

ANGOLA

1991 Model Production Sharing Agreement For Deep Water Blocks
Between SONANGOL & International Companies

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Contracting Parties

This Agreement is made and entered into by and between:

On the one part:

SOCIEDADE NACIONAL DE COMBUSTIVEIS DE ANGOLA – UNIDADE ECONOMICA ESTATAL (SONANGOL, U.E.E.) (hereinafter referred to as 'SONANGOL') a State company with headquarters in Luanda, People's Republic of Angola, created in accordance with Decree Law No. 52/76 of June 9, 1976,

and on the other part:

_____, a company organized and existing under the laws of _____, with an office and legal representatives in Luanda, People's Republic of Angola.

Recitals

WHEREAS, by Decree No. _____ of _____, the GOVERNMENT of the People's Republic of Angola, in accordance with the provisions of the Law Regulating Petroleum Activities, Law No. 13/78 of August 26, 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, 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, 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 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 meaning, 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.
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 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 over any of the Parties;
 - (c) a company or any other entity in which either the absolute majority of votes in the relative 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 over any of the Parties.

3. 'Angola' means the People's Republic of Angola.
4. 'Year' or 'Calendar Year' means a period of twelve (12) consecutive Months according to the Gregorian Calendar.
5. 'Fiscal Year' means a period of twelve (12) consecutive Months according to the Gregorian Calendar which coincides with the Calendar Year and relative to which the presentation of fiscal declarations is required under the fiscal or commercial laws of Angola.
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.
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 continues to have rights and obligations under this Agreement.
8. 'Development Area' means the extent of the whole area, as far as the boundaries of the Contract Area permit, capable of production from the deposit or deposits identified in a Commercial Discovery and agreed upon by SONANGOL and by CONTRACTOR following such Commercial Discovery.
9. 'Appraisal' means the activity designed to estimate the recoverable reserve in an accumulation as well as its delimitation and shall include, but not be limited to, geophysical and other surveys and the drilling of Appraisal Wells.

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).
11. 'Operating Committee' means the entity referred to in Article 31.
12. 'Concessionaire' means SONANGOL as the titleholder of the mining rights of survey, Exploration, Development and Production of liquid and gaseous hydrocarbons in the Contract Area.
13. 'Agreement' or 'the Agreement' means this Production Sharing Agreement executed between SONANGOL and CONTRACTOR, including its Annexes.
14. 'Effective Date' means the first day of the Month next following the Month in which this Agreement is signed by SONANGOL and CONTRACTOR.
15. 'Concession Decree' means Decree No. / of , approved by the Council of Ministers as it is published in the Diario da Republica of Angola of .
16. 'Commercial Discovery' means a discovery of a Petroleum deposit judged by CONTRACTOR to be worth developing in accordance with the provisions of the Agreement.
17. '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, lines, 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.

18. 'Administration and Services Expenditures' means the expenditures so defined in Annex C.
19. 'Development Expenditures' means the expenditures so defined in Annex C.
20. 'Exploration Expenditures' means the expenditures so defined in Annex C.
21. 'Production Expenditures' means the expenditures so defined in Annex C.
22. 'Customs Duties' means all duties, taxes or imposts established in the respective customs duties schedules, and which are applicable to merchandise imported or exported through customs.
23. 'State' means the State of the People's Republic of Angola.
24. 'Phase' means the Initial Exploration Phase or the First Optional Exploration Phase, as the case may be.
25. 'Initial Exploration Phase' means that period of four (4) Contract Years commencing with the Effective Date of the Agreement as defined in Article 6.
26. 'Force Majeure' means the concept defined in Article 43 .
27. 'Natural Gas' or '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. Such term shall include residue gas.

28. '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.
29. 'Non-Associated Natural Gas' means that part of Natural Gas which is not Associated Natural Gas.
30. 'Government' means the Government of the People's Republic of Angola.
31. 'CONTRACTOR' means _____ and their possible assignees under Article 39, designated collectively except as otherwise provided herein.
32. 'Law' means the legislation in force in the People's Republic of Angola.
33. 'Litigant' means SONANGOL and any entity constituting CONTRACTOR participating in arbitration proceedings pursuant to Article 42.
34. 'Month' means a calendar month pursuant to the Gregorian calendar.
35. 'Petroleum Operations' means the activities related within the operations of survey, Exploration, Appraisal, Development and Production contemplated in the Agreement.
36. 'Operator' is the entity referred to in Article 8.
37. 'Party' means either SONANGOL or CONTRACTOR as parties to this Agreement.
38. 'Parties' means both SONANGOL and CONTRACTOR wherever jointly referred to.
39. 'Exploration Period' means the period defined in Article 6.
40. 'Production Period' means the period defined in Article 7.

41. '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.
42. '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.
43. 'Crude Oil' or 'Oil' means any hydrocarbons produced from the Contract Area which are in a liquid state at the wellhead or lease separator or which are extracted from the Gas or casinghead gas in a plant. Such term includes distillates and condensate.
44. 'Cost Recovery Crude Oil' means the Oil so defined in Article 11.
45. 'Development Area Profit Oil' means the Oil so defined in Article 12.
46. 'Well' means a hole drilled into the earth for the purpose of locating, evaluating, producing or enhancing production of Petroleum.
47. '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.
48. '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 Oil per day.

CONTRACTOR 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 this request CONTRACTOR shall timely provide SONANGOL 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 has the option to declare a Well a "Commercial Well" at a producing rate below that one set forth in the above schedule where CONTRACTOR is of the opinion that the accumulation may produce sufficient hydrocarbons for CONTRACTOR to recover its costs and make a reasonable return.

49. '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.
50. 'Exploration Well' means a Well drilled for the purpose of discovering Petroleum, including Appraisal Wells to the extent permitted by Article 17.
51. 'Delivery Point' means the point F.O.B. 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.
52. '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.
53. 'Optional Exploration Phase' means the two (2) Contract Year extension to the Initial Exploration Phase pursuant to Article 6.
54. '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, storing and dispatching of 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.

55. 'Lifting Schedule' means the planned program of Crude Oil liftings by each Party approved by the Operating Committee.
56. '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.
57. 'Work Program and Budget' means either an Exploration Work Program and Budget or a Development and Production Work Program and Budget.
58. 'Approved Work Program and Budget' means Exploration Work Programs and Budgets and Development and Production Work Programs and Budgets transmitted to SONANGOL under Article 31 paragraph 12 or approved by the Operating Committee under Article 31 paragraph 11, as relevant.
59. 'SONANGOL' means Sociedade Nacional de Combustiveis de Angola – Unidade Economica Estatal (SONANGOL, U.E.E.), an Angolan State Company.
60. 'Quarter' means a period of three (3) consecutive Months starting with the first day of January, April, July or October of each Calendar Year.

