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ETHIOPIA

Model Petroleum Agreement Issued April 1973 By
Imperial Ethiopian Government, Ministry Of Mines

P E T R O L E U M A G R E E M E N T

This Agreement (hereinafter Agreement) is made subject to the Mining Proclamation of 1971 and Regulations issued thereunder on this _____ day of _____ 19____

by and between:

THE IMPERIAL ETHIOPIAN GOVERNMENT (hereinafter called Government) represented by H.E. Ato Emmanuel Abraham, Minister of Mines

OF THE FIRST PART

and

_____ (hereinafter the Company) represented by _____

OF THE SECOND PART

W I T N E S S E T H

WHEREAS, the area described in Schedule "A" hereto and being hereinafter called the Subject Area, is believed to contain deposits of petroleum susceptible of commercial exploitation; and

WHEREAS, the Company has all the necessary modern technical skill, experience and financial resources to explore for, develop, produce, process, market and sell all such deposits;

NOW THEREFORE, the parties hereto, for and in consideration of the premises and mutual covenants and agreements herein contained, do hereby agree as follows:

ARTICLE I

GRANT

(a) The Government hereby grants to the Company the sole and exclusive right and privilege for the term provided in the present Agreement and in accordance with the terms hereof to prospect and explore for, develop and produce petroleum and its derivative constituent substances (as hereinafter defined) within the Subject Area and to process, market and sell within and outside of the Empire of Ethiopia all such petroleum produced.

Nothing said in the above paragraph in any manner restricts the Government from granting mining rights for minerals other than those covered by this Agreement over the same area, provided that such grants shall not prejudice the rights of the Company hereunder.

(b) The Company shall, within ninety (90) days of commencing each stage of the Exploration Programme outlined in Schedule "B" attached hereto, execute and deliver to the Government a performance bond or bank guarantee ("Performance Bond") substantially in the form attached hereto as Schedule "C" from a financial institution acceptable to the Government for the amount (U.S. dollars) as follows:

\$ _____ (_____) for Stage 1;
\$ _____ (_____) for Stage 2;
\$ _____ (_____) for Stage 3;

which Performance Bond shall secure the due and punctual performance of all work obligations contained in Schedule "B" during the stage involved and the Performance Bond for Stage 1 as shown in Schedule "B" in the amount of \$ _____ shall be executed and delivered within ninety (90) days of the Effective Date of this Agreement.

(c) Notwithstanding the provisions hereof, the Company, rather than deposit a new Performance Bond for a subsequent stage, may deposit a Performance Bond in an amount equal to the difference between the Performance Bond required for the stage involved and the Performance Bond(s) theretofore deposited for a prior stage(s) and all such Performance Bonds shall be applicable to (and considered deposited for) such subsequent stage, and so on from time to time.

(d) The Performance Bonds deposited by the Company shall, subject to paragraph (c) above, be released, discharged and returned to the Company as follows, namely:

- (1) The Performance Bond for Stage 1 as set forth in Schedule "B" as soon as possible after and in any event within six (6) months after the date the geological report referred to in Stage 1 of Schedule "B" is submitted to the Minister;
- (2) The Performance Bond for Stage 2 as set forth in Schedule "B" as soon as possible after and in any event within six (6) months after the date the Evaluation Report referred to in Stage 2 of Schedule "B" is submitted to the Minister; and
- (3) The Performance Bond for Stage 3 as set forth in Schedule "B" as soon as possible after and in any event within six (6) months of the date the drilling rig is released from the initial test well:

Provided that in the event of a surrender pursuant to Article V hereof or termination before the work and report on a stage is completed and delivered, the Government need not release, discharge and return the performance bond so deposited until the provisions of Article VI (b) hereof have been complied with by the Company.

ARTICLE II

DEFINITIONS

Wherever used herein unless the context shall otherwise require:

(a) "Affiliate" shall mean:

- (1) any corporation in which the Company holds five percent (5%) or more of the company's shares;
- (2) any company which, directly or indirectly, is controlled by, or controls, or is under common control with the Company; or
- (3) any shareholder or group of shareholders of the Company of any Affiliate and any individual or group of individuals in the employ of the Company.

For the purposes of this paragraph "company" shall include corporations, partnerships, unincorporated associations, firms and other business organizations.

(b) "Control" shall mean the possession, directly or indirectly of the power to direct or cause the direction of the management and policies of a company exercised by any other company where a series of companies can be specified beginning with the parent company or companies and ending with the particular company, in which each company of the series, except the parent company or companies, is directly or indirectly controlled by one or more of the companies in the series.

(c) "Company" shall mean _____ a company incorporated under the laws of _____, and shall indicate such an Ethiopian Company as defined in paragraph (d) below after it has been incorporated under Ethiopian Law as provided for in Article III of this Agreement and shall thereafter mean such Ethiopian Company only.

(d) "Ethiopian Company" shall mean the company incorporated under the laws of the Empire of Ethiopia.

(e) "Date of Commencement of Operations" shall mean the date when the Company shall have commenced the regular and recurrent production of petroleum in the Subject Area in Payable Quantities.

(f) "Government" shall mean the IMPERIAL ETHIOPIAN GOVERNMENT.

(g) "Bank" shall mean the National Bank of Ethiopia.

(h) "Acceptable Currency" shall mean any foreign currency which is acceptable to the Bank for the particular purpose in view.

(i) "Gross Income" shall mean the total amount of all gains, profits and other income received by or accrued to the Company either directly or indirectly from business operations and activities of the Company under this Agreement, plus any income from other sources which forms part of the Company's earnings, provided, however, that in computing such Gross Income, sales within and outside of Ethiopia shall, subject to the provisions of subparagraph (3) hereunder, be taken into account as follows:

- (1) Sales to independent parties, including sales to Government under Article X hereof, shall be taken into account at actual realised prices, provided that such prices are negotiated on an arm's length basis and with the objective of maximising profits as set out in Article VII(c) hereof.
- (2) Sales to affiliate shall be taken into account at the Market Value of the products sold. As regards sales to affiliates, it is the intent of the parties that such sales shall be accounted for at prices at which the sales would have occurred if the buyer and seller had not been affiliated. In order to ensure that this intent is carried out, in all sales to affiliates the Company will submit to the Government the method according to which the Market Value above described was calculated. This submission will include the published price used, if any, prices of sales by the Company to independent parties, where relevant, any adjustment made, for example to reflect content of petroleum, and the charges deducted for the calculation of an f.o.b. price, including their source. In the event that the Minister so requests, the Company shall provide evidence of the Market Value for any sale and, if the Company fails to do so within thirty (30) days thereafter, the Wellhead Value as provided in Article IX hereof shall be used in determining the Market Value of such sale.
- (3) Sales to independent parties and sales to affiliates may be deemed to have been consummated f.o.b. Ethiopian port of shipment by the deduction of the following, to the extent that they are incurred by the Company as evidenced by invoices:
- (i) ocean freight,
 - (ii) marine insurance,
 - (iii) port and handling charges at the port of discharge,

- (iv) other costs properly incurred by the Company in delivering the petroleum from the Ethiopian port to the buyer, including those costs allowable for the purpose of computing royalty as specified in Article IX(c)(4).

If any of the above payments are made to affiliates, the deductions thereof shall not be in excess of competitive rates. The Company shall justify the reasonableness of such deductions for payments to affiliates by reference to published freight rates, rate schedules offered by independent parties, or charges incurred by the Company in transactions with non-affiliates.

(j) "Market Value" shall mean the market price of the petroleum, due consideration being given to, and appropriate adjustment being made for differences in kind, quality, nature and quantity of the petroleum products involved and the duration of the contract under which it is sold. Such Market Value shall be determined as of the effective date of the contract under which the sale is made, or if no such contract exists, as of the date of shipment from an Ethiopian port. In the event that a prevailing market price cannot be established by comparison to prices at which independent sales have been effected at the actual port or ports of discharge, comparison shall be made to the port or ports nearest thereto at which a prevailing market price exists, with due allowance for any differential attributable to distance or variations in particular charges for port dues and expenses. In the event that no such market price exists, references may be made to formulas used by taxing authorities of other countries which export such petroleum products, with appropriate adjustments for the quality of petroleum, length of sale agreement, quantity of petroleum, terms of sale and cost of delivery. In no case shall the Market Value so established be less than the price at which the Company sells petroleum products

to independent parties in comparable circumstances as to quantity, quality, length of sale agreement, terms of sale and cost of delivery. If the terms of sale are c.i.f. foreign port, the c.i.f. price may be reduced to an f.o.b. price Ethiopian port of shipment by the deduction of freight, insurance and other customary charges as provided in subparagraph (3) of paragraph (i) above.

