

ANGOLA

1997 Model Production Sharing Agreement Between
Sociedade Nacional De Combustiveis De Angola - Unidade
Economica Estatal (Sonangol, U.E.E.) And Contractor

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Contracting Parties

This Agreement is made and entered into by and between:
on the one part:

SOCIEDADE NACIONAL DE COMBUSTÍVEIS DE ANGOLA -
UNIDADE ECONÓMICA ESTATAL (SONANGOL, U.E.E.) (hereinafter
referred to as "SONANGOL"), a State company with headquarters
in Luanda, Republic of Angola, created in accordance with Decree
Law No. 52/76 of June 9th, 1976,

and on the other part:

(hereinafter referred to as "
"), a company organized and existing under the laws of
with an office and legal representatives in Luanda, Republic of
Angola;

Preamble

WHEREAS, by Decree-Law No. ___/9 of _____, 199
the Government of the Republic of Angola, in accordance with the
provisions of the Law Regulating Petroleum Activities, Law No.
13/78 of August 26th, 1978, has granted to SONANGOL an
exclusive concession for the mining rights for the survey,
Exploration, Development and Production of liquid and gaseous
hydrocarbons in the Concession Area of Block ;

WHEREAS, by Decree-Law No. ___/ of _____, 199
the Government has authorized SONANGOL to enter into a
Production Sharing Agreement for Block ;

WHEREAS, SONANGOL, with a view to carrying out the Petroleum
Operations necessary to duly exercise such rights and in
compliance with the obligations deriving from the Concession
Decree-Law, wishes to sign a Production Sharing Agreement with

;

WHEREAS, SONANGOL on the one hand and _____ on the other hand have agreed that this Agreement will regulate their mutual rights and obligations in the execution of said Petroleum Operations;

WHEREAS, this Agreement is made and entered into on the basis of the Concession Decree-Law the provisions of which constitute a part of the rights and obligations of the Parties;
NOW, THEREFORE, SONANGOL ON THE ONE HAND, AND _____, ON THE OTHER HAND AGREE AS FOLLOWS:

Article 1
Definitions

For the purposes of this Agreement, and unless otherwise expressly stated in the text, certain words and expressions used in this Agreement shall have the following meanings, it being understood that reference to the singular includes reference to the plural and vice-versa:

1. "Administration and Services" shall include, but not be limited to, all activities in general management and common support of Petroleum Operations such as direction, supervision and related staff functions required for the overall management of activities under the Agreement, including also, housing and feeding of employees; transportation; warehousing; safety, emergency and medical programs; community affairs; and accounting and record keeping.
19. "Administration and Services Expenditures" means the expenditures so defined in Annex C of the Concession Decree-Law.
2. "Affiliate" means:
 - (a) a company or any other entity in which any of the Parties holds, either directly or indirectly, the absolute

majority of the votes in the shareholders meeting or is the holder of more than fifty per cent (50%) of the rights and interests which confer the power of management on that company or entity, or has the power of management and control of such company or entity;

(b) a company or any other entity which directly or indirectly holds the absolute majority of votes at the shareholders meeting or equivalent corporate body of any of the Parties or holds the power of management and control over any of the Parties;

(c) a company or any other entity in which either the absolute majority of votes in the respective shareholders meeting or the rights and interests which confer the power of management on said company or entity are, either directly or indirectly, held by a company or any other entity which directly or indirectly holds the absolute majority of votes at the shareholders meeting or equivalent corporate body of any of the Parties or holds the power of management and control over any of the Parties.

14. "Agreement" or "the Agreement" or "this Agreement" means this Production Sharing Agreement executed between SONANGOL and CONTRACTOR GROUP, including its Annexes.
3. "Angola" means the Republic of Angola.
9. "Appraisal" means the activity designed to estimate the recoverable reserves in an accumulation as well as its delimitation and shall include, but not be limited to, geophysical and other surveys, the drilling and testing of Appraisal Wells.
50. "Appraisal Well" means a Well drilled following a Commercial Well to delineate the physical extent of the accumulation penetrated by such Commercial Well, and to estimate the

accumulation's reserves and probable production rates.

60. "Approved Work Program and Budget" means either the Exploration Work Program and Budget or the Development and Production Work Program and Budget transmitted to SONANGOL under Article 31, paragraph 12 or approved by the Operating Committee under Article 31, paragraph 11, as relevant.
30. "Associated Natural Gas" means Natural Gas which exists in a reservoir in solution with Crude Oil and includes what is commonly known as gas cap gas which overlies and is in contact with Crude Oil.
10. "Barrel" means the unit of measure for liquids corresponding to forty-two (42) United States gallons of Crude Oil, net of basic sediment and water and corrected to a temperature of sixty degrees Fahrenheit (60° F).
17. "Commercial Discovery" means a discovery of a Petroleum deposit judged by CONTRACTOR GROUP to be worth developing in accordance with the provisions of the Agreement.
51. "Commercial Well" means the first Well on any geological structure which after testing in accordance with sound and accepted industry production practices, and verified by SONANGOL, is found through analysis of test results to be capable of producing from a single reservoir not less than an average rate of five thousand (5,000) Barrels of Crude Oil per day.

CONTRACTOR GROUP shall have the right to request to SONANGOL that a Well which is within the aforesaid criteria is not to be deemed a Commercial Well. To exercise the right CONTRACTOR GROUP shall timely provide SONANGOL with the information which would indicate that in the particular circumstances such Well should not be deemed a Commercial Well. Among other factors consideration shall be given to porosity, oil saturation and the reservoir

recoverable reserves.

CONTRACTOR GROUP has the option to declare a Well a "Commercial Well" at a producing rate below that one set forth above where **CONTRACTOR GROUP** is of the opinion that the accumulation may produce sufficient hydrocarbons for **CONTRACTOR GROUP** to recover its costs and make a reasonable return.

12. "Concessionaire" means SONANGOL as the title holder of the mining rights of survey, Exploration, Development and Production of liquid and gaseous hydrocarbons in the Contract Area.
16. "Concession Decree-Law" means Decree No. ___/9 of _____, 199 approved by the Council of Ministers as it is published in the Diário da República de Angola no. ____, I Série of ___ of ___ of ____.
7. "Contract Area" means on the Effective Date the area described in Annex A and shown on the map in Annex B hereof, and thereafter the whole or any part of such area in respect of which, at any particular time, **CONTRACTOR GROUP** continues to have rights and obligations under this Agreement.
6. "Contract Year" means the period, and successive periods, of twelve (12) consecutive Months according to the Gregorian Calendar beginning on the Effective Date of this Agreement.
33. "**CONTRACTOR GROUP**" means _____, _____ and _____, and their possible assignees under Article 39, designated collectively except as otherwise provided herein. The participating interests of the entities constituting **CONTRACTOR GROUP** at the Effective Date are:

%

47. "Cost Recovery Crude Oil" means the Crude Oil so defined in Article 11.
46. "Crude Oil" means any hydrocarbons produced from the Contract Area which at a pressure of 14.7 psi and a temperature of sixty degrees Fahrenheit (60°F) are in a liquid state at the wellhead or separator or which are extracted from Gas or casinghead gas in a plant. Such term includes distillates and condensate.
23. "Customs Duties" means all charges, imposts or fees established in the respective customs duties schedules, and which are applicable to merchandise imported or exported through customs.
54. "Delivery Point" means the point F.O.B. the Angolan loading facility at which Crude Oil reaches the inlet flange of the lifting tankship's intake pipe, or such other point which may be agreed by SONANGOL and CONTRACTOR GROUP.
18. "Development" means the activity carried out after the declaration of a Commercial Discovery in the respective Development Area. Such activity shall include, but not be limited to:
- (a) reservoir, geological and geophysical studies and surveys;
 - (b) drilling of producing and injection wells;
 - (c) design, construction, installation, connection and initial testing of equipment, pipelines, systems, facilities, plants and related activities necessary to produce and operate said wells, to take, save, treat, handle, store, transport and deliver Petroleum, and to undertake repressuring, recycling and other secondary or tertiary recovery projects.
8. "Development Area" means the extent of the whole area, as far as the boundaries of the Contract Area permit, that may

be capable of production from the deposit or deposits identified in a Commercial Discovery and agreed upon by SONANGOL and by CONTRACTOR GROUP following such Commercial Discovery.

48. "Development Area Profit Oil" means the Crude Oil so defined in Article 12.
20. "Development Expenditures" means the expenditures so defined in Annex C of the Concession Decree-Law.
52. "Development Well" means a Well drilled for the purpose of production or enhancing production of Petroleum from a Commercial Discovery, and includes Appraisal Wells completed as producing or injection Wells.
15. "Effective Date" means the first day of the Month next following the Month in which this Agreement is signed by SONANGOL and CONTRACTOR GROUP.
44. "Exploration" shall include, but not be limited to, such geological and geophysical surveys and studies, aerial surveys and others as may be included in Approved Work Programs and Budgets, and the drilling of such shot holes, core holes, stratigraphic tests, Wells for the discovery of Petroleum, and other related holes and Wells, and the purchase or acquisition of such supplies, materials and equipment which may be included in Approved Work Programs and Budgets.
21. "Exploration Expenditures" means the expenditures so defined in Annex C of the Concession Decree-Law.
42. "Exploration Period" means the period defined in Article 6.
53. "Exploration Well" means a Well drilled for the purpose of discovering Petroleum, including Appraisal Wells to the extent permitted by Article 17.
5. "Fiscal Year" means a period of twelve (12) consecutive Months according to the Gregorian Calendar which coincides

with the Civil Year and relative to which the presentation of fiscal declarations is required under the fiscal or commercial laws of Angola.

28. "Force Majeure" means the concept defined in Article 43, paragraph 3 of this Agreement.
32. "Government" means the Government of the Republic of Angola.
26. "Initial Exploration Phase" means the period of four (4) Contract Years commencing with the Effective Date of the Agreement pursuant to Article 6.
13. "Joint Account" means the total accounts kept by Operator to record all receipts, expenditures and other transactions which under the terms of the Agreement shall be shared between the entities constituting CONTRACTOR GROUP in proportion to their participating interests.
37. "Joint Operations" means all Petroleum Operations carried out jointly in the Contract Area by CONTRACTOR GROUP, excluding sole risk operations provided for in Article 30 of the Agreement.
34. "Law" means the legislation in force in the Republic of Angola.
57. "Lifting Schedule" means the planned program of Crude Oil liftings by each Party approved by the Operating Committee.
35. "Litigant" means SONANGOL or any entity constituting CONTRACTOR GROUP participating in arbitration proceedings pursuant to Article 42.
55. "Market Price" means the price determined for the valuation of the Crude Oil produced from the Contract Area as established in accordance with the provisions of Article 2 of Annex C of the Concession Decree law.
36. "Month" means a calendar month pursuant to the Gregorian

Calendar.

29. "Natural Gas" or "Gas" means any hydrocarbons produced from the Contract Area which at a pressure of 14.7 psi and a temperature of sixty degrees Fahrenheit (60°F) are in a gaseous state at the wellhead and includes both Associated and Non-Associated Natural Gas, and all of its constituent elements produced from any Well in the Contract Area and all non-hydrocarbon substances therein. Such term shall include residue gas.
31. "Non-Associated Natural Gas" means that part of Natural Gas which is not Associated Natural Gas.
39. "Operator" means the entity referred to in Article 8.
11. "Operating Committee" means the entity referred to in Article 31.
40. "Party" means either SONANGOL or CONTRACTOR GROUP as parties to this Agreement.
41. "Parties" means both SONANGOL and CONTRACTOR GROUP wherever jointly referred to.
45. "Petroleum" means Crude Oil of various densities, asphalt, Natural Gas and all other hydrocarbon substances that may be found in and extracted, or otherwise obtained and saved from the Contract Area.
38. "Petroleum Operations" means the operations of prospecting, Exploration, Appraisal, Development and Production which constitute the object of the Agreement.
25. "Phase" means the Initial Exploration Phase or the Subsequent Exploration Phase, as the case may be.
56. "Production" shall include, but not be limited to, the running, servicing, maintenance and repair of completed Wells and of the equipment, pipelines, systems, facilities and plants

completed during Development. It shall also include all activities related to planning, scheduling, controlling, measuring, testing and carrying out the flow, gathering, treating, transporting, storing and dispatching of Crude Oil and Gas from the underground Petroleum reservoirs to the designated exporting or lifting location and all other operations necessary for the production of Petroleum.

22. "Production Expenditures" means the expenditures so defined in Annex C of the Concession Decree-Law.
43. "Production Period" means the period defined in Article 7.
58. "Production Schedule" means the planned profile of Crude Oil output in Barrels per day approved by the Operating Committee in conjunction with the Development and Production Work Program and Budget for each Development Area, according to the provisions of Article 18.
62. "Quarter" means a period of three (3) consecutive Months starting with the first day of January, April, July or October of each Civil Year.
61. "SONANGOL" means Sociedade Nacional de Combustiveis de Angola Unidade Economica Estatal (SONANGOL, U.E.E.), an Angolan State Company.
24. "State" means the State of the Republic of Angola.
27. "Subsequent Exploration Phase" means the additional period of three (3) Contract Years after the Initial Exploration Phase pursuant to Article 6.
49. "Well" means a hole drilled into the earth for the purpose of locating, evaluating, producing or enhancing production of Petroleum.
59. "Work Program and Budget" means either an Exploration Work Program and Budget or a Development and Production Work Program and Budget.

4. "Year" or "Civil Year" means a period of twelve (12) consecutive Months according to the Gregorian Calendar beginning on January 1 and ending on December 31.

Article 2
Annexes to the Agreement

1. The present Agreement is complemented by the following Annexes which form an integral part of it:
 - (a) Annex A - Description of the Contract Area;
 - (b) Annex B - Map showing the Contract Area;
 - (c) Annex C - Accounting and Financial Procedures;
 - (d) Annex D - Corporate Guarantee;
 - (e) Annex E - Financial Guarantee
2. In the event of discrepancy between the content or the form of Annexes A and B referred to in paragraph 1, preference will be given to Annex A.
3. In the event of discrepancy between the content or the form of the Annexes referred to in paragraph 1 and the Agreement, the provisions of the Agreement shall prevail.

Article 3
Object of the Agreement

The object of this Agreement is the definition, in accordance with

Law No. 13/78 of August 26, and other applicable legislation, of the contractual relation in the form of the Production Sharing Agreement between SONANGOL and CONTRACTOR GROUP which envisions the execution of the Petroleum Operations in the Contract Area.

Article 4 Nature of the Relation between the Parties

This Agreement shall not be construed as creating between the Parties any entity with a separate juridical personality, or a corporation, or a civil society, a joint venture or even a "conta em participação".

Article 5 Duration of the Agreement

1. This Agreement shall continue to be in force until the end of the last Production Period or, in case there is no Production Period in the Contract Area, until the end of the Exploration Period, unless prior to that date any event occurs that under the Law or the applicable provisions of the Agreement constitutes cause for its termination.
2. The extension of the Exploration Period or Production Periods referred to in the preceding paragraph beyond the terms provided for in Articles 6 and 7 respectively shall be submitted to the Government under the terms of the Concession Decree-Law and other applicable legislation.
3. At the end of the Exploration Period, CONTRACTOR GROUP shall terminate its activities in all areas within the Contract Area which are not at such time part of a Development Area(s); and, except as otherwise provided herein, this Agreement shall no longer have any application to any portion

of the Contract Area not then part of a Development Area.

Article 6 Exploration Period

1. The Exploration Period shall be comprised of the Initial Exploration Phase and, if applicable, the Subsequent Exploration Phase as such period may be extended pursuant to the terms of the Agreement and the Law. An Initial Exploration Phase of four (4) Contract Years shall start from the Effective Date. One (1) additional period of two (2) Contract Years (the Subsequent Exploration Phase) shall follow the Initial Exploration Phase, upon CONTRACTOR GROUP's written notice to SONANGOL at least thirty (30) days before the end of the Initial Exploration Phase and if, unless otherwise agreed by SONANGOL, CONTRACTOR GROUP has fulfilled its obligations in respect of such Phase.