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 Financing Procedure;
 - (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, 1978 and other applicable legislation, of the contractual relations in the form of the Production Sharing Agreement between SONANGOL and CONTRACTOR through which the Petroleum Operations will be executed 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 anything occurs that in the terms of 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 and other applicable legislation.
3. At the end of the Exploration Period, CONTRACTOR 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. An Initial Exploration Phase of four (4) Contract Years shall start from the Effective Date. One (1) successive extension of two (2) Contract Years (the Optional Exploration Phase) shall follow the Initial Exploration Phase upon CONTRACTOR's written notice to SONANGOL at least thirty (30) days before the end of the Initial Exploration Phase and if CONTRACTOR 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 Optional Exploration Phase if this has been asked for and granted. However, such 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 sixth (6th) Contract Year. Should any such Well be a Commercial Well, CONTRACTOR will be given sufficient time, as mutually agreed, up to a maximum of six (6) months, or such longer period as agreed by SONANGOL, following the drilling of the Commercial Well to do Appraisal work. Should this work result in a Commercial Discovery then a Development Area shall be granted.

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

- (a) CONTRACTOR shall complete any work undertaken for SONANGOL's sole risk and expense even though the Exploration Period may have expired; and

- (b) CONTRACTOR's completion of such works shall not extend CONTRACTOR's Exploration Period or Agreement term except as in the case of CONTRACTOR exercising the option right mentioned in Article 30, paragraph 3 hereof; and

- (c) during the period CONTRACTOR is completing such work, CONTRACTOR shall be given authorization to continue such sole risk operations and shall be entitled to all benefits available to CONTRACTOR 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 that Well and its related Appraisal Wells, if any, shall be agreed upon by SONANGOL and CONTRACTOR. 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 twenty five (25) Years from the date of Commercial Discovery in said 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 Area shall be considered terminated if within six (6) Years from the date of Commercial Discovery in said Area the initial shipment of Crude Oil from said Development Area has not been lifted as part of a regular program of lifting in accordance with the Lifting.
3. No later than twelve (12) Months before the end of the Production Period, CONTRACTOR may request SONANGOL to support CONTRACTOR in a joint application for an extension of the Production Period as provided for in paragraph 2 of Article 5. SONANGOL and CONTRACTOR shall meet to discuss the terms and conditions for such an extension.

Article 8
Operator

1. CONTRACTOR has the exclusive responsibility for executing all of the Petroleum Operations, except as specified in Article 30.
2. CONTRACTOR shall appoint _____ as Operator to execute, as such without profit nor loss, on CONTRACTOR'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 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. The Operator will be subject to all of the specific obligations that arise on this Agreement, the Concession Decree and the applicable legislation.
5. In the event of the occurrence of any of the following, SONANGOL can require CONTRACTOR 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 appropriate court action has been taken in order to obtain a declaration of bankruptcy, liquidation, or judicial dissolution of the Operator, or if sentence has been passed in court with any of the effects referred to in this paragraph;
 - (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 proportion thereof, and, as a result fails to fulfil its obligations under the Agreement.

6. If CONTRACTOR 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 gave due notice to CONTRACTOR, then CONTRACTOR shall appoint as Operator the entity so designated by SONANGOL.

Article 9
Operating Procedures Document

SONANGOL and CONTRACTOR may sign an Operating Procedures Document which will detail and amplify the procedures to be followed in implementing this Agreement. Any such document would be agreed between the Parties and would be in accordance with the provisions of this Agreement and the applicable legislation.

Article 10
Costs and Expenses

Except as otherwise provided for 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, and SONANGOL shall not be responsible to bear or repay any of the aforesaid costs.

Article 11
Recovery of Costs and Expenditures

1. CONTRACTOR 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 fifty per cent (50%) 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 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 in the Year incurred or in the Year in which commercial production in the Contract Area commences, whichever occurs last, 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 any given Year such Exploration Expenditures 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 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 one point four (1.40) and the resulting amount shall be recoverable at the rate of twenty five per cent (25%) 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 initiation of Commercial Production or within five (5) years after the Development Expenditures are incurred, whichever is last, then CONTRACTOR's share of Crude Oil shall be increased from Year six to allow for the recovery of such unrecovered costs, provided that CONTRACTOR has fulfilled all of his 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 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 according to the after tax, nominal rate of return achieved at the end of the preceding Quarter by CONTRACTOR in the corresponding Development Area as follows:

CONTRACTOR'S rate of return for Development Area - (percent per annum)	SONANGOL Share - %	CONTRACTOR Share - %
Less than w	a	(100-a)
w to less than x	b	(100-b)
x to less than y	c	(100-c)
y to less than z	d	(100-d)
z or more	e	(100-e)

2. Beginning at the date of Commercial Discovery, CONTRACTOR'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's net cash flow computed in US Dollars for a Development Area for each Quarter is the sum of:

- (i) CONTRACTOR's Cost Recovery Crude Oil and share of Profit Oil actually lifted in that Quarter and valued at the Market Price.
 - (ii) Minus Petroleum Income Tax
 - (iii) Minus Development Expenditure and Production Expenditure
- 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's net cash flow.
- c) The CONTRACTOR'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:

$$\text{ACNCF (current Quarter)} = \frac{(100\% + \text{DQ}) \times \text{ACNCF (previous Quarter)} + \text{NCF (current Quarter)}}{100\%}$$

where

ACNCF = accumulated compounded net cash flow
 NCF = net cash flow
 DQ = quarterly compound rate (in percent)

The formula will be calculated using quarterly compound rates (in percent) of:

$$\begin{aligned} &(100\% + w\%)^{1/4} - 100\%, \\ &(100\% + x\%)^{1/4} - 100\%, \\ &(100\% + y\%)^{1/4} - 100\%, \\ &(100\% + z\%)^{1/4} - 100\%, \end{aligned}$$

which correspond to annual compound rates ("DA") as w%, x%, y%, and z% respectively as referred to in Article 12.2.

3. The CONTRACTOR'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 in a given Quarter shall be in accordance with the scale in paragraph 1 above using the CONTRACTOR'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's deemed rate of return to decline as a result of negative cashflow in a Quarter with the consequence that CONTRACTOR'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 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.
7. In the event that in any Month, the amount of CONTRACTOR's Net Profit Oil less Petroleum Income Tax (hereinafter referred to as ('CONTRACTOR's Net Income')) is not equal to fifty per cent (50%) of the value of CONTRACTOR's Net Profit Oil ('CONTRACTOR's Net Profit Oil' being CONTRACTOR's share of Development Area Profit Oil valued at the Market Price), then compensatory payments will be made in the following manner, such that CONTRACTOR's Net Income after such compensatory payments equals fifty per cent (50%) of CONTRACTOR's Net Profit Oil.
 - a) By CONTRACTOR to SONANGOL if CONTRACTOR's Net Income is greater than fifty per cent (50%) of the value of CONTRACTOR's Net Profit Oil.