(k)(1) "Exploration Operations" shall, subject to the Mining Proclamation, mean the carrying out of any one or more of the acts or investments reasonably necessary in exploring for petroleum, including but not limited to the following:

the exploration of the Subject Area by use of gravity meter, magnetometer, seismic or other geological or geophysical methods; obtaining and developing aerial photographs, mapping by use of aerial photographs or by other methods; the drilling of core holes, stratigraphic test holes; the drilling, testing and completion of exploratory and development wells of all kinds and all services with respect thereto; the study of surface and subsurface geological data; the acquisition by purchase or otherwise of geological and geophysical data, photographs or information on the Subject Area and the general area around it; the processing, study, correlation or interpretation of all data obtained; and ancillary operations carried on either on or off the Subject Area in building roads, camps and other facilities; recruiting, maintaining and transporting employees, their families, contractors and their personnel, equipment and services; obtaining and furnishing seismic services, including processing, correlating, playback or interpretative services; obtaining and furnishing materials, supplies, equipment, housing, offices, storage, transportation, insurance, accounting and supervision and other things useful in carrying out Exploration Operations on the Subject Area.

(2) "Mining Operations" shall, subject to the Mining Proclamation, mean all acts or investments reasonably necessary for producing, working, getting and raising to the surface the petroleum found on, in or under the Subject Area, and treating, refining, separating, dehydrating, or otherwise making the petroleum marketable; storing, loading and marketing or otherwise disposing thereof; including but not limited to, the following:

the construction, operation or maintenance of buildings, installations, plants, machinery, appliances, storage and loading facilities; obtaining and furnishing materials, supplies, dams, railways, roads, pipelines, communication facilities and other facilities or services, and ancillary operations carried on either on or off the Subject Area in building roads, camps and other facilities; obtaining, maintaining and transporting employees and their families, contractors and their personnel, services, materials, supplies, equipment, housing, storage, and transportation, processing, treating, refining and marketing facilities, insurance, accounting and supervision and other things useful in carrying out Mining Operations.

(3) "Operations" shall mean either Exploration Operations or Mining Operations or both.

(1) "Petroleum" shall mean crude oil, natural gas, natural gas liquids, tar sands, oil shales and other hydrocarbons, all before refining.

(m) "Natural Gas" or "Gas" shall mean all gaseous substances (hydrocarbons and non-hydrocarbons) including sulphur, produced from wells in a vaporous or gaseous form, which existed in a gaseous form in the reservoir or in solution with the crude oil, but excluding condensates which by normal field methods of petroleum gas processing are separated and recovered as liquids.

(n) "Oil" or "Crude Oil" shall mean all liquid petroleum before refining and excludes Natural Gas but includes condensates which by normal field methods of petroleum gas processing are separated and recovered as liquids.

(o)(1) "Exploration Cost" shall mean all reasonable expenditures wholly, necessarily and exclusively made and obligations and liabilities incurred by the Company in carrying out Exploration Operations hereunder including, without limitation to the generality of the foregoing, the costs specified in subparagraph (3) below.

- (2) "Mining Cost" shall mean all reasonable expenditures, wholly, necessarily and exclusively made and obligations and liabilities incurred by the Company in carrying out Mining Operations hereunder including, without limiting the generality of the foregoing, the costs in sub-paragraph (3) below.
- (3) Such costs shall include all costs incurred for materials, equipment, supplies, work and services performed by contractors and sub-contractors, salaries, fees and other compensation paid to employees of the Company and/or other persons engaged in carrying out the Operations; building costs, maintenance, rentals and related costs for all offices, houses, warehouses, pipelines, casing, pipe, roads, production equipment and facilities, storage, treating, loading and shipping facilities; and such costs of other facilities and costs of equipment, furniture, fixtures, supplies and services necessary for the operation of such buildings and facilities acquired for the purposes of gaining or producing income; the cost of buying, renting, furnishing or otherwise obtaining, maintaining, supporting, repairing, transporting, insuring, storing, accounting for the supervising of the use of equipment, materials, services, supplies and personnel; the cost of vehicles and other transportation equipment, professional or other outside services, and other costs and expenses of exploring for and producing petroleum; and costs in connection with such operations and all costs incurred in furnishing the facilities and services required under the provisions of Article XVII (b) and (c) hereof.
- (4) "Operating Costs" shall mean Exploration Costs and Mining Costs.

(p) "Payable Quantities" shall mean sufficient quantities of petroleum to enable the Mining Operations to be undertaken or continued on a profitable basis.

(q) "Mining Proclamation" shall mean the Mining Proclamation of 1971 and existing regulations passed thereunder and amendments thereto which qualify under paragraph (a) of Article XXVII hereof.

(r) "Minister" shall mean the Minister of Mines of the Government or the person for the time being acting in the place of such Minister. "Ministry" shall mean the Ministry of Mines of the Government or such other ministry of the Government authorised to supervise petroleum exploration and mining operations in Ethiopia by whatever name called. The "Minister", or in his absence his duly authorised representative, shall be the Government's representative vis-a-vis the Company.

(s) "Tax Year" or "Fiscal Year" shall mean a calendar year or such other fiscal period of twelve (12) calendar months according to the Gregorian Calendar as the Company may elect with the concurrence of the tax authorities.

(t) "Calendar Year" shall mean the period from January 1st through December 31st of the same year according to the Gregorian Calendar and "Calendar Quarter" and "Calendar Month" shall mean a quarter of such year or month according to the Gregorian Calendar.

(u) "Contract Year" or "Year", unless the context otherwise requires, shall mean a period of twelve (12) months according to the Gregorian Calendar, commencing on the Effective Date and on each anniversary of the Effective Date.

ARTICLE III

ETHIOPIAN COMPANY

(a) In order to carry out the programme properly and effectively, the Company shall establish before the Date of Commencement of Operations an Ethiopian Company, organised and existing under the

laws of the Empire of Ethiopia and having its registered office in Ethiopia, which shall be controlled initially by the Company. It is understood and agreed that, as soon as the Ethiopian Company is established, all of the rights and obligations conferred and imposed by this Agreement to and upon the Company shall be transferred and assigned to the Ethiopian Company.

(b) Notwithstanding the provisions of paragraph (a) above, _____ shall guarantee the performance by the Ethiopian Company of all its obligations hereunder and shall remain liable to the Government therefor.

ARTICLE IV

TERM

This Agreement shall have a term of thirty (30) years from the Effective Date hereof, as defined in Article XXX, and is renewable on fair and proper terms so long as petroleum continues to be produced or is capable of being produced in payable quantities in each year of renewal term.

ARTICLE V

SURRENDER

(a) The Company may at any time before completion of the entire programme specified in Schedule "B" surrender all of the Subject Area by giving written notice to the Minister at least ninety (90) days prior to the date specified in said notice on which such surrender is to become effective and all rights and obligations of both parties hereunder shall cease on the date specified in such written notice, except as herein specifically set out, and if a surrender notice is given, the Company shall not be obligated to commence or complete a stage subsequent to the date of the notice but must complete the stage then in progress or make payment in lieu therefor as provided in Article VI(b) hereof if it has not theretofore completed the stage involved.

(b) The Company may at any time and from time to time after completion of the programme specified in Schedule "B" surrender all or any part of the Subject Area by giving written notice to the Minister at least sixty (60) days prior to the date specified in the said notice on which such surrender is to become effective and all rights and obligations of both parties hereunder in connection with the surrendered area shall cease on the date specified in such written notice, except as herein specifically set out.

(c) At the end of the third (3rd) year from the Effective Date of this Agreement, the Company shall surrender exploration rights on sufficient acreage (selected by it) so that, after such surrender, the Company holds exploration rights on not more than eighty percent (80%) of the area held on the Effective Date of this Agreement. The area or areas so retained shall be shown clearly on a map to be submitted to the Government at the end of this period.

(d) At the end of the sixth (6th) year from the Effective Date of this Agreement, the Company shall surrender exploration rights on sufficient acreage (selected by it) so that, after such surrender, the Company holds exploration rights on not more than sixty percent (60%) of the area held on the Effective Date of this Agreement. The area or areas so retained shall be shown clearly on a map to be submitted to the Government at the end of this period.

(e) Within five (5) years after (1) the end of the sixth (6th) year from the Effective Date of this Agreement, or (2) the Date of Commencement of Operations, whichever first occurs, the Company shall surrender exploration rights on sufficient acreage (selected by it) so that, after such surrender, the Company holds exploration rights on not more than forty percent (40%) of the area held on the Effective Date of this Agreement. The area or areas so retained shall be shown clearly on a map to be submitted to the Government at the end of this period.

