

ANGOLA

1979 Model Petroleum Exploration And Production Sharing
Agreement For Offshore Areas With Sociedade Nacional
De Combustiveis De Angola (SONANGOL)

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PARTIES TO THE AGREEMENT

This Agreement is made and entered into by and between Republica Popular de Angola (hereinafter variously referred to as 'ANGOLA' or as the 'GOVERNMENT'), SOCIEDADE NACIONAL DE COMBUSTIVEIS DE ANGOLA, a company organized and existing under the laws of ANGOLA (hereinafter referred to as 'SONANGOL'), and a company organized and existing under the laws of..... (hereinafter referred to as 'CONTRACTOR').

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WHEREAS, all deposits of liquid and gaseous hydrocarbons in the subsoil and the continental shelf included in the national territory and to the extent of the limits of the marine jurisdiction of Angola, or in any territory specified in international conventions over which national sovereignty is exercised are the property of the people of Angola under the form of state ownership; and

WHEREAS, the Law Regulating Petroleum Activities, Law No. 13/78 of August 26, 1978, establishes that the rights to the exploration and production of liquid and gaseous hydrocarbons in Angola shall be granted exclusively to SONANGOL; and

WHEREAS, SONANGOL has applied for an exclusive concession for the exploration, development and production of petroleum in and throughout the area referred to in Article II, and described in Annex A and shown approximately in Annex B which are attached hereto and made part hereof, which area is hereinafter referred to as the 'Contract Area'; and

WHEREAS, the GOVERNMENT desires hereby to grant said requested concession in accordance with said Law Regulating Petroleum Activities; and

WHEREAS, CONTRACTOR agrees to undertake its obligations provided hereinafter with respect to the exploration, development and production of petroleum in said Contract Area;

Now, therefore, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

1. 'Exploration' shall include but not be limited to, such geological, geophysical, aerial and other surveys as may be contained in the approved Work Programs and Budgets, and the drilling of such shot holes, core holes, stratigraphic tests, holes for the discovery of petroleum and other related holes and wells, and the purchase or acquisition of such supplies, materials and equipment therefor, all as may be contained in the approved Work Programs and Budgets.
2. 'Development' shall include, but not be limited to, all the activities pursuant to approved Work Programs and Budgets under this Agreement; with respect to:
 - a. the drilling of Appraisal Wells to evaluate exploratory discoveries and Development Wells to produce and recover petroleum, although Appraisal Wells which do not lead to conversion of a Commercial Well to a Commercial Discovery shall be deemed part of exploration costs.
 - b. design, construction, installation, connection and initial testing of equipment, lines, systems, facilities, plants and related activities necessary to produce and operate said wells, to take, save, treat, handle, store, transport and deliver petroleum for export, and to undertake repressuring, recycling and other secondary recovery projects.
3. 'Operations' shall include, but not be limited to, the running, servicing, maintenance and repair of completed wells and the equipment, pipelines, systems, facilities and plants completed during Development as defined in Article I, paragraph 2 preceding. It shall also include all activities related to planning, scheduling, controlling, measuring, testing and carrying out the flow, gathering,

treating, storing and dispatching of oil and gas from the underground petroleum reservoirs to the designated exporting or lifting location.

4. 'Administration and Services' shall include, but not be limited to, all activities in general management and common support of Exploration, Development and Operations such as supervision, direction and related staff functions required for the overall management of activities under the Agreement; housing and feeding of employees; transportation; warehousing; safety, emergency and medical programs; community affairs; and accounting and record keeping.
5. 'Petroleum' means liquid crude oil of various densities, asphalt, gas, casinghead gas and all other hydrocarbon substances that may be found in, and produced, or otherwise obtained and saved from the Contract Area, and all substances that may be extracted therefrom.
6. 'Liquid Crude Oil' or 'Crude Oil' or 'Oil' means any hydrocarbon produced from the Contract Area which is in a liquid state at the wellhead or lease separator or which is extracted from the gas or casinghead gas in a plant. Such term includes distillates and condensate.
7. 'Gas' is natural gas both associated and non-associated, and all of its constituent elements produced from any well in the Contract Area and all non-hydrocarbon substances therein. Said term shall include residue gas.
8. A 'barrel' shall consist of forty-two (42) United States gallons, liquid measure, corrected to a temperature of sixty degrees (60°) Fahrenheit.
9. 'Commercial Well' means the first well on any geological feature which after testing in accordance with sound and accepted industry production practices, and verified by SONANGOL, is found by engineering analysis of test results to be capable of producing at not less than the following average rates of oil per day:

<u>Water Depth where Well is Drilled</u>	<u>Barrels of Oil Per Day</u>
less than 50 meters	1,000
50 to 100 meters	1,500
over 100 to 150 meters	2,000
over 150 to 200 meters	2,500
over 200 meters	5,000

CONTRACTOR has the option to declare a well a 'Commercial Well' at producing rates below those set forth in the above schedule.

10. 'Effective Date' means the date on which this Agreement or the law authorizing its execution is published in the Diario da Republica or the text of this Agreement is signed by the GOVERNMENT, SONANGOL and CONTRACTOR, whichever is later.
11. 'Year' or 'Calendar Year' means a period of twelve (12) consecutive months according to the Gregorian Calendar.
12. 'Tax Year' means any period of twelve (12) consecutive months according to the Gregorian Calendar for which tax returns or reports are required according to any applicable income, profits or other tax law or regulation of Angola.
13. '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.
14. An 'Affiliated Company' means a company:
 - a. Whose share capital, conferring majority of votes at stockholders' meetings of such company, is owned directly or indirectly by a party hereto;

- b. Which is the owner directly or indirectly of share capital conferring a majority of votes at stockholders' meetings of a party hereto; or
- c. Whose share capital conferring a majority of votes at stockholders' meetings of such company and the share capital conferring a majority of votes at stockholders' meetings of a party hereto are owned directly or indirectly by the same company.

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ARTICLE II

ANNEXES TO THE AGREEMENT

Annex 'A' is a description of the Contract Area covered and affected by this Agreement. In the event of inconsistency between Annex A and Annex B, the description in Annex A shall prevail.

Annex 'B' is a map on the scale 1 : indicating approximately the Contract Area covered and affected by this Agreement and described in Annex 'A'. This Contract Area is identical to exploration Block shown in the map of Annex 'B'.

Annex 'C' is the form of the Letter of Guaranty to be issued by, and to be submitted by CONTRACTOR at the time of signature of this Agreement for the sum of U.S. Dollars, guaranteeing the execution of CONTRACTOR's minimum exploration obligations hereunder for the first three (3) year exploration period. Such guaranty shall remain effective for six (6) months after the end of the said three (3) year period except as it may be released prior to that time in accordance with the terms thereof.

Annex 'D' is the Accounting and Financial Procedures.

Annexes 'A', 'B', 'C' and 'D' to this Agreement are hereby made part hereof.

ARTICLE III

GRANT OF RIGHTS AND TERM

1. The GOVERNMENT hereby grants SONANGOL, subject to the terms set out in this Agreement:
 - a. The exclusive right within the Contract Area to explore, search for, drill for and produce petroleum, subject to the provisions of Articles III, IV, V, VIII and IX hereof; and
 - b. The right to store, transport, sell for export and export or otherwise deal with and dispose of all crude oil, subject to Articles V, IX, XI and XX hereof.
 - c. The above rights include all functions normally associated with the above operations.
2. The GOVERNMENT hereby authorizes
(CONTRACTOR) to assist SONANGOL to exercise the above rights in accordance with the terms of this Agreement.
3. The GOVERNMENT reserves the right to search for and obtain any substances other than those exclusively granted by this Agreement to SONANGOL within the Contract Area, excepting only those areas occupied by wells or other necessary installation of CONTRACTOR, provided always that the right thus preserved by the GOVERNMENT shall be exercised in such a way as not to endanger or interfere with the petroleum operations hereunder.
4. SONANGOL hereby appoints CONTRACTOR to conduct the operation provided in the Agreement during the following periods:
 - a. An initial exploration period of three (3) years shall start from the Effective Date. Two (2) successive extensions to the

initial exploration period of one (1) year each shall be granted to CONTRACTOR at its option upon ninety (90) days prior written notice to SONANGOL and subject only to CONTRACTOR having fulfilled its obligations hereunder for the preceding period.

