

**AGREEMENT
FOR
JOINT VENTURE PARTICIPATION
BETWEEN**

EMPRESA NACIONAL DE PESQUISA E EXPLORACAO PETROLIFERA, E.P.

AND

**FOR PETROLEUM EXPLORATION AND EXPLOITATION
GUINEA-BISSAU OFFSHORE**

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AGREEMENT

BETWEEN

1. EMPRESA NACIONAL DE PESQUISA E EXPLORAÇÃO PETROLIFERAS, E.P., hereinafter referred to as "PETROGUIN", acting on its behalf and in the name of the Government, on the one hand,

and,

- 2.

hereinafter referred to as "COMPANY", on the other hand.

PREAMBLE

WHEREAS, the Government of the Republic of Guinea-Bissau ("Government") has entrusted the conduct of petroleum operations within the Continental Shelf and exclusive economic zones of Guinea-Bissau to PETROGUIN by virtue of Decree No. 6177 of 1 March 1977; and

WHEREAS no company or person of foreign nationality may engage in petroleum operations in Guinea-Bissau other than in association with PETROGUIN; and

WHEREAS the Government has promulgated Law No. 2/82 of 25 May 1982 as amended by Decree Law 4/85 in order to define the legislation relating to petroleum operations in Guinea-Bissau, hereinafter referred to as the "Petroleum Law"; and

WHEREAS the Government wishes to facilitate the performance of such petroleum operations in Guinea-Bissau;

NOW, THEREFORE, the parties to this Agreement, namely PETROGUIN and _____ agree as follows:

ARTICLE 1 - OBJECT OF THE AGREEMENT

- 1.1 The object of this Agreement shall be to establish the terms of the joint venture participation between PETROGUIN and the COMPANY for petroleum operations on offshore Block ____ as defined in Annex II including but not limited to hydrocarbons, exploration for, development and transportation by pipeline of Petroleum, in the Agreement Area (as defined in Annex II), relating to the Exploration Licence granted to the Parties by the Government for this purpose. It is understood that this Agreement may be amended or extended only by the written mutual agreement of all the Parties, subject to the approval of the Government.

ARTICLE 2 - DEFINITIONS

- 2.1 "Affiliate" means any company or legal entity which:
- a) controls directly or indirectly any Party, or
 - b) is directly or indirectly controlled by such Party, or
 - c) is directly or indirectly controlled by a company or legal entity which directly or indirectly controls such Party.
- "Control" means the right to exercise 50% or more of the voting rights of such company or legal entity.
- 2.2 "Agreement" means this instrument and the annexes hereto, including any amendments or novations thereto.
- 2.3 "Agreement Area" means the surface area covered by the Agreement and which for the time being is defined in Annex II hereto; subject to any reductions thereto resulting from any relinquishments made from time to time.
- 2.4 "Appraisal Well" means a well other than an Exploration Well but which is drilled with the objective of further defining a potential commercial discovery, after a discovery well is notified to the Management Committee.
- 2.5 "Associated Gas" means Gas which is solution gas or gas cap gas produced from a liquid petroleum reservoir and recovered gas at the surface by separation or other primary field processes.
- 2.6 "Commercial Discovery" means any Discovery of Hydrocarbons within the Exploration Licence which, in the opinion of the Management Committee, meets the conditions laid down in Article 9.4 hereof to justify its development and assure its commercial production.
- 2.7 "Crude Oil" means any hydrocarbons produced from the Agreement Area which are in a non-gaseous state at the well-head or after field separation and includes condensate and casing head petroleum.
- 2.8 "Date of Commercial Discovery" means the date on which the Management Committee, in accordance with the provisions of Article 9 hereof declares a discovery of Petroleum to be a Commercial Discovery.
- 2.9 "Delivery Point" means the output valve of the loading terminal for liquid hydrocarbons and the output valve of the process plant in the case of Natural Gas.