2. This Agreement shall be terminated if no Commercial Discovery has been made in the Contract Area by the end of the Initial Exploration Phase, or the Subsequent Exploration Phase, if the same has been requested. However, the Exploration Period may be extended for six (6) Months for the completion of drilling and testing of any Well(s) actually being drilled or tested at the end of the () Contract Year. Should any such Well be a Commercial Well, CONTRACTOR GROUP will be given sufficient time, as mutually agreed, up to a maximum of twelve (12) months, or a longer period as agreed by SONANGOL, following the conclusion of drilling and testing of the Commercial Well to do Appraisal work. Should this work result in a Commercial Discovery then a Development Area shall be granted pursuant to Article 7.

Operations for the sole account of SONANGOL conducted under Article 30 hereof shall not extend the Exploration Period nor affect the term of this Agreement, provided that:

- (a) CONTRACTOR GROUP shall complete any works undertaken for SONANGOL's sole risk and expense even though the Exploration Period may have expired;
- (b) CONTRACTOR GROUP's completion of such works shall not extend CONTRACTOR GROUP's Exploration Period or Agreement term except as in the case of CONTRACTOR GROUP exercising the option right mentioned in Article 30, paragraph 3 hereof;
- (c) during the period CONTRACTOR GROUP is completing such works, CONTRACTOR GROUP shall be given authorization to continue such sole risk operations and shall be entitled to all benefits available to CONTRACTOR GROUP pursuant to the Agreement as if the term thereof had not terminated.

Article 7
Production Period

1. Following each Commercial Discovery, so far as the boundaries of the Contract Area permit, the extent of the whole area capable of production from the deposit or deposits identified in the Well that originated the Commercial Discovery and its related Appraisal Wells, if any, shall be agreed upon by SONANGOL and CONTRACTOR GROUP. All of each agreed area shall then be converted automatically into a Development Area with effect from the date of Commercial Discovery. Without prejudice to paragraph 2 hereof, there shall be a Production Period for each Development Area which shall be () Years from the date of Commercial Discovery in said Development Area. In the event of Commercial Discoveries in deposits which underlie and overlie each other, such deposits shall constitute a single Development Area, and the area shall be defined or redefined as necessary, as far as the boundaries of the Contract Area permit, to incorporate all underlying and overlying deposits.

2. Unless otherwise agreed by SONANGOL, any Development Area will be considered automatically terminated and, except as otherwise provided in the Agreement, the rights and obligations in said Development Area shall be considered terminated if within six (6) Years from the date of Commercial Discovery in said Development Area the initial lifting of Crude Oil from said Development Area has not been lifted as part of a regular program of lifting in accordance with the Lifting Schedule.
3. No later than twelve (12) Months before the end of the Production Period, CONTRACTOR GROUP may request SONANGOL to meet and discuss the terms and conditions of the extension of the Production Period as provided for in paragraph 2 of Article 5. Subject to the agreement on such terms and conditions, SONANGOL shall support CONTRACTOR GROUP in a joint application for such an extension.

Article 8
Operator

1. CONTRACTOR GROUP has the exclusive responsibility for executing the Petroleum Operations, except as specified in Article 30.
2. CONTRACTOR GROUP shall appoint _____ as Operator to execute, as such without profit nor loss, on CONTRACTOR GROUP's behalf, all of the Petroleum Operations in the Contract Area. SONANGOL's written approval shall be necessary prior to any change of Operator.
3. Any agreement among the CONTRACTOR GROUP companies regarding or regulating the Operator's conduct in relation to this Agreement shall be made available to SONANGOL for comment prior to execution thereof.
4. Operator will be subject to all of the specific obligations established under this Agreement, the Concession Decree-

Law and the Law.

5. In the event of the occurrence of any of the following, SONANGOL can require CONTRACTOR GROUP to immediately appoint another Operator:
 - (a) if the Operator, by action or omission, commits a serious fault in carrying out its obligations and if this fault is not remedied to the satisfaction of SONANGOL within a period of twenty-eight (28) days with effect from the date of receipt by the Operator of written notice issued by SONANGOL requesting the Operator to remedy such fault, or within a greater period of time if so specified in the notice;
 - (b) if sentence has been passed in court declaring the bankruptcy, liquidation, or judicial dissolution of the Operator, or if, in the court action taken in order to obtain such declaration, any interim or conservatory measure has been taken, which prevents Operator from fulfilling its obligations under the Agreement;
 - (c) if the Operator undertakes the legal procedures established to prevent bankruptcy, or without just cause ceases payment to creditors;
 - (d) if the Operator terminates or if there is strong evidence that it intends to terminate its activities or a significant portion thereof, and, as a result fails to fulfill its obligations under the Agreement.
6. For purposes of this Agreement, "serious fault" shall mean inadequate performance by the Operator that violates the technical rules generally accepted in the international petroleum industry and/or the obligations under this Agreement and the Law.
7. If CONTRACTOR GROUP, in accordance with paragraph 5, does not comply with the obligation to appoint another operator as provided in the preceding paragraph within thirty

(30) days from the date when SONANGOL gives due notice to CONTRACTOR GROUP, then CONTRACTOR GROUP shall appoint as Operator the entity so designated by SONANGOL from the parties comprising CONTRACTOR GROUP, unless none of such parties agrees to be Operator.

Article 9 Operating Procedures Document

SONANGOL and CONTRACTOR GROUP may sign a document (to be designated as Operating Procedures Document) which will regulate and interpret the contents of this Agreement. Any such document would be agreed between the Parties and would be in accordance with the provisions of this Agreement and the Law.

Article 10 Costs and Expenses

Except as otherwise provided in the Agreement the costs and expenses incurred in the Petroleum Operations, as well as any losses and risks derived therefrom, shall be borne by the CONTRACTOR GROUP, and SONANGOL shall not be responsible to bear or repay any of the aforesaid costs.

Article 11 Recovery of Costs and Expenditures

1. CONTRACTOR GROUP shall recover all Exploration, Development, Production and Administration and Services Expenditures incurred under this Agreement by taking and freely disposing of up to a maximum amount of per cent (%) per Year of all Crude Oil produced and saved from Development Areas hereunder and not used in Petroleum Operations. Such Crude Oil is hereinafter referred to as "Cost Recovery Crude Oil".
2. The expenditures referred to in the preceding paragraph shall be recoverable only insofar as they are properly

incurred in the execution of the Petroleum Operations. Notwithstanding the generality of this principle, all expenditures relating to the Petroleum Operations which are classified, defined and allocated in accordance with Annex C shall be considered as properly incurred.

3. Exploration Expenditures incurred in the Contract Area shall be recoverable from the unused balance of Cost Recovery Crude Oil existing from each Development Area after recovery of Development Expenditures, Production Expenditures and Administration and Services Expenditures, subject to the maximum amount of Cost Recovery Crude Oil specified in paragraph 1 above. In each Year such Exploration Expenditures shall be recoverable first from any Cost Recovery Crude Oil balance obtained from the Development Area having the most recent date of Commercial Discovery and then any balance of total Exploration Expenditures not already recovered shall be recoverable in sequence from Development Areas with the next most recent dates of Commercial Discovery.
4. Development Expenditures in each Development Area shall be recovered only from Cost Recovery Crude Oil from that Development Area. Development Expenditures in each individual Development Area shall be multiplied by () and the resulting amount shall be recoverable at the rate of (%) per Year in equal annual installments starting in the Year in which such Expenditures are incurred or the Year in which commercial production in that Development Area commences, whichever occurs last.
5. Production Expenditures in each Development Area shall be recovered only from Cost Recovery Crude Oil from that Development Area in the Year in which such expenditures are incurred or the Year in which commercial production in that Development Area commences, whichever occurs last.
6. In the case that, in any given Year, recoverable costs, expenses or expenditures exceed the value of Cost Recovery Crude Oil from the relevant Development Area for such Year, the excess shall be carried forward for recovery in the next

succeeding Year or Years until fully recovered; but in no case after the termination of the Agreement. In the event that Development Expenditures for a Development Area are not fully recovered within five (5) years after the commencement of commercial production or within five (5) years after the Year in which such Development Expenditures are incurred, whichever is last, then CONTRACTOR GROUP's share of Crude Oil shall be increased from Year six up to

(%) per Year to allow for the recovery of such unrecovered expenditures, provided that CONTRACTOR GROUP has fulfilled all of its contractual obligations to date.

7. If in any given Year, recoverable costs, expenses or expenditures are less than the maximum value of Cost Recovery Crude Oil the excess shall become part of, and included in the Development Area Profit Oil provided for in Article 12.
8. For the purposes of valuation of Cost Recovery Crude Oil, the provisions of Article 2 of Annex C of the Concession Decree-Law shall apply.
9. For the purpose of this Agreement, the date on which commercial production commences shall mean the date on which the first shipment of Crude Oil is made under an approved Lifting Schedule from the Development Area or the Contract Area, as the case may be.

Article 12 Production Sharing

1. The total Crude Oil produced and saved in a Quarter from each Commercial Discovery and its Development Area and not used in Petroleum Operations less the Cost Recovery Crude Oil from the same Development Area, as provided in Article 11, shall be referred to as "Development Area Profit Oil" and shall be shared between SONANGOL and CONTRACTOR GROUP according to the after tax, nominal rate of return achieved at the end of the preceding Quarter

by CONTRACTOR GROUP in the corresponding Development Area as follows:

CONTRACTOR GROUP's nominal rate of return for each Development Area (percent per annum)	SONANGOL Share - %	GRO Share - %
Less than		
to less than		
to less than		
or more		

2. Beginning at the date of Commercial Discovery, CONTRACTOR GROUP's rate of return shall be determined at the end of each Quarter on the basis of the accumulated compounded net cash flow for each Development Area, using the following procedure:

- a) The CONTRACTOR GROUP's net cash flow computed in US Dollars for a Development Area for each Quarter is the sum of:
 - (i) CONTRACTOR GROUP's Cost Recovery Crude Oil and share of Development Area Profit Oil actually lifted in that Quarter and valued at the Market Price;
 - (ii) Minus Petroleum Income Tax;
 - (iii) Minus Development Expenditures and Production Expenditures.
- b) For this computation, neither any expenditure incurred prior to the date of Commercial Discovery for a Development Area nor any Exploration Expenditure shall be included in the computation of CONTRACTOR GROUP's net cash flow.
- c) The CONTRACTOR GROUP's net cash flows for each

Quarter are compounded and accumulated for each Development Area from the date of the Commercial Discovery according to the following formula:

$$ACNCF_{CQ} = \frac{(100\% + DQ)}{100\%} \times ACNCF_{PQ} + NCF_{CQ}$$

where:

ACNCF = accumulated compounded net cash flow
NCF = net cash flow
DQ = quarterly compound rate (in percent)
CQ = current Quarter
PQ = previous Quarter

The formula will be calculated using quarterly compound rates ("DQ") of %, %, and %, which correspond to annual compound rates ("DA") of %, % and % respectively as referred to in paragraph 1.

3. The CONTRACTOR GROUP's rate of return in any given Quarter for each Development Area shall be deemed to be between the largest DA which yields a positive or zero ACNCF and the smallest DA which causes the ACNCF to be negative.
4. The sharing of Development Area Profit Oil between SONANGOL and CONTRACTOR GROUP in a given Quarter shall be in accordance with the scale in paragraph 1 above using the CONTRACTOR GROUP's deemed rate of return as per paragraph 3 in the immediately preceding Quarter.
5. In a given Development Area, it is possible for the CONTRACTOR GROUP's deemed rate of return to decline as a result of negative cash flow in a Quarter with the consequence that CONTRACTOR GROUP's share of Development Area Profit Oil would increase in the subsequent Quarter.
6. Pending finalization of accounts, Development Area Profit Oil shall be shared on the basis of provisional estimates, if necessary, of deemed nominal rate of return as approved by

the Operating Committee. Appropriate adjustments shall be subsequently effected in accordance with procedures to be established by the Operating Committee.

Article 13
Lifting and Disposal of Crude Oil

1. It is the right and the obligation of each of the Parties to separately take at the Delivery Point in accordance with the Lifting Schedule and the procedures and regulations foreseen in the following paragraphs of this Article, its respective Crude Oil entitlements as determined in accordance with this Agreement.
2. Each of the Parties (as for CONTRACTOR GROUP, each entity constituting it) shall have the right to proceed separately to the commercialization and to the export of the Crude Oil to which it is entitled under this Agreement.
3. Twelve (12) months prior to the scheduled initial export of Crude Oil from each Development Area, SONANGOL shall submit to CONTRACTOR GROUP proposed procedures and related operating regulations covering the scheduling, storage and lifting of Crude Oil and any other type of Petroleum produced from such Development Area(s). The procedures and regulations shall be consistent with the terms of this Agreement and shall comprehend the subjects necessary to efficient and equitable operations including, but not limited to: rights of the Parties, notification time, maximum and minimum quantities, duration of storage, scheduling, conservation, spillage, liabilities of the Parties, throughput fees and penalties, over and underlifting, safety and emergency procedures as well as any other matters that may be agreed between the Parties.
4. CONTRACTOR GROUP shall within thirty (30) days after SONANGOL's submission set out in the preceding paragraph, submit its comments on, and recommend any revisions to, the proposed procedures and regulations. SONANGOL shall consider these comments and recommendations and the

Parties shall, within sixty (60) days after CONTRACTOR GROUP's said submission, agree on such procedures and regulations.

5. In any event, the agreed lifting procedures and regulations will comply with the Law.
6. In the case of more than one Development Area in the Contract Area or more than one quality of Crude Oil in a Development Area, SONANGOL and CONTRACTOR GROUP shall, unless they mutually agree that the Crude Oils should be co-mingled, lift from each Development Area Crude Oil qualities in proportion to their respective total liftings from the Contract Area. In determining these proportions any Petroleum belonging to SONANGOL as a result of operations for SONANGOL's account under Article 30 shall be excluded.

Article 14
Conduct of Operations

1. With due observance of legal and contractual provisions and subject to the decisions of the Operating Committee, CONTRACTOR GROUP shall act in the common interest of the Parties and shall undertake the execution of the work inherent in Petroleum Operations, in accordance with professional norms and standards which are generally accepted in the international Petroleum industry.
2. CONTRACTOR GROUP shall carry out the work inherent in Petroleum Operations in an efficient, diligent and conscientious manner and shall execute the Work Programs and Budgets under adequate economic and technical conditions, and in accordance with professional norms and standards which are generally accepted in the international Petroleum industry.
3. CONTRACTOR GROUP and its subcontractors shall:
 - (a) contract local contractors as long as the services they

perform are similar to those available on the international market and the prices of their services, when subject to the same fiscal charges, are no more than ten per cent (10%) higher compared to the prices charged by foreign contractors for identical performance;

- (b) acquire materials, equipment, machinery and consumable goods of national production, insofar as their quantity, quality and delivery dates are similar to those of such materials, equipment, machinery and consumable goods available on the international market. However, such CONTRACTOR GROUP's obligation shall not apply in those cases in which the local prices for such items are more than ten percent (10%) higher compared to the prices for imported items, before charging Customs Duties but after the respective costs for transportation and insurance have been included.
4. CONTRACTOR GROUP shall solicit competitive bids for any work to be performed pursuant to an Approved Work Program and Budget if such work is budgeted to exceed one hundred fifty thousand U.S. dollars (U.S.\$150,000) or such higher amount as may be decided by the Operating Committee. In analyzing such bids CONTRACTOR GROUP shall select out of the bids which are acceptable to CONTRACTOR GROUP, for technical and other operational reasons, the bid with the lowest cost subject to the provisions of paragraph 3 above and, after the first Commercial Discovery, the approval of the Operating Committee.
5. Operator shall entrust the management of Petroleum Operations in Angola to a technically competent General Manager and Assistant General Manager. The names of such General Manager and Assistant General Manager shall, upon appointment, be given to SONANGOL. The General Manager and, in his absence, the Assistant General Manager, shall be entrusted with sufficient powers to carry

out immediately and be subject to all lawful written instructions given to them by SONANGOL or the Government or its or their representative, or any lawful regulations gazetted or hereafter to be gazetted which are applicable to the Petroleum Operations under this Agreement.