- b. The Agreement shall be terminated if no Commercial Discovery has been made in the Contract Area by the end of the fifth (5th) year of the exploration period. However, such period may be extended for six (6) months for the completion of drilling and testing of any well actually being drilled or tested at the end of the fifth (5th) year. Election by SONANGOL to have operations conducted for its sole account under Article X hereof shall not extend the exploration period nor affect the termination of this Agreement.
- c. Following Commercial Discovery, as defined in Article VIII hereof, the extent of the whole area capable of production from the formation or formations identified shall be agreed upon by SONANGOL and CONTRACTOR. All of the agreed area shall then be converted automatically into a Development Area with effect from the Date of Commercial Discovery. Without prejudice to Article VIII hereof, there shall be a Development and Production Period for each Development Area which shall be twenty (20) years from the date of the first Commercial Discovery in said area. In the event of Commercial Discoveries in formations which underlie and overlie each other, such formations shall constitute a single Development Area, and the area shall be defined or redefined as necessary to incorporate all underlying and overlying formations.

ARTICLE IV

WORK OBLIGATIONS DURING EXPLORATION PERIODS

1. CONTRACTOR shall spend the following minimum amounts and drill to objectives the following minimum number of exploratory wells according to the following schedule of years commencing from the Effective Date of this Agreement:

<u>Year</u>	<u>Exploration Expense (\$ Million)</u>	<u>Number of Exploratory Wells</u>
1		
2		
3		
4		
5		

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2. If expenditure or wells drilled in any year exceed the minimum amounts set forth in paragraph 1 above, the excesses shall go towards satisfaction of the minimum obligations in the succeeding year or years.
3. All exploratory wells in section 1. above shall during the relevant specified Contract Year test all productive horizons agreed to by the Parties to this Agreement unless diligent test efforts consistent with sound industry practice indicate it is technically impossible to reach and test all such horizons.
4. In the event that in any year CONTRACTOR does not satisfy the minimum work obligations in paragraphs 1 and 2 above, CONTRACTOR shall be deemed to have voluntarily terminated activities and withdrawn from all of the Contract Area not already converted to a Development Area(s) as provided for in Article VII.

5. Minimum expenditure obligations shall be secured by a performance bond or other financial guarantee acceptable to SONANGOL and described in Annex C. Such guarantee shall be given by CONTRACTOR not later than three (3) months after the beginning of each exploration period and shall cover separately the initial period of three (3) years and each subsequent period of one (1) year. The amount of each such guarantee shall be reduced every three (3) months so that the outstanding amount shall remain equal to the unexpended portion of CONTRACTOR'S minimum obligation. If during any year of the initial three (3) year exploration period CONTRACTOR should relinquish, as provided in Article VII, or be deemed to have relinquished, as provided in paragraph 4 above, all of the Contract Area not converted to a Development Area(s), CONTRACTOR shall forfeit the full amount of the initial three (3) year performance guarantee less any exploration expenditures already made prior to the date of relinquishment or deemed relinquishment.
6. During the drilling of wells under this Agreement, CONTRACTOR shall keep SONANGOL informed of the progress of each well, and its proposals for testing, and shall at CONTRACTOR'S sole expense test any additional zones within the agreed well depth at SONANGOL'S request. These expenses shall be credited towards fulfilling the minimum work programs.

ARTICLE V

CONDUCT OF OPERATIONS

1.shall be the OPERATOR and responsible for the conduct of the operations under this Agreement.
2. SONANGOL's written approval shall be necessary prior to any change of OPERATOR.
3. In the event CONTRACTOR is more than one company, any agreement among the CONTRACTOR companies regarding or regulating the OPERATOR's conduct in relation to this Agreement shall be made available to SONANGOL upon execution thereof.

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ARTICLE VI

WORK PROGRAMS

1. Within one (1) month of the Effective Date of this Agreement and then at least three (3) months prior to the beginning of each subsequent Contract year or at such other times as may mutually be agreed to by SONANGOL and CONTRACTOR, CONTRACTOR shall prepare an Exploration Work Program (in reasonable detail) and Budget for the Contract Area setting forth the exploration operations which CONTRACTOR proposes to carry out during the first Contract Year and then during the ensuing Contract Year respectively. During the Exploration Period such Work Program and Budget shall be at least sufficient to satisfy CONTRACTOR'S minimum expenditure and exploration activity obligations.
2. The Exploration Work Program and Budget shall be reviewed by a joint committee to be established by SONANGOL and CONTRACTOR after the Effective Date of this Agreement. This committee, hereinafter referred to as the 'Exploration Advisory Committee', shall consist of six (6) members, three (3) of whom shall be appointed by SONANGOL and three (3) by CONTRACTOR. The Chairman of the Exploration Advisory Committee shall be designated by SONANGOL from among the members appointed by it. The Exploration Advisory Committee shall review and give such advice as it deems appropriate with respect to the proposed Work Program and Budget. Following review by the Exploration Advisory Committee, CONTRACTOR shall make such revisions as CONTRACTOR deems appropriate and submit the Exploration Work Program and Budget to SONANGOL for its information.
3. CONTRACTOR shall advance all necessary funds for all materials, equipment, supplies, personnel, administration and operations pursuant to the Exploration Work Program and Budget and SONANGOL shall not be responsible to bear or repay any of the aforesaid costs.

4. CONTRACTOR, prior to declaration of a Commercial Discovery, shall be responsible for the preparation and performance of the Exploration Work Program which shall be implemented in a workman-like manner and be consistent with good industry practices. Following the first Commercial Discovery, CONTRACTOR shall prepare the Exploration, Development and Operations Work Program as provided for in Article IX.
5. Except as is appropriate for the processing of data and laboratory studies thereon in specialized centers outside Angola, all geological and geophysical studies as well as any other studies related to the performance of this Agreement, shall be made in Angola.
6. CONTRACTOR shall entrust the management of exploration operations in Angola to its technically competent General Manager and Assistant Manager. The names of such Manager and Assistant Manager shall, upon appointment, forthwith be given to the Angolan Minister of Petroleum and to SONANGOL. The Manager and, in his absence, the Assistant Manager, shall be entrusted by CONTRACTOR with sufficient powers to carry out immediately and comply with all lawful written directions given to them by the GOVERNMENT or its representative under the terms of this Agreement or any lawful regulations issued or hereafter to be issued which are applicable hereunder.

ARTICLE VII

MANDATORY AND VOLUNTARY TERMINATIONS

A MANDATORY

1. At the end of the fifth (5th) year after the Effective Date hereof, CONTRACTOR shall terminate its activities in all areas within the Contract Area which are not then part of a Development Area(s); and this Agreement shall no longer have any application to any portion of said areas not then part of a Development Area(s).

B. VOLUNTARY

1. CONTRACTOR may at any time during any period elect to terminate activities and withdraw from all or any part of the Contract Area provided that any such termination and withdrawal shall not reduce CONTRACTOR'S expenditure and exploration activity obligations under Article IV.
2. In the case of termination and withdrawal provided in paragraph 1 above, CONTRACTOR shall advise SONANGOL in advance of the date and area of said termination and withdrawal. For the purpose of such terminations and withdrawals, CONTRACTOR and SONANGOL shall consult with each other regarding the shape and size of said areas in order to provide, so far as reasonably possible, that such areas will be of sufficient size and convenient shape to enable petroleum operations to be conducted thereon.

ARTICLE VIII

COMMERCIAL DISCOVERY

1. After drilling of a Commercial Well, CONTRACTOR shall undertake the appraisal of the discovery by drilling one or more additional wells, hereafter referred to as 'Appraisal Wells' to determine whether such discovery can be classified as a 'Commercial Discovery'.
2. Not later than one (1) month after the completion of the second Appraisal Well, or nine (9) months after the establishment of the Commercial Well, whichever is the earlier, CONTRACTOR shall give written notice to SONANGOL whether the discovery is considered commercial. If CONTRACTOR declares it a Commercial Discovery CONTRACTOR shall immediately proceed to develop the discovery in accordance with the Angolan Law Regulating Petroleum Activities. The date of Commercial Discovery shall be the date on which CONTRACTOR declared the existence of a Commercial Discovery.
3. If regular oil shipments from a Development Area do not commence within three (3) years from the date of Commercial Discovery, this Development Area shall automatically terminate and the rights and obligations in the area shall be considered voluntarily terminated under the terms of Article VII.
4. If following the discovery of a Commercial Well, the subsequent Appraisal Well, or Wells are completed as producing wells they shall be treated as part of the development costs for the purposes of determining cost recovery provisions, and shall not count towards the work obligations defined in Article IV. The Commercial Well, if completed as a producing well, shall also be treated as part of the development costs for the purposes of determining cost recovery provisions and shall count towards the work obligations in Article IV.