- b) By SONANGOL to CONTRACTOR if fifty per cent (50%) of the value of CONTRACTOR's Net Profit Oil is greater than CONTRACTOR's Net Income.
8. The payments referred to in paragraph 7 above shall be made in US dollars not later than the last day of the Month following the Month during which the payments become due or else in kind, out of the owing Party's next Crude Oil entitlement.

BARROWS
CONFIDENTIAL

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, 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 proposed procedures and related operating regulations covering the scheduling, storage and lifting of Crude Oil and any other Petroleum produced from such Development Area(s). The procedures and regulations 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 and any other matters that may be agreed between the Parties.
4. 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 and regulations. SONANGOL shall consider these comments and recommendations and the Parties shall, within sixty (60) days after CONTRACTOR's said submission, agree on required procedures and regulations.
5. In any event, the agreed lifting procedures and regulations will comply with the provisions of Angolan 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 shall, unless they mutually agree that the Oils should be co-mingled, lift from the Development Areas 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.

BARROWS
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4. CONTRACTOR will 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 and fifty thousand U.S. dollars (U.S.\$150,000) or such higher amount as may be decided by the Operating Committee. When soliciting such bids CONTRACTOR shall select out of the bids which are acceptable to CONTRACTOR, 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. CONTRACTOR shall entrust the management of Petroleum Operations in Angola to its technically competent General Manager and Assistant Manager. The names of such General Manager and Assistant Manager shall, upon appointment, be given to SONANGOL. The General Manager and, in his absence, the Assistant Manager, shall be entrusted by CONTRACTOR with sufficient powers to carry out immediately and be subject to all lawful written directions given to them by SONANGOL or GOVERNMENT or its or their representative or any lawful regulations issued or hereafter to be issued which are applicable to the Petroleum Operations under this Agreement.
6. Except as is appropriate for the 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. It is recognized that in the case of an emergency in the course of the Petroleum Operations requiring an immediate action, CONTRACTOR 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 shall promptly inform SONANGOL of all actions so taken.
8. Any obligations which are to be observed and performed by CONTRACTOR shall, if CONTRACTOR comprises more than one entity, be joint and several obligations.

Article 14
Conduct of Operations

1. With due observance of legal and contractual provisions and subject to the decisions of the Operating Committee, CONTRACTOR shall act in the common interest of the Parties and shall undertake the execution of the work inherent in Petroleum Operations, always respecting the generally acceptable practices of the Petroleum industry.
2. CONTRACTOR 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 the best economic and technical conditions, and in accordance with professional norms and standards which are generally accepted in the international Petroleum industry.
3. CONTRACTOR and its subcontractors shall:
 - (a) contract local contractors as long as their performance is similar to that available on the international market and the prices of their services, when subject to the same tax 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 quality and delivery dates are similar to those of such materials, equipment, machinery and consumable goods available on the international market. However, such CONTRACTOR's obligation shall not apply in those cases in which the local prices for such goods are more than ten per cent (10%) higher compared to the prices for imported goods, before charging Customs Duties but after the respective costs for transportation and insurance have been included.

Article 15

Work Obligations during the Exploration Period

1. Within the Initial Exploration Phase, CONTRACTOR will conduct a seismic program covering _____ kilometres of new seismic profiles. This seismic program will begin within six (6) months of the Effective Date provided that a seismic vessel is available.
2. CONTRACTOR will drill to objectives defined in the Approved Work Program and Budget _____ Exploration Wells on _____ separate drillable prospects within the Initial Exploration Phase.
3. In the event CONTRACTOR elects to extend the Exploration Period into the Optional Exploration Phase, CONTRACTOR shall be obligated to drill _____ obligatory Exploration Wells (other than Appraisal Wells) to objectives defined in the Approved Work Program and Budget.
4. In the event CONTRACTOR 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 does not satisfy the minimum work obligations referred to in this Article within the times specified therein, CONTRACTOR shall be deemed, unless otherwise agreed by SONANGOL, to have voluntarily terminated activities and withdrawn from all of the Contract Area not already converted into a Development Area(s).
6. If CONTRACTOR relinquishes its rights under this Agreement before completing the seismic program referred to in paragraph 1 above, CONTRACTOR shall be obligated to pay SONANGOL an amount equal to five million U.S. dollars (U.S.\$5,000,000). In addition, if CONTRACTOR 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 shall be obligated to pay SONANGOL an amount equal to ten million U.S. dollars (\$10,000,000) for each such Exploration Well not drilled.

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

Initial Exploration Phase	U.S.\$ _____
Optional Exploration Phase	U.S.\$ _____

8. All Exploration Wells referred to in this Article shall test all productive horizons agreed to by SONANGOL and CONTRACTOR unless diligent test efforts consistent with sound industry practices indicate that it is technically impossible to reach and test all such horizons.
9. During the drilling of Wells under this Agreement, CONTRACTOR 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 normal oil field practice and not interfere with the safety and efficiency of the operations planned by CONTRACTOR. Such tests shall be at CONTRACTOR's sole expense and shall be credited towards fulfilling the minimum work programs, except that, however, such tests primarily intended to test gas reservoirs shall be solely at SONANGOL's risk and expenses.

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 subsequent Contract Year of an Exploration Period or at such other times as may mutually be agreed to by SONANGOL and CONTRACTOR, CONTRACTOR shall prepare in reasonable detail an Exploration Work Program and Budget for the Contract Area setting forth the Exploration operations which CONTRACTOR 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'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. After the first Commercial Discovery, the Operating Committee will supervise and control the execution of the Approved Exploration Work Programs and Budgets within budget expenditure limits, and of any revisions which may have been made thereto.

Article 17
Commercial Discovery

1. CONTRACTOR shall advise SONANGOL within thirty (30) days of the end of the drilling and testing of an Exploration Well, the results of the final tests of the Well and whether such a Well is commercial or not. The date of this advice shall be the date of the declaration of the Commercial Well, if such exists.
2. After drilling of a Commercial Well, CONTRACTOR 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 establishment of the Commercial Well, whichever is 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 Law Regulating Petroleum Activities, Law No. 13/78 of August 26, 1978. The date of Commercial Discovery shall be the date on which CONTRACTOR declared by written notice to SONANGOL the existence of a Commercial Discovery.
4. If the period allowable 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 the 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. The Commercial Well shall count towards the work and expenditure obligations 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 towards such work obligations; and it shall be the first Commercial Well in that Development Area.
10. CONTRACTOR has the right to declare a Commercial Discovery without first having drilled a Commercial Well or Wells.