6. Except as is appropriate for the economic and efficient processing of data and laboratory studies thereon in specialized centers outside Angola, geological and geophysical studies as well as any other studies related to the performance of this Agreement, shall be made mainly in Angola.
7. In the case of an emergency in the course of the Petroleum Operations requiring an immediate action, CONTRACTOR GROUP is authorized to take all the actions that it deems necessary for the protection of human life and the interests of the Parties. In this case, CONTRACTOR GROUP shall promptly inform SONANGOL of all actions so taken.
8. Any obligations which are to be observed and performed by CONTRACTOR GROUP shall, if CONTRACTOR GROUP comprises more than one entity, be joint and several obligations.

Article 15

Work Obligations During the Exploration Period

1. Within the Initial Exploration Phase, CONTRACTOR GROUP will conduct a seismic program covering _____ kilometers of profiles. This seismic program will begin within six (6) months of the Effective Date, provided that an adequate seismic vessel is available.
2. CONTRACTOR GROUP will drill to geological horizons defined in the Approved Work Program and Budget four (4) obligatory Exploration Wells on four (4) separate drillable prospects within the Initial Exploration Phase.
3. In the event CONTRACTOR GROUP elects to extend the

Exploration Period into the Subsequent Exploration Phase, CONTRACTOR GROUP shall be obligated to drill () obligatory Exploration Wells (other than Appraisal Wells) to geological horizons defined in the Approved Work Program and Budget.

4. In the event CONTRACTOR GROUP exceeds the minimum work obligation as described in the preceding paragraphs during the Initial Exploration Phase then such excess shall be credited against the minimum work obligation for the succeeding Exploration Phase.

5. In the event that CONTRACTOR GROUP does not satisfy the minimum work obligations referred to in this Article within the times specified therein, CONTRACTOR GROUP shall be deemed, unless otherwise agreed by SONANGOL, to have voluntarily terminated its activities and withdrawn from all of the Contract Area not already converted into a Development Area(s).

6. If CONTRACTOR GROUP relinquishes its rights under this Agreement before completing the seismic program referred to in paragraph 1 above, CONTRACTOR GROUP shall be obligated to pay SONANGOL an amount equal to million U.S. dollars (U.S \$,000,000). In addition, if CONTRACTOR GROUP relinquishes its rights under this Agreement before drilling the minimum number of Exploration Wells which it is obligated to drill under the terms of this Article the CONTRACTOR GROUP shall be obligated to pay SONANGOL an amount equal to million U.S. dollars (\$,000,000) for each such Exploration Well not drilled.

7. CONTRACTOR GROUP shall be obligated to incur the following minimum Exploration Expenditures:

Initial Exploration Phase	U.S.\$
Subsequent Exploration Phase	U.S.\$

8. Each Exploration Well referred to in this Article shall test all productive horizons agreed to by SONANGOL and

CONTRACTOR GROUP, unless diligent test efforts consistent with sound industry practices indicate that it is technically impracticable to reach and/or test any such horizons.

9. During the drilling of Wells under this Agreement, CONTRACTOR GROUP shall keep SONANGOL informed of the progress of each Well, its proposals for testing and the results of such tests, and at SONANGOL's request shall test any additional prospective zones within the agreed Well depth provided that such tests shall be consistent with professional norms and standards which are generally accepted in the international Petroleum industry and not interfere with the safety and efficiency of the operations planned by CONTRACTOR GROUP. Such tests shall be at CONTRACTOR GROUP's expense and shall be credited towards fulfilling the minimum work programs.

Article 16

Exploration Work Programs and Budgets

Within one (1) Month of the Effective Date of this Agreement and thereafter at least three (3) Months prior to the beginning of each Contract Year during the Exploration Period or at such other times as may mutually be agreed by SONANGOL and CONTRACTOR GROUP, CONTRACTOR GROUP shall prepare in reasonable detail an Exploration Work Program and Budget for the Contract Area setting forth the Exploration operations which CONTRACTOR GROUP proposes to carry out during the first Contract Year and during the ensuing Contract Year respectively. During the Exploration Period such Work Program and Budget shall be at least sufficient to satisfy CONTRACTOR GROUP's minimum Exploration expenditure and Exploration Well obligations. The Exploration Work Program and Budget shall be submitted to the Operating Committee for review, advice or approval as the case may be, in accordance with Article 31 and then carried out by CONTRACTOR GROUP. After the first Commercial Discovery, the Operating Committee will supervise and coordinate whether the execution of the Approved Exploration Work Programs and Budgets are within budgeted expenditures, or any approved

revisions which have been made thereto.

Article 17 Commercial Discovery

1. **CONTRACTOR GROUP** shall advise **SONANGOL** within thirty (30) days after concluding the drilling and testing of an Exploration Well, the results of the final tests of the Well and whether such Well is a Commercial Well or not. The date of this advice shall be the date of the declaration of the Commercial Well, if such exists.
2. After the declaration of a Commercial Well, **CONTRACTOR GROUP** may undertake the Appraisal of the discovery by drilling one or more Appraisal Wells to determine whether such discovery can be classified as a Commercial Discovery.
3. Unless otherwise agreed by **SONANGOL**, not later than six (6) Months after the completion of the second Appraisal Well, or twenty four (24) Months after the declaration of the Commercial Well, whichever is earlier, **CONTRACTOR GROUP** shall give written notice to **SONANGOL** indicating whether or not the discovery is considered commercial. If **CONTRACTOR GROUP** declares it a Commercial Discovery, then **CONTRACTOR GROUP** shall proceed to develop the discovery in accordance with the Law Regulating Petroleum Activities, Law No. 13/78 of August 26, 1978. The date of Commercial Discovery shall be the date on which **CONTRACTOR GROUP** has declared by written notice to **SONANGOL** the existence of a Commercial Discovery.
4. If the time period envisioned for declaration of a Commercial Discovery extends beyond the Exploration Period, a provisional Development Area shall be established for such period as necessary to complete the Appraisal as per paragraph 3 above. Such provisional Development Area shall be of a shape and size which encompasses the geological feature or features which would constitute the potential Commercial Discovery. Such provisional Development Area

shall be agreed by SONANGOL in writing.

5. If following the discovery of a Commercial Well, the subsequent Appraisal Well or Wells are completed as producing or injection Wells, their costs shall be treated as part of the Development Expenditures for the purposes of calculating the amount of Cost Recovery Crude Oil.
6. The costs of a Commercial Well, if completed as a producing or injection Well, shall be treated as part of the Development Expenditures for the purposes of calculating the amount of Cost Recovery Crude Oil.
7. The costs of a Commercial Well or Appraisal Well(s) not completed as a producing or injection Well(s) shall be treated as Exploration Expenditures for the purposes of calculating the amount of Cost Recovery Crude Oil.
8. Any Commercial Well shall count toward the work and expenditure obligations provided in Article 15, but the Appraisal Well(s) that have been drilled following the discovery of a Commercial Well shall not count towards such obligations.
9. There shall be no more than one Commercial Well in each Development Area that counts toward such work obligations; and it shall be the first Commercial Well in that Development Area.
10. CONTRACTOR GROUP has the right to declare a Commercial Discovery without first having drilled one or more Commercial Wells.

Article 18

Development and Production Work Programs and Budgets

1. No later than ninety (90) days after the date of a Commercial Discovery, CONTRACTOR GROUP shall prepare a revised Exploration Work Program and Budget (if appropriate) and a Development and Production Work Program and Budget for

the remainder of the Year in which the Commercial Discovery is made. No later than the fifteenth (15th) of August of each Year (or such other date as may be agreed upon) thereafter, CONTRACTOR GROUP shall prepare in accordance with professional norms and standards which are generally accepted in the international Petroleum industry an annual Production Schedule, an Exploration and Production Work Program and Budget (if applicable), and a Development and Production Work Program and Budget, for the succeeding Civil Year and may, from time to time propose revisions thereto.

2. The Production Schedule and the Development and Production Work Program and Budget shall be formally approved in writing by the Operating Committee and given to SONANGOL and CONTRACTOR GROUP. CONTRACTOR GROUP is authorized and obliged to execute the Approved Development and Production Work Programs and Budgets and any approved revisions thereto, under the supervision and coordination of the Operating Committee as to whether the same are within the budgeted expenditures.

Article 19 Production Programs

The Operating Committee shall approve a Lifting Schedule, not less than ninety (90) days prior to January 1st and July 1st of each Year following the commencement of production under the approved Production Schedule, and shall furnish in writing to SONANGOL and CONTRACTOR GROUP, a forecast setting out the total quantity of Petroleum that the Operating Committee estimates can be produced, saved, transported and lifted hereunder during each of the next four (4) Quarters in accordance with practices generally accepted in the international Petroleum industry. CONTRACTOR GROUP shall endeavor to produce in each Quarter the forecast quantity. The Crude Oil shall be run to storage, constructed, maintained and operated by CONTRACTOR GROUP, and shall be metered or otherwise measured as required to meet the purposes of this Agreement and the Law.

**Article 20
Guarantees**

1. The minimum Exploration work obligations shall be secured by a financial guarantee substantially in the form as set out in Annex E.
2. Such guarantee shall be given by CONTRACTOR GROUP not later than three (3) months after the beginning of each Phase of the Exploration Period.
3. The amount of such guarantee shall in each Phase be equal to ten million U.S. Dollars (U.S.\$) for each of the obligatory Exploration Wells set forth in Article 15. In addition, during the Initial Exploration Phase the guarantee will be increased by million U.S. dollars (U.S.\$) for the obligatory seismic program set forth in Article 15, paragraph 1.
4. The amount of such guarantee shall be reduced by million U.S. dollars (U.S.\$) during the Initial Exploration Phase when the obligatory seismic program is completed and by million U.S. dollars (U.S.\$) when each of the obligatory Exploration Wells for each Phase of the Exploration Period is completed or for each amount paid in accordance with Article 15, paragraph 6.
5. If, during any Year of any of the Phases of the Exploration Period CONTRACTOR GROUP should be deemed to have relinquished, as provided in Article 15, paragraph 5, all of the Contract Area not converted to a Development Area(s), CONTRACTOR GROUP shall forfeit the full amount of the performance guarantee, reduced as provided for in paragraph 4 of this Article.
6. Each of the entities comprising CONTRACTOR GROUP shall also provide SONANGOL if so required by the latter with a corporate guarantee substantially in the form shown in

Annex D hereof or such other form as may be agreed between SONANGOL and each of such entities not later than three (3) months after the Effective Date.

**Article 21
Bonus**

CONTRACTOR GROUP shall pay to SONANGOL as a cash signature bonus the sum of million U.S. dollars (U.S.\$,000,000.00) on the Effective Date. This signature bonus shall neither be recovered nor amortized by CONTRACTOR GROUP.

**Article 22
Development Area Rentals**

On or before the first day of the Month next following the date of the declaration of each Commercial Discovery and on each anniversary thereof, CONTRACTOR GROUP shall pay to SONANGOL a surface rental of three hundred U.S. dollars (U.S.\$300) per square kilometer for the area covered by the resulting Development Area(s). Such surface rental shall be recovered as Production Expenditure by CONTRACTOR GROUP against the Cost Recovery Crude Oil.

**Article 23
Conservation of Petroleum and Prevention of Loss**

1. CONTRACTOR GROUP shall adopt those measures which are necessary and appropriate and consistent with the technology generally in use in the international petroleum industry to prevent loss or waste of Petroleum above or under the ground in any form during drilling, producing, gathering and distributing, storage or transportation operations.
2. Upon completion of the drilling of a producing Development

Well, CONTRACTOR GROUP shall inform SONANGOL of the time when the Well will be tested and will subsequently inform SONANGOL of the resulting estimated production rate of the Well within fifteen (15) days after the conclusion of such tests.

3. Petroleum shall not be produced from multiple independent Petroleum productive zones simultaneously through one string of tubing, except with the prior approval of SONANGOL.
4. CONTRACTOR GROUP shall record data regarding the quantities of Crude Oil, Natural Gas and water produced monthly from each Development Area. Such data shall be sent to SONANGOL within thirty (30) days after the end of the Month reported on. Daily or weekly statistics and reports regarding the production from the Contract Area shall be available at all reasonable times for examination by authorized representatives of SONANGOL.
5. Daily drilling records and graphic logs of Wells must show the quantity and type of cement and the amount of any other materials used in the Well for the purposes of protecting Crude Oil, Natural Gas or fresh water bearing strata. Any substantial change of mechanical equipment associated with the Well after its completion shall be subject to the approval of SONANGOL.

Article 24

Records, Reports and Inspection

1. CONTRACTOR GROUP shall prepare and, at all times while this Agreement is in force, maintain accurate and current records of its activities and operations in the Contract Area and shall keep all information of a technical, economic, accounting or any other nature developed through the conduct of Petroleum Operations. Such records will be organized in such a way as to allow for the prompt and complete confirmation of costs and expenditure. All such

records and information will be kept at Operator's office in Luanda.

2. SONANGOL, in exercising its activities under the terms of this Agreement, shall have the right to free access at all reasonable times to all data referred to in the preceding paragraph. CONTRACTOR GROUP shall furnish SONANGOL, in accordance with applicable regulations or as SONANGOL may reasonably require, information and data concerning its activities and operations under this Agreement. In addition, CONTRACTOR GROUP shall provide SONANGOL with copies of any and all data, including but not limited to, geological and geophysical reports, logs and Well surveys, information and interpretation of such data and other information related to the Contract Area in CONTRACTOR GROUP's possession.
3. CONTRACTOR GROUP shall save and keep in the best condition possible a representative portion of each sample of cores and cuttings taken from Wells as well as a sample of all fluids produced from Exploration Wells, to be disposed of or forwarded to SONANGOL or its representatives in the manner directed by SONANGOL. All samples acquired by CONTRACTOR GROUP for its own purposes shall be considered available for inspection at any reasonable time by SONANGOL or its representatives. CONTRACTOR GROUP shall keep such samples for a period of thirty-six (36) Months or, if before the end of such period, CONTRACTOR GROUP withdraws from the Contract Area, then until the date of withdrawal. Up to three (3) Months before the end of such period, CONTRACTOR GROUP shall request instructions from SONANGOL as to the destination for such samples. If CONTRACTOR GROUP does not receive instructions from SONANGOL by the end of such three (3) Month period then CONTRACTOR GROUP is relieved of its responsibility to store such samples.
4. Unless otherwise agreed to by SONANGOL, in the case of exporting any rock samples outside Angola, samples equivalent in size and quality shall, before such exportation, be given to SONANGOL.

5. Originals of records and data can be exported only with the permission of SONANGOL; provided, however, that original magnetic tapes and any other data which must be processed or analyzed outside Angola may be exported only if a comparable record is maintained in Angola and further provided that such exports shall be repatriated to Angola on the understanding that they belong to SONANGOL. Copies of records and data may be exported at any time subject to the Law.
6. Subject to any other provisions of this Agreement, CONTRACTOR GROUP shall permit SONANGOL through SONANGOL's duly authorized representatives or employees to have full and complete access to the Contract Area at all reasonable times with the right to observe the operations being conducted and to inspect all assets, records and data kept by CONTRACTOR GROUP. SONANGOL's representatives and employees, in exercising the rights under the preceding sentence of this paragraph shall not interfere with CONTRACTOR GROUP's operations. Without prejudice to Article 34, paragraph 2, SONANGOL shall be responsible for any claims arising from acts of its employees or consultants which arise out of the exercise of the rights granted by this Article. CONTRACTOR GROUP shall grant to said representatives and employees the same facilities in the camp as those accorded to its own employees of similar professional rank.

Article 25

CONTRACTOR GROUP's Obligation to Purchase SONANGOL's Crude Oil

1. SONANGOL shall have the right to require CONTRACTOR GROUP to purchase any part of SONANGOL's share of production under normal commercial terms and conditions in the international petroleum industry and at the Market Price in force at the time the Crude Oil is lifted as established in Article 2 of Annex C of the Concession Decree-Law.

2. The right referred to in the preceding paragraph shall be exercised in accordance with the following procedure:
 - (a) Six (6) Months prior to the start of a Quarter SONANGOL shall give written notice to the CONTRACTOR GROUP that it requires CONTRACTOR GROUP to purchase a specified quantity of Crude Oil to be lifted ratably over a period of two (2) consecutive Quarters; and
 - (b) CONTRACTOR GROUP's obligation to purchase Crude Oil from SONANGOL will continue mutatis mutandis from Quarter to Quarter after the initial two (2) consecutive Quarters until and unless SONANGOL gives CONTRACTOR GROUP written notice of termination which, subject to the above-mentioned minimum period, shall take effect six (6) Months after the end of the Quarter in which such written notice was given.