There shall be no more than one Commercial Well in each Development Area that counts towards such work obligation; and it shall be the first Commercial Well in that Development Area.

5. A Commercial Well or Appraisal Well(s) not completed as a producing well(s) shall be treated as exploration costs for the purposes of determining recoverable costs. The Commercial Well shall count towards the exploratory well obligations in Article IV, but the Appraisal Well(s) shall not count towards said exploratory well obligations.
6. CONTRACTOR has the right to declare a Commercial Discovery without first having drilled a Commercial Well or Wells.

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ARTICLE IX

OPERATIONS AFTER COMMERCIAL DISCOVERY

1. On Commercial Discovery, SONANGOL and CONTRACTOR shall form an Operating Committee within thirty (30) days.
2. The purpose and objective of this Operating Committee is to act as the agency through which SONANGOL and CONTRACTOR oversee and supervise the Development and Production following a Commercial Discovery in the Agreement's Contract Area.
3. The Operating Committee shall also be the agency to oversee and supervise exploration in the Contract Area after the date of a Commercial Discovery, pursuant to the approved Work Program and in accordance with the Agreement.
4. Ninety (90) days after the date of a Commercial Discovery, CONTRACTOR shall prepare an Exploration, Development and Operations Work Program and Budget for the remainder of the year in which the Commercial Discovery is made, and not later than the fifteenth (15th) of October of said year (or such other date as may be agreed upon); and the fifteenth (15th) of October of each year thereafter, shall prepare an annual Production Schedule, Work Program and Cash, Expense, and Capital Budgets for the succeeding January-December period. The Production Schedule, Work Program and Budgets shall be formally approved in writing by the Operating Committee and submitted to SONANGOL and CONTRACTOR.
5. The Operating Committee shall also oversee and supervise the accounting of costs, expenses and expenditures and maintenance of operating records for the above operations under terms of the Agreement and Annex D thereof.

6. The Operating Committee shall also approve the regulations covering the terms and conditions of employment of personnel employed directly by CONTRACTOR and not assigned thereto by CONTRACTOR and SONANGOL.
7. A further purpose and objective of the Operating Committee shall be to provide through the conduct of its operations and the activities of its members the means for consultation between SONANGOL and CONTRACTOR on all matters affecting activities under the Agreement.
8. The Operating Committee shall not engage in any business or activity beyond the performance of the above duties.
9. The Operating Committee shall be no more than an agent for SONANGOL and CONTRACTOR. Whenever this Charter indicates that the Operating Committee shall decide, take action or make a proposal, or perform a similar act, it is understood that such decision or judgment is the result of the decision or judgment of CONTRACTOR, or SONANGOL and CONTRACTOR, as may be required by the Agreement.
10. The Operating Committee shall have four (4) members, two (2) of whom shall be designated by SONANGOL and the other two (2) by CONTRACTOR. The Chairman shall be designated by SONANGOL. Each member shall have one (1) vote and the Chairman shall also have a casting vote.
11. Meetings of the Operating Committee shall require a quorum of three (3) members represented in person or by proxy and any decision taken at a meeting of the Operating Committee must have three (3) affirmative votes. Any member may be represented and vote by written and signed proxy held by another member.

ARTICLE X

OPERATIONS FOR SONANGOL'S ACCOUNT

1. In the event that, during the exploration period, SONANGOL wishes to penetrate and test horizons deeper than those proposed by CONTRACTOR or required under Article IV, SONANGOL shall have the right, at its sole cost, risk and expense to require CONTRACTOR to continue drilling until SONANGOL's objectives are satisfied. SONANGOL shall give CONTRACTOR notice, in writing, as early as possible prior to or during the drilling of the well, but in any case not after CONTRACTOR has begun work to complete or abandon the well.
2. At any time prior to the commencement of deepening operations, CONTRACTOR may elect to undertake these deepening operations as part of CONTRACTOR'S exploration activity, in which case any resulting crude oil discovery would be subject to the provisions of this Agreement.
3. In the event that a sole risk extension of a well discovers crude oil, SONANGOL shall have the right at its sole cost, risk and expense to develop, produce and dispose of all crude oil from that horizon, provided that if at the time crude oil is tested from the well, CONTRACTOR'S Work Program, approved in accordance with the provisions of Article VI, includes a well or wells to be drilled to the same producing horizon, and provided that that well or wells results in an oil-producing well producing from the same horizon, the CONTRACTOR shall after reimbursing SONANGOL for all costs associated with its sole risk well, have the right to include production from that well in its total production for the purposes of establishing a Commercial Discovery, and, if a Commercial Discovery is subsequently established, to develop, produce and dispose of the resulting crude oil in accordance with the provisions of this Agreement.

4. At any time during the currency of this Agreement, SONANGOL shall have the right at its sole risk cost and expense on six (6) months written notice to require CONTRACTOR to drill one or more wells within the Contract Area, as amended by any subsequent relinquishments, provided that CONTRACTOR shall not be required to drill more than two (2) such sole risk wells per year. Within thirty (30) days after receipt of such notice, CONTRACTOR may elect to drill said well as part of CONTRACTOR's exploration activity.

5. In the event that a well drilled for SONANGOL's sole account under the provisions of paragraph 4 above results in a discovery of crude oil, SONANGOL shall be entitled to develop or require CONTRACTOR to develop the discovery at SONANGOL's sole cost risk and expense, and SONANGOL shall be entitled to all of the crude oil produced and saved from such development.

ARTICLE XI

RECOVERY OF COSTS AND EXPENSES AND PRODUCTION SHARING

A. COST RECOVERY CRUDE OIL

1. CONTRACTOR shall recover all exploration expenditures and development and operating costs and expenses incurred under this Agreement, and as defined in Annex D, by taking and freely disposing of up to a maximum amount of fifty percent (50%) per annum 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. 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 and Operations Expenditures and subject to the maximum amount of Cost Recovery Crude Oil specified in paragraph 1 above. Such exploration costs shall be recoverable first from any Cost Recovery Crude Oil balance from the Development Area having the most recent date of Commercial Discovery and then, any balance of total Exploration Expenditures not recovered, in sequence, from Development Areas with the next most recent dates of Commercial Discovery.
3. Development Expenditures in each Development Area shall be recovered from Cost Recovery Crude Oil from that Development Area as follows:
 - a. Development Expenditures in each individual Development Area made prior to the commencement of Commercial Production in that Development Area plus all development expenditures made in that area following the commencement of Commercial Production in that area shall be multiplied by one point three-three (1.33) and the resulting amount shall be recoverable at the rate of

twenty-five percent (25%) per annum in equal annual installments based on amortization at that rate starting in the later of the Tax Year in which such expenditures were or are incurred or the Tax Year in which Commercial Production in that Development Area commences. For the purposes of this Agreement, the date on which Commercial Production commences shall mean the date on which the first regular shipment of crude oil is made from the subject Development Area.

4. Operations Expenditures in each Development Area shall be recovered from Cost Recovery Crude Oil in that Development Area in the later of the Tax Year in which such expenditures were or are incurred or the Tax Year in which Commercial Production in that Development Area commences.
5. Administration and Services Expenditures in the Contract area shall be recovered from Cost Recovery Crude Oil in the Contract Area as follows:
 - a. Capitalized expenditures shall be depreciated at the rate of twenty-five percent (25%) per year in equal annual installments beginning in the year the asset goes into use, and the depreciation expense shall be allocated to Exploration, Development and Operations according to procedures provided for in Annex D to the Agreement.
 - b. Expenditures not capitalized shall be allocated to Exploration, Development and Operations according to procedures provided for in Annex D to the Agreement.
6. To the extent that, in a Tax Year, recoverable costs, expenses or expenditures exceed the value of Cost Recovery Crude Oil from the relevant Development Area for such Tax Year, the excess shall be carried forward for recovery in the next succeeding Tax Year or Years until fully recovered; but, in no case after the termination of the Agreement.

7. To the extent that, in a Tax Year, costs, expenses or expenditures recoverable per paragraphs 2 and 3 preceding are less than the maximum value of Cost Recovery Crude Oil specified in paragraph 1 above, the excess shall become part of, and included in the Development Area Profit Oil provided for in Section C, paragraph 1, of this Article.
8. For the purposes of valuation of Cost Recovery Crude Oil, the provisions of Article XII shall apply.