(f) It is agreed that areas voluntarily surrendered by the Company pursuant to paragraph (b) hereof shall be considered in

determining compliance with the surrender obligations of paragraphs (c), (d) and (e) hereof and further agreed that any one surrender (voluntary or otherwise) can consist of not more than four (4) blocks generally of rectangular shape, each block comprised of at least one thousand (1,000) square kilometres provided that if more than one block is so surrendered they need not be contiguous to one another.

(g) On any surrender by the Company or termination by the Government the Company shall have the right, within a period of one (1) year from such surrender or termination to remove and dispose of all movable property located on or used in connection with the lands subject to the surrender or termination.

ARTICLE VI

ACTIVITIES PRIOR TO COMMERCIAL OPERATIONS

(a) The Company shall promptly after the Effective Date of this Agreement and subject to its rights of surrender commence and diligently pursue the conduct of the Work Programme in the Subject Area referred to in Schedule "B". The Work Programme and time limits, mutually drawn up by the parties, are attached hereto as Schedule "B" and by reference the same becomes an integral part of this Agreement.

(b) It is agreed and understood that the commitments under Schedule "B" are firm until surrender of all of the Subject Area or termination and all commitments thereunder for work to be performed prior to surrender or termination must, to the extent only of any deficiency in the Stage involved, be paid by the Company to the Government or spent elsewhere in Ethiopia where the Company may be carrying on mining operations or exploration activities if the Government so agrees.

(c) The Government may, by giving sixty (60) days prior written notice terminate this Agreement if the Company for reasons other than Force Majeure fails to act within the time limits specified

in Schedule "B"; provided, however, that the Government may at its own option agree that the Company retain its rights and privileges under the Agreement, if the Company pays a penalty to the Government at the following rates:

- (1) Twelve percent (12%) of the sum unexpended per month for the first three (3) months of delay;
- (2) Fifteen percent (15%) of the sum unexpended including the penalty of twelve percent (12%) per month for the next three (3) months;
- (3) Twenty percent (20%) of the sum unexpended including the penalty of fifteen percent (15%) per month thereafter, unless the Government decides otherwise.

Subject always to the surrender rights of the Company in accordance with this Agreement and the Mining Proclamation.

ARTICLE VII

MANAGEMENT OF OPERATIONS

- (a) The Company will ensure that a representative of the Government designated in writing may attend meetings of the Board of Directors of the Ethiopian Company. Such Government representative shall have no voting rights and shall keep confidential all information, secrets and data of the Company, its assets, operations and prospects.
- (b) The Company, subject to paragraph (c) hereof, shall have full and effective control and management of all matters relating to the operation of the project including the production and marketing of its products in accordance with sound, long-term policies and without prejudice to the provisions of the Mining Proclamation. The Company may make expansions, modifications, improvements and replacements of the project facilities, and may add new facilities, as the Company shall consider it necessary for the operation of the project or to provide services or to carry on activities ancillary or incidental to the project. All such expansions, modifications, improvements, replacements and additions shall be considered part of the project facilities.

(c) The Company shall exercise these prerogatives in good faith with the objective of realising the maximum profits consistent with good production, engineering and business practices. The Company shall employ in the said operations modern production techniques and methods determined by the Company to be consistent with:

- (1) the size of the deposits of petroleum discovered, and
- (2) the most economical production of the petroleum discovered.

The Company will exercise its best efforts and diligence in the selection of production techniques and methods to avoid any waste of petroleum and if, after the Date of Commencement of Operations production for any year is expected to be less than twenty percent (20%) of production capacity for reasons other than Force Majeure, the Company shall inform the Government of the reasons therefor.

ARTICLE VIII

FINANCING

The Company shall, subject to the terms hereof, have the sole responsibility of financing the Operations and determining the terms on which the said financing shall be obtained, including the extent to which the financing shall be accomplished in accordance with the current money market conditions through the issuance of shares or through borrowing. It is recognised that it may be necessary or desirable to obtain financing or financing guarantees, or both, from international and foreign national financing institutions, private financial institutions or other enterprises. The Government undertakes to cooperate with the Company to facilitate the financing of the project insofar as and provided that the terms of the financing agreement have the consent and approval of the Government and the Bank. In the event that an agreement or investment guarantees should be concluded between the Government of the Empire of Ethiopia and the Government of

_____ (or other country designated by the Company

unless the Government on grounds of national interest objects thereto, in the future, the Government shall use its best efforts in good faith to facilitate obtaining any approval required for such guarantee. Further the Government shall undertake to facilitate, in accordance with the Exchange Control Laws of Ethiopia, the repayment of all loans that the Company may have incurred for the purpose of financing operations.

ARTICLE XIX

ROYALTY AND VALUE

(a) The Company shall pay to the Government a royalty of twelve and one half percent (12½%) of the Wellhead Value of the petroleum produced, either in kind or in cash, at the option of the Government.

(b) The "Wellhead Value" of the petroleum for the purposes of assessing Government royalty under this Agreement, whether it is taken in cash or in kind, shall be computed as follows:

Sales to independent buyers and affiliates shall be taken into account on the basis of Market Value as defined in Article II(h) hereof.

(c) For the purpose of this Agreement:

(1) "Wellhead Value" of natural gas shall mean the gross sales received by the Company from sales of natural gas delivered to a plant or other purchaser less Permissive Deductions:

(2) "Wellhead Value" of crude oil shall mean the gross sales received by the Company from sales of crude oil which shall be stated in the then effective price notice furnished by the Company to the Government less Permissive Deductions:

(3) "Posted Price" shall mean the f.o.b. prices published by the Government in consultation with the Company for each grade, gravity and quality of petroleum offered for sale to buyers generally for export at the relevant point of export in Ethiopia, which price shall be a price established with due regard to any other prices for petroleum of comparable grade, gravity and quality and having regard to geographical locations: 34

(4) "Permissive Deductions" shall mean costs and expenses of all kinds incurred in transporting petroleum, crude oil or natural gas from the point of production to the point of sale; in processing, otherwise treating or making marketable or storing petroleum, crude oil or natural gas prior to the point of sale; of the kind referred to in subparagraph (3) of Article II(i) if terms of sale are c.i.f. foreign port; or incurred in mining operations after the point of production; or otherwise incurred prior to the point of sale, it being the intention that from gross sales received there be deducted all costs and expenses incurred beyond the wellhead where produced and prior to sale in arriving at the true Wellhead Value.

(d) If a difference arises between the parties concerning the determination of Posted Prices or Wellhead Value which cannot be solved by mutual agreement, such prices and/or value shall be determined by arbitration as provided for in Article XX hereunder.

(e) Except as otherwise provided in Article X hereof, all royalty shall be payable in cash in acceptable currency and shall be calculated and paid on a calendar month basis, and payment thereof shall be made not later than the first (1st) day of the second (2nd) calendar month following that during which the petroleum on which such royalty is payable is delivered to the purchaser or other taker.

(f) The Company shall perform all measurement of petroleum in such manner, selected by the Company, but always consistent with sound petroleum industry practices.

(g) In the event of the Mining Operations under this Agreement entailing the segregation of petroleum of different quality and/or grade, and in the event of the Company and the Government not otherwise agreeing, the Government's royalty shall be computed separately on each grade of petroleum produced and segregated during the particular period for which the royalty is computed being on gross sales received less Permissive Deductions.

(h) No royalty shall be paid with respect to petroleum used by the Company in the course of its operations hereunder or re-introduced into petroleum deposits or lost or not used in any way.

ARTICLE X

ROYALTY IN KIND AND GOVERNMENT PURCHASES OF PETROLEUM

- (a) Ninety (90) days prior to the beginning of each calendar quarter, commencing with the first quarter during which the Company expects to produce petroleum from the Subject Area, the Company shall notify the Government in writing (herein called "Quantity Notices") of the approximate quantity of petroleum which the Company intends to produce from the Subject Area during such calendar quarter. Within thirty (30) days after its receipt of each Quantity Notice, the Government shall have the right, by notice given to the Company in writing (herein called "Acceptance Notice") to select to receive a quantity of petroleum from the Company during such calendar quarter.
- (b) Failure by the Government to furnish the Company with an Acceptance Notice with respect to any calendar quarter within the aforesaid thirty (30) day period, shall constitute a waiver by the Government of any rights to receive any petroleum produced by the Company from the Subject Area during such quarter. In such event, all royalty attributable to such calendar quarter shall be payable in cash, and shall be paid monthly, as provided in paragraph (e) of Article IX hereof.
- (c) The quantity of petroleum stated, or deemed to be stated, as provided in paragraph (a) of this Article, in each Acceptance Notice (hereinafter called "Government Share") shall constitute either royalty in kind or a combination of royalty in kind and petroleum purchased for cash from the Company by the Government, depending upon the total quantity of petroleum actually produced and saved by the Company from the Subject Area during the calendar quarter to which

the said Acceptance Notice related (hereinafter called Total Production, it being understood that Crude Oil Total Production means Total Production of crude oil and Natural Gas Total Production means Total Production of natural gas) as follows:

- (1) To the extent that the Government Share does not exceed twelve and one half percent ($12\frac{1}{2}\%$) of the Total Production, such Government Share shall constitute royalty in kind.
- (2) If and to the extent that such Government Share exceed twelve and one half percent ($12\frac{1}{2}\%$) of the Total Production, such excess shall represent the quantity to be purchased by the Government from the Company for such calendar quarter, provided, however, that the exercise of such right by the Government to take more than twelve and one half percent ($12\frac{1}{2}\%$) of the Total Production shall not prevent the Company from performing contracts for the sale of petroleum already concluded.
- (3) If and to the extent that such Government Share is less than twelve and one half percent ($12\frac{1}{2}\%$) of the Total Production, such deficiency shall be payable by the Company to the Government as a cash royalty, payable within fifteen (15) days after the end of such calendar quarter.
- (4) During each calendar quarter for which the Government has furnished an Acceptance Notice in accordance with the provisions of paragraph (a) above, the Company shall deliver the Government Share to the Government at such reasonably uniform weekly rate as the Government shall request.
- (d) All purchases of petroleum by the Government from the Company shall be f.o.b. the field of production. The purchase price thereof shall be in United States dollars or other convertible currency and in amount equal to the Market Value (as defined in Article II(h) hereof) of such petroleum and shall be payable within thirty (30) days of the Company's presentation to the Government of an invoice therefor.

(e) The Government may pay the aforesaid purchase price in Ethiopian currency to the extent that the Company then has need of such currency to discharge any obligation to the Government under this Agreement, notwithstanding that the terms hereof would otherwise contemplate payment to the Government in acceptable currency, it being agreed that the Company may at any time thereafter (applying the same rate of exchange as that used by the Government in effecting each such payment) use such currency to discharge any obligations to the Government arising under this Agreement, notwithstanding that the terms hereof would otherwise contemplate payment in an acceptable currency.

(f) The Company shall provide storage of crude oil constituting the Government Share. Such storage may be provided at any reasonable place or places within or without the Subject Area as may be selected by the Company. The Government shall pay and/or reimburse the Company for direct and reasonable indirect costs incurred in such storage, and the transportation of such crude oil from point of production to such place of storage. Such payment shall be due thirty (30) days after the presentation of the invoice to the Government by the Company.

(g) Title and all risk of loss with respect to the Government Share shall pass to the Government at such time and place as is designated by the Company in writing to the Government, and delivery shall be deemed effected at said time and place; provided, however, that nothing herein shall constitute a waiver by the Government of any rights which it might otherwise have against the Company in the event of the Company's negligent loss of the Government Share subsequent to the time at which title and risk of loss with respect thereto pass to the Government. In the event that any insurance coverage maintained by the Company shall cover the Government Share, proceeds collected by the Company thereunder shall be credited to

the Government to the extent same are payable by reason of or are attributable to casualty losses suffered by the Government Share.

(h) The Company shall transport the Government Share from the point or points of storage referred to in paragraph (f) of this Article (or from the wellhead in case of natural gas) to such other point or points within the Empire of Ethiopia as the Government may request, at such transportation charge as may for the purpose of this paragraph be from time to time agreed in advance by the Company and the Government, but in no event shall such charge be less than the Company's reasonable direct and indirect costs.

(i) Subject to paragraph (f) of this Article, if at any time the quantity of Government Share then being stored by the Company is, in the Company's opinion, so large as to risk an adverse effect upon the Company's orderly production or export operations, the Company may notify the Government and request the Government to remove physically such quantity of Government Share as the Company regards necessary. If the Government shall fail to comply with such request, the Company shall notwithstanding the other provisions of this Agreement, be entitled to take such action (including but not limited to the borrowing of the Government Share, subject only to an obligation with reasonable promptness to repay in kind or to sell same and account for royalty on the basis of price received) as may be necessary or desirable to avoid or reduce the risk of adverse effect upon the Company's orderly operations as aforesaid.

ARTICLE XI

TAXATION

(a) Further to the other payments contemplated under Articles IX, X and XII, the Company shall be liable to pay all income taxes or taxes imposed on income or measured by income whether presently in force or hereinafter imposed by law, on the same terms and conditions as other traders or business organizations.

(b) The rate of income tax to be assessed and paid in respect to income derived by the Company from Operations under this Agreement shall be fifty-one percent (51%) of the Taxable Income derived therefrom.

(c)(1) Notwithstanding the provisions of paragraph (b) preceding, if the total of Eligible Taxes as hereinafter prescribed together with income tax payable in any fiscal year, shall exceed fifty-one percent (51%) of the Taxable Income in that year, then the amount of income tax so payable shall be reduced and remitted so that the total of such payments to the Government shall be fifty-one percent (51%) of Taxable Income.

(2) If, notwithstanding the complete remission of income tax under the provisions of the previous paragraph, the total payment to the Government by way of income and Eligible Taxes shall still in any fiscal year exceed fifty-one percent (51%) of the Taxable Income, then the amount of such excess may be carried forward and deducted in any subsequent year against any future liability of the Company in respect of income tax or any other Eligible Taxes or indebtedness to the Government arising in respect of the said Agreement, but not against any liability in respect of royalty and rent.

(d) For the purposes of this Article "Eligible Taxes" shall be any and all taxes and fiscal charges levied on the Company with the exception of:

- (1) Income taxes as described in paragraph (b) preceding;
- (2) Taxes on salaries or other compensation of employees and which the Company has been required to withhold by law;
- (3) Stamp duties and charges, imposts and duties for which the Company may become liable under Article XIX hereof;

- (4) Visa and other immigration and registration fees;
- (5) Taxes, licence fees and other charges pertaining to the registration or operation of the business organization's vehicles, aircraft, vessels and such other facilities and services for which registration or licensing is required by law;
- (6) Taxes payable upon the local purchase or acquisition by the Company of goods, materials, supplies, equipment and services;
- (7) Fees and charges which may be levied by the Government in accordance with law in respect of the provision or consumption of any public service or facility; and
- (8) Royalty and rent payable under Articles IX and XII;

Provided always that:

- (i) the payments set out in subparagraphs (1) and (2) preceding shall not be considered as Deductible Costs;
- (ii) the payments and charges set out in subparagraphs (3) through (8) inclusive preceding shall be considered as Deductible Costs; but
- (iii) in no event shall the payments under paragraphs (2) through (8) be construed as payments towards the fifty-one percent (51%) payable by the Company to the Government as provided herein above.
- (e) For purposes of assessing the liability of the Company to income tax pursuant to paragraph (b) above, the Taxable Income of the Company shall be the Gross Income accruing to the Company in that year less the following deductions, all determined in accordance with generally accepted accounting principles applied on a consistent basis:
 - (1) Deductible Costs as hereinafter specified in paragraph (f) for such fiscal year;
 - (2) Deductions due in respect of such fiscal year by way of depreciation or amortisation of capital or precommencement expenditure as hereinafter specified in paragraph (g):

always provided that the same are in lieu of and not in addition to the deductions allowed to corporations under Ethiopian Income Tax Laws and Regulations issued thereunder as supplemented and/or amended, and further provided that in no event shall deductions be greater than costs actually incurred and that:

- (i) all deductions are fairly, properly, exclusively and necessarily incurred and directed towards or attributable to the earning of Gross Income;
 - (ii) all activities with affiliates are conducted at arm's length as defined in Article II hereof; and
 - (iii) no item or expense is deducted from Gross Income more than once.
- (f) Deductible Costs in any fiscal year shall include the following, being attributable to that year:
- (1) All Operating (Exploration and Mining) Costs as defined herein including for this purpose the cost of equipment or machinery used therefor which has an estimated useful life of less than two (2) years or costs less than five thousand Ethiopian dollars (Eth.\$5,000) (the costs of other equipment and machinery so used shall be recovered through depreciation as provided in paragraph (g));
 - (2) All losses actually sustained and charged off during the fiscal year (including but not limited to casualty losses, losses upon the sale or other disposition of property and losses on account of bad debts) to the extent that they are not compensated by insurance or otherwise;
 - (3) All costs of transporting the petroleum from the Subject Area to the processing plant or refinery and/or the place of sale;
 - (4) All security and communication costs including, without limitation to, police and other security charges, postal charges, cable charges, radiogram charges, telegram and tele-typewriter charges incurred solely in connection with Operations hereunder;