- 2.10 "Development Area" means that area designated by the Management Committee representing the surface extension of the limits of a Commercial Discovery which is the subject on the Development Licence.
- 2.11 "Development Licence" means the licence awarded by the Government in the event of a Commercial Discovery granting development rights to the Parties in the Development Area.
- 2.12 "Discovery" means any Discovery of reserves of Petroleum.
- 2.13 "Effective Date" means the date of the publication in the Boletim Oficial of the Government Decree approving the terms of this Agreement.
- 2.14 "Exploration Licence" means the Decree issued by the Government granting exploration rights to the Parties in the Agreement Area and ratifying the terms of this Agreement.
- 2.15 "Exploration Well" means a well drilled with the purpose of determining the presence or absence of Petroleum in a geologic structure or trap where an accumulation has not been previously determined.
- 2.16 "Government" means the government of the Republic of Guinea-Bissau as represented by the Minister or any other duly authorised representative.
- 2.17 "Joint Account" means the account maintained by the Operator to record all revenues and expenditures to be shared by all the Parties under this Agreement.
- 2.18 "Joint Property" means all property acquired or held for use in connection with the Operations.
- 2.19 "Licence" means the Exploration Licence or the Development Licence, whichever is applicable.
- 2.20 "Maximum Efficient Rate (MER)" means the optimum rate of production of Crude Oil and/or Natural Gas for a determined reservoir in accordance with good oil and gas field practices and in particular with due regard for reservoir characteristics and safety.
- 2.21 "Minister" means the Minister of Natural Resources and Environment or any other Minister designated by the Government to perform the functions of the Minister hereunder.
- 2.22 "Natural Gas" means any gaseous hydrocarbons produced from the Agreement Area whether associated or non-associated as well as all other gaseous substances produced.

2.23 "Operator"	means the Company designated to carry out Operations hereunder pursuant to the terms and provisions of this Agreement or its successors or assigns.
2.24 "Operations"	means all exploration, development, production operations and transport under this Agreement.
2.25 "Party, Parties"	means the parties to this Agreement.
2.26 "Petroleum"	means any crude oil or relative hydrocarbon and natural gas existing in its natural condition in strata, but does not include coal or bituminous shales or other stratified deposits from which oil can be extracted by destructive distillation.
2.27 "Petroleum Law"	means Law No 2/82 of 25 May 1982 as amended by Decree Law 4/85.
2.28 "Programme"	means any programme of Operations hereunder.
2.29 Profitability Index	means net profit after income taxes divided by Gross Revenues
2.30 "Wilful Misconduct"	means in relation to the Operator, an intentional and conscious, or reckless, disregard of:- <ul style="list-style-type: none"> a) any provision of this Agreement or b) any Programme, not justifiable by any special circumstances, and shall not include any error of judgement or mistake made by any director, employee, agent or contractor of the Operator in the exercise, in good faith, of any function, authority or discretion conferred upon the Operator.
2.31 "Work Obligations"	means the obligations defined in Clause 7. 1. 1.
2.32 "Working Day"	means any day other than a Saturday when banks in the City of London are normally open for business.