B. PRODUCTION SHARING

1. The total crude oil produced and saved from each Commercial Discovery and its Development Area, less the Cost Recovery Crude Oil from the same Development Area as provided for in Section A above, shall be referred to as 'Development Area Profit Oil'; and shall be shared between SONANGOL and the CONTRACTOR according to the cumulative total crude oil produced and saved from within the Development Area since its date of Commercial Discovery as follows:

<u>Cumulative Production from the Development Area</u>	<u>SONANGOL Share</u>	<u>CONTRACTOR Share</u>
Less than X barrels	a %	100-a %
X barrels and over, but less than Y barrels	b %	100-b %
Y barrels and over, but less than Z barrels	c %	100-c %
Z barrels and over	d %	100-d %

C. PRODUCTION PROGRAMS AND USE OF FUNDS

1. The Operating Committee, as provided for in Article IX, shall prepare, not less than ninety (90) days prior to January 1st and July 1st of each calendar year following regular production, and furnish in writing to CONTRACTOR and SONANGOL a forecast setting out the total quantity of petroleum that the Operating Committee estimates can be produced, saved and transported hereunder during such calendar three months in accordance with good oil industry practices. CONTRACTOR shall endeavour to produce each calendar three months the forecast quantity. The crude oil shall be run to storage tanks (constructed, maintained and operated by CONTRACTOR) in which said crude oil shall be metered or otherwise measured as required to meet the purposes of this Agreement.
2. CONTRACTOR shall have the right and the obligation to separately take and export currently all of the crude oil to which it is entitled as is determined in accordance with sections A and B of this Article and Articles XVI and XX. CONTRACTOR shall have the right to retain abroad all funds acquired by it abroad including the proceeds from the sale of its share of crude oil exported.

ARTICLE XII

VALUATION OF CRUDE OIL

1. For the purposes of determining the quantity of Cost Recovery Crude Oil to which the CONTRACTOR is entitled in Article XI the crude oil shall be valued at Market Price. The same Market Price shall also be used in determining Petroleum Income and Profits Taxes.
2. Market Price referred to in paragraph 1. above shall be determined by the following method:
 - a. At least fifteen (15) days prior to the start of each calendar quarter, CONTRACTOR shall submit to the Angolan Ministry of Petroleum an informal report presenting CONTRACTOR's views of market conditions and indicating the price which CONTRACTOR expects to obtain in the forthcoming quarter. The Ministry of Petroleum shall comment as appropriate but CONTRACTOR will proceed to sell crude oil based on its own commercial judgement. Neither CONTRACTOR's report nor the Ministry's comments shall represent formal notification by CONTRACTOR nor formal acceptance by the Ministry of the price for the forthcoming quarter.
 - b. Within fifteen (15) days following the calendar quarter, CONTRACTOR and SONANGOL shall separately submit to the Angolan Ministry of Petroleum formal reports of actual prices obtained on an arm's length basis from third party customers. Said reports will itemize sales volumes, customers, prices obtained, applicable credit terms, and gravity adjustments, and will include calculations of the weighted average price on a comparable gravity and credit basis. The parties may also submit such related market data as they feel is relevant to support the validity of the arm's length third party prices obtained.

- c. The Ministry of Petroleum shall determine the official market price for the relevant crude oil(s) and such price shall be notified to CONTRACTOR and SONANGOL within thirty (30) days after the end of the quarter.

- d. In the event no third party sales are made during the quarter, the parties shall enter into discussions with the Ministry of Petroleum with a view to agreeing on an accurate method of determining a market price of the crude oil sold during that quarter. In this case, the parties shall provide such related market data relevant to such price determination. The Ministry of Petroleum shall then determine and notify the official price as provided in paragraph c. preceding.

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ARTICLE XIII

PRICE CAP

1. To the extent that the official market price determined in Article XII under the Agreement exceeds an amount per barrel which is calculated by the following methods:

U.S. dollars	X	United Nations U.S. dollar price of manufactured goods exported from developed market economies for the current calendar year
13.00		<hr/>
		United Nations U.S. dollar price Index of manufactured goods exported from developed market economies for 1978

CONTRACTOR shall pay SONANGOL the whole of the excess multiplied by the number of barrels of CONTRACTOR's Development Area Profit Oil received during the calendar year.

2. Reasonable and equitable methods will be agreed upon among CONTRACTOR and SONANGOL to arrange current payment of the amounts in paragraph 1. above.
3. SONANGOL shall have the option to receive the payments referred to in paragraph 1 and 2 preceding in crude oil produced from the Development Area. Such crude oil shall be valued at the Market Price provided for in Article XII.

ARTICLE XIV

SIGNATURE BONUS

1. CONTRACTOR shall pay to SONANGOL as a Signature Bonus the sum of U.S. Dollars on the Effective Date of this Agreement.

2. The aforesaid Signature Bonus shall neither be recovered nor amortized by CONTRACTOR for the purposes of cost recovery.

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ARTICLE XV

DEVELOPMENT AREA RENTALS

1. As of the date of each Commercial Discovery, CONTRACTOR shall pay to SONANGOL an annual rental of three hundred (300) U.S. Dollars per square kilometer for all areas covered by each such Development Area as provided for in Article III, paragraph 3.

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ARTICLE XVI

TAXES

1. CONTRACTOR shall be subject to the laws in force in the People's Republic of Angola which impose taxes on, or fees and duties measured by income or profits, and shall comply with the requirements of such laws with respect to the filing of returns, the assessment of tax, payment of tax and the keeping of books and records for review by authorized persons.
2. In the event that the total applicable taxes on income in the preceding paragraph exceed fifty percent (50%) of the value of CONTRACTOR's profit-oil at weighted average Market Prices, CONTRACTOR will be accorded such greater share of profit-oil as will result in CONTRACTOR's realization of income after said taxes equal to the amount CONTRACTOR would have realized if the total tax rate had been fifty percent (50%). In calculation of the requisite greater share of profit-oil, consideration will also be given to the tax on the incremental profit-oil share.
3. CONTRACTOR shall be exempted from any other duties, levies or taxes on activities under this Agreement and on oil and gas exported.
4. In order to prevent or minimize international double taxation of CONTRACTOR's income under this Agreement, SONANGOL and GOVERNMENT shall consider favorably CONTRACTOR's proposed amendments or revisions to this Agreement provided such amendments or revisions do not reduce SONANGOL's and ANGOLA's economic and other benefits under the Agreement. Any such changes would maintain the pay-as-you-go principle inherent in production sharing and as provided for in Annex D, Article IV.
5. SONANGOL shall have the option upon six (6) months' notice to buy from CONTRACTOR at Market Price crude oil from the Contract Area equivalent in value to the income tax CONTRACTOR pays to ANGOLA.

ARTICLE XVII

TITLE TO ASSETS

1. SONANGOL shall become the owner of all physical assets imported into, or purchased or constructed in Angola by CONTRACTOR in connection with the operations carried out by CONTRACTOR in accordance with the following:
 - a. Equipment and movable assets purchased by CONTRACTOR pursuant to the Work Program shall become the property of SONANGOL when landed at the Angolan import port. The provisions of this paragraph shall not apply to leased equipment belonging to third parties, which equipment may be freely exported from Angola.
 - b. Title to fixed assets shall vest in SONANGOL upon purchase or completion of construction as the case may be. Notwithstanding transfer of title, costs of said fixed assets shall be recoverable at twenty-five percent (25%) per year commencing in the year the asset goes into use, and including in the case of Development Expenditures the additional thirty-three percent (33%) provided for in Article XI A. 2. b.
2. During the terms of this Agreement CONTRACTOR shall be entitled to the full use in the Contract Area, and any other Area approved by SONANGOL, of all fixed and movable assets and equipment. Any assets which CONTRACTOR agrees have become surplus to CONTRACTOR's then current and/or future needs in the Contract Area may be removed and used by SONANGOL or GOVERNMENT outside the Contract Area. Any assets other than those provided for in the preceding sentence shall not be disposed of by CONTRACTOR or SONANGOL except with agreement of the other so long as this Agreement is in force.

ARTICLE XVIII

OFFICE AND SERVICE OF NOTICE

1. CONTRACTOR shall maintain an office in Luanda, the People's Republic of Angola, at which notices shall be validly served.