- (5) Interest paid on loan funds borrowed from abroad provided that the loan agreement has been submitted to and approved by the Government;
- (6) Interest paid on loan funds borrowed in Ethiopia to the extent and subject to the conditions prescribed in the Income Tax Proclamation and Regulations;
- (7) Losses incurred during any of the five (5) preceding years (such losses being in excess of the deductions specified herein and in paragraph (g) over Gross Income) to the extent that such losses have not been deducted in any prior year or years;
- (8) Taxes, rent and royalty paid by the Company within the Tax Year to the Government or any political subdivision thereof (other than income taxes and Eligible Taxes, as described in paragraphs (a), (b) and (d) of this Article, and any penalties and interest on taxes) including, but not limited to, all charges referred to in subparagraphs (3) through (8) of paragraph (d) above, as well as levies of any nature whatsoever for highways, development, education, health, water or utilities as may be provided from time to time.
- (g) Depreciation and amortisation shall include eligible deductions due in any fiscal year on account of the depreciation or writing off of capital or expenditures previously incurred by the Company, until the same have been fully depreciated and amortised, as provided below, viz:
- (1) On all Exploration Costs incurred after the Effective Date and prior to the seventh (7th) year following the Date of Commencement of Operations at such rate as the Company may from time to time choose, not exceeding the following:

- (i) in the first (1st) year following the Date of Commencement of Operations twenty percent (20%) of such costs incurred prior to the end of such year;
- (ii) in the second (2nd) year following the Date of Commencement of Operations that amount of such costs which results when the sum of all such costs incurred prior to such year and not theretofore deducted and all such costs incurred in that year is divided by six (6);
- (iii) in the third (3rd) year following the Date of Commencement of Operations that amount of such costs which results when the sum of all such costs incurred prior to such year and not theretofore deducted and all such costs incurred in that year is divided by five (5);
- (iv) in the fourth (4th) year following the Date of Commencement of Operations that amount of such costs which results when the sum of all such costs incurred prior to such year and not theretofore deducted and all such costs incurred in that year is divided by four (4);
- (v) in the fifth (5th) year following the Date of Commencement of Operations that amount of such costs which results when the sum of all such costs incurred prior to such year and not theretofore deducted and all such costs incurred in that year is divided by three (3);
- (vi) in the sixth (6th) year following the Date of Commencement of Operations that amount of such costs which results when the sum of all such costs incurred prior to such year and not theretofore deducted and all such costs incurred in that year is divided by two (2):

(2) In the seventh (7th) year following the Date of Commencement of Operations and all years subsequent thereto all Exploration Costs incurred during the tax year involved and all Exploration Costs incurred in year prior to the tax year involved not theretofore deducted, or such parts thereof as the Company may choose:

(3) On expenditure incurred by the Company for the extension, prolongation or improvement of the life of an existing Mining Operation at the rate of fifteen percent (15%) of cost per annum, provided always that such expenditure has obtained the prior written approval of the Government and provided further that:

- (i) the equipment and/or machinery acquired is not a secondhand asset, unless otherwise agreed by the parties;
- (ii) the equipment and/or machinery is not disposed of in the next five (5) years from the date it is brought into use in the Subject Area;
- (iii) the equipment and/or machinery does not become obsolete or useless for the next three (3) years from the date that such equipment or machinery is brought into use; and
- (iv) the funds for the acquisition of the machinery and/or equipment are not borrowed funds unless the Minister otherwise agrees;

for the purpose of this subparagraph "Existing Mining Operations" shall mean any Mining Operation after operations have been commenced thereat - the depreciation or writing off of any expenditure incurred prior to that date shall begin on the date that such Mining Operation commences:

(4) On all plant and machinery an annual rate of sixteen percent (16%) for the first year and twelve percent (12%) for the following years:

- (5) On buildings and facilities therein (other than plant and machinery) an annual rate of five percent (5%):
- (6) On aircraft, vessels and motor vehicles an annual rate of twenty percent (20%):
- (7) On all other physical assets an annual rate in accordance with the provisions of the Ethiopian Income Tax Regulations, unless a special rate of depreciation is mutually agreed upon.
- (h) Notwithstanding the provisions of the preceding sections, if the Company shall at any time recover by way of compensation, insurance money, sale or otherwise, any part or the whole of any expenditure which has been deducted, depreciated or written off for tax purposes, the amount of such recovery shall be brought to account and treated as income for tax purposes in the year in which it accrues.
- (i) Any deductions for payments to affiliates shall be shown to the satisfaction of the Government to be fair and reasonable and not greater than the amount that would have been paid to an independent party.
- (j) Nothing in this Article shall be taken as permitting the deduction of the following items of expenditure in determining the Company's net profits:
- (1) Penalties paid or any sum forfeited under this Agreement or any law from time to time in force in the Empire of Ethiopia or any political subdivision thereof;
 - (2) Foreign taxation paid on income from sources within Ethiopia;
 - (3) Rents or leasing charges paid to affiliates for properties or facilities located in or outside the Empire of Ethiopia unless previously approved by the Minister;

- (4) Sales commissions or other payments of a similar nature to an affiliate for the sale of the petroleum to other affiliates.
- (k) No withholding or other taxes shall be levied on the following payments effected by the Ethiopian Company to the Company or other persons, firms or corporations resident abroad in respect of:
- (1) Interest and amortisation of loans approved under Article VIII;
 - (2) Dividends on shares of the Ethiopian Company incorporated under Article III.

ARTICLE XII

BONUS PAYMENTS AND RENT

- (a) The Company shall pay to the Government in United States dollars or other acceptable currency after the Date of Commencement of Operations a single payment by way of production bonus on the following rates:
- (1) When daily production during the preceding month averages nineteen thousand (19,000) barrels, a bonus of United States dollars _____;
 - (2) When daily production during the preceding month averages thirty-eight thousand (38,000) barrels a bonus of United States dollars _____;
 - (3) When daily production during the preceding month averages seventy-five thousand barrels a bonus of United States dollars _____.

The amount thereof shall not be a Deductible Cost for the purpose of calculating the Taxable Income of the Company.

(b) The Company shall pay to the Government in United States dollars or other acceptable currency during each year as hereinafter provided starting from the first (1st) anniversary of the Effective Date of this Agreement an annual rent payable in advance in respect of the Subject Area held from time to time by the Company at the following rates:

(1) During the second (2nd) year after the Effective Date of this Agreement at the rate of United States dollars _____ for each square kilometre then held by the Company;

(2) During the third (3rd) year after the Effective Date of this Agreement at the rate of United States dollars _____ for each square kilometre then held by the Company;

(3) During the fourth (4th) year after the Effective Date of this Agreement at the rate of United States dollars _____ for each square kilometre then held by the Company;

(4) During the fifth (5th) year after the Effective Date of this Agreement at the rate of United States dollars _____ for each square kilometre then held by the Company;

(5) During the sixth (6th) year after the Effective Date of this Agreement at the rate of United States dollars _____ for each square kilometre then held by the Company;

(6) During the seventh (7th) and each subsequent year after the Effective Date of this Agreement at the rate of United States dollars _____ for each square kilometre then held by the Company.

If prior to the commencement of any of the foregoing years, the Company has drilled at least three (3) wells in the Subject Area, no further rental shall be due under this Agreement. If, prior to the commencement of the eighth (8th) year (i) the Company has not drilled at least three (3) wells in the Subject Area, or (ii) the Date of Commencement of Operations has not occurred, the annual rental shall continue at the rate of United States dollars _____ for each square kilometre then held by the Company.

ARTICLE XIII

GOVERNMENT PARTICIPATION

(a) Commencing with the first issue of any voting shares of the Ethiopian Company to any person, firm or corporation other than _____ and/or its respective affiliates, and continuing thereafter with respect to all subsequent issues of such shares, twenty-five percent (25%) of each issue of such shares issued or proposed to be issued by the Company shall first be offered in Ethiopian dollars to the Government and/or its agents for subscription by the Government and/or its agents for a period of four (4) months from the date of the offering of such particular issue. The purchase price of the voting shares subscribed to by the Government and/or its agents shall be met out of:

- (1) that part of the Company's profits to which the Government would be entitled as a shareholder;
- (2) royalties (in cash or in kind) accruing to the Government after subscription;
- (3) bonus and other amounts of all kinds accruing to the Government hereunder;
- (4) income and other taxes payable by the Company after such subscription by the Government;

and the Company may apply such amounts or proceeds realised therefrom against such liability until fully satisfied.

(b) The obligation to keep available twenty-five percent (25%) of each successive issue of voting shares for subscription by the Government and/or its agents for the corresponding four (4) month period shall not be minimised or affected by the fact that at the date of any particular issue of such share the Government and/or its agents are already shareholders of the Company. The Company shall submit quarterly reports to the Ministry of Mines of the number of voting shares of each issue which initially were made available to the Government and/or its agents, the number of voting shares subscribed by the Government and/or its agents, the number of voting share remaining unsubscribed at the end of the corresponding four (4) month period and the number subsequently disposed of.

