the total financing requirement. All loans from Affiliated Companies shall be subject to review and approval of the Government, which approval shall be given provided that the terms of such loans are comparable to those which could be obtained on an arms length basis from a non-Affiliated Company lender.





THE REPUBLIC OF UGANDA

- (m) Commissions paid to intermediaries by Licensee unless such commissions exceed the levels usually paid in the international oil industry under similar conditions in which event the approval of the Government shall be required, which approval shall not be unreasonably withheld.
- (n) Expenditure on research into and development of new equipment, material and techniques for use in searching for development and producing Petroleum directly related to the conduct of Petroleum Operations carried out under this Agreement.
- (o) Ecological and environmental charges: Costs for all measures taken to avoid waste and prevent damage or pollution in the conduct of the Petroleum Operations.
- (p) Leasing expenses: Costs incurred in connection with the leasing of property and equipment provided that such costs do not exceed prevailing commercial rates and that any such leasing arrangements are concluded with parties which are not Affiliated Companies of Licensee.
- (q) Communication charges: Costs of acquiring, leasing, operating and maintaining communication systems including, but not limited to, radio, telephone, telecopier and e-mail systems.

**Costs not Recoverable under the Agreement**

- (a) Costs incurred before the Effective Date.
- (b) Petroleum marketing or transportation tariff charges incurred beyond the Delivery Point.
- (c) The costs associated with the provision of the Bank Guarantee pursuant to paragraph 4.7 of the Agreement and any payments made thereunder in respect of failure by Licensee to comply with its contractual obligations under the Agreement (and any other amounts spent on indemnities with regard to fulfillment of contractual obligations by Licensee).



- (d) Legal and other costs of arbitration and the independent expert in respect of any dispute referred for determination pursuant to Article 26 of the Agreement.
- (e) Income Tax imposed on in accordance with the laws of Uganda.
- (f) The Government Production Share determined pursuant to Article 13 of the Agreement.
- (g) Fines and penalties imposed by Courts of Law of the Republic of Uganda.
- (h) Costs incurred as a result of Willful Misconduct or Gross Negligence of Licensee; and
- (i) Interest incurred on loans raised by Licensee to finance Exploration Operations.

#### 4.3 Other Costs and Expenses

Other costs and expenses not covered or dealt with in the provisions of this paragraph and which are incurred by Licensee for the necessary and proper conduct of Petroleum Operations are recoverable.

#### 4.4 Credits Under the Agreement

The net proceeds of the following transactions will be credited to the accounts under the Agreement:

- (a) The net proceeds of any insurance or claim in connection with the Petroleum Operations or any assets charged to the accounts under the Agreement when such operations or assets were insured and the premia charged to the accounts under the Agreement.
- (b) Revenue received from outside for the use of property or assets charged to the accounts under the Agreement.
- (c) Any adjustment received by Licensee from the suppliers/manufacturers or their agents in connection with a defective material the cost of which was previously charged by Licensee to the accounts under the Agreement.



Ministry of Energy and Mineral Development  
P O Box 7270  
Kampala  
Republic of Uganda

PERFORMANCE BOND NO. \_\_\_\_\_

By this Bond we \_\_\_\_\_ (hereinafter referred to as the Surety) are held and firmly bound unto the **GOVERNMENT OF THE REPUBLIC OF UGANDA** represented by the Ministry of Energy and Mineral Development of P.O. Box 7270, Kampala (hereinafter referred to as "Government") in the full and just sum of **United States Dollars** \_\_\_\_\_ (**US\$** \_\_\_\_\_) only to the payment of which the said sum of money well and truly to be made and done the Surety bind themselves their successors and assigns jointly and severally firmly by these presents.

WHEREAS the Government has entered into Production Sharing Agreement (herewith referred to as the "Agreement") with \_\_\_\_\_ (hereinafter referred to as the "Licensee") bearing the date of the \_\_\_\_\_ for, among other things particularly shown in the written **Work Programme** for the \_\_\_\_\_ of the said written Agreement which **Work Programme** and written agreement with all their conditions are hereby made a part of these presents to all intents and purposes.

NOW, therefore, the foregoing obligation is such that if the Licensee shall well truly and faithfully comply with all the terms, covenants and Conditions of the said written **Work Programme** on their part to be kept and performed according to the tenor of the said written **Work Programme** or if on default by the Licensee they surely shall satisfy and discharge the damage sustained by the Government thereby not exceeding of **United States Dollars** \_\_\_\_\_ (**US\$** \_\_\_\_\_) only then this obligation shall be null and void otherwise it shall remain in full force and virtue.