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ARTICLE XIX

CONSERVATION OF PETROLEUM AND PREVENTION OF LOSS

1. CONTRACTOR shall take all proper measures, according to generally accepted methods in use in the oil industry to prevent loss or waste of petroleum above or under the ground in any form during drilling, producing, gathering and distributing or storage operations. The GOVERNMENT has the right to prevent any operation on any well that it might reasonably expect would result in loss or damage to the well or the oil field.
2. Upon completion of the drilling of a productive well, CONTRACTOR shall inform the GOVERNMENT or its representative of the time when the well will be tested and the production rate ascertained.
3. Petroleum shall not be produced from multiple oil carrying zones through one string of tubing simultaneously, except with the prior approval of the GOVERNMENT or its representative.
4. CONTRACTOR shall record data regarding the quantities of crude oil and water produced monthly from each Development Area. Such data shall be sent to SONANGOL within thirty (30) days after it is obtained. Daily or weekly statistics regarding the production from the Contract Area shall be available at all reasonable times for examination by authorized representatives of the GOVERNMENT or SONANGOL.
5. Daily drilling records and the 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 petroleum, gas bearing or fresh water strata. Any substantial change of mechanical conditions of the well after its completion shall be subject to the approval of SONANGOL.

ARTICLE XX

LIFTING ARRANGEMENTS

1. SONANGOL shall have the option to require CONTRACTOR to lift and market any part of SONANGOL's share of production providing SONANGOL gives six (6) months notification of the amounts and times of such liftings.
2. CONTRACTOR shall have the option to lift each year up to a maximum of forty-nine percent (49%) of crude oil produced and saved from the Contract Area. To the extent that CONTRACTOR exercises said option and the volume of cost-oil plus CONTRACTOR's share of profit-oil is less than forty-nine percent (49%) of total oil produced and saved, the balance shall be sold to CONTRACTOR by SONANGOL from SONANGOL's profit-oil share provided CONTRACTOR gives six (6) months notification of the amounts and times of such liftings.
3. In the event of conflict between CONTRACTOR's option in paragraph 2 preceding and SONANGOL's options in Article XIII, paragraph 3 to receive Price Cap payments in crude oil and Article XVI, paragraph 6 to buy crude oil equivalent in value to CONTRACTOR'S Angolan income tax payment, the CONTRACTOR's option in paragraph 2 preceding shall have priority.
4. Twelve (12) months prior to the scheduled initial export of crude oil from each Development Area SONANGOL shall submit to CONTRACTOR proposed procedures and related operating regulations and financial terms covering the scheduling, storage and lifting of crude oil and any other petroleum produced from such Development Area(s). The procedures, regulations and terms 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, through-put fees and penalties, over and underlifting, safety and emergency procedures.

5. CONTRACTOR shall within thirty (30) days after SONANGOL's submission in the preceding paragraph submit its comments on, and recommend any revisions to, the proposed procedures, regulations and terms. SONANGOL shall consider these comments and recommendations and the Parties shall, within sixty (60) days after the CONTRACTOR's said submission, agree on required procedures, regulations and terms.
6. In preparing and agreeing to the above procedures, regulations and terms, the Parties shall be mindful of the advantages of adopting arrangements which are consistent with those applied in other petroleum producing areas in Angola.
7. 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, the Parties to the Agreement shall lift from the Development Areas and crude qualities in proportion to each Party's total lifting. In determining these proportions any production belonging to SONANGOL as a result of operations for SONANGOL's account provided for in Article X shall be excluded.
8. Any transfers or exchanges of crude oil between SONANGOL and CONTRACTOR provided for in this Article and in the arrangements deriving from paragraphs 2, 3, 4 and 5 shall be made at the Market Price as provided for in Article XII unless the Parties agree otherwise.

ARTICLE XXI

CUSTOMS EXEMPTIONS

1. SONANGOL, CONTRACTOR and their contractors and sub-contractors engaged in carrying on activities under this Agreement shall be permitted to import and shall be exempted from customs duties, with respect to the importation of machinery, equipment, vehicles, materials, supplies, consumable items, foodstuffs and movable property, when certified by a responsible representative of SONANGOL that they are to be used solely in carrying on operations under this Agreement.
2. Each expatriate employee of CONTRACTOR and the said contractors and sub-contractors shall be permitted to import and shall be exempted from all customs duties with respect to the reasonable importation of household goods, items, foodstuffs and personal effects including one automobile; provided, however, that such properties are imported for the sole use of the employee and his family and provided further, that no such property imported by the employee shall be resold by him in Angola except in accordance with GOVERNMENT regulations.
3. The exemption provided in paragraph 1. of this Article shall not apply to any imported items when, in the opinion of SONANGOL, items of the same, or substantially the same kind and quality are manufactured locally and are available for purchase and timely delivery in Angola at a price not higher than ten percent (10%) more than the cost of the imported item before customs duties, but after transportation and insurance costs have been added.
4. Any of the items imported into Angola either exempt or non-exempt from customs duties, taxes or imposts under this Article may be exported by the importing party at any time without the payment of any export duty, or impost.

5. Used but serviceable material, equipment and goods resulting from operations hereunder may be sold within Angola provided that the purchasers pay the applicable customs duties, taxes, or imposts, if any, except if sold to an affiliated company of SONANGOL.
6. Material, equipment and goods so damaged or used as to be non-serviceable and which are classified by CONTRACTOR as scrap or junk (any such CONTRACTOR's appraisal being subject to SONANGOL approval) may be sold as scrap or junked without payment of customs duties, taxes or imposts.
7. In the event of such sale under sub paragraphs 5. and 6. above, the proceeds from such sales shall be divided in the following manner:
 - a. CONTRACTOR shall be entitled to reimbursement of its unrecovered cost, if any, in such material or equipment and the excess, if any, shall be paid to SONANGOL.
8. "Customs duties", as used herein, shall include all duties, taxes or imposts (except those charges paid to the GOVERNMENT for actual services rendered), which are payable as a result of the importation of the item or items under consideration.
9. CONTRACTOR and SONANGOL shall be exempted from any duty, tax, fee or any other financial impost in respect of the export of petroleum hereunder.

ARTICLE XXII

BOOKS OF ACCOUNT

1. SONANGOL, and CONTRACTOR shall each maintain at their business offices in Angola books of account, in accordance with the Accounting Procedures in Annex D and accepted accounting practices generally used in the petroleum industry, and such other books and records as may be necessary to show the work performed under this Agreement, including the amount and value of all petroleum produced and saved hereunder. CONTRACTOR shall keep its books of account and accounting records in Angola. CONTRACTOR shall furnish to the GOVERNMENT or its representative monthly returns showing the amount of petroleum produced and saved hereunder. Such returns shall be prepared in the form required by the GOVERNMENT, or its representative and shall be signed by the General Manager or by the Assistant Manager or a duly designated deputy, and delivered to the GOVERNMENT or its representative within thirty (30) days after the end of the month covered in the return.
2. The aforesaid books of account and other books and records referred to above shall be available at all reasonable times for inspection by duly authorized representatives of the GOVERNMENT.

ARTICLE XXIII

RECORDS, REPORTS AND INSPECTION

1. CONTRACTOR 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 hereunder. CONTRACTOR shall furnish the GOVERNMENT or its representative, in conformity with applicable regulations or as the GOVERNMENT or its representative may reasonably require, information and data concerning its activities and operations under this Agreement.
2. CONTRACTOR shall save and keep for a reasonable period of time a representative portion of each sample of cores and cutting taken from drilling wells, to be disposed of or forwarded to SONANGOL or its representative in the manner directed by SONANGOL. All samples acquired by CONTRACTOR for its own purposes shall be considered available for inspection at any reasonable time by SONANGOL or its representatives. Any such samples which CONTRACTOR has kept for a period of twelve (12) months without receipt of instructions to forward them to SONANGOL or its representatives or elsewhere may be disposed of by CONTRACTOR at its discretion.
3. 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 delivered to SONANGOL.
4. Originals of records can be exported only with the permission of SONANGOL provided, however, that magnetic tapes and any other data which must be processed or analysed outside Angola may be exported if a comparable record is maintained in Angola and provided that such exports shall be repatriated to Angola on the understanding that they belong to SONANGOL.

5. During the period CONTRACTOR is conducting the exploration operations, CONTRACTOR shall permit SONANGOL through SONANGOL's duly authorised 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. SONANGOL's representative, in exercising its rights under the preceding sentence of this paragraph 5, shall not interfere with CONTRACTOR's operations. CONTRACTOR 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 in CONTRACTOR's possession. All such data and information shall be strictly confidential and shall not be divulged by SONANGOL except to affiliated companies, or by the GOVERNMENT, without the consent of CONTRACTOR while this Agreement remains in force. However, for the purpose of obtaining new offers the GOVERNMENT may show any other party geophysical and geological data (the age of which is not less than one year) with respect to that part or parts of the Contract Area adjacent to the area of such new offers.