Article 26

Other Rights and Obligations Related to Crude Oil Disposal

1. SONANGOL shall have the right upon six (6) Months' written notice to buy from CONTRACTOR GROUP Crude Oil from the Contract Area equivalent in value to the Petroleum Income Tax due by CONTRACTOR GROUP to the Ministry of Finance, i.e. fifty per cent (50%) of CONTRACTOR GROUP's share of Development Area Profit Oil (as determined in accordance with Article 12). Such purchases by SONANGOL shall be at the Market Price applicable to such Crude Oil. SONANGOL shall provide CONTRACTOR GROUP with not less than three (3) Months advance written notice of its intention to cease to exercise its right under this paragraph.
2. Payment by SONANGOL to CONTRACTOR GROUP for each purchase of Crude Oil under paragraph 1 above shall be made two (2) working days before due date of the relevant amount of Petroleum Income Tax to the Ministry of Finance.

Any unpaid amount, plus interest as specified in Annex C hereto, shall be paid in kind to CONTRACTOR GROUP by SONANGOL out of SONANGOL's next Crude Oil entitlement, valued at the Market Price applicable to such Crude Oil.

3. If, in any Year, CONTRACTOR GROUP's total share of Crude Oil comprising Cost Recovery Crude Oil and Development Area Profit Oil, less any Crude Oil acquired or received from CONTRACTOR GROUP by SONANGOL under this Article and by the Government under the Concession Decree-Law, is less than forty nine percent (49%) of total Crude Oil estimated to be produced and saved in the Contract Area, CONTRACTOR GROUP shall have the right to buy and lift the corresponding balance of Crude Oil in the succeeding Year.

In the event that CONTRACTOR GROUP exercises all or any part of such right, the balance of Crude Oil necessary to satisfy CONTRACTOR GROUP's right shall be sold to CONTRACTOR GROUP by SONANGOL at the Market Price in accordance with the following procedures:

- (a) Six (6) Months prior to the start of a Quarter CONTRACTOR GROUP shall give written notice to SONANGOL that it requires SONANGOL to sell a specified quantity of Crude Oil, which quantity may be expressed either in Barrels or a percentage of total production, to be lifted ratably over a period of two (2) consecutive Quarters; and,
 - (b) SONANGOL's obligation to sell Crude Oil will continue mutatis mutandis from Quarter to Quarter after the initial two (2) consecutive Quarters until and unless CONTRACTOR GROUP gives SONANGOL written notice of termination or revision of quantities which, subject to the above-mentioned minimum period, shall take effect six (6) Months after the end of the Quarter in which such written notice was given.
4. In the event of conflict between CONTRACTOR GROUP's right in paragraph 3 above and SONANGOL's right in paragraph 1

above, CONTRACTOR GROUP's right in paragraph 3 above shall have priority.

5. The fulfillment of the obligation to satisfy the Government's right as per Article 8 of the Concession Decree-Law shall be shared between SONANGOL and CONTRACTOR GROUP in proportion to their respective net shares of production during the period concerned (CONTRACTOR GROUP's net share being its share according to Articles 11 and 12 less the quantities delivered to SONANGOL under paragraph 1 above and SONANGOL's net share being its share according to Article 12, plus the said quantities delivered to it under paragraph 1 above).

Article 27
Unitization

1. In the event of there are Petroleum deposits capable of commercially viable development, which extend beyond the Contract Area, and where other entities have agreements for the exploration and production of Petroleum with a similar unitization provision, SONANGOL may, by means of written notice addressed to CONTRACTOR GROUP and said other entities, require that the Petroleum in those deposits should be developed and produced in mutual cooperation.
2. SONANGOL, by means of written notice addressed to CONTRACTOR GROUP and the other entities as aforesaid, may also require that a similar procedure to that mentioned in the preceding paragraph be adopted, in relation to other Petroleum deposits within the Contract Area, if these are commercially viable only when developed together with petroleum deposits in areas adjacent to the Contract Area.
3. Should SONANGOL exercise the rights referred to in the preceding paragraphs, CONTRACTOR GROUP shall use all reasonable endeavors to cooperate with the other entities in the preparation of a plan for the joint development and production of the deposits in question. Such plan shall be

presented to SONANGOL within a period of one hundred and eighty (180) days (or such longer period as may be provided in the similar unitization provisions referred to in paragraph 1) from the date when CONTRACTOR GROUP and the other entities as aforesaid received the relevant notice, or such longer period as SONANGOL may agree.

4. Should the plan not be presented within the period established in the preceding paragraph SONANGOL may arrange for an independent consultant acceptable to all parties concerned to prepare at the expense of the CONTRACTOR GROUP and the other entities, a plan for the joint development and production of the deposit in accordance with generally accepted practice in the international Petroleum industry. The consultant must consult with and keep all of the entities constituting CONTRACTOR GROUP and the other entities informed on a regular basis.
5. The plan prepared under the terms of the preceding paragraphs shall be in accordance with the rules established in this Agreement, in particular as regards the rights and obligations of CONTRACTOR GROUP, and it shall establish a reasonable rate of return for CONTRACTOR GROUP compatible with the proportional share which the latter assumes in the joint development and production.
6. Once the plan referred to in the preceding paragraphs has been prepared, the Parties and the other entities shall meet within sixty (60) days from the date of submittal of said plan to agree on its implementation, which shall be initiated no later than ninety (90) days from the date of the agreement.
7. If CONTRACTOR GROUP does not accept the plan prepared pursuant to paragraph 4 above or if CONTRACTOR GROUP refuses the implementation of the plan or if CONTRACTOR GROUP does not initiate said implementation within the time period established under paragraph 6, or furthermore, if after an agreement has been reached for the preparation of a plan under paragraph 3, the implementation of same is not

started within the period required under paragraph 6, CONTRACTOR GROUP shall relinquish to SONANGOL those parts of the Contract Area together with the Petroleum deposits lying thereunder which were the subject of SONANGOL's notice referred to in paragraphs 1 and 2 above, without prejudice to CONTRACTOR GROUP's other rights and obligations under this Agreement in respect of the remainder of the Contract Area.

8. Any joint development and production in accordance with this Article 27 is without prejudice to the provisions of Article 29 and Article 31, paragraphs 2(e) and 11(b).
9. In the event that a unitization process under this Article affects the whole or part of an obligation which CONTRACTOR GROUP must fulfill within a certain time period under the Agreement, such time period shall be extended by the time elapsed between SONANGOL's written notice under paragraphs 1 and 2 above and the date of mutual agreement on the plan of the related joint development. In any event this extension shall not be more than twelve (12) Months, or such longer period as agreed by SONANGOL.

Article 28

Transfer and Abandonment of Assets

1. The CONTRACTOR GROUP, within a period of sixty (60) days from the termination of the Agreement or of the date of relinquishment of any area, must hand over to SONANGOL, in good state of preservation and operation and according to a schedule approved by SONANGOL, all of the Wells which, within the area to which the expiration, cancellation or abandonment refers, are in production or are capable of producing, or are used in injection or capable of injection, together with all the related casing, piping, surface or sub-surface equipment and facilities in the Contract Area acquired by CONTRACTOR GROUP for the undertaking of

Petroleum Operations except those being used for Petroleum Operations elsewhere in the Contract Area.

2. Should SONANGOL so request, the CONTRACTOR GROUP shall proceed to correctly abandon the Well or Wells and shall also undertake other actions for the abandonment of the related assets as requested, in accordance with practices generally accepted in the international petroleum industry.
3. Such request shall be made by SONANGOL within a period of one hundred eighty (180) days before the termination of the Agreement or of the estimated date of relinquishment of any area.
4. If such request is made by SONANGOL, it shall make the required funds available to CONTRACTOR GROUP from the amounts paid to SONANGOL pursuant to Article 4.3(e) of Annex C plus accrued interest.
5. If SONANGOL requires CONTRACTOR GROUP to relinquish or to hand over to SONANGOL the Well or Wells and related assets, CONTRACTOR GROUP shall have no further liability regarding said Wells and related assets except in the case of gross negligence, willful misconduct or serious fault and without prejudice to the provisions of the Agreement still in force after its termination, SONANGOL shall indemnify CONTRACTOR GROUP in case of any claims in respect thereof.

Article 29 Natural Gas

1. CONTRACTOR GROUP shall have the right to use Associated Natural Gas produced from Development Areas for any purpose, including the Petroleum Operations, for domestic consumption or for export and will have the right to process such Gas and separate the liquids therefrom. Costs to produce, treat and so use such Gas shall be recovered and

classified in accordance with Annex C.

2. Associated Natural Gas surplus to the requirements defined in the preceding paragraph is available at the separator free to SONANGOL.
3. SONANGOL may ask CONTRACTOR GROUP to join SONANGOL in order to develop some projects for the utilization of such surplus Associated Natural Gas, under terms and economic conditions to be mutually agreed.
4. If Non-Associated Natural Gas is discovered within the Contract Area then SONANGOL and CONTRACTOR GROUP shall endeavor to agree on the terms under which such Gas will be developed by CONTRACTOR GROUP. Such development shall include the use of Non-Associated Natural Gas for oil field operations, for domestic consumption or for export. If no agreement is reached within thirty-six (36) months of the date when such Gas was discovered, or such longer period as may be agreed by SONANGOL, then it shall be free to develop the discovery for its own account and risk. If SONANGOL so agrees, then CONTRACTOR GROUP shall have the right to participate in this Gas development with reimbursement of SONANGOL's expenses according to Article 30 plus an amount equal to one thousand per cent (1000%) of such expenses.
5. In the course of activities provided for under this Agreement, flaring of Associated and/or Non-Associated Natural Gas, except flaring necessary for testing or other operational reasons in accordance with practices generally accepted in the international Petroleum industry, is prohibited except on prior authorization of the Ministry of Petroleum following a request by SONANGOL. CONTRACTOR GROUP shall formulate such request for SONANGOL which shall include an evaluation of alternatives to flaring that have been considered along with information on the amount and quality of Gases involved and the duration of the requested flaring.

Article 30
Operations for SONANGOL's Account (Sole Risk)

1. The only operations which may be the object of a sole risk notice from SONANGOL under this Article shall be those involving:
 - (a) penetration and testing geological horizons deeper than those proposed by CONTRACTOR GROUP to the Operating Committee in any Exploration Well being drilled which has not encountered Petroleum; provided the Operator has not commenced the approved operations to complete or abandon the Well;
 - (b) penetration and testing geological horizons deeper than those proposed by CONTRACTOR GROUP to the Operating Committee in any Exploration Well being drilled which has encountered Petroleum; provided that in respect to such Well the Operating Committee has agreed that SONANGOL may undertake such sole risk operations, and the Operator has not commenced the approved operations to complete or abandon the Well;
 - (c) the drilling of an Exploration Well other than an Appraisal Well provided that not more than two (2) such Wells may be drilled in any Year;
 - (d) the drilling of an Appraisal Well which is a direct result from a successful Exploration Well whether or not such Exploration Well was drilled as part of a sole risk operation;
 - (e) the Development of any discovery which is a direct result from a successful Exploration Well and/or Appraisal Well sole risk operation which CONTRACTOR GROUP has not elected to undertake under paragraph 3 below;
 - (f) the Development of a Petroleum deposit discovered by a successful, non-commercial Exploration Well and/or

Appraisal Well carried out by **CONTRACTOR GROUP** as part of a work program approved by the Operating Committee if thirty-six (36) months have elapsed since the last such Well was completed and **CONTRACTOR GROUP** has not commenced Development of such deposit.

2. Except as to the operations described under paragraphs 1(a) and 1(b) above none of the operations described in paragraph 1 of this Article may be the object of a sole risk notice from **SONANGOL** until after the operation has been proposed in complete form to the Operating Committee and has been rejected by the Operating Committee.

To be "in complete form" as mentioned above; the proposal for conducting any of the above mentioned operations presented by **SONANGOL** shall contain appropriate information such as location, depth, target geological horizon, timing of operation, and where appropriate, details concerning any development plan as well as other relevant data.

3. If the conditions referred to in paragraph 2 have been met, **SONANGOL** may, as to any operation described in paragraph 1, give a written sole risk notice to **CONTRACTOR GROUP** and the latter shall have the following periods of time from the date of receipt of such sole risk notice within which to notify **SONANGOL** whether or not it elects to undertake such proposed operation as a part of the Petroleum Operations:

- (a) as to any operation described in paragraphs 1(a) and (b), forty-eight (48) hours or until commencement of the deepening operations, whichever occurs last;
- (b) as to any operation described in paragraphs 1(c) and (d), three (3) months;
- (c) as to any operation described in paragraphs 1(e) and (f), six (6) months.

4. If CONTRACTOR GROUP elects to include as part of the Petroleum Operations the operation described in the sole risk notice within the appropriate period described in paragraph 3 of this Article, such operation shall be carried out by the Operator within the framework of the Petroleum Operations under this Agreement, as a part of the current Work Program and Budget, which shall be considered as revised accordingly.
5. If CONTRACTOR GROUP elects not to undertake the operation described in the sole risk notice, subject to the provisions of paragraph 6, the operation for the account of SONANGOL will be carried out promptly and diligently by CONTRACTOR GROUP at SONANGOL's sole risk, cost and expense, provided that such operation will be carried out only if it will not conflict with or cause hindrance to CONTRACTOR GROUP's obligations or any Petroleum Operation, or delay existing work programs, including any Approved Work Program and Budget and with respect to operations referred to in paragraphs 1(c) and 1(d), such operations will be undertaken as soon as a suitable rig is available in Angola. SONANGOL and CONTRACTOR GROUP shall agree on a method whereby SONANGOL will provide all necessary funds in order that CONTRACTOR GROUP can undertake and pay for such operations.
6. SONANGOL shall elect to have the operations for its own account referred to in paragraphs 1(e) and 1(f) carried out either by itself, by CONTRACTOR GROUP for a mutually agreed fee or by any third party entity contracted to that effect by SONANGOL, provided that such operations will be carried out only if they will not conflict with or cause hindrance to CONTRACTOR GROUP's obligations or any Petroleum Operations, or delay existing work programs, including the Approved Work Program and Budget. Before entering into an agreement with a third party, as mentioned above, SONANGOL will notify CONTRACTOR GROUP in writing of such proposed agreement. CONTRACTOR GROUP shall have forty-five (45) days after the receipt of such notification to decide to exercise its right of first refusal with

respect to the proposed agreement and to perform such sole risk activities under the same terms and conditions as have been arranged with the third party.

7. If SONANGOL wishes to use in the sole risk operations assets which are used in the Petroleum Operations, it shall give written notice to the Operating Committee stating what assets it wishes to use, it being understood that the utilization of such assets may not prejudice the Approved Work Programs and Budgets.
8. If, in accordance with the provisions of paragraph 4, CONTRACTOR GROUP decides to undertake any works as foreseen in paragraph 1(d), it shall pay SONANGOL in cash and within thirty (30) days from the date in which it exercises such right, an amount equal to all of the costs incurred by SONANGOL in sole risk operations conducted in accordance with paragraphs 1(a), 1(b) and 1(c) which have directly led to the works foreseen in paragraph 1(d).
9. In addition to the amount referred to in the preceding paragraph, SONANGOL will also be entitled to receive from CONTRACTOR GROUP an additional payment equal to two hundred percent (200%) of the costs referred to in paragraph 8. Such additional payment will be made in cash and within ninety (90) days as of the date on which CONTRACTOR GROUP exercises the right referred to.
10. If, in accordance with the provisions of paragraph 4, CONTRACTOR GROUP decides to undertake any works foreseen in paragraph 1(e), it shall pay SONANGOL in cash, all of the costs incurred by the latter in its sole risk operations which directly led to the works foreseen in paragraph 1(e), less any reimbursement made in accordance with paragraph 8 above, within thirty (30) days as of the date on which it exercises such right.
11. In addition to the amount referred to in the preceding paragraph, SONANGOL will also be entitled to receive twenty five percent (25%) of CONTRACTOR GROUP's share of

Development Area Profit Oil produced from this developed deposit until the value thereof as defined in paragraph 13 equals one thousand percent (1000%) of the costs of the operations referred to in paragraph 10.

