

ANGOLA

1988 Model Production Sharing Agreement  
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 - SONANGOL,  
U.E.E., 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;

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:

1. 'Administration and Services' shall include, but not be limited to, all activities in general management and common support of Exploration, Development and Production such as supervision, direction 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;
  - 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

reservoir or reservoirs 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 a structure or structures 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 32.
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 reservoir judged by CONTRACTOR to be worth developing in accordance with the provisions of the Agreement.
17. 'Development' means the activity carried out on a specific structure or structures after the date when such structure or structures was or were declared to be a Commercial Discovery. 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 for export, and to undertake repressuring, recycling and other secondary or tertiary recovery projects.
18. 'Administration and Services Expenditure' means the expenditure so defined in Section 2 of Annex C hereof.
19. 'Development Expenditure' means the expenditure so defined in Section 2 of Annex C hereof.
20. 'Exploration Expenditure' means the expenditure so defined in Section 2 of Annex C hereof.
21. 'Production Expenditures' means the expenditure so defined in Section 2 of Annex C hereof.

22. 'Customs Duties' means all duties, taxes or imposts (except those charges paid to the GOVERNMENT for actual import or export services rendered), 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. 'Price Cap Excess Fee' means any payment that might become payable to SONANGOL pursuant to Article 21.
25. 'CONTRACTOR' means \_\_\_\_\_ and their possible assignees under Article 40, designated collectively except as otherwise provided herein.
26. 'Initial Exploration Phase' means that period of three (3) Contract Years commencing with the Effective Date of the Agreement as defined in Article 6.
27. 'Force Majeure' means the concept defined in Article 44.
28. '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.
29. '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.

30. 'Non-Associated Natural Gas' means that part of Natural Gas which is not Associated Natural Gas.
31. 'Government' means the Government of the People's Republic of Angola.
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 43.
34. 'Month' or 'Calendar Month' means a calendar month pursuant to the Gregorian calendar.
35. 'Petroleum Operations' means the operations of survey, Exploration, Appraisal, Development and Production which are the object of 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, geophysical, aerial and other surveys as may be included in Approved

Work Programs and Budgets, and the drilling of such shot holes, core holes, stratigraphic tests, holes for the discovery of Petroleum, and other related holes and wells, and the purchase or acquisition of such supplies, materials and equipment 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 produced, 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 bored or 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 reservoir penetrated by such Commercial Well, and to estimate the reservoir'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 the following average rates of Oil per day:

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

CONTRACTOR has the option to declare a Well a "Commercial Well" at producing rates below those set forth in the above schedule where CONTRACTOR is of the opinion that the producing feature contains recoverable hydrocarbons sufficient for CONTRACTOR to recover its costs and 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. 'First Optional Exploration Phase' means the first one (1) 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 32 paragraph 12 or approved by the Operating Committee under Article 32 paragraph 11, as relevant.

59. 'Second Optional Exploration Phase' means a second one (1) Contract Year extension to the Initial Exploration Phase pursuant to Article 6.

60. 'SONANGOL' means Sociedade Nacional de Combustiveis de Angola, an Angolan State Enterprise.

61. 'Quarter' or 'Calendar Quarter' means a period of three (3) consecutive Months starting with the first day of January, April, July or October of each Calendar Year.

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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 - 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.

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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, a civil company or society, or even a joint venture ("conta em participação").

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## 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.

## ARTICLE 6

### EXPLORATION PERIOD

1. An Initial Exploration Phase of three (3) Contract Years shall be granted to CONTRACTOR and shall start from the Effective Date. Two (2) successive extensions to the Initial Exploration Phase of one (1) Contract Year each (the First Optional Exploration Phase and the Second Optional Exploration Phase) shall be granted to CONTRACTOR at its option upon thirty (30) days prior written notice to SONANGOL and subject only to CONTRACTOR having fulfilled its obligations in accordance with the terms hereof.
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 Phases if these have 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 fifth (5th) 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 31 hereof shall not extend the Exploration Period nor affect the termination of this Agreement, provided that:

- (i) CONTRACTOR shall complete any work undertaken for SONANGOL's sole risk and expense even though the Exploration Period may have expired; and
- (ii) 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 31, paragraph 3 hereof; and
- (iii) 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.

3. At the end of the Exploration Period, CONTRACTOR shall terminate its activities in all areas within the Contract Area which are not then part of a Development Area(s); and this Agreement shall no longer have any application to any portion of said area not then part of a Development Area.

## 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 formation or formations 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 (20) Years from the date of Commercial Discovery in said Area. In the event of Commercial Discoveries in formations which underlie and overlie each other, such formations shall constitute a single Development Area, and the area shall be defined or redefined as necessary, as far as the boundaries of the Contract Area permit, to incorporate all underlying and overlying formations.
2. Unless otherwise agreed by SONANGOL, any Development Area shall automatically terminate and the rights and obligations in said Area shall be considered terminated and CONTRACTOR shall have no further liability with respect thereto if within three (3) 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 Schedule.

## ARTICLE 8

### OPERATOR

1. CONTRACTOR has the exclusive responsibility for executing all of the Petroleum Operations, except as specified in Article 31.
2. CONTRACTOR shall appoint Total 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. At any time at which CONTRACTOR is more than one person, 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 obligations specified in 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, has committed a wilful misconduct in carrying out the Petroleum Operations through which it has caused or attempted to cause a substantial damage to human life or to the interests of SONANGOL or of the People's Republic of Angola, and if this wilful misconduct 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 wilful misconduct 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 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 regulate and interpret this Agreement. The Operating Procedures Document will be agreed between the Parties and will be in accordance with the provisions of this Agreement and the applicable legislation.

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ARTICLE 10

COSTS AND EXPENSES

Except as otherwise provided for in the Agreement the costs and expenses incurred in the Petroleum Operations of survey, Exploration, Appraisal, Development and Production, 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.

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## 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 may be 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 per cent (20%) 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. (a) Administration and Services Expenditures incurred in the Contract Area shall be recovered from the unused balance of Cost Recovery Crude Oil existing from each Development Area after recovery of Development Expenditures and Production Expenditures, subject to the maximum amount of Cost Recovery Crude Oil specified in paragraph 1 above. In any given Year, such Administration and Services 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 Administration and Services Expenditures not already recovered shall be recoverable

in sequence from Development Areas with the next most recent dates of Commercial Discovery.

(b) Capitalized Administration and Services Expenditures shall be depreciated at the rate of twenty per cent (20%) per Year in equal annual installments starting in the Year in which such expenditures are incurred or the Year in which commercial production commences in the Contract Area, whichever occurs last.

(c) Administration and Services Expenditures which are not capitalized shall be recovered in the Year incurred or in the Year in which commercial production in the Contract Area commences, whichever occurs last.

7. 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.

8. 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.

9. For the purposes of valuation of Cost Recovery Crude Oil, the provisions of Article 2 of Annex C of the Concession Decree shall apply.
10. 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.

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ARTICLE 12

PRODUCTION SHARING

1. The total Crude Oil produced and saved 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 for in Article 11, shall be referred to as 'Development Area Profit Oil'; and shall be shared between SONANGOL and CONTRACTOR according to the cumulative total Crude Oil produced and saved from the Development Area and not used in Petroleum Operations since its date of Commercial Discovery as follows:

<u>Cumulative Production from each Development Area</u>	<u>SONANGOL Share</u>	<u>CONTRACTOR Share</u>
Less than x million barrels	a%	(100-a)%
x million barrels and over, but less than y million barrels	b%	(100-b)%
y million barrels and over, but less than z million barrels	c%	(100-c)%
z million barrels and over	d%	(100-d)%

2. The proceeds resulting from the sale of CONTRACTOR's share of Development Area Profit Oil valued as determined in Article 2 of Annex C of the Concession Decree shall be subjected to Petroleum Income Tax as provided for in the Concession Decree.