(c) Nothing herein shall:

- (1) prohibit issuance of non-voting shares with preferences as to dividends and capital, always provided that such non-voting preferred shares are redeemable for cash at the sole election of the Company; or

- (2) limit the type and number of authorised shares of the Company; or
- (3) limit the transferability of issued shares.
- (d) The price at which voting shares shall be offered for sale to the Government and/or its agents shall be the book value of the shares and Ethiopian dollars received in respect of sales hereunder shall be convertible into United States dollars or other acceptable convertible currencies for repatriation.
- (e) When twenty-five percent (25%) of the voting shares of the Ethiopian Company outstanding have been transferred to the Government and/or its agents as provided in this Article, the Government and/or its agents shall have the right so long as such percentage is so held to nominate one quarter of the members of the Board of Directors of the Ethiopian Company and affiliates of the Ethiopian Company who are shareholders will vote in favour of such nominees.

Each holder of voting shares of the Ethiopian Company shall have the right to cast one vote for each share held on all matters submitted to a vote of shareholders.

ARTICLE XIV

REFINERY

After the Date of Commencement of Operations the Company, if requested by the Government, shall effect feasibility studies and, if favourable, construct or cause to be constructed a refinery in Ethiopia, provided that the Company need not construct a refinery if the local regional market conditions and prices, supply conditions and prices, cost of labour, equipment and materials, cost and availability of financing or any other factor or matter would not make the refinery operation a profitable and economic refinery operation or investment.

ARTICLE XV

IMMIGRATION AND EMIGRATION

The Government shall, in accordance with law, cause to be issued to persons designated by the Company for the performance of Operations contemplated or permitted by this Agreement, and to their dependents, such visas, work permits and other documentation as may be required for free access to and exist from the Empire of Ethiopia and for the performance of such Operations under this Agreement.

ARTICLE XVI

PAYMENTS AND FOREIGN EXCHANGE

(a) It is contemplated that the foreign exchange requirements to establish and operate the Operations will require little or no need to transfer Ethiopian dollars into foreign currency and that generally all of the domestic costs of the operations will be met through conversion into Ethiopian dollars of freely convertible foreign currency obtained by the Company from sources outside of Ethiopia.

(b) In order to keep the Government and the Exchange Control authorities informed of its prospective and actual foreign exchange transactions the Company shall inform the Government and the Bank in writing and in such form and detail as the Government or the Bank may request:

- (1) Of the location of the Company's bank accounts in Ethiopia and abroad, which latter (that is external) accounts shall be opened in banks approved by the National Bank of Ethiopia;
- (2) Annually, before the commencement of each fiscal year, of the Company's estimated receipts and disbursements of foreign exchange by principal headings during that year (which statement may be amended from time to time if this appears necessary);

(3) Quarterly, within thirty (30) days of the end of each quarter, of the Company's actual receipts and disbursements of foreign exchange by principal headings during the preceding quarter.

(c) Subject to compliance with paragraph (b) and all relevant foreign exchange regulations, and to the deposit with the Bank of copies of this Agreement and all foreign loan contracts as approved by the Government and the Bank, the Company shall be entitled to purchase for payment abroad, to the same that same cannot be covered by or purchased with its current and prospective resources of foreign exchange, the foreign currencies needed in pursuance of the Operations under this Agreement and to pay for goods and services acquired abroad, service (interest and amortisation) of external debt, and dividends payable on the Ethiopian Company's shares held abroad.

(d) Subject to the Company making payments to the Government when due for royalty, rent, income and other taxes as well as other payments contemplated by this Agreement, and subject to compliance with paragraphs (b) and (c) above, the Company may retain abroad temporarily the proceeds of foreign capital raised by way of equity shares or loans borrowed abroad, and of foreign sales of petroleum, to the extent that these are foreseen to be required to meet its current obligations under paragraph (c) above.

(e) All payments contemplated under this Agreement shall be made in acceptable currency, unless the Government consents otherwise. Payments shall be effected by the Company depositing the same in the Bank (or such other bank within the Empire of Ethiopia as the Government may designate) for the account of the Government.

(f) Every expatriate employee of the Company, being employed and residing in Ethiopia in pursuance of the provisions of this Agreement, shall be entitled to remit to his home country or the country of which he is a citizen:

- (1) Up to thirty-five percent (35%) each month of the net salary after tax received by him in Ethiopia; plus
- (2) On approval by the Bank any additional sums payable out of his salary received in Ethiopia, as may be required to meet insurance premia, maintenance of dependents, tuition and other costs for his children incurred abroad;
- (3) On termination of his employment in Ethiopia such sums as he can show to have been reasonably accumulated by way of savings from his salary received in Ethiopia or from the disposal (subject to the provisions of this Agreement) of movable property owned in Ethiopia.

(g) Except as otherwise provided herein, the Exchange Control Laws and Regulations normally applicable in the Empire of Ethiopia shall apply to the Company's Operations hereunder. In any foreign exchange transaction arising out of this Agreement the Company and its employees shall be entitled to the relevant exchange facilities, rates and charges on no less favourable terms than those which are currently applied in respect of similar transactions with other mining operations or the general public.

ARTICLE XVII

EMPLOYMENT AND TRAINING OF ETHIOPIAN PERSONNEL AND EMPLOYEE BENEFITS

(a) The Company shall employ Ethiopian Nationals in the various phases of its activities to the maximum extent possible and shall to this end educate, train and give experience to same in the various branches (both technical and administrative) of the petroleum industry, it being understood that the Company shall:

- (1) Always give priority in employment to Ethiopian Nationals possessing the requisite qualifications;
 - (2) Give equal treatment, facilities and opportunities to all employees in the same job classification regardless of nationality;
 - (3) Cooperate in programmes of grants to educational institutions in Ethiopia, after the Date of Commencement of Operations.
- (b) The Company shall furnish such free medical care to all its employees and all Government officials employed in the Operations Area as is reasonably adequate and after the Date of Commencement of Operations shall establish, staff and maintain a dispensary, clinic or hospital which shall be reasonably adequate under the circumstances. Provided, however, that whenever the Company employs more than two hundred and fifty (250) employees in any one region, it shall maintain a dispensary or hospital headed by a medical director.
- (c) After the Date of Commencement of Operations, the Company shall provide, free of charge, primary and secondary school education for children of all employees residing in or around the Subject Area, if and when there is no school or a shortage of schools. Rules, regulations and standards established by the Ministry of Education shall be strictly observed.

ARTICLE XVIII

PROMOTION OF NATIONAL INTERESTS

- (a) In the conduct of its activities under this Agreement the Company and its contractors and subcontractors shall utilise Ethiopian services, materials produced from Ethiopian sources, and products manufactured in Ethiopia to the extent that such services, materials and products are available on competitive terms, delivery, availability of parts and quantity basis.

(b) To maximise the regional economic aid and social benefits which the Operations can generate, the Company will also:

- (1) Coordinate all of its studies of the Operations' infrastructure requirements with local and regional infrastructure studies undertaken by the Government and interested local, foreign and international public and private entities, with a view towards the integration of the infrastructure of the Company with that of the region;
- (2) Assist and advise the Government in its planning of the infrastructure and regional development which the Company may deem useful to the Operations and to the existing and future industries and activities in the region of the Operations.

ARTICLE XIX

IMPORTS, DISPOSAL AND EXPORTS OF PROPERTY AND PRODUCTS

(a) The Company, for itself, its contractors and subcontractors, shall be entitled to import into the Empire of Ethiopia any and all drilling, geological, geophysical, production, refining, processing, transportation and other machinery and equipment useful in the Mining or Exploration Operations, including aircraft, vessels, vehicles and other transportation equipment and parts therefor (other than sedan cars and fuel therefor), fuels, chemicals, lubricants, films, seismic tapes, house-trailers, office-trailers, disassembled prefabricated structures and other property of any kind or nature free of import taxes, charges, duties, levies and imposts of any kind, provided always that:

- (1) All the items are wholly and exclusively destined for use in the Operations hereunder and are imported into Ethiopia in the name of or consigned to the Company;
- (2) That similar goods of fairly equal quality, delivery, parts availability and price are not being produced in Ethiopia;

- (3) No building structures or other construction materials may be imported for use in the construction of offices or living quarters except prefabricated structures, or such other materials as are not included in the preceding subparagraph;
- (4) Foodstuffs, beverages, tobacco products, toilet articles, and clothing, imported by the Company and destined for personal use and consumption by its personnel, shall not be exempted from any duty except, as regards clothing and similar goods, where the principal use of such items shall be of a specialised character relevant to the Mining Operations and which have been approved as such for duty-free importation by the Government.
- (b) The Government shall have the right to verify that any items imported meet the conditions set forth in paragraph (a) above. The Government shall ensure an adequate procedure to expedite the admission and clearance by Customs of all imports destined exclusively for use in the Operations hereunder and Governmental verification of such use.
- (c) It is agreed and understood by the parties hereto that, subject to the provisions of paragraph (e) hereunder, none of items which have been imported free of taxes, charges, duties, levies and imposts pursuant to paragraph (a) above shall be used in operations other than those permitted or contemplated by this Agreement.
- (d) The Company, for itself, its contractors and subcontractors, shall have the right to re-export free of all taxes, charges, duties, levies or imposts of any kind or nature imposed in connection with or collected at the time of export, property which is no longer required for use in the Operations carried out hereunder which was originally imported free of charges, taxes, duties, levies and imposts as provided in paragraph (a) above, as well as their other property on which duty was paid at the time of import, and shall

also have the right to dispose within the Empire of Ethiopia of any property provided that, in the case of property imported under import duty privileges as provided in paragraph (a), all taxes, charges, duties, levies and imposts due thereupon in accordance with the law then in force shall first be paid.