ARTICLE 3 - EXPLORATION TERM AND RELINQUISHMENTS

- 3.1 (a) The initial term of the Exploration Licence (hereinafter referred to as the "Initial Term") shall be five (5) years from the Effective Date, which period may be extended by a further period of two (2) years upon the Parties making written application to the Minister for such extension at least ninety (90) days prior to the expiry of the initial term subject to the fulfilment of the obligations contained in Article 7 hereof and the mandatory partial relinquishment of the Agreement Area as specified below.
- (b) The Initial Term shall be divided into two successive phases as follows:
- (i) Phase 1 shall be of two years duration at the end of which Company may elect to extend the phase for one further year. At the end of Phase 1 Company may elect to relinquish the Exploration Licence without further commitment or continue to Phase 2.
 - (ii) Phase 2 shall be of 3 years duration consisting of Part 1 (18 months) and Part 2 (18 months).
- 3.2 Not later than the end of Phase 1 and Part 1 of Phase 2, the COMPANY shall relinquish at least twenty five per cent (25%) of the Agreement Area unless the COMPANY withdraws from the Agreement subject to the fulfilment of the obligations set out in Article 7 hereof.
- 3.3 In the event that the Initial Term is extended as described in Article 3.1a and if, during the seventh (7th) year of the Initial Term, the Operator encounters a show of Petroleum which it believes is sufficient to warrant further exploration, an exceptional extension of 1 further year shall be granted by the Government covering an area designated by the mutual agreement of the Minister and the Operator.
- 3.4 For purposes of calculating the relinquishments due under Articles 3.2 and 3.3 above, any Development Area designated within the Agreement Area pursuant to Article 10 hereof shall be deemed not to be part of the Agreement Area.
- 3.5 The shape and size of area to be surrendered pursuant to the provisions of this Article shall be agreed by the Operator and the Minister and shall always be of a size and shape that will permit further exploration.

ARTICLE 4 - JOINT VENTURE PARTICIPATION

- 4.1 Pursuant to the provisions of this Agreement, the Petroleum Law and the terms of the Exploration Licence, PETROGUIN and the COMPANY constitute a joint venture ("Joint Venture"). The Joint Venture is not a legal or corporate entity and does not have the status of a joint stock company or any ordinary partnership.
- 4.2 The interests of the Parties in the Joint Venture ("Percentage Interests") shall be determined in accordance with article 4.3 of this agreement. Until such time as the Percentage Interest can be so determined, all expenditure shall be funded by the parties in the following proportion:

PETROGUIN	0%
	<u> %</u>
	<u> %</u>

- 4.3 Upon the determination of a Commercial Discovery the Percentage Interests of the Parties will be as follows:

PETROGUIN	%
	<u> %</u>
	<u> %</u>

- 4.4 PETROGUIN entrusts the role of Operator to _____. The COMPANY shall assume the entire cost as well as the responsibility and risk of the exploration program as defined in Article 7 of this Agreement, until such time as there is commercial production but in any event for the Initial Term.

In the event of a Commercial Discovery the portion of the investment made prior to the date of such Commercial Discovery which corresponds to the Percentage acquired by PETROGUIN following the Commercial Discovery shall be deemed to have been advanced by the COMPANY and shall be reimbursed according to the provisions of Article 17.2 hereunder.

ARTICLE 5 - MANAGEMENT COMMITTEE

5.1 Composition

5.1.1 The Management Committee shall consist of _____ representative appointed by each of the Parties provided always that more than one of the Parties may appoint the same representative who shall represent them separately. Each Party shall, as soon as possible after the date of this Agreement, give notice to all the other Parties of the name of its representative and of an alternate on the Management Committee. Such representative and/or alternate may be replaced, from time to time, by like notice. Representatives or alternates may bring to meetings of the Management Committee such advisers as they consider necessary. The representative of a Party or, in the absence of the representative, his alternate, shall be deemed authorised to represent and bind such Party with respect to any matter which is within the powers of the Management Committee.

5.1.2 The President of the Management Committee shall be the representative of PETROGUIN.

5.1.3 PETROGUIN and the COMPANY shall each designate their representatives and, in case of absence, their alternative representatives or alternatives to represent him in the Committee.

5.1.4 The Management Committee may, if required, request the assistance of advisors. The advisors shall not be entitled to vote at meetings.

5.1 Powers

5.2.1 The Management Committee shall be responsible for the management of the Joint Venture.

The Management Committee shall take all decisions concerning matters including but not limited to the following:

- a) review, approval or modification of the overall, programme and budget for exploration and development and production proposed by the Operator;
- b) determination of the commerciality of a Discovery and delineation of the Development Area;
- c) verification of the Operator's accounts and overall control of Operator's execution of Operations;

- d) review of the arrangements regarding the requirements of the market for Petroleum within the Republic of Guinea-Bissau;
- e) review of arrangements regarding the lifting at the field by each Party of its share of Crude Oil produced;
- f) review, approval or modification of the proposals made by Operator concerning requests for renewal, extension or surrender of the Exploration Licence;
- g) determination of the Maximum Efficient Rate (MER).