ARTICLE XXIV

RESPONSIBILITY FOR DAMAGES

1. CONTRACTOR shall entirely and solely be responsible in law towards third parties for any damage caused by CONTRACTOR's exploration operations and shall indemnify the GOVERNMENT and/or SONANGOL against all damages for which it may be held liable on account of any such operations, subject to the provisions of Article X regarding operations for SONANGOL's account.

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ARTICLE XXV

PRIVILEGES OF GOVERNMENT REPRESENTATIVES

1. Duly authorized representatives of the GOVERNMENT shall have access to the Contract Area covered by this Agreement and to the activities conducted thereon. Such representatives may examine the books, registers and records of SONANGOL and CONTRACTOR and make a reasonable number of surveys, drawings and tests for the purpose of enforcing this Agreement. They shall, for this purpose, be entitled to make reasonable use of the machinery and instruments of CONTRACTOR on the condition that no danger or impediment to the activities hereunder shall arise directly or indirectly from such use. The GOVERNMENT shall indemnify and reimburse CONTRACTOR for any loss or damage which may in fact result from any such use of said machinery and instruments. Such representatives shall be given reasonable assistance by the agents and employees of CONTRACTOR so that their presence shall not endanger or hinder the safety or efficiency of the CONTRACTOR's activities. CONTRACTOR shall offer such representatives all privileges and facilities accorded to its own employees in the field and shall provide them, free of charge, the use of reasonable office space and of adequately furnished housing while they are in the field for the purpose of facilitating the objectives of this Article. Any and all information obtained by the GOVERNMENT or its representatives hereunder shall be kept confidential with respect to the Contract Area and shall not be disclosed during the term of this Agreement without the prior written consent of SONANGOL and CONTRACTOR.

ARTICLE XXVI

EMPLOYMENT AND TRAINING OF ANGOLAN PERSONNEL

1. CONTRACTOR agrees to employ qualified Angolan personnel in its operations and to replace expatriate staff with qualified Angolans as they become available. Towards this end CONTRACTOR will undertake the schooling and training of Angolan personnel for labor and staff positions including administrative and executive management positions. CONTRACTOR shall also consider with SONANGOL a program of assistance for training SONANGOL's personnel.
2. Costs and expenses of training Angolan personnel in or for CONTRACTOR's employ shall be an allowable cost. Costs and expenses for programs of training for SONANGOL personnel shall be borne on a basis to be agreed by SONANGOL and CONTRACTOR.

ARTICLE XXVII

RIGHT OF REQUISITION

1. In case of national emergency due to war or imminent expectation of war or internal causes, the GOVERNMENT may requisition all or a part of the production from the Contract Area obtained hereunder and require CONTRACTOR to increase such production to the utmost possible maximum. The GOVERNMENT may also requisition the oil field itself and, if necessary, related facilities.
2. In all cases such requisition shall not be effected except after inviting SONANGOL and CONTRACTOR or their representative by registered letter, with acknowledgement of receipt, to express their views with respect to such requisition.
3. The requisition of production shall be effected by order of the Angolan Government. Any requisition of the oil field itself or any related facilities, shall be effected by Angolan Decree duly notified to SONANGOL and CONTRACTOR.
4. In the event of any requisition as provided above, the GOVERNMENT shall indemnify in full SONANGOL and CONTRACTOR for the period during which the requisition is maintained, including:
 - a. All damages which result from such requisition.
 - b. Full payment each month for all petroleum extracted by the GOVERNMENT.

However, any damage resulting from enemy attack is not within the meaning of this paragraph 4. Payment hereunder shall be made to CONTRACTOR in U.S. dollars or other currency agreed upon by both Parties remittable abroad. The price paid to CONTRACTOR for petroleum taken shall be calculated in accordance with Article XII.

ARTICLE XXVIII

ASSIGNMENT

1. Either SONANGOL or CONTRACTOR shall be entitled to assign its rights, privileges, duties and obligations under this Agreement, provided that:
 - a. The assignor shall remain jointly and severally liable with the assignee for the performance of the obligations and duties of the assignor hereunder.
 - b. GOVERNMENT approval to the assignment shall first be obtained.
 - c. The instrument of assignment must include provisions stating precisely that the assignee is bound by all terms and provisions contained in this Agreement and any modifications or additions in writing that up to such time may have been made. A draft of such instrument of assignment shall be submitted to the GOVERNMENT for review and approval before being formally executed.
 - d. The obligations of the assignor arising from this Agreement must have been duly fulfilled as of the date such request is made.
2. Any assignment made pursuant to the provisions of this Article shall be free of any transfer or related taxes, charges or fees.

ARTICLE XXIX

BREACH OF AGREEMENT AND POWER TO CANCEL

1. The GOVERNMENT shall have the right to cancel this Agreement, with respect to CONTRACTOR, in the following instances :
 - a. If CONTRACTOR knowingly has submitted any false statements to the GOVERNMENT which, were of a material consideration for the execution of this Agreement.
 - b. If CONTRACTOR assigns any interest hereunder contrary to the provisions of Article XXVII hereof;
 - c. If CONTRACTOR is adjudicated bankrupt by a court of competent jurisdiction.
 - d. If CONTRACTOR does not comply with any final decision reached as the result of court proceedings conducted under Article XXXI paragraph 2. hereunder;
 - e. If CONTRACTOR intertionally extracts any mineral other than petroleum not authorized by this Agreement or without the authority of the GOVERNMENT except such extractions as may be unavoidable as the result of operations conducted hereunder in accordance with accepted petroleum industry practice and which shall be notified to the GOVERNMENT or its representative as soon as possible; and
 - f. If CONTRACTOR commits any material breach of this Agreement or of the provisions of law applicable to CONTRACTOR.

2. Such cancellation as provided in the preceding paragraph shall take place without prejudice to any rights which may have accrued to the GOVERNMENT against CONTRACTOR in accordance with the provisions of this Agreement; and, in the event of such cancellation, CONTRACTOR shall have the right to remove from the Contract Area all its personal property.

3. If the GOVERNMENT deems that one of the aforesaid causes (other than a force majeure cause referred to in Article XXX hereof) exists to cancel this Agreement, the GOVERNMENT shall give CONTRACTOR ninety (90) days written notice personally served on CONTRACTOR's General Manager in the legally official manner and receipt of which is acknowledged by him or by his legal agents, to remedy and remove such cause; but if for any reason such service is impossible due to unnotified change of address, publication in the Diario da Republica of such notice shall be considered as validly served upon CONTRACTOR. If at the end of the said ninety (90) days notice period such cause has not been remedied and removed, this Agreement may be cancelled forthwith by GOVERNMENT order or decree as aforesaid, provided, however, that if such cause, or the failure to remedy or remove such cause, results from any act or omission of one party, cancellation of this Agreement shall be effective only as against that party and not as against the other party hereto.

ARTICLE XXX

FORCE MAJEURE

1. The non-performance or delay in performance by SONANGOL and CONTRACTOR, or either of them, of any obligation under this Agreement shall be excused if, and to the extent that, such non-performance or delay is caused by force majeure. The period of any such non-performance or delay, together with such period as may be necessary for the restoration of any damage done during such delay, shall be added to the time given in this Agreement for the performance of such obligation and for the performance of any obligation dependent thereon and consequently to the term of this Agreement, but only with respect to the areas affected.
2. 'Force Majeure', within the meaning of this Article, shall be any event beyond the reasonable control of the party claiming to be affected by such event.
3. Without prejudice to the above and except as may be otherwise provided for herein, the GOVERNMENT shall incur no responsibility whatsoever to SONANGOL, and CONTRACTOR, or either of them for any damages, restrictions or loss arising in consequence of such case of force majeure, except a force majeure caused by the order, regulations or direction of the GOVERNMENT of the People's Republic of Angola.
4. However, the GOVERNMENT shall incur no responsibility whatsoever to SONANGOL and CONTRACTOR if such order, regulations or direction of the GOVERNMENT of the People's Republic of Angola results from a force majeure situation or which is made for the purpose of saving petroleum or prevention of loss as provided under the provisions of Article XIX hereof.