## 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, 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 and terms covering the scheduling, storage and lifting of Crude Oil and any other Petroleum produced from such Development Area(s). The procedures, regulations and terms shall comprehend the subjects necessary to efficient and equitable operations including, but not limited to: rights of the Parties, notification time, maximum and minimum quantities, duration of storage, scheduling, conservation, spillage, liabilities of the Parties, 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, regulations and terms. SONANGOL shall consider these comments and recommendations and the Parties shall, within sixty (60) days after CONTRACTOR's said submission, agree on required procedures, regulations and terms.



5. In any event, the agreed lifting procedures, regulations and terms 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 or 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 31 shall be excluded.

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## ARTICLE 14

### CONDUCT OF OPERATIONS

1. With due observance of legal and contractual provisions and subject to the decisions of the Operations 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 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.

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 accept the lowest bid which is, in other respects than costs, acceptable to CONTRACTOR, 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, at any time at which CONTRACTOR is more than one person, be joint and several obligations.

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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. One (1) of these Wells will be spudded within nine (9) months of the Effective Date.
3. For each of the \_\_\_\_\_ Wells of the initial obligatory work program described in the preceding paragraph which is a Commercial Well, one (1) additional Exploration Well shall be drilled (other than an Appraisal Well) to objectives defined in the Approved Work Program and Budget. Up to a maximum of \_\_\_\_\_ such additional Wells may be required during the Initial Exploration Phase.
4. If, during the Initial Exploration Phase, CONTRACTOR fails to complete the drilling of the additional Exploration Well(s) as provided for in the preceding paragraph, CONTRACTOR must elect either one of the following options:
  - a) drill the remaining additional Exploration Wells in a six (6) month extension of the Initial Exploration Phase and forego CONTRACTOR's option to extend the Exploration Period into the

First Optional Exploration Phase and Second Optional Exploration Phase as provided for in Article 6 hereof; or

- b) elect to extend the Exploration Period into the First Optional Exploration Phase and be obligated to add said additional Exploration Wells to the minimum work program in paragraph 5 below.
5. In the event CONTRACTOR elects to extend the Exploration Period into the First Optional Exploration Phase, CONTRACTOR shall be obligated to:
- a) drill \_\_\_\_\_ obligatory Exploration Wells (other than Appraisal Wells) to objectives defined in the Approved Work Program and Budget; and
  - b) drill the additional Exploration Wells, if applicable, as provided for in paragraph 4(b) above.
  - c) for each of the \_\_\_\_\_ obligatory Exploration Wells provided for in paragraph 5(a) above which is a Commercial Well, CONTRACTOR shall drill one (1) additional Exploration Well (other than an Appraisal Well) within the same Contract Year, to objectives defined in the Approved Work Program and Budget. Up to a maximum of \_\_\_\_\_ such additional Wells may be required during the First Optional Exploration Phase.
6. If, during the First Optional Exploration Phase, CONTRACTOR fails to complete the drilling of the additional Exploration Well(s) as provided for in paragraph 5(c) above, CONTRACTOR must elect either one of the following options:

- a) drill the remaining additional Exploration Wells in a six (6) month extension of the First Optional Exploration Phase and forego CONTRACTOR's option to extend the Exploration Period into the Second Optional Exploration Phase provide for in Article 6 hereof;  
or
- b) elect to extend the Exploration Period into a Second Optional Exploration Phase and be obligated to add said additional Exploration Wells to the minimum work program in paragraph 7 below.
7. In the event CONTRACTOR elects to extend the Exploration Period into the Second Optional Exploration Phase, CONTRACTOR shall be obligated to:
- a) drill \_\_\_\_\_ obligatory Exploration Wells (other than Appraisal Wells) to objectives defined in the Approved Work Program and Budget; and
- b) drill the additional Exploration Well, if applicable, as provided for in paragraph 6(b) above;
- c) for each of the \_\_\_\_\_ obligatory Exploration Wells provided for in paragraph 7(a) above which is a Commercial Well, CONTRACTOR shall drill one (1) additional Exploration Well (other than an Appraisal Well) within the same Contract Year to objectives defined in the Approved Work Program and Budget. Up to a maximum of \_\_\_\_\_ such additional wells may be required during the Second Optional Exploration Phase.
8. In the event CONTRACTOR exceeds the minimum work obligation as described in the preceding paragraphs during the Initial Exploration Phase or the First Optional Exploration Phase then such excess shall

not be credited against the minimum work obligation for the succeeding Exploration Phase.

9. 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).
10. If CONTRACTOR relinquishes its rights under this Agreement before drilling the minimum number of Exploration Wells which it is or may become obligated to drill, under the terms of this Article the CONTRACTOR shall be obligated to pay SONANGOL an amount equal to six million U.S. dollars (\$6,000,000) for each such Exploration Well not drilled.
11. CONTRACTOR shall be obligated to incur the following minimum Exploration Expenditures:

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

12. 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 practise indicate that it is technically impossible to reach and test all such horizons.



13. 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 shall test any additional zones within the agreed Well depth at SONANGOL's request. Such tests shall be at CONTRACTOR's sole expense and shall be credited towards fulfilling the minimum work programs.

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ARTICLE 16

EXPLORATION WORK PROGRAM 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 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 32 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 approved revisions 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 one (1) Month after the completion of the second Appraisal Well, or nine (9) 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 the existence of a Commercial Discovery.
4. 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.

5. 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.
6. 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.
7. 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.
8. 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.
9. 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 PROGRAM

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 Calendar Quarter 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.

ARTICLE 20

BANK GUARANTEE

1. The minimum Exploration work obligations shall be secured by a performance bond or other financial guarantee acceptable to SONANGOL.
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 six million U.S. Dollars (U.S.\$6,000,000) for each of the obligatory Exploration Wells set forth in Article 15 for such Phase.
4. The amount of such guarantee shall be reduced by six million U.S. dollars (U.S.\$6,000,000) when each of the obligatory Exploration Wells for such Phase is completed or for each amount paid in accordance with Article 15, paragraph 9.
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 8, 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.

ARTICLE 21

PRICE CAP

1. In the event that the official Market Price in any Calendar Quarter determined under Article 2 of Annex C of the Concession Decree exceeds an amount per barrel which is calculated by the following method:

$$\text{Amount per Barrel} = \text{Base Price} \times \text{IA}$$

Where Base Price = U.S. \$20.00

IA = Total Unit Value Index in U.S. dollars of Manufactured Goods Exports from Developed Market Economies (as published in the United Nations Monthly Bulletin of Statistics) for the Calendar Quarter prior to the current Calendar Quarter.

I = Total Unit Value Index in U.S. dollars of Manufactured Goods Exports from Developed Market Economies (as published in the United Nations Monthly Bulletin of Statistics) for the third Quarter of 1978.

CONTRACTOR shall pay to SONANGOL a Price Cap Excess Fee which is calculated as the whole of this excess multiplied by the



number of barrels of CONTRACTOR's share of Development Area Profit Oil lifted during each Calendar Month. The value of the Price Cap Excess Fee shall be agreed between SONANGOL and CONTRACTOR. The base price of U.S.\$20.00 per barrel shall be applied irrespective of the quality, grade or gravity of the crude oil produced.