(e) The Company, for itself, its contractors and subcontractors, shall have the right at any time, with the approval of the Minister, to remove from the Subject Area and transfer to any other area or zone in which it may be carrying on operations pursuant to any agreement with the Government or any subdivision thereof, any or all of its installations, machinery, equipment and facilities without loss of rights granted by this Article.

(f) The Company shall have the right to export from the Empire of Ethiopia, without restriction and free of taxes, duties or other charges on such exports, all of the Company's petroleum produced under this Agreement. The Government shall ensure an adequate procedure to expedite the clearance by Customs and the shipment of all petroleum so exported.

(g) The Company may, for itself, its contractors and subcontractors, import personal and household goods and effects of employees and their families taking up residence in Ethiopia, within six (6) months of their arrival, free of all taxes, charges, duties, levies and imposts. Such employees shall have, in addition to all other rights recognised in Ethiopia with respect to such property, the right to export same as well as any other property on which duty was paid at the time of import, without payment of any taxes, charges, duties, levies or imposts.

ARTICLE XX

SETTLEMENT OF DISPUTES

(a) If at any time during the continuance of this Agreement or thereafter, there shall be any question or dispute with respect to the construction, meaning or effect of this Agreement or arising out of this Agreement or concerning the rights and obligations

hereunder, which cannot be mutually resolved by the parties within sixty (60) days, either party shall have the right to refer the dispute to the International Centre for the Settlement of Investment Disputes by Conciliation and Arbitration as hereinafter provided. Any of the parties to such dispute may commence conciliation or arbitration proceedings by giving notice to the other party and to the Secretary General, International Centre for the Settlement of Investment Disputes (including in such notice a statement of the question or dispute and of the claim or contention of the person giving notice).

(b) Ethiopian Law shall govern the conciliation and arbitration.

The place of conciliation and arbitration shall be in Addis Ababa (Ethiopia) or such other place as the parties may mutually agree.

(c) Pending the issue of a decision or award, the operations or activities that shall have given rise to the arbitration need not be discontinued, but if the decision or award recognises that a complaint was justified, provision may be made in the award for such reparation or compensation in respect of such continued operations and activities as shall be decided by the arbitrator to be appropriate. In the event of a dispute as to the Market Value of petroleum (as defined in Article II(j)) for the purpose of taxation or payment by the Government for petroleum purchased by it, the Market Value pending the arbitration determination shall be the Posted Price (as defined in Article IX hereof) of the petroleum involved, and if the arbitration award fixes a different value, appropriate reparation or compensation in respect thereof shall forthwith be made, done or effected by the parties hereto and provision therefor may be made in the award.

(d) The decision of the award of the arbitrator shall be final and binding upon the parties to this Agreement and upon any person who participated as a party in such arbitration proceedings, and such a person shall comply in good faith with the decision.

(e) Should the International Centre for the Settlement of Investment Disputes be replaced by, or its functions substantially

devolve upon or be transferred to any new international body of similar type and competence, the function of the Arbitration Tribunal of the International Centre for the Settlement of Investment Disputes provided by this Article shall be exercised by the chief officer of such international body without further agreement among the parties.

(f) For the purposes of such convention, the parties to this Agreement hereby agree that the Company shall be treated as a national of _____ or of such other country designated by the Company, unless the Government on grounds of National Interest objects thereto.

(g) If the services of the Centre are unavailable to the parties to this Agreement, then such unsettled disputes shall be referred to the International Chamber of Commerce to be settled under the rules of procedure of the said Chamber of Commerce.

ARTICLE XXI

FORCE MAJEURE

(a) The parties hereto shall be excused from performance hereunder if and so long as and to the extent that failure or delay in performance is due to fires, flood, general strike or a lockout; accident, epidemic, act of God, war, insurrection, riot, hostile acts; inability or delay in obtaining or transporting materials, equipment or supplies; acts, orders, rules or regulations of governments other than the Government of Ethiopia; proven technical and commercial limitations of a nature of being insurmountable by the application of reasonable diligence; or any other cause whether similar, dissimilar, foreseen or unforeseen, which a party, having taken due care, is unable to overcome by the exercise of reasonable diligence and at a reasonable cost; and further without limitation, but applying only to the Company, acts, rules or regulations or orders of the Government or any public authority in Ethiopia or court which may create delay despite good faith attempts to comply, which causes are referred to in this Agreement as causes or reasons of Force Majeure.

The time within which the party affected may do or perform any act or thing shall be extended for a period equivalent to the period during which any of such Force Majeure causes shall exist.

(b) Promptly, and in no event later than forty (40) days, after any of the said causes shall have commenced to operate and within forty (40) days after any of the said causes shall have ceased to operate, the party claiming benefit from this Article shall give the other party notice of the fact that such cause has commenced to operate and the date of such commencement, or such cessation, as the case may be, unless by reason of the existence of such cause the said party is unable with reasonable diligence to do so, in which event the said notice shall be given as soon as is permitted by the exercise of reasonable diligence.

(c) The existence of a cause specified in this Article shall not constitute excuse for failure of performance unless said notice is given as provided herein above.

(d) The party claiming suspension or excuse from performance of its obligations as aforesaid shall promptly take appropriate measures and precautions to remedy the cause and effect of Force Majeure described in the said notice insofar as it is reasonably able to do so at no increased costs with a view to restoration of normal conditions with a minimum of delay; provided that the terms of settlement of any strike, lockout or other industrial disturbance shall be wholly in the discretion of the party claiming suspension or excuse hereunder by reason thereof; and that party shall not be required to accede to the demands of its opponents in any strike, lockout, or industrial disturbance solely to remedy promptly the Force Majeure thereby constituted.

(e) No delay, omission or course of dealing by either party shall be interpreted or construed without that party's consent to be a waiver of any right or acquiescence in any default.

ARTICLE XXII

AMENDMENTS

(a) except as is specifically provided in Article XXV hereof, this Agreement may not be modified or amended except by written agreement between the parties hereto.

(b) It is agreed and understood that the titles of the various Articles of the present Agreement are for reasons of convenience only and shall, therefore, in no way affect the construction thereof.

ARTICLE XXIII

COVENANT OF PEACEFUL POSSESSION

The Government warrants that it has full ownership and property rights in the Subject Area for the granting of this Agreement and for the exploration and production of petroleum, and shall protect the rights of the Company to the peaceful possession and quiet enjoyment thereof.

ARTICLE XXIV

CONTROLLING CALENDAR

The Gregorian Calendar shall be used and shall be the Controlling Calendar for the purposes of this Agreement.

ARTICLE XXV

OFFICES AND NOTICES

(a) The Company shall establish and maintain an office in the Empire of Ethiopia as may be necessary or convenient for carrying out the Operations hereunder.

(b) All communications and notices required to be sent by one party hereto to the other shall be in writing in the English language and shall be delivered in person or sent by mail (registered mail, if available, with return receipt requested) with postage thereon duly prepaid, or by telegraph or cable, to the address of such other party as hereinafter is set out and shall be effective upon receipt; provided, however, that any such communication or notice sent from Ethiopia to a location in another country or from a location in another country to Ethiopia shall be sent by cable and confirmed by airmail letter. All notices shall be addressed to the Government

or the Company, as the case may be at the addresses shown below or to such other addresses as the addressee shall from time to time specify by giving thirty (30) days prior notice thereof to the other party, in which case the Agreement shall be deemed amended accordingly.

TO: (GOVERNMENT)

H.E. the Minister of Mines,
Ministry of Mines of the Imperial Ethiopian Government,
P.O. Box 486,
Addis Ababa, Ethiopia.