12. If the operations described in paragraph 1(e) and 1(f) are conducted at SONANGOL's sole risk, cost and expense, it will receive one hundred percent (100%) of the Petroleum produced from the deposit developed under such terms.
13. The Petroleum received by SONANGOL under paragraph 11 will be valued at the Market Price as established in Article 2 of Annex C of the Concession Decree-Law.

Article 31
Operating Committee

1. The Operating Committee is the body through which the Parties coordinate and supervise the Petroleum Operations and shall be established within thirty (30) days of the Effective Date.
2. The Operating Committee has, among others, the following functions:
 - (a) to establish policies for the Petroleum Operations and to define, for this purpose, procedures and guidelines as it may deem necessary;
 - (b) to review and, except as provided in paragraph 12, approve all CONTRACTOR GROUP's proposals on Work Programs and Budgets (including the location of Wells and facilities), Production Schedules and Lifting Schedules;
 - (c) to verify and supervise the accounting of costs, expenses and expenditures and the conformity of the operating and accounting records with the rules

established in this Agreement and Annex C hereof;

- (d) to establish technical and other committees whenever it is necessary;
 - (e) in general, to review and, except as otherwise provided in this Agreement, to decide upon all matters which are relevant to the execution of this Agreement, it being understood, however, that in all events the right to declare a Commercial Discovery is reserved exclusively to CONTRACTOR GROUP.
3. The Operating Committee will obey the clauses of this Agreement and it shall not deliberate on matters that by Law, or this Agreement are the exclusive responsibility of the Concessionaire or CONTRACTOR GROUP.
 4. The Operating Committee shall be composed of four (4) members, two (2) of whom shall be appointed by SONANGOL and the other two (2) by CONTRACTOR GROUP. The Operating Committee meetings cannot take place unless at least three (3) of its members are present.
 5. The Operating Committee shall be headed by a Chairman who shall be appointed by SONANGOL from among its representatives and who shall be responsible for the following functions:
 - (a) to coordinate and orient all the Operating Committee's activities;
 - (b) to chair the meetings and to notify the Parties of the timing and location of such meetings, it being understood that the Operating Committee shall meet whenever requested by any Party;
 - (c) to establish the agenda of the meetings which shall include all matters which any of the Parties have asked to be discussed;

- (d) to convey to each Party all decisions of the Operating Committee, within five (5) working days after the meetings;
 - (e) to request from Operator any information and to make recommendations that have been requested by any member of the Operating Committee as well as to request from CONTRACTOR GROUP any advice and studies whose execution has been approved by the Operating Committee;
 - (f) to request from technical and other committees any information, recommendations and studies that he has been asked to obtain by any member of the Operating Committee;
 - (g) to convey to the Parties all information and data provided to him by the Operator for this purpose.
6. In the case of an impediment to the Chairman of the Operating Committee, the work of any meeting will be chaired by one of the other members appointed by him for the purpose.
 7. At the request of any of the Parties, the Operating Committee shall establish and approve, according to paragraph 11(c) below, its internal regulations which shall comply with the procedures established in this Agreement.
 8. At the Operating Committee meetings, decisions shall only be made on matters included on the respective agenda, unless, with all members of the Operating Committee present, they agree to make decisions on any matter not so included on the agenda.
 9. Each member of the Operating Committee shall have one (1) vote and the Chairman shall in addition have a tie-breaking vote.
 10. Except as provided for in paragraph 11, the decisions of the

Operating Committee are taken by simple majority of the votes present or represented, it being understood that any member may be represented by written and signed proxy held by another member.

11. Unanimous approval of the Operating Committee shall be required for:
 - (a) approval of and any revision to Exploration Work Programs and Budgets (including location of Wells and facilities) prepared after the first Commercial Discovery;
 - (b) approval of and any revision to the Production Schedules, Lifting Schedules and Development and Production Work Programs and Budgets;
 - (c) establishment of rules of procedure for the Operating Committee;
 - (d) establishment of management policy for the carrying out of responsibilities outlined in paragraph 2 of this Article including the procedures and guidelines in accordance with paragraph 2(a) above;
 - (e) determination of deemed nominal rate of return pursuant to Article 12.
12. Prior to the time of declaration of the first Commercial Discovery, the Operating Committee shall review and give such advice as it deems appropriate with respect to the matters referred to in paragraph 2(e) above and with respect to CONTRACTOR GROUP's proposals on such Exploration Work Programs and Budgets (including the location of Wells and facilities). Following such review CONTRACTOR GROUP shall make such revision of the Exploration Work Programs and Budgets as CONTRACTOR GROUP deems appropriate and transmit the final Exploration Work Program and Budget to SONANGOL for its information.

13. Minutes shall be made of every meeting of the Operating Committee and they shall be written in the appropriate record book and signed by all members.
14. The draft of the minutes shall be prepared, if possible, on the day that the meeting is held and copies of it shall be sent to the Parties within the following five (5) working days, and their approval shall be deemed granted if no objection is raised within ten (10) working days from the date of receipt of the draft minutes.

Article 32
Ownership of Assets

1. Physical assets purchased by CONTRACTOR GROUP for the implementation of the Work Program(s) and Budget(s) become the property of SONANGOL when purchased in Angola or, if purchased abroad, when landed at the Angolan ports of import. Such physical assets will be used in Petroleum Operations, provided, however, CONTRACTOR GROUP will not be obligated to make any payments for the use of such physical assets during the term of this Agreement. This provision shall not apply to equipment leased from and belonging to third parties.
2. During the term of this Agreement CONTRACTOR GROUP shall be entitled to the full and exclusive use in the Contract Area, and any other area approved by SONANGOL, of all fixed and movable assets at no cost to CONTRACTOR GROUP. Any SONANGOL assets which CONTRACTOR GROUP agrees have become surplus to CONTRACTOR GROUP's then current and/or future needs in the Contract Area may be removed and used by SONANGOL outside the Contract Area and any unrecovered costs for such assets shall be fully recovered in that Year respecting the cost recovery limit provided for in Article 11 hereof. Any SONANGOL assets other than those considered by CONTRACTOR GROUP to be

superfluous shall not be disposed of by SONANGOL except with agreement of CONTRACTOR GROUP so long as this Agreement is in force.

Article 33
Property and Confidentiality of Data

1. All information of a technical nature developed through the conduct of the Petroleum Operations shall be the property of SONANGOL.
2. Unless otherwise agreed by SONANGOL and CONTRACTOR GROUP, while this Agreement remains in force, all technical, economic, accounting or any other information, including without limitation, reports, maps, logs, records and other data developed through the conduct of Petroleum Operations, shall be held strictly confidential and shall not be divulged by any Party without the prior written consent of the other Party hereto; provided, however, that either Party may, without such approval, disclose such information:
 - (a) to any Affiliate or potential assignee of such Party upon such Affiliate or potential assignee giving a similar undertaking of confidentiality;
 - (b) in connection with the arranging of financing or of a corporate reorganization upon obtaining a similar undertaking of confidentiality;
 - (c) to the extent required by any applicable law, regulation or rule (including without limitation, any regulation or rule of any regulatory agency, securities commission or securities exchange on which the securities of such Party or of any such Party's Affiliates are listed);
 - (d) to consultants, contractors or other third parties as necessary in connection with Petroleum Operations upon obtaining a similar undertaking of confidentiality.

3. The CONTRACTOR GROUP's obligation of confidentiality of the information referred to in paragraph 2 above shall continue for ten (10) years after the termination of the Agreement or such other period as agreed to in writing between the Parties.
4. In the event that any entity constituting CONTRACTOR GROUP ceases to hold an interest under this Agreement, such entity will continue to be bound by the provisions of this Article.
5. To obtain offers for new Production Sharing Agreements, SONANGOL may, upon informing CONTRACTOR GROUP, show third parties geophysical, geological and other technical data (the age of which is not less than one (1) year or CONTRACTOR GROUP's reports and interpretations (the age of which is not less than five (5) years) with respect to that part or parts of the Contract Area adjacent to the area of such new offers.
6. The confidentiality obligation contained in this Article shall not apply to any information that has entered the public domain by any means that is both lawful and does not involve a breach of this Article.

Article 34

Responsibility for Losses and Damages

1. CONTRACTOR GROUP, in its capacity as the entity responsible for the execution of the Petroleum Operations within the Contract Area, shall be liable to third parties to the extent provided under the Law for any losses and damages it may cause to them in conducting the Petroleum Operations and shall indemnify and defend SONANGOL with respect thereto, provided CONTRACTOR GROUP has been given timely notice of the claims and the opportunity to defend.
2. CONTRACTOR GROUP is also liable for losses and damages

(excluding indirect and consequential losses and damages) which, in conducting the Petroleum Operations CONTRACTOR GROUP may cause to the State and in case of CONTRACTOR GROUP's willful misconduct or gross negligence, to SONANGOL.

3. The provisions of the preceding paragraphs 1 and 2 do not apply to losses and damages caused during Petroleum Operations for account and risk of SONANGOL, for which SONANGOL shall indemnify and defend CONTRACTOR GROUP, and in relation to which CONTRACTOR GROUP shall only be liable for such losses and damages caused by its willful misconduct or gross negligence.
4. If CONTRACTOR GROUP comprises more than one entity, the liability of such entities shall be joint and several.

Article 35
Insurance

1. Relative to the risks inherent in its Petroleum Operations, CONTRACTOR GROUP shall execute and keep current insurance contracts for the amounts and types required by Law as well as any other insurance contracts proposed by CONTRACTOR GROUP and approved by the Operating Committee, it being understood that such approval is not necessary when CONTRACTOR GROUP is protected by worldwide insurance or reinsurance programs. In this case, CONTRACTOR GROUP shall immediately inform SONANGOL of the type and the extent of coverage of such insurance and shall provide SONANGOL with certificates thereof whenever requested.
2. Insurance contracts will be executed with Empresa Nacional de Seguros e Resseguros de Angola (ENSA, U.E.E.), when so required by Law.

Article 36

Recruitment, Integration and Training of Angolan Personnel

1. **CONTRACTOR GROUP** shall be subject to the provisions of Decree 20/82 of April 17, 1982 and corresponding regulations regarding the recruitment, integration and training of Angolan personnel.
2. In the Petroleum Operations carried out under this Agreement **CONTRACTOR GROUP** shall apply the most appropriate technology and managerial experience, including their proprietary technology such as patents, "know-how" or other confidential technology, to the extent permitted by applicable laws and agreements.
3. In planned, systematic and various ways and in accordance with the provisions of this Article, **CONTRACTOR GROUP** shall train its Angolan personnel directly or indirectly involved in the Petroleum Operations, for the purpose of improving their knowledge and professional qualification in order that the Angolan personnel gradually reach the level of knowledge and professional qualification held by the **CONTRACTOR GROUP**'s foreign workers. Such training will also include the transfer of the knowledge of petroleum technology and the necessary management experience so as to enable the Angolan personnel to use the advanced and appropriate technology in use in the Petroleum Operations, including proprietary and patented technology, "know-how" and other confidential technology, to the extent permitted by applicable laws and agreements, subject to appropriate confidentiality agreements.
4. In keeping with the three-year plan for the recruitment, integration and training of Angolan personnel which is covered under Article 12 of the Concession Decree-Law, **CONTRACTOR GROUP** specifically agrees to:
 - (a) prepare a draft of such initial plan and submit it to **SONANGOL** within four (4) Months of the Effective Date;

- (b) prepare a proposal for implementation of such plan and submit it to SONANGOL within one (1) Month of the approval of such plan by the Ministry of Petroleum;
 - (c) implement the approved plan in accordance with the directives of SONANGOL, CONTRACTOR GROUP being able, in this regard and with the approval of SONANGOL, to contract outside specialists not associated with CONTRACTOR GROUP to proceed with the implementation of specific aspects of the subject plan.
- 5. CONTRACTOR GROUP agrees to require in its contracts with subcontractors who work for CONTRACTOR GROUP for a period of more than one year, compliance with requirements for the training of work crews, to which requirements such subcontractors are subject by operation of current law. CONTRACTOR GROUP further agrees to monitor compliance with such obligations.
- 6. The training costs of angolan personnel working for CONTRACTOR GROUP shall be borne by the latter and shall be recovered as a Production Expenditure. Costs incurred by CONTRACTOR GROUP for training programs for SONANGOL personnel will be borne in a manner to be agreed upon by SONANGOL and CONTRACTOR GROUP.
- 7. Subject to the provisions of paragraph 4 above, CONTRACTOR GROUP shall have the right to staff its operations with those whom it believes are necessary for efficient administration and operations without the imposition of citizenship or residency requirements.
- 8. SONANGOL shall provide reasonable assistance to CONTRACTOR GROUP in obtaining visas, permits and any other documents required for the entry into Angola, residence authorizations and work licenses required in connection with the performance of Petroleum Operations in the Contract Area. CONTRACTOR GROUP shall advise SONANGOL reasonably in advance of the time necessary for

receipt of such permit or license and SONANGOL shall take all reasonable steps to arrange for all such permits and licenses to be issued on a timely basis by the appropriate authorities.

Article 37 Fiscal Regime

1. The fiscal regime applicable to Petroleum Operations is that established in the Concession Decree-Law.
2. In order to avoid the international double taxation of CONTRACTOR GROUP's income, SONANGOL shall favorably consider any amendments or revisions to this Agreement or other undertakings that CONTRACTOR GROUP may propose as long as those amendments, revisions or undertakings do not impact on SONANGOL's or Angola's economic benefits and other benefits resulting from the Agreement.
3. Should the stamp duty on customs clearance documents and/or the statistical levy of one per thousand (1/1000) "ad valorem" applicable to imports or exports increase from those rates in effect on the Effective Date, SONANGOL will reimburse CONTRACTOR GROUP for the additional amounts paid by CONTRACTOR GROUP. SONANGOL and CONTRACTOR GROUP shall promptly agree on procedures to accomplish such reimbursement.
4. Without prejudice to other rights and obligations of the Parties under the Agreement, in the event that any change in the provisions of any Law, regulation or decree in force in the Republic of Angola occurs subsequent to the signing of the Agreement which adversely affects the obligations, rights and benefits hereunder, then the Parties shall agree on amendments to the Agreement to be submitted to the competent authorities for approval, so as to restore such rights, obligations and forecasted benefits.

Article 38
Foreign Currency and Customs Regimes

The foreign currency and customs regimes applicable to the Petroleum Operations are those established in Annexes D and E respectively of the Concession Decree-Law.

Article 39
Assignment

1. In accordance with the legislation of the Republic of Angola, each of the entities constituting **CONTRACTOR GROUP** may assign part or all of its rights, privileges, duties and obligations under this Agreement to an Affiliate and, by obtaining prior authorization from **SONANGOL**, to a non-Affiliate and such authorization shall be granted within thirty (30) days of **CONTRACTOR GROUP**'s notice of intent to make such assignment.
2. Any assignees shall be holders of the rights and obligations deriving from this Agreement and all appropriate legislation.
3. In the case of the assignment being in favor of an Affiliate of the assignor the latter and the assignee shall remain jointly and severally liable for the strict compliance with the obligations of the **CONTRACTOR GROUP** in accordance with the provisions of this Agreement and relevant legislation.
4. The legal documents required to effect any assignment in accordance with the provisions of this Article must specify the participation which the third party assignee will enjoy in the Agreement and shall be submitted for consideration and, in the case of an assignment to a non-Affiliate, for approval by **SONANGOL** before being formally executed.
5. In any of the cases foreseen in this Article the obligations of the assignor which should have been fulfilled under the terms of this Agreement and the relevant legislation at the date the request for the assignment is made, must have been fully complied with.

6. SONANGOL will have the right of first refusal to acquire under the same conditions, any interest in this Agreement that an entity constituting CONTRACTOR GROUP intends to assign to a non-Affiliate.
7. Except as otherwise expressly provided herein, upon completion of an assignment made by one of the entities constituting CONTRACTOR to a non-Affiliate, such assignor shall have no further rights or obligations with respect to the interest in this Agreement so assigned.