2. Reasonable and equitable methods will be agreed upon between SONANGOL and CONTRACTOR to arrange payment on a current basis of the Price Cap Excess Fee. Such payment shall be based as necessary on the Market Price for the previous Calendar Quarter and the UN Index mentioned above for the previous Calendar Quarter. Adjustments to the amounts shall be made in following Calendar Quarters as necessary upon publication of the final figures of the UN Index mentioned above for the relevant Calendar Quarter and final determination of the Market Price for the same Calendar Quarter.
3. In the event the aforesaid UN Index is no longer published or the methodology for calculating such Index is significantly altered, SONANGOL and CONTRACTOR will agree upon a reasonable and reliable method of indexation for the purpose of adjusting the base price referred to above for inflation. In the event the aforesaid UN Index is rebased or is delayed in publication, SONANGOL and CONTRACTOR will agree upon reasonable and equitable procedures to rebase the base price referred to above, or, in the event of delay in publication, to assure continuity of cash payments under paragraph 1 above with the objective of precluding any financial loss to either SONANGOL or CONTRACTOR as a result of such changes.

4. The Price Cap Excess Fee shall be made by CONTRACTOR not later than the last day of the Month following the Month during which CONTRACTOR lifts its share of Development Area Profit Oil.

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ARTICLE 22

SIGNATURE BONUS

CONTRACTOR shall pay to SONANGOL as a signature bonus the sum of \_\_\_ million U.S. dollars (U.S.\$\_\_\_\_\_) on the Effective Date of this Agreement. This signature bonus shall neither be recovered nor amortized by CONTRACTOR for the purposes of cost recovery.

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ARTICLE 23

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.

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ARTICLE 24

CONSERVATION OF PETROLEUM AND PREVENTION OF LOSS

1. CONTRACTOR shall take all reasonable measures, according to generally accepted methods in use in the international oil 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 within fifteen (15) days after the conclusion of such tests.
3. Petroleum shall not be produced from multiple 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.

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ARTICLE 25

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 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 possible condition 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 offered 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, in exercising its rights under the preceding sentence of this paragraph shall not interfere with CONTRACTOR's operations. CONTRACTOR shall grant



to said representatives the same facilities in the camp as those accorded to its own employees of similar professional rank.

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ARTICLE 26

CONTRACTOR'S OBLIGATIONS TO PURCHASE SONANGOL'S OIL

1. SONANGOL shall have the option to require CONTRACTOR to purchase any part of SONANGOL's share of production under normal commercial terms and conditions in the international oil 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 option 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 27

SONANGOL'S RIGHT TO PURCHASE CONTRACTOR'S OIL

1. SONANGOL shall have the option 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) reduced by an amount equivalent in volume to the Price Cap Excess Fee (as determined in accordance with Article 21) valued at the Market Price. 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 option under this paragraph.
2. SONANGOL shall have the option upon six (6) Months written notice to require CONTRACTOR to pay the Price Cap Excess Fee in Crude Oil, calculated at the Market Price applicable to such Crude Oil. Inasmuch as CONTRACTOR's payments of the Price Cap Excess Fee are subject to retroactive adjustment in accordance with Article 21, any resulting adjustments to the volume of Crude Oil which SONANGOL is entitled to receive resulting from such retroactive adjustment shall be taken into account in the next subsequent Calendar Quarter. SONANGOL shall provide CONTRACTOR with not less than three (3) Months advance written notice of its intention to cease to exercise its option under this paragraph.
3. 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.

4. If, based upon the approved Production Schedule for any Year, CONTRACTOR's total estimated amount of Crude Oil comprising Cost Recovery Crude Oil and Development Area Profit Oil, less any Crude Oil acquired by SONANGOL under its options in this Article to purchase or receive Oil from CONTRACTOR or by the Government under its options in the Concession Decree to purchase or receive Oil from CONTRACTOR, 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 option to lift in that Calendar Year up to a maximum of forty nine per cent (49%) of total Crude Oil produced and saved in said Contract Area.

In the event that CONTRACTOR exercises all or any part of such option, the balance of Crude Oil necessary to satisfy CONTRACTOR's option 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 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.

5. In the event of conflict between CONTRACTOR's option in paragraph 4 above and SONANGOL's options in paragraphs 1 and 2 above, the CONTRACTOR's option in paragraph 4 above shall have priority.
6. The fulfilment of the obligations to satisfy the Government's option as per Article 8 of the Concession Decree shall be shared between SONANGOL and CONTRACTOR in proportion to their respective net available shares of production during the period concerned (CONTRACTOR's net available share being its share according to Articles 11 and 12 less the quantities delivered to SONANGOL under paragraphs 1 and 2 above and SONANGOL's net available share being its share according to Article 12, plus the said quantities delivered to it under paragraph 1 and 2 above).

ARTICLE 28

UNITIZATION

In the event that oil deposits are discovered which are capable of commercial operation and which extend beyond the Contract Area, and where other entities have agreements for the exploration and production of oil in Angola which contain a similar unitization provision, CONTRACTOR will discuss with such other entities the possibility of co-operating in the preparation of a plan for the joint development and production of the oil deposits in question. Any such plan must be approved by SONANGOL.

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## ARTICLE 29

### 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 in accordance with the abandonment plan initially approved by the Operating Committee, and shall also undertake other actions for the abandonment of the related assets as requested, in accordance with normal industry practice.

ARTICLE 30

NATURAL GAS

1. CONTRACTOR shall have the right to use 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. Any 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. CONTRACTOR shall then 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 Energy and 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.

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ARTICLE 31

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 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 horizons deeper than those proposed by CONTRACTOR to the Operating Committee in any Exploration Well being drilled which has encountered Petroleum and which the Operating Committee has agreed that SONANGOL may undertake the Sole Risk Operations, provided 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 successful Exploration Well and/or Appraisal Well carried out by CONTRACTOR if thirty-six (36) months have elapsed since the successful Well was completed and CONTRACTOR has not commenced the related Development.
2. Except as to a proposal for 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 for SONANGOL's account shall contain appropriate information such as location, depth, objective 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 operations 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 its 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 undertake as part of its 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 CONTRACTOR 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 operations for the account of SONANGOL under provisions of paragraph 1 will be carried out promptly and diligently by CONTRACTOR at SONANGOL's sole risk, cost and expense, provided that such operations will be carried out only if they 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 mutually agree on a method whereby SONANGOL will provide all necessary funds to CONTRACTOR to undertake and finance 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 an 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 operations for its sole risk and account assets which are used in the Petroleum Operations undertaken pursuant to this Agreement, 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 one hundred per cent (100%) of the costs referred to in paragraph 8. Such additional payment will be made in cash and within 90 days as of the date in 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 30 days as of the date in 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 six hundred per cent (1,000%) of the costs 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 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 32

OPERATING COMMITTEE

1. The Operating Committee is the body through which the Parties coordinate and supervise the Petroleum Operations and shall be established within 30 (thirty) 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 oversee and supervise the accounting of costs, expenses and expenditures and the maintenance of the operating and accounting records under the terms of 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 simultaneously convey to each Party all decisions of the Operating Committee, within five working days after the meetings;
  - e) to convey to the Parties all information and data provided to him by CONTRACTOR through the Operator for this effect;
  - f) to request from technical committees any information, studies and recommendations that he has been asked to obtain by any member of the Operating Committee;



- g) to request from CONTRACTOR 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.
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 (including voting by telex) 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 after the first Commercial Discovery.
  - (b) Approval of and any revision to the Production Schedule, Lifting Schedule 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.
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 them 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 33

### OWNERSHIP OF ASSETS

1. Physical assets purchased by CONTRACTOR pursuant to 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 operations hereunder, 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 and equipment 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 34

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 under this Agreement, 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;
  - e) To obtain new offers for 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 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.
3. The CONTRACTOR's obligation of confidentiality of the information referred to in paragraph 2 above shall continue for seven (7) 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. 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 35

RESPONSIBILITY FOR LOSSES AND DAMAGES

1. CONTRACTOR shall be solely and entirely responsible in law to third parties for any loss or damage occurring in connection with Petroleum Operations and shall indemnify and defend SONANGOL with respect thereto, except for damages arising in connection with operations for SONANGOL's sole account.
2. Save in a case where damage or loss has been caused solely by gross negligence or wilful misconduct on the part of CONTRACTOR, SONANGOL shall be solely and entirely responsible in law to third parties for any damage or loss occurring in connection with Petroleum Operations for SONANGOL's sole account and shall indemnify and defend CONTRACTOR with respect thereto.