5.3 Voting:

Each Party shall have a vote corresponding to its Percentage Interest. This vote shall be exercised by its representative or designated alternative on the Management Committee.

All decisions shall be taken by a 51% vote of the Participating Interest except for decisions concerning:

- surrender of Exploration Licence;
- the determination of Commercial Discovery

which shall require a unanimous vote.

5.4 Organisation

The Management Committee shall meet whenever necessary, but not less than twice a year, thirty (30) days after notice of a meeting has been given by the President, or within twenty one (21) days following a request for a meeting by one of the Parties addressed to the President.

The first meeting of the Committee shall take place not later than sixty (60) days from the Effective Date of this Agreement.

The meetings of the Management Committee shall be held in _____ and BISSAU or at such other place agreed between the Parties.

The agenda of the meetings shall be drawn up by the President who shall include any item requested by any Party by 14 days notice.

The minutes of each Management Committee meeting shall be recorded both in Portuguese and English and the Operator shall arrange for the minutes to be drawn up within twenty five (25) days of the meeting and approved no later than at the following Management Committee meeting.

ARTICLE 6 - OPERATOR

6.1 Obligations:

- 6.1.1 The Operator shall be responsible for the conduct of the work programme and the operations undertaken by the Joint Venture in accordance with the provisions of this Agreement and the general instructions of the Management Committee.
- 6.1.2 The Operator shall conduct the operations under this Agreement efficiently and diligently and shall use all appropriate means to ensure the execution of work programmes in the most sound economic and technical conditions, in accordance with professional rules and standards generally accepted in the international petroleum industry.
- 6.1.3 The Operator shall observe the conditions of the Exploration Licence and the Laws of Guinea-Bissau.
- 6.1.4 The Operator shall ensure that:
- all personnel, regardless of nationality, fully meet the professional standards generally accepted in the international petroleum industry
 - preference is given to the purchase of products, goods and services available in Guinea-Bissau, subject to the provisions of Article 22.

6.2 Functions:

The Operator shall perform, inter alia, the following functions:

- 6.2.1 Carry out the decisions of the Management Committee.
- 6.2.2 Represent the Parties in dealings with third parties.
- 6.2.3 Prepare draft programmes and budgets for consideration by and approval of the Management Committee.
- 6.2.4 Execute the programme and budgets approved by the Management Committee.
- 6.2.5 Negotiate and sign contracts with outside contractors as necessary for the carrying out of the Operations and advise the Parties of contracts in excess of US Dollars 100,000.
- 6.2.6 Pay on behalf of the Parties the cost of all work undertaken under the Exploration Budgets approved by the Management Committee.
- 6.2.7 Notify the Parties in good time whenever costs exceed approved programmes and budgets by 10% or more. The Operator shall obtain the approval of the Management Committee for the

expenditure of such excess funds, it being understood, however, that in the event of an emergency, the Operator may take whatever steps it deems necessary to safeguard human life and equipment.

- 6.2.8 Prepare economic studies in the event of a Discovery, in order to establish the commerciality of the field and to determine the development programme required to produce from the same.

Calculate annually the maximum economic production capacity of the field.

Administer lifting arrangements to be agreed by the Parties, prior to the start of commercial production.

- 6.2.9 Maintain books of all payments and commitments made on behalf of the Parties; apportion the charges resulting therefrom among the Parties in proportion to their participating interests, and provide each Party with the necessary accounting records.

- 6.2.10 Keep the Parties informed by daily reports of all drilling operations and notify them immediately of any show of Hydrocarbons.