Article 40
Termination of the Agreement

1. Without prejudice to the provisions of the Law and of any contractual clause, SONANGOL may proceed to the termination of this Agreement if CONTRACTOR GROUP:
 - (a) interrupts Production for a period of more than ninety (90) days with no cause or justification acceptable under normal international petroleum industry practice;
 - (b) continuously refuses with no justification to comply with the generally applicable Law;
 - (c) intentionally submits false information to the Government or to SONANGOL;
 - (d) discloses confidential information related to the Petroleum Operations without having previously obtained the necessary authorization thereto if such disclosure causes prejudice to SONANGOL or the State;
 - (e) assigns any part of its interests hereunder in breach of the provisions of Article 39 of this Agreement;
 - (f) is declared bankrupt by a court of competent jurisdiction;

- (g) does not comply with any final decision resulting from an arbitration process conducted under the terms of the Agreement, after all adequate appeals are exhausted;
 - (h) does not fulfill a substantial part of the duties and obligations resulting from the Concession Decree-Law and from this Agreement;
 - (i) intentionally extracts or produces any mineral which is not covered by the object of this Agreement, unless such production is expressly authorized or unavoidable as a result of operations carried out in accordance with accepted international Petroleum industry practice.
2. SONANGOL may also terminate the Agreement if the majority of the shares representing the capital of any entity constituting CONTRACTOR GROUP is transferred to a non-Affiliate third party without having obtained the prior required authorization.
3. If SONANGOL considers that one of the aforesaid causes exists to terminate this Agreement, it shall notify CONTRACTOR GROUP in writing in order for it, within a period of ninety (90) days, to remedy such cause. The said notification shall be delivered by the official method foreseen in the Law, and by recorded delivery which shall be signed by a legal representative of the entity to which it is addressed. If, for any reason, this procedure is impossible, due to a change of address which has not been notified pursuant to this Agreement, publication of the notice in the *Diário da República* shall be considered to be as valid as if delivered.

If, after the end of the ninety (90) day notice period, such cause has not been remedied or removed, or if agreement has not been reached on a plan to remedy or remove the cause, this Agreement may be terminated in accordance with the provisions mentioned above.

4. The termination of the Agreement envisaged in this Article shall occur without prejudice to any rights which may have accrued to the Party which has invoked it, in relation to the other Party, in accordance with this Agreement, the Concession Decree-Law or the Law.
5. If any of the entities constituting CONTRACTOR GROUP, but not all of them, give SONANGOL due cause to terminate this Agreement pursuant to the provisions of paragraphs 1 and 2 above, then such termination shall take place only with respect to such entity or entities and the rights and obligations that such terminated entity or entities hold under this Agreement or any agreements among the entities constituting CONTRACTOR GROUP made available to SONANGOL pursuant to paragraph 3 of Article 8, except as provided in the preceding paragraph, shall revert to SONANGOL without compensation.

Article 41

Confidentiality of the Agreement

SONANGOL and CONTRACTOR GROUP agree to maintain the confidentiality of this Agreement; provided, however, either Party may, without the approval of the other Party, disclose this Agreement in the following situations:

- (a) to any Affiliate or potential assignee of such Party upon such Affiliate or potential assignee giving a similar undertaking of confidentiality;
- (b) in connection with the arranging of financing or of a corporate reorganization upon obtaining a similar undertaking of confidentiality;
- (c) to the extent required by any applicable Law, decree or regulation (including, without limitation, any requirement or rule of any regulatory agency, securities commission or securities exchange on which the securities of such Party or of any such Party's Affiliates are listed);

- (d) to consultants as necessary in connection with Petroleum Operations upon obtaining a similar undertaking of confidentiality.

Article 42
Arbitration

1. Any disputes, differences, or claims arising out of this Agreement or relating thereto, or relating to the breach, termination, or invalidation of the same, which it has not been possible to resolve amicably shall be finally and exclusively settled by arbitration, in accordance with the UNCITRAL Rules of Arbitration of 1976 as existing on the Effective Date.
2. The number of arbitrators shall be three (3). One will be appointed by Sonangol and 1(one) by the CONTRACTOR GROUP. The third arbitrator will be appointed jointly by SONANGOL and the CONTRACTOR GROUP. If one of the arbitrators is not appointed within thirty days upon SONANGOL's or the CONTRACTOR GROUP's notice to the other, asking for said appointment, then such arbitrator shall be appointed by the President of the International Chamber of Commerce of Paris.
3. The arbitration tribunal shall decide according to the Angolan substantive Law.
4. According to the Law in force the arbitration tribunal shall be set up in Luanda and the language of arbitration shall be Portuguese.
5. The Parties agree that this arbitration clause is an explicit waiver of immunity against validity and enforcement of the award or any judgment thereon and that the award or judgment shall be final, binding and shall be enforceable against any Litigant in any court having jurisdiction in accordance with its laws.

Article 43
Force Majeure

1. Non-performance or delay in performance by SONANGOL or CONTRACTOR GROUP, or both of them, of any of the contractual obligations, except an obligation to pay money, shall be excused if, and to the extent that, such non-performance or delay is caused by Force Majeure.
2. If the Force Majeure restrains temporarily the performance of a contractual obligation subject to a time limit, the time given in this Agreement for the performance of such obligation and for the performance or exercise of any right or obligation dependent thereon, and, if relevant, the term of the Agreement, shall be suspended until the restoration of the "status quo" prior to the occurrence of the event(s) constituting Force Majeure, but only with respect to the areas affected.
3. "Force Majeure", for the purposes of this Article, shall be any occurrence which is unforeseeable, unavoidable and beyond the reasonable control of the Party claiming to be affected by such event such as, and without limitation, state of war, either declared or not, rebellions or mutinies, natural catastrophes, fires, earthquakes, communications cuts and unavoidable accidents.
4. The Party which understands that it may claim a situation of Force Majeure shall immediately serve notice to the other Party, and shall use all reasonable efforts to correct the situation of Force Majeure as soon as possible.

Article 44
Applicable Law

This Agreement shall be governed by and construed in accordance with the Law.

**Article 45
Language**

This Agreement has been prepared and signed in the Portuguese language. The Portuguese version shall be the only official version for the purpose of establishing the rights and obligations of the Parties.

**Article 46
Offices and Service of Notice**

1. SONANGOL and Operator shall maintain offices in Luanda, Republic of Angola, where communications and notices foreseen in this Agreement must be validly delivered.

2. SONANGOL's office for the purpose of serving notice is:

Rua do 1° Congresso do M.P.L.A.
No. 8-4° Andar
Luanda
REPUBLICA DE ANGOLA
Telex: 3148 and 3260
Fax: 244-2-391782

3. Operator's office for the purpose of serving notice is:

Luanda
REPUBLICA DE ANGOLA
Telex:
Fax:

4. SONANGOL and Operator will communicate to each other in writing and with reasonable advance notice any change of their offices referred to in the preceding paragraphs, if such occurs.

Article 47
Captions and Headings

Captions and headings are included in this Agreement for the sole purpose of systematization and shall have no interpretative value.

Article 48
Effectiveness

This Agreement shall come into effect on the Effective Date.

BARROW'S
CONFIDENTIAL

IN WITNESS WHEREOF, the Parties hereto have signed this Agreement in the Portuguese language in Luanda, this ___ day of 199 .

**SOCIEDADE NACIONAL DE COMBUSTÍVEIS
DE ANGOLA - UNIDADE ECONÓMICA ESTATAL
(SONANGOL, U.E.E.)**

By: _____
Date: _____

CONTRACTOR GROUP:

By: _____
Date: _____

_____, a _____ corporation

By: _____

Date: _____

_____, a _____ corporation

By: _____

Date: _____

_____, a _____ corporation

By: _____

Date: _____

BARROWS
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Annex A
Description of the Contract Area

The present Annex is an integral part of the Production Sharing Agreement (the "Agreement") dated _____, 199 signed between SONANGOL as one of the Parties and by _____, _____, and _____, as the other Party, as referred to in Article 2 of the Agreement.

The Contract Area is shown in Annex B as Block _____ is delineated by the lines defined by the Points A to _____ having the following coordinates:

Geographical Coordinates		UTM Coordinates	
Latitude	Longitude	X	Y
(S)	(E)		

Datum - Camacupa
Ellipsoide - Clark 1880
Projection - UTM Zone 33S

The Contract Area delineated by those Points is limited as follows:

Annex B
Map Showing the Contract Area

The present Annex is an integral part of the Production Sharing Agreement (the "Agreement") dated _____, 199 signed between SONANGOL as one of the Parties and by _____, _____, and _____, as the other Party, as referred to in Article 2 of the Agreement.

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Annex C
Accounting and Financial Procedures

The present Annex is an integral part of the Production Sharing Agreement (the "Agreement") dated _____, 199 signed between SONANGOL as one of the Parties and by _____, _____, and _____, as the other Party, as referred to in Article 2 of the Agreement.

Article I
General Conditions

1.1 Definitions

The terms used in this Annex have the same meaning as was given to them in the Agreement.

1.2 Purpose

- a. The purpose of the Accounting and Financial Procedures is to establish equitable methods for determining the expenditure and revenue of the Petroleum Operations carried out within the scope of the Agreement, in accordance with the Information System for Oil Operations ("SIOP") approved under joint executive Decree number 7/88 of the 26th of March, under generally accepted accounting principles.
- b. It is the Parties intention that there should not be any duplication of any recoverable item.
- c. Each of the entities of which the CONTRACTOR GROUP is made up has the responsibility of keeping its own accounting records for the purpose of satisfying all legal requirements and justifying tax declarations or any other accounting reports requested by any government authority in respect of the Petroleum Operations.
- d. In order to permit each entity of which the CONTRACTOR GROUP is comprised to keep such accounting records, the

Operator will prepare the joint account in such a manner as to permit the entities in question to satisfy any legal obligations to which they are bound.

1.3 Language and Units

- a. All accounting records, charts of results, accounting reports and correspondence should be written in Portuguese and recorded in local currency and US Dollars with, however, the calculations for the determination of recoverable expenditures being made in US Dollars.
- b. The measurements required under the terms of this Annex, will be made in metric units and in Barrels. If necessary for the internal use of the CONTRACTOR GROUP, the referred to accounting records, charts of results and accounting reports and correspondence may also be written up in other languages, currencies and units of measurement after obtaining the prior approval of SONANGOL.
- c. Exchange rate fluctuations shall not constitute any gain or loss either for SONANGOL or the CONTRACTOR GROUP.
- d. The Operator should supply SONANGOL with a description of the procedures adopted for the calculation of the exchange rate differences, as well as the respective policies for protection from exchange rate fluctuations.
- e. Gains and losses, realized or not realized, as a result of foreign exchange fluctuations will be registered individually and separately in the joint account under their own heading. The Operator will supply SONANGOL with a statement taken from the accounting records in respect of the foreign exchange rate differences calculated at the end of each quarter, up until twenty one (21) days beginning from the end of the quarter in question.
- f. SONANGOL thirty (30) days after the reception of the referred to statement, will notify the Operator of its position in respect of the amounts of foreign exchange rate differences

accepted as recoverable.

- g. The approved differences in the foreign exchange rate will then be calculated as yearly charges or profits under the heading "Administration and Services" to be imputed to the activities of Exploration, Development and Operation under the following terms set out in 4.8(b).
- h. The amounts received and expenses incurred in local currency or in US Dollars will be converted from local currency into US Dollars or US Dollars into local currency at the buying and selling rates published by the Banco Nacional de Angola on the last working day of the Month before the Month in which the amounts were received or paid, or the rate of any other date agreed by the Parties.
- i. The costs of depreciation and amortization will be translated or converted at the exchange rate in force on the date of purchase of the original asset

1.4 Payments

- a. All payments between the Parties under the terms of the Agreement will be made in US Dollars or in other currencies accepted by the Parties, in a bank designated by the Party to which payment is made.
- b. Any payments required under the terms of Agreement, principally premiums, rents and penalties for non compliance with the minimum work program, as well as the payments as a result of the purchase rights of crude oil by the CONTRACTOR GROUP will be made within thirty (30) days from the end of the Month during which the payment obligation was incurred.

1.5 Financial and Operational Audit and SONANGOL's Right of Inspection

- a. The accounting records maintained by the CONTRACTOR GROUP will be audited on an annual basis to be carried out by an independent auditing company to be chosen by SONANGOL

and the CONTRACTOR GROUP. The inspection to be carried out by the auditors should be based on generally accepted auditing principles.

- b. The CONTRACTOR GROUP shall supply all records, documents and explanations requested by the auditors and allow them to carry out the checks considered necessary within the scope of their activity.
- c. The expenditure incurred on the aforementioned audit will be classified by the CONTRACTOR GROUP as Administration and Services Expenditure.
- d. A copy of each audit report shall be given to the Ministry of Finance, SONANGOL and each entity of which the CONTRACTOR GROUP is comprised within a period of six (6) Months after the end of the respective calendar year.
- e. In addition to the conditions of paragraph a. above, SONANGOL will have the permanent right, either on its own or through third parties, and upon giving reasonable notice to CONTRACTOR GROUP, to carry out operational inspections or audits considered to be necessary in respect of facilities, studies, accounts, records, documents, contracts, assets of any kind in such a manner as to verify compliance with obligations under the Agreement. The costs of such an audit will be paid by SONANGOL.
- f. When carrying out the audits referred to in this Article, the auditors may inspect and check, after giving a reasonable notice to CONTRACTOR GROUP, all expenditures and revenue connected with Petroleum Operations, such as accounting records, accounts entries, inventories, vouchers, payment slips, invoices, contracts or sub contracts of any kind related to the Agreement and any other documents, correspondence and records of the CONTRACTOR GROUP necessary for auditing and checking expenditure and revenue.
- g. In addition, the auditors will have the right, in respect of such inspections and audits, to visit and examine, provided that

they give reasonable notice, all locations, installations, habitations, warehouses and offices of the **CONTRACTOR GROUP** in Angola, and/or any other location provided that they are used for the Petroleum Operations including visits to the personnel working on these Petroleum Operations.

- h. The cost of the examination and inspection of records located outside Angola without **SONANGOL**'s authorization will be borne by **CONTRACTOR GROUP** and is not recoverable.
- i. All accounting records, sales statements, books and accounts connected with the Petroleum Operations will be accepted as true and accurate after a period of twenty four (24) Months beginning from the end of the Fiscal Year to which they refer, unless if within this same period, **SONANGOL** or the **CONTRACTOR GROUP** express any objection to them in writing.
- j. **SONANGOL** may extend the twenty four (24) Month period by an additional twelve (12) Months by providing the **CONTRACTOR GROUP** written notice to extend such period not later than sixty (60) days prior to the end of the initial twenty four (24) Month period.
- k. Notwithstanding the possibility of the period of twenty four (24) Months having expired, if there is any evidence that the Operator is guilty of willful misconduct or gross negligence in the management of the Petroleum Operations during the expired periods, **SONANGOL** will have the right to carry out additional audits in respect of these periods.
- l. All adjustments as a result of the audits referred to in this Article, when agreed and approved by the Operating Committee, shall be promptly adjusted in the joint account.
- m. If any disputes between **SONANGOL** and the **CONTRACTOR GROUP** in respect of outstanding verifications in the audits carried out still remain, these cases of dispute will be entrusted for purposes of resolution to an international independent audit company agreed between the Parties.

- n. If any of the Parties disagrees with the resolution put forward by the aforementioned audit company, the dissenting Party shall notify the other Party for the case in dispute to be resolved by means of arbitration, under the terms of Article 42 of the Agreement.
- o. Notwithstanding the conditions of this Article, all documents therein referred to shall be available for inspection by SONANGOL for five (5) Years after the date of their being drawn up.
- p. This Article will neither take the place of nor lessen the legal obligations of the CONTRACTOR GROUP arising from Angolan commercial legislation.

Article 2

Expenditure and Revenue of CONTRACTOR GROUP

- 2.1 The expenditure incurred under the terms of the Agreement shall be debited to the joint account in accordance with the principles set out in 2.3. Each member of the CONTRACTOR GROUP will undertake the accounting procedure for his share of the exports of crude oil with the respective revenue not being credited to the Joint Account.
- 2.2 The expenditures shall be classified in accordance with the SIOP and will be recoverable under the terms of Article 11 of the Agreement.
- 2.3 Recoverable Costs Under the Terms of the Agreement

Under the terms of Article 11 of the Agreement, direct and indirect expenditure, classified and accounted for in accordance with the SIOP and under the terms of Article 4 of this Annex, which are a result of the Petroleum Operations carried out within the scope of the Agreement and which are specified below are considered eligible for the purpose of recovery of costs.