## ARTICLE 36

### INSURANCE

1. Relative to the risks inherent in Petroleum Operations carried out under this Agreement, CONTRACTOR shall execute and keep current insurance contracts in the amounts and types required by applicable Angolan Legislation, as well as any other insurance contracts which come to be approved by the Operating Committee.
2. Insurance contracts will be executed with the National Insurance and Reinsurance Company of Angola (ENSA, U.E.E.), when so required by applicable legislation of the People's Republic of Angola.
3. Apart from the cases mentioned in the preceding paragraph, and to the extent it can guarantee coverage of the risks in keeping with paragraph 1, CONTRACTOR may deal in the international insurance market and purchase policies of comprehensive scope, provided it is authorized to do so by the Operating Committee.

ARTICLE 37

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, the 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 used in the Petroleum Operations, including proprietary and patented technology, "knowhow" and other confidential technology, to the extent permitted by applicable laws and 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 an initial Plan and submit it to SONANGOL within four (4) Months of the Effective Date.
  - (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 Energy and 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.

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ARTICLE 38

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, the statistical levy of one per thousand (1/1000) "ad valorem" and/or Stamp Duty for National Reconstruction 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 39

FOREIGN CURRENCY AND CUSTOMS REGIME

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

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ARTICLE 40

ASSIGNMENT

1. In accordance with the legislation of the People's Republic of Angola, each of the entities comprising 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.
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.
7. If the majority of the shares of stock of any entity constituting CONTRACTOR is sold or otherwise transferred to a non-Affiliate by the owners of such stock, such sale or transfer shall be deemed to be an assignment to a non-Affiliate and shall be subject to the provisions of this Article.
8. 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 41

CANCELLATION OF THE AGREEMENT

1. Without prejudice to the provisions of the general law, SONANGOL may proceed to the cancellation 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 in the Association in breach of the provisions of Article 40 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. 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 legally appointed 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, 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 cancelled in accordance with the provisions mentioned above.
3. The cancellation 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.
4. If any of the entities constituting CONTRACTOR, but not all of them, give SONANGOL due cause to cancel this Agreement pursuant to the



provisions of paragraphs 1 and 2 above, then such cancellation 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 unless such entity or entities are adjudicated bankrupt under paragraph 1(f) above through no fault of their own, when compensation will be paid.

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ARTICLE 42

CONFIDENTIALITY OF THE AGREEMENT

1. SONANGOL and CONTRACTOR agree to maintain the confidentiality of this Agreement, except for those disclosures which they may be compelled to make by the appropriate 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.

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ARTICLE 43

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 referred to 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. They shall be appointed in accordance with the above mentioned UNCITRAL Rules of Arbitration.
3. The arbitration tribunal shall be set up in Luanda, Republica Popular de Angola, and shall decide according to the applicable law of the Agreement as defined in Article 45.
4. The language of arbitration shall be Portuguese.
5. The Parties agree that this arbitration clause is an explicit waiver of immunity against enforcement and execution of the award or any judgement thereon and that the award or judgement thereon, if unsatisfied, shall be enforceable against any Litigant in any court having jurisdiction in accordance with its laws.

ARTICLE 44

FORCE MAJEURE

1. Non-performance or delay in performance by SONANGOL and CONTRACTOR, or either 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 existing 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 45

APPLICABLE LAW

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

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ARTICLE 46

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.

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ARTICLE 47

OFFICES AND SERVICE OF NOTICE

1. SONANGOL and CONTRACTOR shall maintain offices in Luanda, Republica Popular de Angola, where communications foreseen in this Contract must be validly served.
2. SONANGOL's office for the purpose of serving notice is:

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

Telex: 3148 and 3260

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

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4. SONANGOL and CONTRACTOR will communicate any change of address in writing and with reasonable notice.

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ARTICLE 48

CAPTIONS AND HEADINGS

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

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ARTICLE 49

EFFECTIVENESS

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.

This Agreement shall come into effect on the Effective Date.

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ANNEX C

ACCOUNTING AND FINANCIAL PROCEDURE

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FEBRUARY 1988

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ANNEX C

ACCOUNTING AND FINANCIAL PROCEDURE

This Annex is made an integral part of the Production Sharing Agreement entered into between SOCIEDADE NACIONAL DE COMBUSTIVEIS DE ANGOLA (SONANGOL) and \_\_\_\_\_ as referred to in Article 2 of said Agreement.

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## SECTION 1

### GENERAL PROVISIONS

#### 1.1 Definitions

The terms used herein have the same meaning given them in the Agreement.

#### 1.2 Purpose

The purpose of this Accounting and Financial Procedure is to establish equitable methods for determining all charges and all receipts applicable to the Petroleum Operations under the Agreement. It is the intention of the Parties that there shall be no duplication of any recoverable item.

#### 1.3 Statements Required to be Submitted by CONTRACTOR

- (a) Within ninety (90) days of the Effective Date, CONTRACTOR shall submit to and discuss with SONANGOL a proposed outline of charts of accounts, operating records and reports, which outline shall be in accordance with generally accepted and recognised accounting policies and consistent with normal practice of the international petroleum industry. Within sixty (60) days of receiving the above submission SONANGOL shall either indicate its approval of the proposal or request revisions to the proposal. Within one hundred and eighty (180) days after the Effective Date of the Agreement, CONTRACTOR and SONANGOL shall agree on

the outline charts of accounts, operating records and reports which shall describe the basis of the accounting system and procedures to be developed and used under the Agreement.

- (b) Following agreement on the outline charts of accounts, operating records and reports, as provided for in Subsection 1.3(a) above, CONTRACTOR shall expeditiously prepare and provide SONANGOL with formal copies of the comprehensive charts of accounts and manuals related to the accounting, recording and reporting functions and procedures which are, and shall be, observed under the Agreement.
- (c) CONTRACTOR is required to make regular Statements relating to the Petroleum Operations. These Statements are as follows:
- (i) Production Statement (see Section 7 of this Annex);
  - (ii) Value of Production Statement (see Section 8 of this Annex);
  - (iii) Statement of Expenditures and Receipts (see Section 9 of this Annex);
  - (iv) Cost Recovery Statement (see Section 10 of this Annex);
  - (v) Profit Oil Statement (see Section 11 of this Annex);
  - (vi) Values of Price Cap Excess Fee Statement (see Section 12 of this Annex).

(vii) Final End-of-Year Statement (see Section 13 of this Annex).

(viii) Training Report (see Section 14 of this Annex).

(d) In addition to the records and reports specifically provided for in this Section, CONTRACTOR shall also prepare information and data for SONANGOL as SONANGOL may reasonably request and which is directly related to CONTRACTOR's obligations under the Agreement.

(e) All reports and statements will be prepared in accordance with the Agreement, the laws of the People's Republic of Angola and, where there are no relevant provisions in either of these, in accordance with normal practice of the international Petroleum industry. The reports and statements shall also satisfy the requirements of SONANGOL's Petroleum Operations Information System (SIOP).

#### 1.4 Language and Units of Account

(a) Unless SONANGOL agrees otherwise, all books of account, operating data and reports and correspondence concerning the Petroleum Operations shall be written in the Portuguese language and shall be maintained in both Angolan Kwanzas and United States dollars, the last being the account currency of the Agreement. Metric units and Barrels shall be employed for measurements required under this Annex. Where necessary for clarification or CONTRACTOR's purposes, books of account, operating data, reports and correspondence may, upon the



approval of SONANGOL, also be maintained in other languages, currencies and units of measurement.