Article 18

Development and Production Work Programs and Budgets

Ninety (90) days after the date of a Commercial Discovery CONTRACTOR 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. Such Work Programs and Budgets shall be prepared no later than the fifteenth (15th) of August of said Year (or such other date as may be agreed upon). No later than the fifteenth (15th) of August of each Year (or such other date as may be agreed upon) thereafter, CONTRACTOR shall prepare an annual Production Schedule, which will be in accordance with generally accepted international oil field practice and a Development and Production Work Program and Budget for the succeeding Calendar Year and may from time to time propose revisions thereto.

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. CONTRACTOR is authorized and obliged to execute, under the supervision and control of the Operating Committee and within the budget expenditure limits, the Approved Development and Production Work Programs and Budgets and any approved revisions thereto.

Article 19
Production Programs

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

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Article 20
Guarantees

1. The minimum Exploration work obligations shall be secured by a bank guarantee substantially in the form as set out in Annex E.
2. Such guarantee shall be given by CONTRACTOR not later than three (3) months after the beginning of each Phase of the Exploration Period.
3. The amount of such guarantee shall be equal to ten million U.S. Dollars (U.S.\$10,000,000) for each of the obligatory Exploration Wells set forth in Article 15 for such Phase. In addition, in the Initial Exploration Phase the guarantee will be increased by five million U.S. dollars (U.S.\$5,000,000) for the obligatory seismic program set forth in paragraph 1 of Article 15.
4. The amount of such guarantee shall be reduced by five million U.S. dollars (U.S.\$5,000,000) in the Initial Exploration Phase when the obligatory seismic program is completed and by ten million U.S. dollars (U.S.\$10,000,000) 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 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 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 shall also provide SONANGOL not later than three (3) months after the Effective Date with a corporate guarantee substantially in the form shown in Annex D hereof.

Article 21
Signature Bonus

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

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 shall pay to SONANGOL a surface rental of three hundred U.S. dollars (U.S.\$300) per square kilometer for all the area covered by the resulting Development Area(s). Such surface rental may be recovered as Production Expenditure by CONTRACTOR against the Cost Recovery Crude Oil.

Article 23

Conservation of Petroleum and Prevention of Loss

1. CONTRACTOR 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 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 Oil carrying zones simultaneously through one string of tubing, except with the prior approval of SONANGOL.
4. CONTRACTOR 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, 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 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 organised in such a way as to allow for the prompt and complete ascertainment of costs and expenditure. All such records and information will be kept at CONTRACTOR's office in Luanda.
2. SONANGOL, in exercising its activities under the terms of this Agreement, shall have the right to free access to all data referred to in the preceding paragraph. CONTRACTOR 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 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's possession.
3. CONTRACTOR 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 for its own purposes shall be considered available for inspection at any reasonable time by SONANGOL or its representatives. CONTRACTOR shall keep such samples for a period of thirty-six (36) Months or, if before the end of such period, CONTRACTOR withdraws from the Contract Area, then until the date of withdrawal. Three (3) Months before the end of such period, CONTRACTOR shall request

instructions from SONANGOL as to the destination for such samples. If CONTRACTOR does not receive instructions from SONANGOL by the end of such three (3) Month period then CONTRACTOR 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 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 only 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.
6. Subject to any other provisions of this Agreement, CONTRACTOR 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. SONANGOL's representatives and employees, in exercising the rights under the preceding sentence of this paragraph shall not interfere with CONTRACTOR's operations. CONTRACTOR 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's Obligations to Purchase SONANGOL's Oil

1. SONANGOL shall have the right to require CONTRACTOR 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

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 Calendar Quarter SONANGOL shall give written notice to the CONTRACTOR that it requires CONTRACTOR to purchase a specified quantity of Crude Oil to be lifted rateably over a period of two (2) consecutive Calendar Quarters; and

 - (b) CONTRACTOR's obligation to purchase Crude Oil will continue mutatis mutandis from Calendar Quarter to Calendar Quarter after the initial two (2) consecutive Calendar Quarters until and unless SONANGOL gives CONTRACTOR 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 Oil Disposal

1. SONANGOL shall have the right upon six (6) Months written notice to buy from CONTRACTOR Crude Oil from the Contract Area equivalent in value to the Petroleum Income Tax due by CONTRACTOR to the Ministry of Finance, i.e. fifty per cent (50%) of CONTRACTOR's share of 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 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 for each purchase of Crude Oil under paragraph 1 above shall be due 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 by SONANGOL out of its next Crude Oil entitlement, valued at the Market Price applicable to such Crude Oil.
3. If, in any Year, CONTRACTOR'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 by SONANGOL under this Article and by the Government under the Concession Decree, is less than forty nine per cent (49%) of total oil estimated to be produced and saved in the Contract Area, CONTRACTOR shall have the right to buy and lift the corresponding balance of Crude Oil in the succeeding Year.

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

- (a) Six (6) Months prior to the start of a Calendar Quarter CONTRACTOR 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 rateably over a period of two (2) consecutive Calendar Quarters; and,
- (b) SONANGOL's obligation to sell Crude Oil will continue mutatis mutandis from Calendar Quarter to Calendar Quarter after the initial two (2) consecutive Calendar Quarters until and unless CONTRACTOR 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's right in paragraph 3 above and SONANGOL's right in paragraph 1 above, CONTRACTOR's right in paragraph 3 above shall have priority.
5. The fulfilment of the obligation to satisfy the Government's right as per Article 8 of the Concession Decree shall be shared between SONANGOL and CONTRACTOR in proportion to their respective net shares of production during the period concerned (CONTRACTOR'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 being Petroleum deposits, capable of a 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 and said other entities, require that the Petroleum in those deposits should be developed and produced together.
2. SONANGOL, by means of written notice addressed to CONTRACTOR 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 make use of the rights referred to in the preceding paragraphs, CONTRACTOR shall use all reasonable endeavours 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 from the date when CONTRACTOR 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 a plan, at the expense of the CONTRACTOR and the other entities, for the joint development and production of the deposit in accordance with the generally accepted practice in the international petroleum industry.
5. The plan prepared under the terms of the preceding paragraphs should be in accordance with the rules established in this Agreement, in particular

as regards the rights and obligations of CONTRACTOR, and it should establish a reasonable rate of return for CONTRACTOR 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 will meet and use best endeavours to reach agreement on its implementation.
7. If CONTRACTOR is unable to reach agreement on the preparation of a plan for joint development and production under paragraph 3 above, or, as the case may be, on the implementation of a plan prepared by SONANGOL under paragraphs 4 and 5 above, it shall relinquish to SONANGOL those parts of the Contract Area together with the Petroleum deposits lying thereunder which are the subject of SONANGOL's notice, without prejudice to its other rights and obligations under this Agreement in respect of the remainder of the Contract Area.
8. Any joint development 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 must fulfil 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 one (1) year, or such longer period as agreed by SONANGOL.