2.3.1 Expenditure on Personnel

- a. For the purpose of recovery of expenditures on personnel as recoverable costs, the Operator shall inform SONANGOL about its internal management policies and practices in respect of personnel, including salary policies, subsidies and traveling expenses, benefits and other company incentives, which, to the extent they are in accordance with generally accepted practices of the international petroleum industry, will constitute the principles of the incurring of expenditure on personnel referred to in the following paragraphs.
- b. The total amount of the salaries and wages, including gratifications and bonuses paid to workers employed by the Operator for being directly employed on the Petroleum Operations.
- c. All of the personnel who are employed on the Petroleum Operations and whose salaries and wages are recoverable as referred to above shall have time sheets.
- d. These sheets will register the time worked on the Petroleum Operations, even if the personnel in question are employed on the Petroleum Operations on a full or a part time basis, and shall show the time worked on the various projects for the purpose of calculation and attribution of salaries and wages.
- e. Expenditure on holidays, public holidays, overtime, payments for illness and incapacity, applicable to the salaries and wages referred to in paragraph b. above.
- f. Any tax payments and levies owed by the Operator's non-resident workers in their country of origin, as well as any taxes and levies owed by workers resident in Angola shall not be considered as recoverable costs.
- g. Expenditure connected with the plans established for life insurance, medical assistance, pensions, other incentives or employee benefits of a similar nature usually provided to

the Operator's workers and its Affiliates' workers, under the terms of its internal policies, which were provided to SONANGOL, and the Law.

- h. Reasonable traveling expenses, housing and living and personal expenses of the Operator's workers including those incurred as a result of travel and relocation of non resident workers employed on the Operations carried out by the CONTRACTOR GROUP in the Republic of Angola, in accordance with standard practice in the international petroleum industry and Operator's internal policies under the conditions set out in 2.3.2 b. to d. below.

2.3.2 Expenditure on Transport

- a. Expenditures on the transport of non-resident employees, equipment, materials and necessary supplies for the carrying out of the Petroleum Operations.
- b. Expenditures on the transport of personnel will include traveling expenses of non-resident workers and their families, paid by the Operator in accordance with its internal traveling practices and policies for personnel, under the terms set out in 2.3.1(a) above.
- c. Expenditures on the transport associated with the return of non resident workers and their families to their country of origin should be debited to the joint account, with the exception of cases of expenditures incurred on the movement of a worker beyond the country of origin which was established at the time of his transfer to Angola.
- d. If the Operator wishes to employ such a worker on other international operations outside Angola, no traveling and other expenses connected with the termination of its provision of labor in Angola will be debited to the Joint Account.

2.3.3 Expenditures Incurred on Services Provided by Third Parties

Contracts with third parties which are considered to be the actual cost of the technical service and other contracts signed under the scope of Petroleum Operations, by the Operator at the expense of the CONTRACTOR GROUP, with third parties who are not Affiliates of the Operator or of SONANGOL provided that the prices paid by the Operator are competitive with those generally available in the local or international market for similar works and services.

2.3.4 Expenditures on Services Provided by Affiliates of the Operator or of SONANGOL

- a. The services and prices of technical/administrative assistance provided by the Affiliates of the Operator or of SONANGOL for Petroleum Operations should take into account the following conditions for the purposes of their eligibility as expenses imputable to the Joint Account:
 - I. The categories of services provided by the Affiliates of the Operator or of SONANGOL for the running and carrying out of Petroleum Operations in the technical and administrative domain are as follows:

Exploration

- Study of the soil and setting up of drilling equipment
- Planning of Seismic Acquisition
- Processing and Interpretation of Seismic
- Drilling prognoses and operations
- Aerial, geological, geophysical and geochemical analysis and studies
- Rock and fluid studies

- Thermodynamic analyses
- Interpretation of well logs
- Reservoir analysis and studies
- Technical health, safety and environmental audits

Development

Studies of the sub surface for the purpose of determining the best manner of recovering hydrocarbons, 2D and 3D geophysics, production geology, modeling and simulation of deposits as an integral part of economic reservoir exploitation and conservation.

- Drilling prognoses and operations
- Architectural and engineering studies for the purpose of preparing a file on the preliminary project and the file on the basic engineering involved
- Project management
- Water and gas injection studies
- Communication studies
- Specific studies for the purpose of enhanced recovery and cost control
- Improvement of the methods and equipment of drilling and completion
- Safety procedures program

- Technical health, safety and environmental audits

Production

- Analysis of fluids produced
- Communication studies
- Optimization studies
- Improvement and control of equipment
- Lifting schedule studies
- Corrosion control program and studies
- Technical health, safety and environmental audits

Administration and Services

- Provision of data processing services
- Maintenance program and inventory control evaluation and studies
- Technical health, safety and environmental audits

II. This list is exhaustive and may only be altered with the approval of SONANGOL.

III. II. Such services in relation to each Fiscal Year shall be set out, duly identified under their own heading, as an integral part of the Work Programs and Budgets under the terms of an Operating Procedures Document to be signed between SONANGOL and the Operator, under the terms of Article 9 of the Agreement.

- IV. At the time of the presentation of the Work Programs and Budgets the Operator shall also submit for the approval of SONANGOL the calculation of the applicable tariffs for the budgeted year.
- V. These services, once budgeted, will be subject to specific Work Orders which shall be previously approved by SONANGOL at the request of the Operator, both by means of a global "Master Order" for each field or individually on a case by case basis.
- VI. These Work Orders shall contain an estimate of the number of hours necessary for the carrying out of the services, a reasonable description of the services desired and the agreed tariffs. Whenever the actual costs which have been incurred and invoiced are more than ten percent (10%) or ten thousand U.S. Dollars (\$10,000), which ever is greater, than those budgeted, the recovery of the difference will be submitted for SONANGOL's approval.
- VII. For each approved Work Order, a copy of the technical report of completion shall be annexed to the respective invoice and the technical report shall be filed by the Operator in Angola.
- VIII. The approval for individual services whose budgeted worth is equal to or more than thirty thousand US dollars (US \$30,000) will be definitive in respect of each of these services if SONANGOL does not put forward any objections within a period of twenty one (21) days commencing from the date of the reception of the request made by the Operator.
- IX. Approval for individual services whose budgeted worth is less than thirty thousand US dollars (US

\$30,000) is implicit, with, however, the Operator proceeding according to the description provided in number VII above.

- X. Unforeseen services which, for this reason, are not set out in the approved Work Programs and Budgets can only be ordered by the Operator after approval has been given by SONANGOL whatever their estimated cost.
- XI. In respect of all the services for technical and administrative assistance provided by the Affiliates of the Operator, not covered by this paragraph, an annual global price ("forfait") which will be calculated in the following manner is agreed:
- (i) During the Exploration Period as defined in Article 6 of the Agreement, two percent (2%) levied on the direct expenditure of the Exploration.
 - (ii) In subsequent Years, corresponding to the Production Period as defined in Article 7 of the Agreement, percent (%) of the direct expenditure of Development.
- XII. The services whose provision is remunerated by the annual global price fixed in number XI above include, but are not limited to, for example, purchases and traffic, human resources management, market consultancy, negotiations, revisions and supervision of contracts, banking, invoicing, credits, accounts, general services, methods, internal procedures and controls, technological advances resulting from scientific research in diverse fields, insurance and legal assistance, assistance to personalities, assistance to agents undergoing training and safety of operations.
- XIII. The amounts arising from the levying of the

percentage established in number XI above will be considered to be Administration and Services Expenditures which are recoverable under the terms of Article 11 of the Agreement.

XIV. Expenditure incurred on personnel and associated costs in respect of the personnel of the Affiliates of the Operator or of SONANGOL employed on the Petroleum Operations of the Agreement for short and long term periods are not included in the services of technical and administrative assistance set out in 2.3.4 and may be recovered under the terms set out in 2.3.1.

- b. Other services provided by the Affiliates of SONANGOL or Operator will be debited at prices which are not higher than the best prices charged by third parties for comparable services.

2.3.5 Expenditure on Materials

- a. With the exception of the provisions of the following paragraph (c) the material and equipment purchased by the Operator for use on the Petroleum Operations shall be costed at the invoice price less all commercial discounts and rebates, with the addition of insurance, freight and handling expenses between the point of supply and the point of delivery, customs duties, taxes, surcharges and other applicable levies on the imported merchandise.
- b. This amount shall not be greater than the prices generally prevailing on the open market for impartial non preferential transactions for material and equipment of the same quality available at the right time, with due consideration of freight and other similar costs.
- c. The materials and equipment necessary for the Petroleum Operations may also be acquired from SONANGOL and its Affiliates and/or any entity constituting CONTRACTOR GROUP and their Affiliates, under the following conditions:

- I. The material and new equipment, classified as category "A" will be costed at the vendor's lowest price or at the international price in force. This amount shall not be greater than the prices generally prevailing in normal "Good Faith" transactions on the open market.
 - II. Used material and equipment which are in good condition and which can be reused without the need for repair will be considered as category "B" and debited at seventy five per cent (75%) of the current price of the material and equipment set out in number I above.
 - III. Material and equipment which cannot be considered as category "B" but which:
 - i. after general repair may be usable for its original purpose as good second hand material and equipment.
 - ii. may be usable for its original purpose but for which its repair is not recommendable, will be classified as category "C" and debited at fifty per cent (50%) of the current price of material and equipment set out in number I above.
 - IV. An amount compatible with their use will be attributed to material and equipment which can not be classified under "B" and "C".
 - V. When the use of material and equipment is temporary and their application on the Petroleum Operations does not justify the reduction in price under the terms indicated in numbers II and III above, they will be debited on the basis of their utilization.
- d. Insofar as it is adequate for the purposes of the prudent, efficient and economic management of the Petroleum Operations, material and equipment for use on the Petroleum Operations will only be purchased or supplied on the basis of a

foreseeable and reasonable use and any excessive accumulation of stock should be avoided.

- e. In the case of material and equipment supplied by SONANGOL and its Affiliates and/or any entity constituting CONTRACTOR GROUP and their Affiliates, they will not guarantee such material and equipment for a period exceeding the guarantee of the supplier or manufacturer and in the case of defective material and equipment, any adjustments received by SONANGOL and its Affiliates and/or any entity constituting CONTRACTOR GROUP and their Affiliates either from suppliers or from manufacturers, will be credited to the Joint Account under the terms of the Agreement.

2.3.6 Expenditures on Rents, Taxes, Duties and Other Tax Obligations

The rents of the Development Areas paid under the terms of the Agreement, taxes, customs duties, levies, charges, surcharges and any other tax obligations and charges imposed by the State, in respect of the Petroleum Operations, paid directly or indirectly by the Operator, with the exception of the Petroleum Income Tax.

2.3.7 Expenditures on Insurance

- a. The premiums and insurance charges, after the deduction of any benefit or discount, contracted under the terms of applicable Angolan legislation.
- b. The expenditures incurred by compliance with insurance contracts, signed in contravention to the provisions of the applicable Angolan legislation will not be considered as recoverable costs.
- c. Only the part of the costs or losses suffered as a consequence of accident, or damage occurring during the Petroleum Operations not covered by the insurance policies signed under the terms of applicable Angolan legislation is recoverable.
- d. If the obligatory insurance established by applicable Angolan legislation is not taken out, all costs incurred by the Operator

for the payments of any losses, claims, damages or sentences, in addition to any expenditure incurred, including the provision of legal services, will not be considered as recoverable costs.

2.3.8 Expenditures Incurred on Legal Services

- a. Expenditures incurred as a result of litigation, necessary or appropriate legal and other similar services for the obtaining, improving, conservation and protection of the Contract Area or Petroleum Operations and the prosecution or defense of legal proceedings in respect of the Contract Area or Petroleum Operations or claims made by third parties as a result of the activities carried out under the terms of the Agreement, or amounts paid for the necessary and appropriate legal services for the protection of the joint interests of SONANGOL and the CONTRACTOR GROUP.
- b. When the legal services are provided in respect of such matters by full time attorneys or attorneys paid by the Operator and its Affiliates the respective costs will be included in the scope of the category of technical and administrative assistance set out in numbers XI to XIV of paragraph (a) of 2.3.4 above.
- c. Neither the costs incurred during the course of Arbitration under the terms of Article 42 of the Agreement nor any expenditure on legal services which are not connected with the Petroleum Operations or the Contract Area of the Agreement are recoverable.

2.3.9 Expenditures Incurred on the Training of angolan personnel

- a. Expenditures incurred by the Operator on the training of angolan personnel employed on the Petroleum Operations under the terms of the Agreement and the training programs required under the terms of Article 36 of the Agreement.
- b. Expenditures incurred by the Operator on training programs for SONANGOL's personnel under the terms of Article 36 of the Agreement.

2.3.10 General and Administrative Expenditures

General and administrative expenditures incurred by the Operator in Angola in respect of the maintenance of its main office, support installations for the Petroleum Operations and the places of residence of the personnel performing the Petroleum Operations in the Contract Area.

2.3.11 Expenditures Incurred in Social and Community Development Projects

Production Expenditures incurred by the CONTRACTOR GROUP in Angola in respect of social and community development projects pursuant to Article 21, paragraph 4 of the Agreement.

2.4 Costs which are recoverable only with the prior approval of SONANGOL.

- a. Donations.
- b. Expenditures in respect of social events promoted by the Operator.
- c. Expenditures incurred before the Agreement is signed.
- d. Promotional and advertising expenditures.
- e. Costs arising as a result of contracts for the supply of material and equipment and the provision of services signed by the Operator without the prior authorization of SONANGOL above the limits of authority delegated to the Operator in the Agreement.
- f. Costs arising from the implicit renewal of these contracts without the prior authorization of SONANGOL.
- g. Expenditures for demurrage of oil tankers.

2.5 Costs which are not recoverable under the terms of the Agreement.

- a. Expenditures as a result of gross negligence or willful misconduct carried out by the Operator, for which it is responsible under the terms of the Agreement.
- b. c. Commissions paid by the Operator to agents.
- c. Expenses for marketing or transportation of Crude Oil to a location beyond the Point of Delivery as set out in the Agreement.
- d. Expenditure on any guarantee which is provided under the terms of the Agreement.
- e. Indemnities, fines or penalties for failure to comply with contractually established obligations.
- f. Expenses incurred with the arbitration proceedings carried out under the terms of the Agreement.
- g. Expenses incurred on the independent expert in accordance with Article 2 of Annex C of the Concession Decree-Law.
- h. The Petroleum Income Tax.
- i. Fines and penalties imposed by the courts
- j. Gifts or rebates provided to suppliers.
- k. Gifts to authorities or high ranking angolan officers.
- l. Expenditure on interest for loans, including charges on capital during construction and charges on suppliers credit.
- m. Expenditures on legal services incurred by Operator except for those specifically set out in 2.3.8.
- n. The costs and damages incurred as the result of the failure to

sign the insurance contracts established under the terms of applicable Angolan legislation.

- o. The levies and taxes on salaries and wages of workers employed by Operator, under the terms of 2.3.1(g).

2.6 Credits to the Joint Account under the terms of the Agreement.

- a. Gross revenues from the payment of any insurance claim when the original cost of the respective premium is considered to be a recoverable cost in accordance with this Article.
- b. Any adjustments made by manufacturers, suppliers and/or their agents, received by SONANGOL and its Affiliates and/or any of the entities constituting CONTRACTOR GROUP and their Affiliates in respect of defective material and equipment whose cost had been previously considered as a recoverable cost under the terms of this Article.
- c. The revenues received from third parties, with the prior authorization of SONANGOL, for the use of goods and assets acquired by the Operator for sole use on the Operations of the Contract Area.
- d. The revenues from general administration activities and support to Exploration, Development and Production carried out by the Operator for the benefit of third parties with the prior approval of SONANGOL.
- e. The revenues from technical services (whose costs have been charged to the Joint Account) provided to third parties, including Affiliates of the Operator with the prior approval of SONANGOL.
- f. Rents, reimbursements or other credits received by the CONTRACTOR GROUP, as a result of any expenditure made under the terms of this Article but excluding those arising as a result of any favorable award to the CONTRACTOR GROUP in respect of the arbitration proceedings set out in 2.3.8.