- (b) Neither SONANGOL nor CONTRACTOR should experience an exchange gain or loss at the expense of, or to the benefit of, the other. The treatment of any realized or unrealized gain or loss from exchange of currency for the purposes of determining the amount of Cost Recovery Crude Oil shall be subject to agreement between SONANGOL and CONTRACTOR.
- (c) Amounts received and costs and expenditures made in Kwanzas or in United States dollars shall be converted from Kwanzas into United States dollars or from United States dollars into Kwanzas on the basis of the exchange rates between the currencies in question as published by Banco Nacional de Angola, prevailing on the last business day of the Month preceding the Month in which such amounts are received and costs and expenditures are paid. Depreciation or amortisation charges shall be translated or converted at the rates prevailing when the original asset was acquired.

#### 1.5 Payments

- (a) All payments between the Parties shall be made in United States dollars, or any other currency agreed by the Parties, and be at a bank designated by each receiving party.
- (b) Any payments required under the Agreement, including but not limited to bonuses, rentals, minimum Work Program shortfalls and CONTRACTOR's optional purchases of Crude Oil, shall be made

within thirty (30) days following the end of the Month in which the obligation to make such payments occurs.

- (c) If one Party has not in due time paid the sums due under the Agreement to other parties, then such sums due shall bear interest for each day such sums are overdue at an annual rate equal to the average London Inter Bank Offered Rate for six (6) months, as quoted at 11.00 a.m. London time on the first business day of each month that this sum is overdue, by the London office of Bank of America, plus two (2) percentage points.

#### 1.6 Audit and Inspection Rights of SONANGOL

- (a) The accounting records of CONTRACTOR shall be subject to an annual audit to be made by an independent firm of auditors. Such auditors shall be selected by SONANGOL after consultation with CONTRACTOR. The audit must be based on generally accepted auditing principles.

In addition to the audit of the annual accounts, SONANGOL may require the auditors in the course of their work to perform other checks relating to contractual clauses, without CONTRACTOR being able to oppose such checks.

CONTRACTOR must supply all records, documents and explanations required of them by the auditors and shall permit the auditors to make such checks as they deem necessary to enable them to undertake the audit.

The cost of such audit will be borne by CONTRACTOR as an Administration and Services Expenditure. A copy of each audit report shall be delivered to the Ministry of Finance as well as to SONANGOL and each party constituting CONTRACTOR no later than six (6) months following the end of the relevant Calendar Year.

- (b) In addition to the audit referred to in Subsection 1.6(a), SONANGOL shall have the right to carry out or have carried out such examinations and audits as it sees fit, of CONTRACTOR's accounts, records, documents, contracts, assets, etc. so as to confirm the compliance with the provisions of the contract or with relevant legislation in force. The cost of any such examination or audit will be borne by SONANGOL.
- (c) During the course of the audit, the auditors may, on giving reasonable notice to CONTRACTOR, examine and verify all of the charges and credits relating to the Petroleum Operations such as the books of account, accounting entities, inventory and stock records, vouchers, payment records, invoices, contracts and sub-contracts of any type related to the Agreement and any other documents, correspondence and records of CONTRACTOR necessary to audit and verify the charges and credits. Furthermore, the auditors shall have the right in connection with such audit to visit and inspect at reasonable times and on reasonable notice all sites, plants, facilities, warehouses and offices of CONTRACTOR in Angola or elsewhere serving the Petroleum Operations including visiting personnel associated with these Operations.

- (d) All accounting records, returns, books and accounts related to activities under the Agreement shall be considered true and correct twenty-four (24) months following the end of the related Contract Year unless within the said twenty-four (24) month period SONANGOL or CONTRACTOR take written exception thereto, provided that SONANGOL and CONTRACTOR may agree on reasonable extensions to such twenty-four (24) month period.
- (e) Without prejudice to the finality of matters as described in Subsection 1.6(a) all documents referred to in those Subsections shall be maintained and made available for inspection by SONANGOL for five (5) years following their date of issue or publication.
- (f) Nothing in this Article shall replace or reduce CONTRACTOR's obligations under the Angolan Commercial Law.

## SECTION 2

### CLASSIFICATION, DEFINITION AND ALLOCATION OF COSTS AND EXPENDITURES

All expenditures relating to the Petroleum Operations shall be classified, defined and allocated as follows:

2.1 Exploration Expenditure - All direct and allocated indirect costs incurred in exploring for Petroleum including:

- (a) Aerial, geophysical, geochemical, geological, topographical and seismic surveys (including their interpretation) and studies;
- (b) Corehole drilling;
- (c) All costs, including costs of labor, materials and services for drilling and completing Exploration Wells, providing the Wells are dry and/or not completed as producing or injection Wells;
- (d) Facilities used solely in support of these purposes including access roads; and
- (e) Purchased geological and geophysical information.

2.2 Development Expenditure - All direct and allocated indirect costs incurred in the development of one or more Petroleum fields for production and export including:

- (a) All costs for drilling and completing Wells as Oil and Gas producers or injectors of fluids into the reservoirs for the purpose of producing from a Petroleum field including non-producing Wells and the re-drilling, deepening and recompleting of such Wells and also including the drilling of facility wells, such as waste disposal, fresh water or water for fluid injection purposes;
- (b) Intangible drilling costs such as labor, consumable material and services having no salvage value which are incurred for drilling and deepening of Wells for production or injection purposes;
- (c) Providing access roads and other related roads solely in support of Development and Production activities;
- (d) Construction of field facilities for producing, treating, storing and transporting Petroleum, such as pipelines, Gas/Oil treatment and production units, offshore platforms, well-head equipment, subsurface lifting equipment, production tubing, sucker rods, pumps, flow lines, enhanced recovery systems, storage tanks and related facilities and terminals, piers, harbors and related facilities for the export of Crude Oil; and
- (e) Engineering and design studies for field facilities.

Development Expenditures which are incurred for facilities used in one or more Development Areas shall be allocated between the Development Areas taking into account the estimated usage by each Development Area based upon the total estimated recoverable reserves of the Development Areas, which allocation will be agreed upon by SONANGOL and CONTRACTOR.

2.3 Production Expenditure - All costs in a Development Area, other than Exploration, Development and Administration and Services Expenditures (except as provided in paragraph (d) below) following the commencement of Crude Oil exports from that Development Area including, but not limited to:

- (a) Operating, servicing, maintaining and repairing producing and injection Wells and all equipment, pipeline, systems, facilities and plants completed during Development;
- (b) Planning, producing, controlling, measuring, testing and carrying out the flow and collecting, gathering, treating, storing and transferring of Petroleum from the Petroleum reservoirs to the designated exporting or lifting locations, and
- (c) Development Area rentals (as specified in Article 23 of the Agreement).

Production Expenditure may include a reserve to cover abandonment costs, the amount of which will reflect actual projected abandonment costs and which must be approved by the Operating Committee.

2.4 Administration and Services Expenditure - All direct and indirect costs capable of being in common support of Exploration, Development and Production such as the costs of Administration and Services activities as defined in Article 1 of the Agreement and including:

- (a) The purchase, construction, operation and maintenance of warehouses, piers (excluding piers constructed purely for the export of crude oil, such piers being classified as Development Expenditures), marine vessels, vehicles, motorized rolling

equipment, aircraft, administrative offices, shore bases, fire and security stations, work shops, water and sewage plants, power plants, communication systems, housing, community and recreational facilities and furniture, tools and equipment used in these activities;

- (b) All costs for facilities, such as access roads, which initially are constructed purely for use during Exploration activities but are later also used for Development activities;
- (c) All management, administrative and general costs incurred in the main and field offices in Angola, including, but not limited to, supervisory, accounting and employee relations services; and
- (d) All management, administrative and general costs incurred outside of Angola by CONTRACTOR and its Affiliates and applicable to activities under the Agreement such as:

Executive:	Time of executive officers
Treasury:	Financial and exchange activities
Purchasing:	Procuring materials, equipment and supplies
Exploration and Production:	Directing, advising and controlling Petroleum Operations

and including time spent in other departments such as legal, controllers and engineering.