TO: (COMPANY)

ARTICLE XXVI

COVENANT AGAINST PAYMENT OF COMMISSION

The Company and the Government respectively covenant and warrant the one to the other that they have not paid, caused or permitted to be paid, or promised to pay, and will not pay, cause or permit to be paid or promise to pay any commission or fee of any nature whatsoever, whether in cash or in kind, or any person or entity other than persons in its full-time employ for services rendered as agent, representative or intermediary in connection with the negotiations and conclusion of the making of this Agreement.

ARTICLE XXVII

GOVERNING LAW

(a) This Agreement shall be governed by the laws of the Empire of Ethiopia, including the Mining Proclamation of 1971 and Regulations issued thereunder, as such laws are set forth in duly adopted and published legislation, and the Company shall in all its Operations hereunder be entitled to the benefit of such laws; provided that the rights and obligations of the parties specified herein shall not be enlarged, reduced or otherwise modified by any future laws or

regulations in force in the Empire of Ethiopia, unless such future laws are laws or regulations relating to conservation or ecology; or standards of safety and working conditions of a type and kind consistent with those then in force in the mining industry throughout the world.

(b) Notwithstanding anything herein to the contrary, reference in this Agreement to the Mining Proclamation shall mean the law (including regulations) as it exists on the Effective Date of this Agreement with such future laws or regulations as quality under paragraph (a) above.

ARTICLE XXVIII

TERMINATION

If during any consecutive five (5) year period after the third (3rd) year from the Effective Date of this Agreement and prior to the Date of Commencement of Operations a well has not been drilled on the Subject Area held by the Company, the Government may deliver to the Company a request to drill a well on lands in the Subject Area selected by the Company within a one (1) year period commencing with the date on which such request is given, and if the drilling of a well is not commenced within such one (1) year period and such delay is not occasioned by anything included in Force Majeure, the Government may terminate this Agreement on the first day following the expiration of such year by giving written notice of such termination to the Company.

ARTICLE XXIX

ASSIGNMENT

The Company has the right from time to time, this Agreement constituting all required consent thereto, to:

(a) Assign from time to time to third persons, firms or corporation an undivided interest in and to its rights, privileges and obligations hereunder covering all or a portion of the lands from time to time subject thereto;

- (b) Sell, assign, transfer, mortgage or otherwise dispose of its rights, privileges and obligations hereunder to all or any part of the Subject Area to any person, firm or corporation; and
- (c) Permit the sale, assignment or other transfer of all or a portion of the shares of capital stock of the Ethiopian Company, provided that:
- (1) The Company shall remain responsible for its obligations hereunder (including under the Mining Proclamation) on any such sale, assignment, transfer mortgage or other disposition unless the Minister consents thereto or such consent is unreasonably withheld;
 - (2) The consent of the Minister referred to in paragraph (1) hereof cannot be unreasonably withheld;
 - (3) If the Minister consents thereto (or withholds consent unreasonably) the assignee shall be solely responsible for the Company's obligations hereunder (including those under the Mining Proclamation) involving that part of the Subject Area included in such sale, assignment, transfer or other disposition and, if requested by the Company, such assignee and the Government shall enter into an agreement covering such area on the terms hereof and such area shall, for all purposes, be deleted from Schedule "A" hereto and the Subject Area covered hereby reduced accordingly.
 - (4) The Minister may refuse consent to any sale, assignment, transfer or other disposition if recognition of such Assignee would be contrary to the national interests of Ethiopia; and provided further that

(3) No such consent shall be required in the event of a sale, reorganization or merger affecting all or substantially all of the shares or assets of _____

(d) Assign its obligations under Article XIV hereof to any person, firm or corporation upon receipt, if the Minister consents thereto, which consent cannot be unreasonably withheld, and if the Minister consents thereto or unreasonably withholds such consent, the Assignee shall be solely responsible for the Company's obligations hereunder, and if the Company requests the Government, it shall enter into an Agreement with such assignee on the terms of Article XIV hereof.

ARTICLE XXX

EFFECTIVE DATE

This Agreement, having been initialled by representatives of the Government and the Company, shall be subject to the approval of the Council of Ministers of the Government, and the Effective Date of this Agreement shall be the date on which it has been signed by the duly authorised representatives of the parties hereto.

IN WITNESS WHEREOF the party of the first part has executed these presents at the hand of the Minister and the party of the second party has affixed its corporate seal hereto and the authorised officer thereof has set his hand in the presence of the respective subscribing witnesses.

IMPERIAL ETHIOPIAN GOVERNMENT

Witnesses

SCHEDULE "B"

WORK PROGRAMME

- Stage 1: Preliminary geological and geophysical work
- Stage 2: Geophysical and seismic work to establish the structure pattern in the Subject Area
- Stage 3: Drilling of a first test well and detailed seismic work
- Stage 4: Additional exploration work subsequent to the sixth year and prior to the Date of Commencement of Operations

Stage 1: Start to eighteen (18) months from the Effective Date

Within thirty (30) days of the Effective Date, the Company shall send a senior geologist to Addis Ababa to collect, collate and evaluate all existing available data which is on open file in the Ministry of Mines, and also obtain all other data from other sources to the extent available to the Company. Following on from this preliminary work, field parties will be sent into the Subject Area for further detailed exploration and mapping by use of aerial photographs, air or landborne magnetometer surveys or by other methods. A complete report covering all work done during this first stage shall be submitted to the Minister of Mines by the Company before the end of the twenty-first (21st) month from the Effective Date. Necessary preparation for work in the second stage shall be commenced before the end of the twenty-first (21st) month.

Stage 2: Twenty-one (21) months to thirty-three (33) months from the Effective Date

Promising areas indicated by work done during Stage 1 shall be covered by other geophysical means, either gravity and/or seismic methods. The geophysical interpretation should be carried on as the work progresses to the extent possible to the Company, including geological interpretation of the geophysical data. From the preceding work it is expected that promising targets for drilling will be delineated. A complete report covering all work done to the end of Stage 2 shall be submitted to the Minister by the Company before the end of the thirty-fifth (35th) month.

Stage 3: After the thirty-fifth (35th) month from the Effective Date

On the assumption that the work in Stage 2 has delineated a prospective area then the Company shall mobilise a suitable drilling rig to commence drilling the first test well before the end of the forty-first (41st) month. Such test well shall be drilled to "Contract Depth" in order to fully test all formations. For the purposes of this Schedule "Contract Depth" shall mean a depth of ten thousand (10,000) feet or such lesser depth if Pre-Cambrian basement or other unfavourable lithological conditions are encountered, which in the opinion of the Company do not geologically or economically warrant further drilling.

If the first test well strikes apparently economic hydrocarbons, then the Company shall commence within a period of three (3) months the drilling of such additional wells as may be necessary to test the field. In the event that the first test well does not strike apparently economic hydrocarbons, then the Company may commence a second test well on another site of the Company's choosing within a period of twelve (12) months, unless otherwise agreed. During the drilling of the first, and subsequent, test wells the Company shall submit to the Minister of Mines copies of the "Morning Report" at intervals not exceeding one (1) week.

Stage 4: Additional exploration work subsequent to the sixth (6th) year and prior to the Date of Commencement of Operations

During each two (2) year period following the sixth (6th) year and prior to the Date of Commencement of Operations, the Company shall expend not less than one million United States dollars (US\$1,000,000) for exploration provided the conditions envisaged in Article XII B of this Agreement have not then occurred, in which event, the Government shall charge annual rentals of not more than five United States dollars (US\$5) per square kilometre unless otherwise agreed to by both parties after review of the results of the exploration operations to date.

PERFORMANCE BOND

KNOW ALL MEN BY THESE PRESENTS: that _____
_____ hereinafter called Principal,
and _____ as Surety,
hereinafter called Surety, are held and firmly bound unto the Ministry
of Mines, Imperial Ethiopian Government, Addis Ababa, as Obligee, in
the amount of _____
for the payment whereof Principal and Surety bind themselves, their
heirs, executors, administrators, successors and assigns, jointly and
severally, firmly by these presents.

WHEREAS, Principal did under date of _____ enter
into a Petroleum Agreement granted by the Imperial Ethiopian Government
and in accordance with the terms of the said Agreement, Principal is
obligated to expend on operations as defined in Article II, sub-article
(i) of the Petroleum Agreement the sum of Petroleum Agreement the
sum of US\$ _____ during Stage _____
as described in Schedule "B" of the said Agreement:

NOW THEREFORE, the condition of this obligation is such, that if the
above bounden Principal shall expend the sum of US\$ _____
under and subject to the terms of the Petroleum Agreement, then this
obligation shall be null and void, otherwise to remain in full force
and effect.

WHEREAS, this bond shall run for a term of two years from the effective
date, any claim under this bond must be instituted within 120 days
of the completion of Stage _____ of the Petroleum Agreement.

Signed, sealed and dated this _____ day of _____

In the presence of:

Principal

Surety