- 6.2.11 Furnish to PETROGUIN the following reports, data and information relating to Operations under this Agreement immediately after they have been prepared by or have become available to the Operator:

- a) One set of geological studies and composite reports and the maps, sections and other documents related thereto;
- b) One set of geophysical recordings, measurements, studies and interpretative report with all maps, profiles, sections and other documents relating thereto, all original recordings (tapes or otherwise) and all supporting data;
- c) One set of initial, daily and final reports (including composite logs) representing the lithology and other parameters relating to each well drilled;
- d) A representative portion of all cores, samples, fluids and other materials taken in wells; and, upon the relinquishment of any portion of the Agreement Area, all cores, samples, fluids and other materials (properly identified) in the Operator's possession relating to that portion of the Agreement Area, and
- e) One set of any work, study, measurement, analysis or other result (data) in any form produced by the Operator in connection with Operations under this Agreement.

All information, data and materials specified above shall be in a form suitable for reproduction, use or processing, as the case may be.

6.2.12 Take all necessary precautions to protect navigation and fishing and to prevent pollution of the marine environment. To this end the Operator shall:

- a) take all reasonable steps to protect surface and subsurface water resources encountered in the course of the Operations and inform the Minister of the Discovery of water reservoirs;
- b) respect the provisions of the International Convention on the Pollution of Seas by Hydrocarbons signed in London on 12 May 1954 and its addenda, as well as any supplementary measures adopted by the competent authorities of Guinea-Bissau.
- c) in the absence of gross negligence or Wilful Misconduct on the part of Management level employees of Operator, Operator shall undertake on behalf of the Parties to clean up any harmful discharge of foreign substances into the sea.

ARTICLE 7 - PROGRAMME AND BUDGETS

7.1 Work Obligations

The exploration period shall be for a period of five (5) years, unless extended as provided for in Article 3.3 hereof.

7.1.1 The COMPANY shall carry out the following Work Obligations during the Initial Term and in subsequent extensions, in the event the COMPANY elect to proceed therewith:

- a) Purchase from First Exchange Corporation, on behalf of PETROGUIN _____ kms of data at \$____ per km.
- b) During Phase I of twenty four (24) months the work programme will be:

Detailed 3D seismic survey covering an area of no less than _____ sq kms.

For the purpose of clause 7.1.3 the total minimum expenditure shall be US\$____million.
- c) During Phase 2 part 1 of eighteen (18) months, the work programme shall be:

The drilling of one exploration well to be completed before the end of Phase 2 part 1.

For the purpose of clause 7.1.3 the total minimum expenditure shall be US\$__ million.
- d) During Phase 2 part 2 of eighteen (1 8) months, the work programme shall be the drilling of one exploration well to be completed before the end of Phase 2 part 2.

For the purpose of clause 7.1.3 the total minimum expenditure shall be US\$____ million.
- e) To ensure the fulfilment of the expenditures of 7.1.1b), 7.1.1c), 7.1.1d) a bank guarantee from major financial institution must be presented and accepted by PETROGUIN.

The COMPANY shall have the right at the end of Phase 1 and each part of Phase 2 either to commit to the following Phase or Parts thereof or to terminate the Agreements. Such option shall be exercised by thirty (30) days written notice.

7.1.2 A well shall be deemed to have been drilled provided that it has been drilled to the depth specified in the drilling programme and all prospective horizons have been tested, provided, however, that if the well is abandoned or completed by the Parties for good cause without such programme having been carried out in full, they shall nevertheless be deemed to have fulfilled the Work Obligations.

Abandonment due to technical problems such as, but not limited to, water flow, high pressure, heaving shale or other technical circumstances which, in the COMPANY's opinion, would render further drilling impossible or impracticable shall be considered good cause. The COMPANY shall make all reasonable efforts to complete any well to the specified depth in accordance with good oil and gas field practice.

- 7.1.3 In the event the COMPANY does not perform the Work Obligations under this Agreement they shall at the end of that period pay to the Government the difference between the minimum expenditure commitment provided in 7.1.1 above and the amount actually spent.