ARTICLE XXXI

CONSULTATION AND ARBITRATION

1. Periodically, SONANGOL and CONTRACTOR shall meet to discuss the conduct of activities under this Agreement and will make every effort to settle amicably any problem arising therefrom.
2. Any dispute, controversy or claim arising out of or relating to this Agreement, or the breach, termination or invalidity thereof which cannot be settled amicably, shall be settled by arbitration in accordance with the UNCITRAL Arbitration Rules as at present in force.
 - a. The number of arbitrators shall be three (3).
 - b. The place of arbitration shall be Luanda, the People's Republic of Angola.
 - c. The language to be used in the arbitral proceedings shall be Portuguese and English.

ARTICLE XXXII

LOCAL CONTRACTORS AND LOCALLY MANUFACTURED MATERIAL

1. CONTRACTOR and its contractors shall:
 - a. Give priority to local contractors as long as their prices and performance are comparable with international prices and performance.
 - b. Give preference to locally-manufactured material, equipment, machinery and consumables so long as their quality and time of delivery are comparable to internationally available materials, equipment, machinery and consumables. However, such materials, equipment, machinery and consumables may be imported for operations conducted hereunder if the local price of such items at CONTRACTOR's operating base in Angola is more than ten percent (10%) higher than the price of such imported items before customs duties, but after transportation and insurance costs have been added.

ARTICLE XXXIII

LANGUAGE

1. The Portuguese version of the Agreement shall, before the Courts of the People's Republic of Angola be referred to in construing or interpreting this Agreement; provided, however, that in any arbitration pursuant to Article XXXI hereabove between SONANGOL and CONTRACTOR the Portuguese and English versions shall both be referred to as necessary.

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ARTICLE XXXIV

GAS

1. CONTRACTOR shall have the right to use natural gas associated with crude oil produced from Development Areas for oil field operations including pressure maintenance in the fields covered by the Development Areas. Any associated gas surplus to these requirements is available free to GOVERNMENT.
2. If gas is produced which is not in association with crude oil, GOVERNMENT shall have the right to take, free of charge, any gas required for domestic consumption. If there remains a surplus, CONTRACTOR shall prepare a study of the feasibility of developing such discovery for export, taking into account availability of gas from other areas in Angola as necessary. If the project appears feasible, SONANGOL and CONTRACTOR shall endeavor to agree on terms to develop the gas. In the event that no agreement is reached within eighteen (18) months of the date of the gas discovery well, SONANGOL shall be free to appraise and develop the discovery for its own account.
3. In the course of activities provided for under this Agreement, flaring of associated and/or non-associated gas is prohibited except on prior authorization of GOVERNMENT following a request by CONTRACTOR. CONTRACTOR's request 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 XXXV

GENERAL

1. The headings or titles to each of the Articles in this Agreement are solely for the convenience of the parties hereto and shall not be used with respect to the interpretation or construction of said Articles.

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ARTICLE XXXVI

APPROVAL OF THE GOVERNMENT

1. This Agreement shall not be binding upon any of the parties hereto unless and until the Agreement is signed by SONANGOL and CONTRACTOR, and until the Minister of Petroleum signs said Agreement and thereby gives it full force and effect of law.

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ARTICLE XXXVII

EFFECTIVENESS

1. This Agreement shall come into effect on the Effective Date.
2. IN WITNESS WHEREOF, the Parties hereto have executed this Agreement, in triplicate in the Portuguese and English languages.

SONANGOL

BY Date

CONTRACTOR

BY Date

APPROVED BY THE MINISTER OF PETROLEUM
on behalf of the
GOVERNMENT OF THE PEOPLE'S REPUBLIC OF ANGOLA

BY Date

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ANNEX D

ACCOUNTING AND FINANCIAL PROCEDURES

ARTICLE I

GENERAL PROVISIONS

A. DEFINITIONS

1. The definitions of terms used in the Agreement of which this Annex is a part shall apply to this Annex of Accounting and Financial Procedures and have the same meanings.
2. Costs and expenses recoverable under the terms of Article XI of the Agreement are as defined as follows:
 - a. Exploration Expenditure - All direct and allocated indirect costs (including appropriate allocation of Administration and Services expenditure and depreciation of Administration and Services assets) incurred in: aerial, geological, topographical and seismic surveys; corehole drilling; labor, materials and services used in drilling wells with the object of finding new unproven reservoirs of oil or gas, providing the wells are dry and/or not completed as producing wells; access roads; facilities used solely in support of these purposes; purchased geological and geophysical information; and the allocated Administration and Services costs allocated under Article II, 1, j, of this annex to the activities described in this paragraph.

- b. Development Expenditure - All direct and allocated indirect costs (including appropriate allocation of Administration and Services expenditure and depreciation of Administration and Services assets) incurred in drilling wells which are completed as producing wells and including intangible drilling costs and the redrilling, deepening or recompleting of wells; providing access roads and other related roads; construction of field facilities such as pipelines, gas-oil treatment and production units, offshore platforms, well-head equipment, subsurface lifting equipment, production tubing, sucker rods, pumps, flow lines, petroleum storage facilities, secondary recovery systems, and export terminals, piers, harbors and related facilities.
- c. Administration and Services Expenditure - All costs capable of being in common support of Exploration, Development and Operations such as the management, administrative and general costs incurred in Angola and described in Article I of the Agreement and including purchase, construction, operation and maintenance of warehouses, piers, marine vessels, vehicles, motorized rolling equipment and aircraft, administrative offices, fire and security stations, work shops, water and sewage plants, power plants, housing, community and recreational facilities; and furniture, tools and equipment used in these activities.
- d. Operations Expenditure - All expenditures in a Development Area, other than Exploration, Development and Administration and Services Expenditures, following the commencement of crude oil exports from that Development Area. Operations Expenditure shall include an appropriate allocation of Administration and Services expenditures and allocation of depreciation on Administration and Services assets.

B. ACCOUNTS, STATEMENTS AND RESPONSIBILITY

1. CONTRACTOR shall establish and maintain the accounting records, books, operating data and report procedures related to all activities provided for under the Agreement in accordance with generally accepted and recognized accounting systems and consistent with modern petroleum industry practices and procedures. In addition to those records and reports required by CONTRACTOR, CONTRACTOR shall also prepare information and data for SONANGOL in forms SONANGOL deems necessary to enable it to carry out its management responsibilities under the Agreement.

C. LANGUAGE AND UNITS OF ACCOUNT

1. All books of account, operating data and reports shall be written in the Portuguese language, and shall be recorded in Angolan kwanzas and U.S. dollars. Measurements shall be in metric units. Where necessary for clarification or CONTRACTOR's purposes, books of account, operating data and reports may upon the approval of SONANGOL also be maintained in other languages, currencies and units of measurement.
2. Translation or conversion of expenses or costs into Angolan kwanzas or U.S. dollars shall be at the exchange rates of the Angolan National Bank during the immediately preceding month, except that depreciation or amortization charges shall be translated or converted at the rates ruling when the original asset was acquired. The treatment of realized and unrealized exchange gains and losses for the purpose of determining cost recovery shall be subject to agreement by CONTRACTOR and SONANGOL.

3. All records referred to in the preceding paragraph shall be maintained and available for inspection for five (5) years following their date of issue or publication.

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ARTICLE II

ACCOUNTING, COSTING AND FINANCING PRINCIPLES

1. Costs charged to activities under the Agreement for purposes of cost recovery shall be calculated and accounted for in a manner consistent with the following principles and definitions:
 - a. The terms of the Agreement shall be applied, including but not limited to Article VIII concerning Commercial Discovery; Article VI concerning Work Programs and Budgets; Article XI concerning Recovery of Costs and Expenses and Production sharing; Article XII concerning Valuation of Oil; Article XIII concerning the Price Cap; Article XVI concerning Taxes; Article XXI concerning Customs Exemptions; Article XXII concerning Books of Account; and Article XXIII concerning Records, Reports and Inspection.
 - b. If there should be any inconsistency between the terms of the Agreement and the terms of this Annex D, the terms of the Agreement shall prevail.
 - c. Labor costs recoverable under the Agreement shall include salaries and wages of CONTRACTOR's employees directly engaged in activities under the Agreement, including costs of holidays, vacations, sickness, living and housing allowances, travel time, bonuses and other established plans for employee benefits customarily granted to CONTRACTOR's employees and their families in similar ventures, and including any assessments pursuant to Angolan law which are applicable to salaries and wages.