Article 28
Abandonment of Assets

The CONTRACTOR, 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 expiry, cancellation or abandonment refers, are in production or are capable of producing, together with all the related casing, piping, surface or sub-surface equipment in the Contract Area acquired by CONTRACTOR for the undertaking of Petroleum Operations except such casing, piping, surface or sub-surface equipment which is being used for Petroleum Operations elsewhere in the Contract Area.

Should SONANGOL so request, the CONTRACTOR 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 normal industry practice.

Article 29
Natural Gas

1. CONTRACTOR shall have the right to use in the Petroleum Operations Associated Natural Gas produced from Development Areas for any purpose, including fuel and pressure maintenance in the fields covered by the Development Areas and the right to process such Gas and separate the liquids therefrom. Costs to produce, treat and so use such Gas shall be Production Expenditures.
2. Associated Natural Gas surplus to the requirements defined in the preceding paragraph is available at the separator free to SONANGOL.
3. If Non-Associated Natural Gas is discovered within the Contract Area then SONANGOL and CONTRACTOR shall endeavour to agree on the terms under which such Gas will be developed. 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 eighteen (18) months of the date when such Gas was discovered, or such longer period as may be agreed to by SONANGOL, then SONANGOL shall be free to develop the discovery for its own account. If SONANGOL so agrees, then CONTRACTOR shall have an option 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.
4. In the course of activities provided for under this Agreement, flaring of Associated and/or Non-Associated Natural Gas, except short-term flaring necessary for testing or other operational reasons, is prohibited except on prior authorization of the Ministry of Petroleum following a request by SONANGOL. CONTRACTOR shall formulate such request for SONANGOL and 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. 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 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 to the Operating Committee in any Exploration Well being drilled which has encountered Petroleum, provided that the Operating Committee has agreed that SONANGOL may undertake the 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 Calendar 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 has not elected to undertake under paragraph 3 below;
 - (f) the Development of a Petroleum deposit discovered by a successful Exploration Well and/or Appraisal Well carried out by

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

2. Except as to the operations described under paragraphs (a) and (b) 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 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 it elects to undertake such proposed operation as part of the Petroleum Operations:
 - (a) as to any operation described in paragraphs 1(a) and (b), 48 hours or until commencement of the deepening operations, whichever occurs last;
 - (b) as to any operation described in paragraphs 1(c) and (d), 3 months;
 - (c) as to any operation described in paragraphs 1(e) and (f), 6 months.
4. If CONTRACTOR 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 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 at SONANGOL's sole risk, cost and expense, provided that such operation will be carried out only if it will not conflict or cause hindrance to CONTRACTOR's activities or obligations, 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 shall agree on a method whereby SONANGOL will provide all necessary funds to CONTRACTOR to 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 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's activities or obligations, 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 in writing of such proposed agreement. CONTRACTOR 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 on the assumption that the utilisation of such assets shall not prejudice the Approved Work Programs and Budgets.

8. If, in accordance with the provisions of paragraph 4, CONTRACTOR decides to undertake any works as foreseen in paragraph 1(d), it shall pay SONANGOL in cash and within 30 days as of 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 directly lead 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 an additional payment equal to two hundred per cent (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 exercised the right referred to.
10. If, in accordance with the provisions of paragraph 4, CONTRACTOR 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 per cent (25%) of CONTRACTOR's share of Development Area Profit Oil produced from this developed field until the value thereof as defined in paragraph 13 of this Article equals one thousand per cent (1,000%) 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 per cent (100%) of the Petroleum produced from the field 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.

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'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 committees whenever it is necessary;
 - (e) in general, to review and, except as provided in paragraph 12, 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.

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.

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. The Operating Committee meeting 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 at the request of any Party;
 - (c) to establish the agenda of the meetings which shall include all matters which the Parties have asked to be discussed;
 - (d) to convey to each Party all decisions of the Operating Committee, within five 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 any advice or studies whose execution has been approved by the Operating Committee.
 - (f) to request from technical 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 effect;

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 effect.
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 shall have one (1) vote and the Chairman shall also 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 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 and of the procedures and guidelines as per paragraph 2(a) above.

- (e) determination of deemed rate of return as per Article 12.
12. Prior to the time 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's proposals on Exploration Work Programs and Budgets (including the location of Wells and facilities). Following such review CONTRACTOR shall make such revision of the Exploration Work Programs and Budgets as CONTRACTOR 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 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 will not be obligated to make any payments for the use of such physical assets during the term of this Agreement. These provisions shall not apply to equipment belonging to and leased from third parties.

2. During the term 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 at no cost to CONTRACTOR. Any SONANGOL 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 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 to be superfluous shall not be disposed of by SONANGOL except with agreement of CONTRACTOR 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, 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 re-organization 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'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 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, show third parties geophysical, geological and other technical data (the age of which is not less than one (1) year) or CONTRACTOR'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, 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 Angolan 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 timely notice has been given of the claims and opportunity to defend.
2. CONTRACTOR is also liable for losses and damages (excluding indirect and consequential losses and damages) which, in conducting the Petroleum Operations, it may cause to the State and, in case of CONTRACTOR's wilful 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, and in relation to which CONTRACTOR shall only be liable for such losses and damages caused by its wilful misconduct or gross negligence.
4. If CONTRACTOR comprises more than one entity, the liability of such members shall be joint and several.

Article 35
Insurance

1. Relative to the risks inherent in its Petroleum Operations, CONTRACTOR shall execute and keep current insurance contracts for the amounts and types required by applicable Angolan Legislation, as well as any other insurance contracts proposed by CONTRACTOR and approved by the Operating Committee, it being understood that such approval is not necessary when CONTRACTOR is protected by worldwide insurance or reinsurance programs. In this case, CONTRACTOR shall promptly inform SONANGOL on 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 applicable legislation of the People's Republic of Angola.

Article 36

Employment, Integration and Training of Angolan Personnel

1. CONTRACTOR shall be subject to the provisions of Decree 20 of April 17, 1982 and corresponding regulations regarding the recruitment, employment and training of Angolan personnel.
2. In the Petroleum Operations carried out under this Agreement CONTRACTOR shall apply the most appropriate technology and managerial experience, including their proprietary technology such as patents, "knowhow" 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 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'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, "knowhow" 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, employment and training of Angolan personnel which is covered under Article 12 of the Concession Decree, CONTRACTOR specifically agrees to:
 - (a) prepare a draft of the initial Plan and submit it to SONANGOL within four (4) Months of the Effective Date;

Article 37
Fiscal Regime

1. The fiscal regime applicable to Petroleum Operations is that established in the Concession Decree.
2. In order to avoid the international double taxation of CONTRACTOR's income, SONANGOL shall favourably consider any amendments or revisions to this Agreement that CONTRACTOR may propose as long as those amendments or revisions do not impact on SONANGOL or Angola's economic benefits and other benefits resulting from the Agreement.
3. Should the clearance stamp duty 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 for the additional amounts paid by CONTRACTOR. SONANGOL and CONTRACTOR shall promptly agree on procedures to accomplish such reimbursement.