In the event that during any Phase or Part of the Initial Period the Operations exceed the specified Work Obligations, such excess shall be credited to the subsequent period and shall count towards the fulfilment of the Work Obligations and Minimum Expenditure and for that period.

7.2 **General Obligations**

- 7.2.1 The Parties, through the Management Committee, shall approve such programmes and budgets as will permit the Operator to fulfil the commitments set out in this Agreement and the Exploration Licence. In the event that such agreement cannot be reached, the Operator's proposed programmes and budgets shall prevail during the exploration period.

- 7.2.2 During the exploration period and for as long as Operations continue and until the date upon which Commercial Discovery is declared, the COMPANY shall pay all exploration expenditures attributable to PETROGUIN with the exception of sole risk operations undertaken by PETROGUIN pursuant to the terms of Article 8 hereof. In addition COMPANY shall during this period pay to PETROGUIN an administrative support fee of US\$____,000 per annum.

- 7.2.3 In the event that no Commercial Discovery is made, the COMPANY shall not be entitled to claim reimbursement of payments made under the terms of 7.2.2 above.

7.3 **Programmes and Budgets**

- 7.3.1 No later than 1 October each year, the Operator shall submit to the Parties the programme and budget for the following year.

- 7.3.2 The Management Committee shall approve these programmes and budgets before 15 November each year.

- 7.3.3 For the first financial year under this Agreement, which shall commence as of the Effective Date and end on 31 December of the same year, the exploration programme and budget shall be drawn up within thirty (30) days of the Effective Date and be approved within the next thirty (30) days.

7.4 **Revisions**

The revision of any programme or budget shall be submitted to the Management Committee by any Party and shall be approved by the required majority vote.

ARTICLE 8 - SOLE RISK

8.1 Right

Either Party may undertake sole risk drilling ("Sole Risk Drilling") or sole risk development ("Sole Risk Development"), (either being a "Sole Risk Project"), subject to the following provisions of this Article 8.

8.2 General Provisions

8.2.1 Subject to Article 8 no Sole Risk Project may be carried out if:

- (i) it is substantially similar to or conflicts with all or part of any Programme approved by the Management Committee and current at the commencement of the Sole Risk Project; and
- (ii) it comprises the drilling of an obligation well under the Licence.

8.2.2 The following types, and only the following types, of Sole Risk Project may be proposed:

- (i) subject to Article 8, Sole Risk Drilling consisting of:
 - (a) the drilling of an exploratory well or the deepening of or side-tracking of a suspended well, neither of such wells being inside the interpreted closure of any geological structure or stratigraphic trap on which a well has been drilled in which Petroleum has been found to be present; or
 - (b) the drilling of an exploratory well or the deepening of or side-tracking of a suspended well inside the interpreted closure of any geological structure or stratigraphic trap on which a well has been drilled in which Petroleum has been found to be present and which well is drilled, deepened or sidetracked to a different stratigraphic level to that in which such Petroleum was found to be present within that interpreted closure and which is not completed in the horizon in which such Petroleum was found to be present, provided always that the approval of the Management Committee shall be required before any such drilling, deepening or sidetracking is carried out; or
 - (c) the deepening or side-tracking of a well which is in the course of being drilled as part of Operations, other than as part of a programme of operations under a Development Licence ("Development Programme"), provided always that, unless the Management Committee otherwise agrees, any approved Management Committee test Programmes must have been first carried out, the Parties informed of the results and a decision of the Management Committee taken to abandon the well

before any such further deepening or side-tracking is carried out; or

(d) the drilling of an appraisal well inside, or the carrying out of geophysical work in respect of, the interpreted closure of any geological structure or stratigraphic trap on which a well has been drilled in which Petroleum has been found to be present; and

(ii) subject to Article 8, Sole Risk Development consisting of the development of a Discovery.