## SECTION 3

### COSTS, EXPENDITURES AND CREDITS OF CONTRACTOR

#### 3.1 Recoverable Costs

Subject to the provisions of the Agreement, CONTRACTOR shall bear and pay all expenditures in respect of the Petroleum Operations. These costs and expenditures will be classified under the headings referred to in Section 2 and shall be recoverable according to Article 11 of the Agreement. These recoverable costs and expenditures will be the following:

##### (a) Surface Rights

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

##### (b) Labor and Associated Labor Costs

- (i) Gross salaries and wages including bonuses and premiums of CONTRACTOR's employees and assigned expatriates directly engaged in the Petroleum Operations, irrespective of the location of such employees;
- (ii) All personnel who are engaged in the Petroleum Operations and whose salaries and wages are recoverable under Subsection 3.1(b)(i) shall maintain time sheets for the purpose of charging such salaries and wages. These time

sheets will record time worked on the Petroleum Operations whether such personnel are engaged full time or part time on such Operations and will show all time worked on the various projects;

- (iii) CONTRACTOR's costs regarding holiday, vacation, sickness and disability payments applicable to the salaries and wages chargeable under Subsection 3.1(b)(i) above, all of which shall be in accordance with CONTRACTOR's normal practice;
- (iv) Expenses or contributions made pursuant to assessments or obligations imposed under the laws of the People's Republic of Angola which are applicable to CONTRACTOR's cost of salaries and wages chargeable under Subsection 3.1(b)(i) above;
- (v) CONTRACTOR's cost of established plans for employees' life insurance, hospitalisation, pensions, and other benefits of a like nature customarily granted to CONTRACTOR's employees;
- (vi) Reasonable travel, housing, living allowances and personal expenses of employees of CONTRACTOR including those made for travel and relocation of the expatriate employees assigned to the People's Republic of Angola all of which shall be in accordance with CONTRACTOR's normal practice.

(c) Transportation

The cost of transportation of employees, equipment, materials and supplies necessary for the conduct of the Petroleum Operations.

(d) Charges for Services

(i) Third Party Contracts

The actual costs of contracts for technical and other services entered into by CONTRACTOR for the Petroleum Operations, made with third parties other than Affiliates of CONTRACTOR, provided that the prices paid by CONTRACTOR are competitive with those generally charged by other international or domestic suppliers for comparable work and services.

(ii) Affiliates of CONTRACTOR

Without prejudice to the charges to be made prior to the time of a Commercial Discovery, in accordance with Subsection 3.1(k), services rendered to the Petroleum Operations by an Affiliate of CONTRACTOR, including general and administrative services will be charged on the basis of costs without profits and will be competitive. The charges will be no higher than the most favourable prices charged by the Affiliate to other Affiliates and to third parties for comparable services under similar terms and conditions elsewhere.

If necessary, certified evidence regarding the basis of prices charged, consisting of certification of the amount of such charges which are direct costs of providing the

services concerned and of the amount which contribute an allocated proportion of the overhead of the Affiliate, may be obtained from the auditors of the Affiliate by SONANGOL.

Such services will be provided within the framework of service contracts between CONTRACTOR and the Affiliate, which will be subject to the approval of SONANGOL prior to being signed.

SONANGOL reserves the right to disallow for cost recovery purposes, Affiliate charges if they are significantly higher than the average overall cost charged by Petroleum companies to their Affiliates for similar services in the international Petroleum industry.

(e) Material

- (i) New and used material acquired from third parties will be charged at the invoice price less all the applicable discounts and rebates; this value should not exceed the general price prevailing in normal arms-length transactions on the open market for timely available material of the same quality, taking into account transportation and other related costs.
- (ii) New and used material acquired from the Affiliates of CONTRACTOR will be charged at the lower of the cost to CONTRACTOR's Affiliate and the general price prevailing in normal arms-length transactions on the open market for comparable material.

(iii) CONTRACTOR does not warrant material beyond the suppliers' or manufacturers' guarantee and in case of defective material or equipment, any adjustment received by CONTRACTOR from the suppliers, manufacturers or their agents will be credited to the accounts under the Agreement.

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

(f) Rentals, Duties and Other Assessments

All rentals, taxes, Customs Duties, levies, charges, fees, contributions and any other assessments and charges levied by GOVERNMENT in connection with the Petroleum Operations and paid directly or indirectly by CONTRACTOR with the exception of the Petroleum Income Tax and the Price Cap Excess Fee.

(g) Insurance and Losses

Insurance premia and costs, less any commission rebates and discounts, incurred for insurance, providing such insurance is customary and gives prudent protection against risks. If such insurance is wholly or partly placed with an Affiliate of CONTRACTOR, such premia and costs shall be recoverable only to the extent generally charged by competitive insurance companies other than an Affiliate of CONTRACTOR. Costs and losses incurred as a consequence of accidents and damages in the

course of the Petroleum Operations are recoverable to the extent not made good by insurance obtained under the Agreement.

(h) Legal Expenses

All costs and expenses of litigation and legal or related services necessary or expedient for the procuring, perfecting, retention and protection of the Contract Area, and in defending or prosecuting lawsuits involving the Area or any third party claim arising out of activities under the Agreement, or sums paid in respect of legal services necessary or expedient for the protection of joint interest of SONANGOL and CONTRACTOR. Where legal services are rendered in such matters by salaried or regularly retained lawyers of CONTRACTOR or an Affiliate of CONTRACTOR, such compensation will be included instead under Subsection 3.1.(b) or 3.1.(d) above, as applicable. Costs incurred in the course of arbitration under Article 43 of the Agreement shall, however, not be cost recoverable, nor shall any legal costs which are not related to activities defined above.

(i) Training Costs

All costs and expenses incurred by CONTRACTOR in training of its employees directly engaged in the Petroleum Operations under the Agreement and such other training as required under Article 37 of the Agreement:

(j) Natural Gas and Related Costs shall be treated as follows:

- (i) Costs to develop and produce Associated Natural Gas shall be recoverable in determining the volume of Cost Recovery

Crude Oil in the relevant Development Area. Costs to develop and produce Non-Associated Natural Gas shall be charged against the Non-Associated Natural Gas revenues in a manner to be agreed by SONANGOL and CONTRACTOR;

- (ii) No Exploration Expenditures shall be charged against Non-Associated Natural Gas revenues except with the approval of SONANGOL;
- (iii) Common costs, other than Exploration Expenditures, allocated to Crude Oil and Non-Associated Natural Gas shall be allocated on a basis to be agreed by both Parties;
- (iv) The accounting treatment for revenues and costs of Non-Associated Natural Gas fractions and for gas liquids extracted from Non-Associated Natural Gas shall be agreed by both Parties.

(k) General and Administrative Expenses

- (i) CONTRACTOR's staffing and maintenance of its head office in Angola and other offices in Angola as well as the expenses of general facilities such as shore bases; warehouses; water, power and communications systems; roads and bridges; other indirect expenses in Angola such as costs of field supervisory personnel, field clerks, assistants and other general employees indirectly serving activities in the Contract Area and cost of audits under Subsection 1.6(a).