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.

- (b) prepare a proposal for implementation of the 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 being able, in this regard and with the approval of SONANGOL, to contract outside specialists not associated with CONTRACTOR to proceed with the implementation of specific aspects of the subject Plan.
5. CONTRACTOR agrees to require in its contracts with subcontractors who work for CONTRACTOR 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 further agrees to monitor compliance with such obligations.
 6. CONTRACTOR shall be responsible for the training costs of Angolan personnel it employs, such costs being treated as Production Expenditure. Costs incurred by CONTRACTOR for training programs for SONANGOL personnel will be borne in a manner to be agreed upon by SONANGOL and CONTRACTOR.
 7. Subject to the provisions of paragraph 4 above, CONTRACTOR 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 in obtaining visas, required permits and any other entry, residency and work licenses required in connection with the performance of Petroleum Operations in the Contract Area. CONTRACTOR 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 39
Assignment

1. In accordance with the legislation of the People's Republic of Angola, each of the entities constituting CONTRACTOR 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, such authorization shall be granted within thirty (30) days of CONTRACTOR's notice of intent to make such assignment.
2. Any third party assignees shall be holders of the rights and obligations deriving from this Agreement and subject to all the appropriate legislation.
3. In the case of the assignment being in favour 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 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 the share assigned in the case of an assignment to a non-Affiliate. SONANGOL must exercise such right within thirty (30) days of CONTRACTOR's notice of intent to make such assignment.
7. Except as otherwise provided herein, upon completion of an assignment 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 general law and of any contractual clause, SONANGOL may proceed to the termination of this Agreement if CONTRACTOR:
 - (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 in force in the People's Republic of Angola;
 - (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;
 - (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 fulfil a substantial part of the duties and obligations resulting from the Concession Decree 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 is transferred to a non-Affiliate third party by the owners thereof without having obtained the prior required authorisation.
3. If SONANGOL considers that one of the aforesaid causes exists to terminate this Agreement, it shall notify CONTRACTOR in writing 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 Diario da Republica 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 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 or the general legislation in force.
5. If any of the entities constituting CONTRACTOR, 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 entity or entities hold under this Agreement, except as provided in the preceding paragraph, shall revert to SONANGOL without compensation.

Article 41
Confidentiality of the Agreement

1. SONANGOL and CONTRACTOR agree to maintain the confidentiality of this Agreement, except for those disclosures which are provided for in the applicable legislation, the regulations of stock exchange markets as well as requests from banks or credit institutions in connection with financing requirements.
2. Disclosure of the contents of this Agreement will also be permitted to Affiliates and to potential assignees of the CONTRACTOR, provided that they agree to respect the confidentiality of the Agreement.

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 (1) arbitrator shall be appointed by SONANGOL and one (1) arbitrator shall be appointed by CONTRACTOR. The third arbitrator, who shall be Chairman of the Arbitration Tribunal, shall be jointly appointed by SONANGOL and CONTRACTOR. If any arbitrator is not so appointed within thirty (30) days after notice from SONANGOL or CONTRACTOR to the other requesting that the appointment be made, then such arbitrator shall be appointed by the President of the International Chamber of Commerce.
3. The arbitration proceedings will take place in Angola and will be set up by the competent civil court of the Comarca of Luanda in accordance with Law 13/78, of 26 August. The arbitrators shall decide the matter in dispute according to Angolan substantive law and applicable principles of international law.

4. 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 judgement thereon and the award shall be final, binding and 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, 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 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 and 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.

Article 44
Applicable Law

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

Article 45
Language

This Agreement has been prepared and signed in both Portuguese and English. The Portuguese version shall be the 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, Republica Popular de Angola, where communications foreseen in this Agreement must be validly served.
2. SONANGOL's office for the purpose of serving notice is:

Rua 1º Congresso do M.P.L.A.
No. 8-4º Andar
Luanda
REPUBLICA POPULAR DE ANGOLA

Telex: 3148 and 3260

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

4. SONANGOL and Operator will communicate to each other in writing and with reasonable 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.

IN WITNESS WHEREOF, the Parties hereto have signed this Agreement in duplicate in the Portuguese and English languages.

SONANGOL:

By: _____

Date: _____

CONTRACTOR:

By: _____

Date: _____

Annex A
Description of the Contract Area

Annex B
Map Showing the Contract Area

BARROWS
CONFIDENTIAL

Annex C
Accounting and Financial Procedure

Annex C

Accounting and Financial Procedures

The present annex is an integral part of the Production Sharing Agreement dated _____, 1991, signed between SONANGOL as one of the Parties and by _____ as the other Party, as referred to in Article 2 of the Agreement.

BARROWS
CONFIDENTIAL

Article 1

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 is made up has the responsibility of keeping its own accounts registers 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 is comprised to keep such accounting registers, 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 accounts registers, charts of results, accounts reports and correspondence should be written in Portuguese and added up in New Kwanzas 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, the referred to accounts registers, 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.
- 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, made or not, 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 accounts register 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 profit 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 New Kwanzas or in US Dollars will be converted from New Kwanzas into US Dollars or US Dollars into New Kwanzas 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.
- 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 programme of work, as well as the payments as a result of the purchase rights of crude oil by the Contractor 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 accounts registers maintained by the Contractor will be audited on an annual basis to be carried out by an independent auditing company to be chosen by SONANGOL and the Contractor. The inspection to be carried out by the auditors should be based on generally accepted auditing principles.
- b. The Contractor should supply all registers, 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 as Administration and Services Expenditure.
- d. A copy of each audit report should be given to the Ministry of Finance, SONANGOL and each entity of which the Contractor 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, to carry out operational inspections or audits considered to be necessary in respect of facilities, studies, accounts, registers, 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 amount of notification to Contractor, all expenditures and revenue connected with Petroleum Operations, such as accounts registers, accounts entries, inventories, vouchers, payment slips, invoices, contracts or sub contracts of any kind related to the Agreement and any other documents, correspondence and registers of the Contractor 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 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 registers located outside Angola without SONANGOL's authorisation will be paid by the Contractor and is not recoverable.
- i. All accounts registers, 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 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 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 wilful 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, should be promptly adjusted in the joint account.
- m. If any disputes between SONANGOL and the Contractor 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 should 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 should 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 arising from Angolan commercial legislation.