8.2.3 Any Sole Risk Project shall be carried out at the sole risk, cost and expense of the Party proposing such project and any other Party electing to join such project as hereinafter provided ("Sole Risk Party"). If a Sole Risk Project is undertaken by more than one Sole Risk Party the risk and cost thereof shall, subject in the case of Sole Risk Development to Clause 8.5.8, be borne by each Sole Risk Party in the proportion that its Percentage Interest bears to the sum of the Percentage Interests of the Sole risk Parties or in such other proportion as the Sole Risk Parties may agree.

8.2.4 Operations shall take precedence over any Sole Risk Project. A Sole Risk Party shall exercise all necessary precautions to ensure that a Sole Risk Project does not jeopardise, hinder or unreasonably interfere with the Operations provided only that a Sole Risk Development shall have priority over Operations commenced subsequent to the authorisation of such Sole Risk Development by the Minister.

8.2.5 A Sole Risk Party shall:

(i) indemnify and hold harmless the other Parties ("Non-Sole Risk Parties") against all actions, claims demands and proceedings whatsoever brought by any third party (including without limitation any employee of the Sole Risk Party) arising out of or in connection with the Sole Risk Project; and

(ii) insofar as it may be within its control keep the Licence free from all liens, charges and encumbrances which might arise by reason of the conduct of the Sole Risk Project.

The approval of a Non-Sole Risk Party to the conduct of a Sole Risk Project (whether or not such approval is required) shall not constitute a waiver of these provisions.

8.2.6 A Sole Risk Party carrying out a Sole Risk Project shall be entitled to use Joint Property for such Sole Risk Project, subject to the following conditions:

(i) a Sole Risk Party proposing to carry out Sole Risk Drilling under Article 8.2.2(i)(c) shall so notify the other Parties in accordance with Article 8.3.4 and the Management Committee shall decide whether such Sole Risk Party shall be authorised so to use Joint Property and, if so, the terms and conditions upon

which it may be used;

- (ii) a Sole Risk Party proposing to carry out a Sole Risk Project under Articles 8.2.2(i)(a), 8.2.2(i)(b) or 8.2.2(i)(d) shall give notice to all the Parties stating the purpose for which the Joint Property is to be used.

In both (i) and (ii) above the use of the Joint Property shall not be unreasonably withheld and the charges for such use shall be on a reasonable and equitable basis. In the case of a Sole Risk Project being proposed under Article 8.2.2(ii) the terms and conditions for any proposed use of Joint Property shall be determined by the Management Committee at the time.

8.2.7 A Sole Risk Party shall be entitled to use for a Sole Risk Project any data and information which it owns jointly with the Non-Sole Risk Parties. Data and information obtained in respect of Sole Risk Drilling shall be made available to the Non-Sole Risk Parties but shall remain the property of the Sole Risk Party, until and in the event that one or more of the Non-Sole Risk Parties discharges in full its liability to the Sole Risk Party under Article 8.4 when such data and information shall become the joint property of the Parties discharging such liability and the Sole Risk Party.

8.2.8 The Operator shall have the right, and shall use reasonable endeavours, to conduct any Sole Risk Project on behalf of the Sole Risk Parties, even if the Operator is not a Sole Risk Party. Subject as aforesaid, if the Operator does not wish to conduct the Sole Risk Project on behalf of the Sole Risk Parties then it shall give timely notice to the Sole Risk Parties and, subject to any necessary approval of the Minister, the Sole Risk Parties shall select, if more than one, an Operator in respect only of such Sole Risk Project from among themselves. In such event the Sole Risk Party shall be deemed to be the Operator for the application of this Agreement to such Sole Risk Project.

8.2.9 Sole Risk Development will in respect of the area comprised therein be regarded as creating a Sub-Area and this Agreement shall so far as possible apply independently in the manner of a separate agreement to such Sub-Area and apply mutatis mutandis to the interests of the Parties which participate in such Sole Risk Development provided always that:

- (i) the Sole Risk Party shall have a right of access to the Sub-Area; and
- (ii) there shall be no separate right of withdrawal and accordingly Article 23 shall not apply independently to such separate agreement.