- d. The values of material costs recoverable under the Agreement shall be:
- 1) In the case of purchased material, the price paid by CONTRACTOR after deduction of all discounts and rebates due and received, providing the cost is generally no higher than from competitive international sources.
 - 2) In the case of material from CONTRACTOR affiliates, the cost shall be no higher than international prices for comparable material from competitive third-party suppliers. This criterium shall apply to both new and used materials.
- e. The values of service costs recoverable under the Agreement shall be:
- 1) In the case of services performed by outside consultants contractors or utilities, the prices paid by CONTRACTOR, providing said prices are no higher than the prices charged by other international suppliers for comparable work and service.
 - 2) In the case of services performed by CONTRACTOR, SONANGOL or their affiliate companies, prices agreed by CONTRACTOR and SONANGOL but not higher than the most favorable prices charged to other affiliates and third parties for comparable services.

- f. Insurance and Claims shall be recoverable costs providing the insurance is customary, gives prudent protection against risks, and is placed at costs no higher than those charged by competitive insuring companies not affiliated with CONTRACTOR or SONANGOL. The proceeds of any insurance or claim shall be credited to the costs incurred under the Agreement. If no insurance is carried for a particular risk, all costs incurred by CONTRACTOR in settlement of any related loss, claim, damage or judgement and any expenses, including legal services, shall be recoverable costs under the Agreement providing such costs did not result from CONTRACTOR's undue negligence.
- g. Development Area rentals shall be recoverable costs but shall not be capitalized or attract the thirty-three (33) percent allowance provided for in Article XI, 3, a.
- h. All costs and expenses of litigation and legal or related services necessary or expedient for the protection of the Contract Area shall be recoverable costs and any penalties or compensation received shall be credited to costs incurred under the Agreement. These costs shall not include the costs of the Parties to the Agreement incurred in the course of an arbitration entered into under Article XXXI of the Agreement.
- i. The following expenses shall not be recoverable costs under the Agreement:
- 1) Interest expense on borrowings, including capital charged during construction and charges for supplier credit, unless approved by SONANGOL.

- 2) Petroleum marketing or transportation of petroleum beyond the point of export loading.
 - 3) Costs of the performance guaranty or bond, and any forfeits paid because of shortfalls below the minimum work program.
 - 4) Advertizing or public relations expenses, except that reasonable cost of government relations activities shall be recoverable costs.
 - 5) Contributions and donations, except those approved by SONANGOL.
 - 6) Gifts or rebates to suppliers, and gifts or commissions to Angolan intermediaries arranging service or supply contracts.
 - 7) Signature bonus under the Agreement.
- j. Administration and Services Expenses shall be treated as follows:
- 1) CONTRACTOR's staffing and maintenance of its head office in Angola and other offices in Angola as well as the expenses of general facilities such as shore bases; warehouses; water, power and communications systems; roads and bridges shall be recoverable and be allocated to functions by methods agreed by CONTRACTOR and SONANGOL.

Other indirect expenses in Angola such as costs of field supervisory personnel, field clerks, assistants and other general employees indirectly serving activities in the Contract Area shall also be recoverable and shall be allocated by methods agreed to by CONTRACTOR and SONANGOL.

2) CONTRACTOR's Administration and Services costs outside Angola and applicable to activities under the Agreement such as:

- (a) Executive - Time of executive officers,
- (b) Treasury - Financial and exchange activities,
- (c) Purchasing - Procuring materials, equipment and supplies,
- (d) Exploration and Production
 - Directing, advising and controlling the overall project,
- (e) Other departments such as legal, comptrollers and engineering which contribute to the project,

shall be charged monthly to those Exploration expenses incurred in the Contract Area prior to the declaration of a Commercial Discovery in the Contract Area at the combined rate of three (3) percent of said Exploration expenses.

k. Costs shall be subject to capitalization and depreciation as follows:

- 1) Exploration expenditures and Operation Expenditures shall not be capitalized and therefore not depreciated but shall be chargeable as provided in Article XI of the Agreement.
- 2) Development expenditures shall be capitalized and these amounts, increased by the investment allowance provided in Article XI of the Agreement, shall be depreciable at 25% a year in equal annual instalments commencing in the first tax year in which crude oil exports from the same Development Area commence. A full 25% depreciation shall be allowed in said first tax year.
- 3) Administration and Services facilities' cost of construction or purchase shall be capitalized and depreciated at 25% a year in equal annual instalments by allocation of the depreciation expense to Exploration expenditures, Development expenditures and Operations expenditures as provided in Article II, 1, j. of this Annex. A full 25% depreciation shall be allowed for allocation in the tax year in which the assets go into use.
- 4) Recovery of all allowable costs under this Agreement is subject to the cost-oil restraint described in Article XI of the Agreement. However, to the extent that the cost-oil limit prevents all recoverable costs in a given year from being recovered, the unrecovered costs shall be carried forward to succeeding years until they are fully recovered or fail to be recovered because of lack of sufficient cost recovery oil from the appropriate Development Area or, in the case of Exploration expenses, from the Contract Area.

1. The cost of materials brought into inventory shall not be recoverable under the Agreement until said materials are used or until the asset they become part of goes into use and is depreciated.

- m. Natural gas and related costs shall be treated as follows:
 - 1) Costs to develop and produce associated natural gas shall be recoverable in determining the volume of cost-oil in the subject Development Area. Costs to develop and produce non-associated natural gas shall be charged against natural gas revenues in a manner to be agreed by CONTRACTOR and SONANGOL.
 - 2) No exploration costs shall be charged against natural gas revenues except with the approval of SONANGOL.
 - 3) Common costs, other than exploration costs, allocated to crude oil and natural gas shall be allocated on a basis to be agreed by both Parties to the Agreement.
 - 4) The accounting treatment for revenues and costs of natural gas fractions and for gas liquids extracted from natural gas shall be agreed by both Parties.

- n. Any costs incurred for more than one activity or purpose shall be allocated on a basis to be agreed by both Parties to the Agreement.

- o. All costs shall be net of any recoveries such as those realized in the sale of assets from insurance claims, and other transactions which reduce or offset the original cost incurred.
- p. Any incomes earned by CONTRACTOR other than from the export of crude oil shall be treated for the purposes of determining the volume of cost-oil in a manner agreed by CONTRACTOR and SONANGOL.
- q. In those situations where expenditures have been recorded and require subsequent adjustment, such adjustments shall be made.

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ARTICLE III

ESTABLISHING ACCOUNTS, REPORTS AND PROCEDURES

1. Within thirty (30) days of the Effective Date of the Agreement, CONTRACTOR shall submit to, and discuss with SONANGOL a proposed outline of charts of accounts, operating records and reports as called for in Article I above. Within ninety (90) days of receiving the above submission SONANGOL shall either indicate its approval of the proposal or request revisions to the proposal. Within one hundred and eighty (180) days after the Effective Date of the Agreement, CONTRACTOR and SONANGOL shall agree on the outline charts of accounts, operating records and reports which shall describe the basis of the accounting system and procedures to be developed and used under the Agreement.
2. CONTRACTOR, following agreement on the outlines of charts of accounts, operating records and reports, as provided in paragraph 1 preceding, shall expeditiously prepare and provide SONANGOL with formal copies of the comprehensive charts of accounts and manuals related to the accounting, recording and reporting functions, and procedures which are, and shall be, observed under the Agreement.
3. Subsequent changes in the agreed charts of accounts, operating records and reports referred to in the preceding paragraph may be made upon agreement of both Parties.

ARTICLE IV

PAYMENTS

1. All payments under this Agreement among its Parties shall be made in U.S. dollars or other currencies acceptable to both Parties at a bank designated by each receiving Party.
2. Payments of Angolan income tax shall be made as CONTRACTOR exports his share of profit-oil from Angola so as to preserve the pay-as-you-go principle inherent in the Agreement. Appropriate procedures will be agreed among CONTRACTOR, SONANGOL and GOVERNMENT towards this end.
3. Any other payments required pursuant to the Agreement such as bonuses, rents, Article XIII price cap obligations and minimum work program shortfalls shall be made within thirty (30) days following the end of the month in which the obligation to make such payments occurs.

ARTICLE V

AUDITS

1. CONTRACTOR and SONANGOL shall mutually agree on the selection of an independent firm of auditors to examine and report annually on such accounting records and/or returns of the CONTRACTOR as may be deemed necessary. A copy of each audit report shall be delivered to the Angolan Ministry of Finance as well as to the Parties to the Agreement no later than six (6) months following the end of the relevant calendar or tax year.
2. In addition to the provisions of paragraph 1 above, SONANGOL and GOVERNMENT or their designated representatives shall have the right to inspect and audit the CONTRACTOR's books and accounts related to activities under the Agreement.

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