Article 2

Expenditure and Revenue of Contractor

- 2.1 The expenditure incurred under the terms of the Agreement should be debited to the joint account in accordance with the principles set out in 2.3. Each member of the Contractor 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 expenditure will be classified in accordance with the "Oil Operations Information System (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 "Oil Operations Information System (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 eligibility of expenditure on personnel as recoverable costs, the Operator should submit to SONANGOL its internal management policies and practices in respect of personnel, including salary policies, subsidies and travelling expenses, benefits and other company incentives, which, under the terms in which they are approved by SONANGOL 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 should have time sheets.

- d. These sheets will register the time worked on the Petroleum Operations, even if the personnel in question is employed on the Petroleum Operations on a full or a part time basis, and should 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. The expenses and contributions imposed under the laws of the People's Republic of Angola, applicable to salaries and wages referred to in paragraph b. above.
- g. For the purposes of the conditions of paragraph f. above, any tax payments and contributions owed by the Operator's non resident workers in their country of origin in addition to any taxes and contributions owed by workers resident in Angola will be considered as recoverable costs.
- h. 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 their Affiliates, under the terms of internal policies approved by SONANGOL and applicable Angolan legislation.
- i. Reasonable travelling expenses, accommodation and subsistence and personal expenses of the Operator's workers including those incurred as a result of journeys and resettlement of non resident workers employed on the Operations carried out by the Contractor in the People's Republic of Angola, in accordance with standard practice in the international oil industry and internal policies approved by SONANGOL under the conditions set out in 2.3.3 b. to d. below.

2.3.2 Expenditure on Transport

- a. Expenditure on the transport of non resident employees, equipment, materials and necessary supplies for the carrying out of the Petroleum Operations.
- b. Expenditure on the transport of personnel will include travelling expenses of non resident workers and their families, paid by the Operator in accordance with his internal travelling practices and

policies for personnel, previously approved by SONANGOL under the terms set out in 2.3.1(a) above.

- c. Expenditure 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 expenditure incurred on the movement of a worker outside 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 travelling and other expenses connected with the termination of his provision of labour in Angola will be debited to the joint account.

2.3.3 Expenditure Incurred on Services Provided by Third Parties

Contracts with third parties which are considered to be the real cost of the technical service and other contracts signed under the scope of Petroleum Operations, by the Operator, at the expense of the Contractor, 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 to the 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

- Geophysical analyses
- Geological and geochemical studies
- Rock and fluid studies
- Thermodynamic analyses
- Interpretation of diagraphics
- Reservoir analysis and studies.

Development

- Studies of the sub surface for the purpose of determining the best manner of recovering hydrocarbons, 2D and 3D geophysics, production geology, modelling and simulation of deposits as an integral part of economic reservoir exploitation and conservation.
- 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
- Specific studies for the purpose of enhanced recovery and cost control
- Improvement of the methods of drilling and completion equipment
- Safety procedures programme.

Production

- Analysis of fluids produced
- Optimization studies
- Improvement and control of equipment

- Lifting programme schedule studies
- Corrosion control programme and studies,

Administration and Services

- Provision of data processing services
- Maintenance programme and inventory control evaluation and studies.

- II. This list is exhaustive and may only be altered with the approval of SONANGOL.
- III. Such services in relation to each Fiscal Year should be set out, duly discriminated under their own heading, as an integral part of the Work Programmes and Budgets under the terms of the Operating Procedures Manual 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 Programmes and Budgets the Operator should 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 should be previously approved by SONANGOL at the request of the Operator, both by means of a global "Master Order" for each field and individually on a case by case basis.
- VI. These Work Orders should 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 real costs which have been incurred and invoiced are the greater of ten per cent (10%) or \$10,000 higher 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 should be annexed to the respective invoice and filed by the Operator in Angola.
- VIII. The approval for services whose budgeted worth is equal to or more than thirty thousand US dollars (US \$ 30,000) will only be definitive in respect of each of these services if SONANGOL does not put forward any objections with a period of twenty one (21) days commencing from the data 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 Programmes 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 first five (5) Years of the Agreement, corresponding to the Exploration Period as defined in Article 6 of the Agreement, one per cent (1%) 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, one per cent (1%) 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, banks, invoicing, credits, accounts, general services, communications, 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 costs 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 point number 2.3.4 and may be recovered under the terms set out in 2.3.1.

- b. Other services provided by SONANGOL and its Affiliates 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 conditions of the following paragraph (c) the material and equipment purchased by the Operator for use on the Petroleum Operations should be costed at the invoice price less all commercial discounts and abatements, 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 should not be greater than the prices generally in force 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 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 should not be

greater than the prices generally in force 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 cannot 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 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 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 Expenditure on Rents, Taxes, Duties and Other Tax Obligations

The rents of the Development Areas paid under the terms of the Agreement, tax, customs duties, contributions, charges, surcharges and any other tax obligation 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 Expenditure 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 expenditure incurred by compliance with insurance contracts, signed in contravention to the conditions of the applicable Angolan legislation in question 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 Expenditure Incurred on Legal Services

- a. Expenditure incurred as a result of litigation, necessary or appropriate legal and other similar services for the obtaining, improving, conservation and protection of the Area of the Agreement and the institution or defence of legal proceedings in respect of the Area of the Agreement 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.

- 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 on a contingency basis the respective costs will be included in the scope of the category of technical and administrative assistance set out in numbers XI to XIII of paragraph (a) of point 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 Operations in the Area of the Agreement are recoverable.

2.3.9 Expenditure Incurred on the Training of Angolan Personnel

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

2.3.10 General and Administration Expenditure

General and administration expenditure incurred by the Operator in Angola in respect of the maintenance of his main office, support installations for the Petroleum Operations and the places of residence of the Petroleum Operations in the Contract Area.

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

- 2.5 Costs which are not recoverable under the terms of the Agreement.
- a. Expenditure incurred before the Agreement is signed except if otherwise agreed to the contrary with SONANGOL.
 - b. Expenditure as a result of wilful misconduct or gross negligence carried out by the Operator, for which he is responsible under the terms of the Agreement.
 - c. Commissions paid by the Operator to agents.
 - d. Marketing expenses or transportation of crude to a location which is not the place of delivery as set out in the Agreement.
 - e. Expenditure on any guarantee which is provided under the terms of the Agreement.
 - f. Compensation, fines or penalties for failure to comply with contractually established obligations.
 - g. Expenses incurred with the arbitration proceedings carried out under the terms of the Agreement.
 - h. Expenses incurred on the independent appraisal expert in accordance with Article 2 of Annex C of the Concession Decree.
 - i. The Petroleum Income Tax.
 - j. Fines and penalties imposed by the courts
 - k. Gifts or discounts provided to suppliers.
 - l. Gifts to authorities or high ranking Angolan officers
 - m. Promotional and advertising expenditures.
 - n. Expenditure for demurrage of oil tankers
 - o. Expenditure on interest for loans, including charges on capital during construction and charges on suppliers credit.