Article 3
Expenditure of Non Operators

Non-operator companies of which the CONTRACTOR GROUP is constituted may only recover general and administrative expenditures concerning the installation and operation of their offices in Angola which were made with the prior approval of SONANGOL .

Article 4
**Accounting Procedure for Expenditure
for the Purpose of Recovery of Costs**

- 4.1 For the purpose of the recovery of costs under the terms of Article 11 of the Agreement, the accounting procedure for the expenditure incurred with the carrying out of the Petroleum Operations in the Area of the Agreement in accordance with the principles established in Article 2 of this Annex, will be made as set out in the following points.
- 4.2 Exploration Expenditures will be registered in the accounts as fixed assets and will not therefore be amortizable but will be considered as charges under the terms of Article 11 of the Agreement.
- 4.3 Production Expenditures shall include a provision for costs of abandonment, under the following terms:
- a. Ninety (90) days before the beginning of the Year for which the Operator forecasts that the cumulative production of each of the Development Areas will lead to a situation in which the recoverable reserves of these Development Areas at the end of the Year in question represent less than:
- 50% of the declared recoverable reserves under 50 million Barrels

or

30% of declared recoverable reserves above 50 million Barrels but not more than 100 million Barrels

or

25% of declared recoverable reserves above 100 million Barrels

the Operator shall provide SONANGOL with a technical study for the alternatives for abandonment and the calculation of its best estimate of the costs of abandonment in respect of each Development Area for approval purposes.

- b. This calculation should be up to date and inflated by reference to the estimated data for the plugging and abandonment of Wells and the effective removal of the production infrastructures in each of the Development Areas.
- c. After the approval of SONANGOL and beginning in the Year referred to above, the Operator will calculate for each Quarter the costs of abandonment recoverable in such Quarter using the unit of production method in accordance with the following formula:

$$\frac{\text{Quarterly production (MMBLS)}}{\text{Declared recoverable reserves}} \times \text{Total approved costs of abandonment} = \text{Cost of abandonment}$$

minus the Cumulative Production recoverable on up to the beginning of the Quarter a Quarterly basis (MMBLS) minus the amounts paid pursuant to paragraph e below

- d. The amount calculated under the terms of paragraph c above will be imputed as a Production Expenditure of the respective Development Area, with this imputation not constituting a direct expenditure for the purpose of imputation of the Administration and Services Expenditures in accordance with the provisions of 4.8 below.

- e. An amount which is equivalent to the amount calculated in accordance with paragraph c above shall be paid by the CONTRACTOR GROUP to SONANGOL no later than thirty (30) days after the end of the Quarter in question.
- 4.4 Development Expenditures will be registered in the accounts as follows:
- a. Development Expenditures will be registered in the accounts as fixed assets and the amounts will be increased by the investment premium set out in Article 11 of the Agreement.
 - b. They will be amortizable at a rate of twenty-five percent (25%) per Year in equal yearly installments beginning in the Year in which such expenditures were made or beginning in the Year in which Crude Oil is exported from the Development Area whichever occurs later.
 - c. In the case of Development Expenditures in respect of specific works or projects whose construction and/or execution takes more than one (1) year (works in progress), the amortization of the expenditures in question will only commence during the Year of completion and its classification as a permanent fixed asset will then occur.
 - d. A full amortization of twenty five percent (25%) will be granted in the Year in which the amortization begins, calculated in accordance with the principles set out in the above paragraphs.
- 4.5 Joint Development Expenditures for more than one Development Area, after the respective imputation of Administration and Services expenditure under the terms set out in 4.8 and following subparagraphs will be divided up among the respective Development Areas based on the proportional annual production of each of the Development Areas.
- 4.6 The joint Production Expenditures for more than one Development Area, after the respective imputation of the Administrative and Services Expenditures under the terms set out in 4.8 and following

subparagraphs, will be divided up among the referred to Development Areas based on the proportional annual production of each of the Development Areas.

4.7 The Administration and Services Expenditures will be registered in the accounts as follows:

- a. The part of the Administration and Services expenditure in respect of the construction or the acquisition of installations or any physical assets for generic logistical and administrative support for the activities of Exploration, Development and Production which on account of their specific nature, high value or slow period of extinction are susceptible to capitalization, will be registered in the accounts as fixed assets.
- b. These expenditures will be amortized at a rate of twenty five per cent (25%) per Year, in equal annual installments, beginning in the Year in which they were made or the Year in which the export of Crude Oil from the Area of the Agreement takes place, whichever occurs later.
- c. In the case of expenditures in respect of specific works or projects whose construction and/or execution takes more than one (1) year (works in progress), the amortization of such expenditures will only commence in the Year of completion and its classification as a permanent fixed asset will then occur.
- d. A full amortization of twenty five percent (25%) will be made in the Year in which amortization commences, calculated in accordance with the principles set out in the above paragraphs.
- e. Administration and Services Expenditures which cannot be registered in the accounts as fixed assets on the basis of their value, intangibility or rapid extinction by way of consumption will be debited as yearly charges under the terms of Article 11 of the Agreement.

4.8 For the purposes of the recovery of costs under the terms of Article 11 of the Agreement, Administration and Services Expenditures will be imputed each Year to Exploration, Development and Production Expenditures in the following manner:

- a. The amount of annual depreciation of the Administration and Services Expenditures registered in the accounts as fixed assets in accordance with 4.7 a. above, will be registered in the Exploration, Development and Production Expenditures account in proportion to the direct annual expenditures by each of these activities.
- b. The amount of the Administration and Services Expenditures debited as yearly charges in accordance with 4.7 e. above, will be imputed to Exploration, Development and Production Expenditures in accordance with the method set out in paragraph a. of this point.
- c. The imputation of the Administration and Services Expenditures made under the terms of the above paragraphs will be considered an indirect cost of the Exploration, Development and Production Expenditure activities.
- d. For the purposes of recovery of the Development Expenditures, the imputation of the amortization of the Administration and Services Expenditure registered in the accounts as fixed assets (indirect Development costs) will be added to direct Development Expenditures and the total will then be multiplied under the terms of number 4 of Article 11 of the Agreement.

4.9 The materials acquired by the Operator for the execution of the Work Program and Budget in each Year, which are not immediately used on the Petroleum Operations will firstly be registered in the accounts under the heading of stock as established by the SIOP and will only be imputed to the activities of Exploration, Development and Production in proportion to their effective use or consumption for the benefit of the Petroleum Operations of the Agreement.

4.10 The non used and/or consumed materials at the end of each Year

will be registered under the heading of stock and will not constitute recoverable costs insofar as their eligibility as such depends on their effective use or consumption, imputed and justified to the activities established in the Agreement as centers for cost recovery.

4.11 The materials classified by the Operator as strategic spare parts, constituting a security stock for guaranteeing the satisfactory carrying out of the Petroleum Operations in the Area of the Agreement will be imputed to the activities of the Agreement in accordance with the following conditions:

- a. The Operator shall submit to SONANGOL a list of the materials classified as strategic spare parts for the purposes of the approval of the respective classification.
- b. Such materials will be registered in the accounts at the time of their acquisition under the heading of stock as set out in 4.9 above under their own subheading.
- c. Their imputation to the centers of costs recovery established in the Agreement will be made proportionally to their specific use for replacement purposes or after four (4) Years beginning from the Year of acquisition, whichever occurs earlier.
- d. In the case of the imputation referred to in paragraph c. above being made by reference to the condition of the four (4) Years elapsed, the imputation, in respect of the non used materials on the Petroleum Operations will only be made with the prior and timely approval of SONANGOL.

4.12 Insofar as the limit of the amount of Crude Oil for the recovery of costs for a determined Year, is insufficient for the recovery of costs which are recoverable for the Year in question in accordance with Article 11 of the Agreement, the part of the Production and Development Expenditures which are not recovered for the Year in question will be carried over to subsequent Years until they are totally recovered under the terms of Article 11 of the Agreement.

- 4.13 Insofar as it is found that the quantity of Crude Oil for recovery of the Exploration Expenditures under the terms of Article 11 of the Agreement is insufficient, the non recovered part of these Exploration Expenditures will be carried over to the, following Years until they are fully recovered.
- 4.14 In the case of the continued lack of sufficiency of Crude Oil for the recovery of the Exploration Expenditures incurred in the Area of the Agreement, these expenses will continue to be non recovered.
- 4.15 The recovery of the Expenditures referred to in this Article is subject to the regulations on the recovery of costs and respective limits established in Article 11 of the Agreement.

Article 5

Registration and Evaluation of Assets

- 5.1 The CONTRACTOR GROUP shall keep detailed records of assets in use on the Petroleum Operations, in accordance with standard practice in the activity of Exploration and Production in the international oil industry and will provide SONANGOL with a full and detailed annual report on these assets under the terms of the SIOP.
- 5.2 At reasonable intervals of time and at least once a year a full inventory will be made by the CONTRACTOR GROUP, under the terms of the Agreement. The CONTRACTOR GROUP will notify SONANGOL with an advance notice of thirty (30) days of its intention to carry out the inventory in such a way as for SONANGOL to be able to exercise its right to be represented at the time of the carrying out of the inventory.
- 5.3 The inventory procedures established by the CONTRACTOR GROUP shall be notified to SONANGOL at the same time at which the intention to carry out the inventories is notified in such a way as for any recommendations which SONANGOL considers should be necessarily taken into account in these procedures in connection with the carrying out of inventories on assets belonging to it to be so done.

- 5.4 Special inventories may be carried out when there is any transfer, under the terms of the Agreement, at the request of the assignor, provided that the costs of carrying out the inventory are borne by him.

Article 6 Reports

- 6.1 The CONTRACTOR GROUP shall prepare and submit to SONANGOL the financial, statistical, technical and personnel reports according to the procedures set out in the SIOP.

Article 7 Revision of Accounting and Financial Procedures

- 7.1 The provisions set out in this Annex may be altered by mutual agreement between SONANGOL and the CONTRACTOR GROUP, provided that they do not contravene the provisions of the SIOP. Alterations will be made in writing and shall mention the date from which they come into effect.

Article 8 Contractual Conflicts

- 8.1 In the case of any conflict between the provisions set out in this Annex and the provisions set out in the Agreement the provisions of the Agreement will prevail.

Annex D
Corporate Guarantee

The present Annex is an integral part of the Production Sharing Agreement (the "Agreement") dated _____, 199__ signed between SONANGOL as one of the Parties and by _____, _____, and _____, as the other Party, as referred to in Article 2 of the Agreement.

To: SOCIEDADE NACIONAL DE COMBUSTIVEIS DE ANGOLA

("PARENT COMPANY") represented by _____ hereby declares that _____ ("LOCAL COMPANY") is (wholly owned by) (an affiliate of) the PARENT COMPANY.

PARENT COMPANY is fully aware of the content of the Production Sharing Agreement for Block _____ (the "Agreement"), executed by SOCIEDADE NACIONAL DE COMBUSTIVEIS DE ANGOLA U.E.E. ("SONANGOL") and LOCAL COMPANY and others and of the Concession Decree-Law of the Council of Ministers which approved the Agreement, the provisions of which it acknowledges and accepts.

PARENT COMPANY unconditionally guarantees to SONANGOL the full and prompt fulfillment of the obligations assumed under the Agreement by LOCAL COMPANY, and any of its affiliated successors or affiliated assignees, waiving all benefit or right which may under applicable Law, in any manner, limit, restrict or annul its obligation under this Guarantee. This Guarantee will not be reduced or in any manner affected by any delay or failure of SONANGOL to enforce its rights, nor by bankruptcy or dissolution of LOCAL COMPANY.

This Guarantee constitutes an integral part of the Agreement executed by SONANGOL and LOCAL COMPANY, and others, as stated and referred to in Article 20 of the said Agreement.

If LOCAL COMPANY should fail in fulfilling its obligations under the Agreement, and if SONANGOL shall have communicated in writing to LOCAL COMPANY such failure and the latter has not remedied or taken

the necessary steps to remedy such failures or deficiencies within a reasonable period of time taking into consideration the nature of such failures or deficiencies, then SONANGOL may demand of PARENT COMPANY the fulfillment of such obligations in default. Demand on PARENT COMPANY shall be made by delivering a letter to PARENT COMPANY which includes a description of the unfulfilled obligations of the LOCAL COMPANY and a statement of the amount to be paid or the actions to be taken by PARENT COMPANY as a consequence of such default.

Any disputes arising under this Guarantee shall be settled in accordance with the arbitration provisions contained in the Agreement.

PARENT COMPANY

By: _____

Title: _____

Date: _____

AGREED:

SOCIEDADE NACIONAL DE
COMBUSTIVEIS DE ANGOLA

By: _____

Titles: _____

Date: _____

Annex E
Financial Guarantee

The present Annex is an integral part of the Production Sharing Agreement (the "Agreement") dated _____, 199 signed between SONANGOL as one of the Parties and by _____, _____, and _____, as the other Party, as referred to in Article 2 of the Agreement.

SONANGOL
SOCIEDADE NACIONAL DE
COMBUSTIVEIS DE ANGOLA
Rua 1° Congresso do M.P.L.A. 8
No. 8-4° Andar
Luanda, Angola

We the undersigned _____
("Bank") whose registered office is located at _____
_____ represented by _____
_____ hereby issue our
irrevocable standby Letter of Credit no. _____ as follows:

We hereby authorize you to draw on us, for the account of _____
_____ with head office in _____
("Company") up to an aggregate amount of US\$ _____,000,000 ("million US dollars) subject to the conditions herein stipulated.

1. Any draft issued pursuant to this Letter of Credit shall be accepted to the extent that Company has failed to comply with its obligations during the Initial Exploration Phase as provided in Article 15, paragraphs 1, 2, and/or 6 of the Production Sharing Agreement for Block dated _____ between yourselves and Company ("Production Sharing Agreement"), which Initial Exploration Phase expires on _____ (unless extended) as provided in Article 6, paragraph 1 of the Production Sharing Agreement.
2. Any drawing under this Letter of Credit must be made prior to _____ by signed drafts drawn on _____

branch and must be accompanied by SONANGOL's written statement certifying that:

- (A) Company has failed to perform its obligations referred to above for which SONANGOL has not previously drawn under this Letter of Credit;
 - (B) the amount of the claim represents the obligation which CONTRACTOR GROUP has not performed as specified in Article 15 of the Production Sharing Agreement and the Side Letter Agreement of even date; and
 - (C) Company has failed to pay the amount of the claim to SONANGOL.
3. Any drawing under this Letter of Credit must also be accompanied by a copy of a letter from SONANGOL to Company including:
- (A) a description of the unfulfilled obligations and the amount to be paid by Company as a consequence of such default;
 - (B) a statement of SONANGOL's intention to draw on the Letter of Credit once 30 days have elapsed from the date of receipt of the letter; and
 - (C) acknowledgment by Company for receipt of the notification.
4. This Letter of Credit shall be reduced as provided in Article 20.4 of the Production Sharing Agreement. Each such reduction is to be evidenced by written statement to be submitted by Company to the Bank which statement shall indicate that SONANGOL has approved the amount of the reduction being requested.
5. This Letter of Credit shall become effective on _____ and shall expire on _____ or at such earlier time as the total of the authorized reductions equal the original amount guaranteed hereunder or the obligations referred to above have been fulfilled, whichever first occurs.
6. All documents will be submitted to _____ Branch which will make the corresponding payments when and if the terms and conditions stipulated in this Letter of Credit have been totally satisfied.
7. This standby Letter of Credit is subject to the Uniform Customs and Practice for documentary Credits, International Chamber of

Commerce Publication N° 500. This standby Letter of Credit shall be governed and interpreted in accordance with the French law and shall be subject to the exclusive jurisdiction of the courts of Paris.

We hereby engage with SONANGOL that all drafts drawn under and in compliance with the terms of this standby Letter of Credit will be duly honored if drawn and presented for payment on or before the expiration date as provided in paragraph 5 of this Letter of Credit.

_____ Bank