- (ii) Prior to the date of the first Commercial Discovery in the Contract Area, the general and administrative expenses incurred by CONTRACTOR outside of Angola and applicable to activities under the Agreement, as specified in Subsection 2.4(d), will be chargeable each Month as an overhead at the fixed rate of three per cent (3%) of Exploration Expenditures incurred in the Contract Area during such Month. Such general and administrative expenses shall be in addition to any other expenses chargeable pursuant to this Section 3. After the date of the first Commercial Discovery, there will be no further allowable charges for general and administrative expenses incurred by CONTRACTOR outside of Angola except to the extent these are included under service contracts pursuant to Subsection 3.1(d)(ii).

3.2 Costs Recoverable only with Approval of SONANGOL

- (a) Donations and contributions.
- (b) Advertising or public relations expenses including costs incurred on government relations activities.
- (c) Expenditure on research into and development of new equipment, material and techniques for use in searching for, developing and producing petroleum.
- (d) Interest expense on borrowings, including capital charges during construction and charges for supplier credit.
- (e) Costs incurred before the Effective Date of the Agreement.



### 3.3 Costs not Recoverable under the Agreement

- (a) The Signature Bonus under the Agreement.
- (b) Costs incurred as a result of gross negligence or wilful misconduct of CONTRACTOR and for which CONTRACTOR is liable under the Agreement.
- (c) Petroleum marketing or transportation costs of Petroleum beyond the Delivery Point.
- (d) The costs of any letter of guarantee under the Agreement (and any other amounts spent on indemnities with regard to non-fulfilment of contractual obligations), and any payments made because of shortfalls below the minimum work program.
- (e) Cost incurred during the process of arbitration under the Agreement and the independent expert under Article 2 of Annex C of the Concession Decree.
- (f) Legal costs incurred by CONTRACTOR, except those specifically provided for in Subsection 3.1(h).
- (g) Price Cap Excess Fee and Petroleum Income Tax.
- (h) Fines and penalties imposed by Courts of Law of the People's Republic of Angola except when such fines and penalties are imposed upon acts performed in the legitimate exercise of activities permitted by the Agreement.

- (i) Gifts or rebates to suppliers and gifts or commission to intermediaries arranging service or supply contracts.
- (j) Demurrage Costs except when approved unanimously by the Operating Committee.

#### 3.4 Other Costs and Expenses

Other costs and expenses not covered or dealt with in the provisions of this Section 3 and which are incurred by the CONTRACTOR for the necessary and proper conduct of the Petroleum Operations are recoverable, only if so approved by SONANGOL.

#### 3.5 Credit under the Agreement

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

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

(d) Rentals, refunds or other credits received by CONTRACTOR which apply to any charge which has been made to the accounts under the Agreement, but excluding any award granted to CONTRACTOR under the arbitration referred to in Subsection 3.3(e) above.

3.6 Duplication of Charges and Credits

Notwithstanding any provision to the contrary in this Accounting and Financial Procedure, it is the intention that there shall be no duplication of charges or credits in the accounts under the Agreement.

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SECTION 4

NON-OPERATOR COSTS

The costs incurred by CONTRACTOR as referred to in this Accounting and Financial Procedure shall include the costs of the Operator and of the non-operating companies, provided, however, that all general and administrative costs of the non-operating companies are subject to the approval of the Operating Committee. The Joint Operating Agreement concluded between the parties constituting CONTRACTOR, as provided for in Article 8 of the Agreement, shall contain regulations on how the non-operators shall be reimbursed for their incurred costs.

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## SECTION 5

### CAPITALIZATION AND DEPRECIATION

- 5.1 Exploration Expenditures and Production Expenditures shall not be capitalized and therefore not depreciated but shall be chargeable as expenses as provided for in Article 11 of the Agreement.
- 5.2 Development Expenditures shall be capitalized and these amounts, increased by the investment allowance, as provided for in Article 11 of the Agreement, shall be depreciable at twenty per cent (20%) per Year in equal annual installments commencing in the Year incurred or in the first Year in which Crude Oil exports from the same Development Area commence, whichever is last. A full twenty per cent (20%) depreciation shall be allowed in the said first Year.
- 5.3 (a) That portion of Administrative and Services Expenditures which is for the construction or purchase of facilities shall be capitalized and depreciated at twenty per cent (20%) per Year in equal annual installments commencing in the Year incurred or in the first Year in which Crude Oil exports from the Contract Area commence, whichever is last. A full twenty per cent (20%) depreciation shall be allowed in the said first Year.
- (b) That portion of Administrative and Services Expenditures which is not for the construction or purchase of facilities shall not be capitalized and therefore not depreciated but shall be chargeable as expenses as provided in Article 11 of the Agreement.

- 5.4 Recovery of all allowable costs under this Agreement is subject to the Cost Recovery Crude Oil restriction described in Article 11 of the Agreement.
- 5.5 To the extent that the limit of Cost Recovery Crude Oil prevents all recoverable costs in a given Year from being recovered, the unrecovered Development and Production Expenditures shall be carried forward to succeeding Years until they are fully recovered or, in the case of insufficient Cost Recovery Crude Oil deriving from the Development Area in question, such unrecovered costs may remain unrecovered.
- 5.6 To the extent that there is a lack of Cost Recovery Crude Oil in one or more Development Areas as referred to in paragraph 5.5 above, the unrecovered Exploration Expenditures shall be carried forward to succeeding Years until fully recovered, or in the case of insufficient Cost Recovery Crude Oil deriving from the Contract Area, such unrecovered costs may remain unrecovered.

## SECTION 6

### RECORDS AND VALUATION OF ASSETS

- 6.1 CONTRACTOR shall maintain detailed records of property in use for the Petroleum Operations in accordance with normal practice in exploration and production activities of the international petroleum industry and will give SONANGOL a complete and detailed report on all such property every year or at any time upon SONANGOL's request and upon two (2) Months advance written notice.
- 6.2 At reasonable intervals but at least once a Year with respect to movable assets and once every three (3) Years with respect to immovable assets, inventories of the property under the Agreement shall be taken by CONTRACTOR. CONTRACTOR shall give SONANGOL at least thirty (30) days written notice of its intention to take such inventory and SONANGOL has the right to be represented when such inventory is taken. CONTRACTOR will clearly state the principles upon which valuation of the inventory has been based. When an assignment of rights under the Agreement takes place a special inventory may be taken by CONTRACTOR at the request of the assignee provided that the costs of such inventory are borne by the assignee.

SECTION 7

PRODUCTION STATEMENT

7.1 Subsequent to the commencement of Commercial Production from the Contract Area, CONTRACTOR shall submit a Monthly Production Statement for each Development Area to SONANGOL showing the following information:

- (a) The quantity of Crude Oil produced and saved during the Month.
- (b) The cumulative quantity of Crude Oil produced and saved from the Development Area since the commencement of Commercial Production up until the end of the Month in question.
- (c) The quantity of Natural Gas produced and saved during the Month.
- (d) The cumulative quantity of Natural Gas produced and saved from the Development Area since the commencement of Commercial Production up until the end of the Month in question.
- (e) The quantities of Petroleum used for the purposes of carrying out drilling and production operations and pumping to field storage.
- (f) The quantities of Natural Gas flared.
- (g) The size of Petroleum stocks held at the beginning of the Month.



- (h) The size of Petroleum stocks held at the end of the Month.
  - (i) The quantities of Crude Oil lifted during the Month by each entity constituting CONTRACTOR.
  - (j) The cumulative quantity of Crude Oil lifted during the Month by each entity constituting CONTRACTOR since the commencement of commercial production up until the end of the Month in question.
- 7.2 The Production Statement for each Calendar Month shall be submitted to SONANGOL no later than ten (10) days after the end of such Calendar Month.
- 7.3 SONANGOL shall be informed of the reasons for all significant variations in crude oil stocks in an accompanying letter and is entitled to carry out its own verification of these stocks at any time.