- p. Expenditure on legal services incurred by the Operator except for those specifically set out in 2.3.8.
- q. 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 competence delegated to the Operator in the Agreement.
- r. Costs arising from the implicit renewal of these contracts without the prior authorization of SONANGOL.
- s. The costs and damages incurred as the result of the failure to sign the insurance contracts established under the terms of applicable Angolan legislation.
- t. The contributions and tax on salaries and wages of workers employed by the Operator under the terms set out in 2.3.1(g).

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

- a. Gross revenue of 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 or their agents, received by SONANGOL and its Affiliates and/or any entity constituting Contractor 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 revenue 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 revenue from general administration activities and support to Exploration, Development and Operation carried out by the Operator for the benefit of third parties with the prior approval of SONANGOL.

- e. The revenue 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 payments received by the Contractor, as a result of any expenditure made under the terms of this Article but excluding those arising as a result of any favourable sentence awarded to the Contractor in respect of the arbitration proceedings set out in 2.3.8.

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Article 3

Expenditure of Non Operators

- 3.1 Non operator companies of which the Contractor is constituted may only recover general and administration expenditure with the prior approval of SONANGOL made on the installation and operation of their offices in Angola.

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 Expenditure will be registered in the accounts as fixed assets and will not therefore be amortizable but will be considered as costs under the terms of Article 11 of the Agreement.
- 4.3 Production Expenditure may include a provision for costs of abandonment, under the following terms:
- a. Ninety days before the beginning of the calendar 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 should provide SONANGOL with a technical study for the alternative possibilities of relinquishment and its best calculations on the costs of relinquishment in respect of each Area of Development for approval purposes.

- b. This calculation should be up to date and inflated by reference to the estimated data for the effective removal of the production infrastructures in each of the Development Areas.
- c. After the approval of SONANGOL and at the beginning of the calendar Year referred to above, the Operator will calculate, on a three monthly basis, the recoverable costs of relinquishment on a three monthly basis using the method of the production unit in accordance with the following formula:

$$\begin{array}{rcl}
 \text{Three month production (MMBLS)} & \times & \text{Total} \\
 \hline
 \text{Appropriation Percentage (50\% or} & & \text{approved} \\
 \text{30\% or 25\%) of declared recoverable} & & \text{costs of} \\
 \text{Reserves (MMBLS)} & & \text{relin-} \\
 & & \text{quishment} \\
 & & \text{Costs of} \\
 & & \text{relinquish-} \\
 & & \text{ment recov-} \\
 & & \text{erable on a} \\
 & & \text{three} \\
 & & \text{months} \\
 & & \text{basis}
 \end{array}$$

- d. The amount calculated under the terms of paragraph c. above will be imputed to the 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 expenditure in accordance with the conditions of 4.8 below.
- e. An amount which is equivalent to the amount calculated in accordance with paragraph c. above will be paid by the Contractor to SONANGOL after a period of no more than thirty (30) days after the end of the Quarter in question.

4.4 Development Expenditure will be registered in the accounts as follows:

- a. Development Expenditure 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. It will be amortizable at a rate of twenty five per cent (25%) per Year in equal yearly instalments beginning in the Year in which such expenditure was 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 Expenditure 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 expenditure in

question will only commence during the Year of completion with its classification then being made as a permanent fixed asset.

- d. A full amortization of twenty five per cent (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 expenditure 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 clauses 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 Operating expenditure for more than one Development Area, after the respective imputation of the Administrative and Services expenditure under the terms set out in 4.8 and following paragraphs, 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 Expenditure 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, size of the amount or slow period of extinction are susceptible to capitalization, will be registered in the accounts as fixed assets.
 - b. This expenditure will be amortized at a rate of twenty five per cent (25%) per Year, in equal Annual instalments, beginning in 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 expenditure 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 expenditure will only commence in the Year of completion with its classification then being made as a permanent fixed asset.

- d. A full amortization of twenty five per cent (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 Expenditure 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 costs 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 Expenditure will be imputed each Year to Exploration, Development and Production Expenditure in the following manner:
- a. The amount of annual depreciation of the Administration and Services Expenditure registered in the accounts as fixed assets in accordance with 4.7 a. above, will be registered in the Exploration, Development and Production Expenditure account in proportion to the direct annual expenditure by each of these activities.
 - b. The amount of the Administration and Services Expenditure debited as yearly costs in accordance with 4.7 e. above, will be imputed to Exploration, Development and Production Expenditure in accordance with the method set out in paragraph a. of this point.
 - c. The imputation of the Administration and Services Expenditure 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 Expenditure, 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 costs 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 Programme and Budgets 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 "Oil Operations Information System (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 calendar 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 centres 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 should 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 stocks as set out in 4.9 above under their own subheading.
 - c. Their imputation to the centres 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 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 Expenditure 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 Expenditure incurred in the Area of the Agreement, these expenses will continue to be non recovered.
- 4.15 The recovery of the Expenditure 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.

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Article 5

Registration and Evaluation of Assets

- 5.1 The Contractor should 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 "Oil Operations Information System (SIOP)".
- 5.2 At reasonable intervals of time and at least once a year a full inventory will be made by the Contractor, under the terms of the Agreement. The Contractor 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 should 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 paid by him.

Article 6

Reports

- 6.1 The Contractor should prepare and submit to SONANGOL the financial, statistical, technical and personnel reports according to the procedures set out in the "Oil Operations Information System (SIOP)" approved by Joint Executive Decree number 7/88 of the 26th of March.

Article 7

Revision of Accounting and Financial Procedures

- 7.1 The conditions set out in this Annex may be altered by mutual agreement between SONANGOL and the Contractor, provided that they do not contravene the conditions of the "Oil Operations Information System (SIOP)" approved by Joint Executive Decree number 7/88 of the 26th March. Alterations will be made in writing and should mention the date from which they come into effect.

Article 8

Contractual Conflicts

- 8.1 In the case of any conflict between the conditions set out in this Annex and the conditions set out in the Agreement the conditions of the Agreement will take precedence.

**Annex D
Corporate Guarantee**

To: **SOCIEDADE NACIONAL DE COMBUSTIVEIS DE ANGOLA**

("PARENT COMPANY") represented by

----- hereby declares that

----- 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 ----- (the "Agreement"), executed by SOCIEDADE NACIONAL DE COMBUSTIVEIS DE ANGOLA - U.E.E. ("SONANGOL") and LOCAL COMPANY and others and of the Concession Decree 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 fulfilment 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, 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, then SONANGOL may demand of PARENT COMPANY the fulfilment of such obligations in default.

Any disputes under this Guarantee shall be settled according to the arbitration provisions contained in Agreement.

BARROSO'S
CONFIDENTIAL

PARENT COMPANY

By: _____

Title: _____

AGREED:

**SOCIEDADE NACIONAL DE
COMBUSTIVEIS DE ANGOLA**

By: _____

Titles: _____