## SECTION 8

### VALUE OF PRODUCTION STATEMENT

- 8.1 Each entity constituting CONTRACTOR, individually, shall prepare a confidential statement covering the determination of the fair market value of Crude Oil produced and saved during each Calendar Quarter. This statement shall contain the following information:
- (a) The quantities and prices realised therefor by that entity as a result of sales of Crude Oil to third parties made during the Calendar Quarter in question.
  - (b) The quantities and the prices realised therefor by that entity as a result of sales of Crude Oil made during the Calendar Quarter in question, other than to third parties.
  - (c) Public, non-confidential information available to that entity concerning the prices of Crude Oil produced by the main petroleum producing and exporting countries including contract prices, discounts and premia, and prices obtained on the spot markets.
- 8.2 The Value of Production Statement for each Calendar Quarter shall be submitted to SONANGOL not later than fifteen (15) days after the end of such Calendar Quarter.

## SECTION 9

### STATEMENT OF EXPENDITURE AND RECEIPTS

- 9.1 Each Calendar Quarter, CONTRACTOR shall prepare a Statement of Expenditure and Receipts under the Agreement. The Statement will distinguish between Exploration Expenditures, Development Expenditures, Production Expenditures and Administration and Services Expenditures and will identify all major items of expenditures within these categories. The Statement will show the following:
- (a) Actual expenditures and receipts (excluding receipts for Sales of Petroleum) for the Quarter in question.
  - (b) Full details of all labor costs associated with CONTRACTOR's expatriate personnel.
  - (c) Explanations on any significant deviation between the actual expenditures and receipts and the amounts forecast for that Quarter with supporting evidence for those items which vary from the forecasted amounts.
  - (d) Cumulative expenditure and receipts for the Year in question.
  - (e) Latest forecast cumulative expenditures for the full Year.
  - (f) Explanations on any significant deviation between the original budget forecast for the Year in question and the latest forecast.

- 9.2 The Statement of Expenditure and Receipts for each Calendar Quarter shall be submitted to SONANGOL no later than thirty (30) days after the end of such Quarter.
- 9.3 SONANGOL may request supporting data for any or all of the items in this Statement.

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SECTION 10

COST RECOVERY STATEMENT

10.1 Each Quarter CONTRACTOR shall prepare for each Development Area a Cost Recovery Statement containing the following information:

- (a) Any retroactive adjustments to the quantity and value of Cost Recovery Crude Oil taken and disposed of by CONTRACTOR in previous Quarters.
- (b) Recoverable Development and Production Expenditures carried forward from the previous Quarter, if any.
- (c) Recoverable Development and Production Expenditures arising during the Quarter in question.
- (d) Quantity and value of Cost Recovery Crude Oil taken and disposed of by the CONTRACTOR for the Quarter in question.
- (e) Excess Cost Recovery Crude Oil not required to recover costs incurred in the Development Area during the Quarter in question, if any.
- (f) Development and Production Expenditures recovered in the Quarter in question.

- (g) Total cumulative amount of Development and Production Expenditures recovered up to the end of the Quarter in question.
- (h) Total cumulative amount of Development and Production Expenditures incurred up to the end of the Quarter in question.
- (i) Amount of recoverable Development and Production Expenditures to be carried forward into the next Quarter, if any.

10.2 Each Quarter CONTRACTOR shall prepare a Summary Cost Recovery Statement for the Contract Area containing the following information;

- (a) Any retroactive adjustments to the quantity and value of Cost Recovery Crude Oil taken and disposed of by CONTRACTOR in previous Quarters.
- (b) Recoverable Exploration Expenditures carried forward from the previous Quarter, if any.
- (c) Recoverable Exploration Expenditures arising during the Quarter in question.
- (d) Excess Cost Recovery Crude Oil in each Development Area (Cost Recovery Crude Oil not required for the recovery of Development and Production Expenditures in the Development Area), if any.
- (e) Quantity and value of the excess Cost Recovery Crude Oil from each Development Area taken and disposed of by CONTRACTOR in the Quarter in question for the recovery of Exploration Expenditures.
- (f) Exploration Expenditures recovered in the Quarter in question.

- (g) Total cumulative Exploration Expenditures recovered up to the end of the Quarter in question.
- (h) Total cumulative amount of Exploration Expenditures incurred up to the end of the Quarter in question.
- (i) Amount of recoverable Exploration Expenditures to be carried forward into the next Quarter, if any.

10.3 In preparing the Cost Recovery Statement the Administration and Services Expenditures shall be allocated to Exploration, Development and Production Expenditures as provided for in Section 2.4 of this Annex.

10.4 The Cost Recovery Statements for each Quarter shall be submitted to SONANGOL no later than thirty (30) days after the end of such Quarter.

## SECTION 11

### PROFIT OIL STATEMENT

11.1 Each Quarter CONTRACTOR shall prepare for each Development Area a Profit Oil statement containing the following information:

- (a) Crude Oil produced during the Quarter in question.
- (b) Total cumulative Crude Oil produced up to the end of the Quarter.
- (c) Volume of Profit Oil to SONANGOL and to each entity constituting CONTRACTOR during the Quarter in question.
- (d) Cumulative volume of Profit Oil to SONANGOL and to each entity constituting CONTRACTOR up to the end of the Quarter in question.
- (e) Liftings by SONANGOL and each entity constituting CONTRACTOR during the Quarter in question.
- (f) Liftings by SONANGOL and each entity constituting CONTRACTOR up to the end of the Quarter in question.

11.2 The Profit Oil Statement for each Quarter shall be submitted to SONANGOL no later than thirty (30) days after the end of such Quarter.



SECTION 12

VALUE OF PRICE CAP EXCESS FEE STATEMENT

12.1 Each Quarter CONTRACTOR shall prepare for each Development Area a Price Cap Excess Fee Statement containing the following information:

- (a) Total liftings during Quarter.
- (b) Estimated value of Crude Oil during the Quarter.
- (c) Estimated value of UN Index referred to in Article 21 of the Agreement during the Quarter.
- (d) Estimated value of Base Price during the Quarter.
- (e) Value of Price Cap Excess Fee paid to SONANGOL.
- (f) Retroactive adjustments to Price Cap Excess Fee for past quarters taking into account final values of the Market Price of the Crude Oil and the UN Index referred to in Article 21 of the Agreement.

12.2 The Price Cap Excess Fee Statement for each Quarter shall be submitted to SONANGOL no later than thirty (30) days after the end of such Quarter.

SECTION 13

FINAL END-OF-YEAR STATEMENT

CONTRACTOR shall prepare a Final End-of-Year Statement. The Statement will consolidate for the Year the same information as provided in the Monthly Production Statement and the Quarterly Statement of Expenditure and Receipts, Cost Recovery Statement and Profit Oil Statement, but will be based on finalized quantities of Petroleum produced and expenses incurred incorporating any adjustment necessary as a result of retrospective changes to the accounts. The Final End-of-Year Statement of each Calendar Year shall be submitted to SONANGOL within sixty (60) days of the end of such Calendar Year.

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SECTION 14

TRAINING REPORT

Each year CONTRACTOR shall comply with the reporting requirements of Decree 20/82 and Article 37 of the Agreement.

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SECTION 15

REVISION OF ACCOUNTING AND FINANCIAL PROCEDURES

The provisions of this Accounting and Financial Procedure may be amended by agreement between the CONTRACTOR and SONANGOL. The amendments shall be made in writing and shall state the date upon which the amendments shall become effective.

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SECTION 16

CONFLICT WITH THE AGREEMENT

In the event of any conflict between the provisions of this Accounting and Financial Procedure and the Agreement the provisions of the Agreement shall prevail.