8.2.10 In connection with any Sole Risk Project:

- (i) the Sole Risk Project will be carried out under the overall supervision and control of the Sole Risk Party in lieu of the Management Committee;

- (ii) the computation of costs and expenses of the Sole Risk Project incurred by the Sole Risk Party shall be made in accordance with the principles set out in this Agreement;
- (iii) the Operator or the Sole Risk Party carrying out the Sole Risk Project shall maintain separate books, records and accounts (including bank accounts) for the Sole Risk Project which shall be subject to the same right of examination and audit by the Sole Risk Parties and, so long as they are entitled to elect to participate in the Sole Risk Project, the Non-Sole Parties, as those relating to the Operations;
- (iv) the costs and expenses of the Sole Risk Project shall not be reflected in the statements and billings rendered by the Operator for the Operations;
- (v) if the Operator is carrying out a Sole Risk Project on behalf of a Sole Risk Party, the Operator shall be entitled to make Cash Calls on the Sole Risk Party in connection with the Sole Risk Project and shall not use Joint Account funds or be required to use its own funds for the purpose of paying the costs and expenses of the Sole Risk Project; furthermore, the Operator shall not be obliged to commence or, having commenced, to continue the Sole Risk Project unless and until the relevant Advances have been received from the Sole Risk Party.

8.3 **Sole Risk Drilling**

8.3.1 No Sole Risk Drilling under Clause 8.2.2(i)(a) or (b) may be proposed unless:

- (i) such drilling was proposed to the Management Committee at the time of the consideration of the current exploration Programme but was not included in such Programme; or
- (ii) having been included in the current exploration Programme the Management Committee has voted against or failed to vote in favour of such drilling within thirty (30) days of submission of such AFE ("Authority for Expenditure") to the other Parties provided that a decision by the Management Committee to change the timing of such drilling within the Year to which the current exploration Programme relates shall not be a vote against the AFE for the purpose of this Clause 8.3.1(ii); or
- (iii) such drilling was proposed to the Management Committee in reasonably sufficient detail by way of amendment to the current exploration Programme and the Management Committee has voted against or failed to vote in favour of such drilling within sixty (60) days of submission of such amendment to the Parties.

8.3.2 No Sole Risk Drilling under Article 8.2.2(i)(d) may be proposed unless:

- (i) the Managing Committee has voted against or failed to vote in favour of the proposed preparation of an appraisal Programme and Budget in respect of the interpreted closure of any geological structure or stratigraphic trap on which a well has been drilled in which Petroleum has been found to be present, or, after the submission of such an appraisal Programme and Budget, has voted against or failed to vote in favour of such Programme and Budget within sixty (60) days of its submission to the Parties; or
- (ii) the Management Committee has abandoned or completed its appraisal Programme of the interpreted closure of any geological structure or stratigraphic trap on which a well has been drilled in which Petroleum has been found to be present and the Managing Committee has voted against or failed to vote in favour of a proposal for the preparation of a Development Programme and Budget in respect thereof and no Party has given notice under Article 8.5.1 that it intends to prepare such a Development Programme and Budget.

8.3.3 Subject to Article 8.3.1 and 8.3.2 if a Party wishes to propose Sole Risk Drilling under Article 8.2.2(i)(a), (b) or (d) it shall give notice to the other Parties setting out:

- (i) the proposed location of such drilling;
- (ii) all other relevant information including, but not limited to, the date on which it proposes that operations should be started, such date being not less than sixty (60) or more than one hundred and eighty (180) days from the date of the notice; and
- (iii) whether it wishes to use Joint Property for such Sole Risk Drilling (and, if so, what items thereof).

Each of the Parties receiving such a notice shall respond to it, by notice to the other Parties, within thirty (30) days thereof, electing whether or not to participate. Any Party failing to respond within the said thirty (30) days shall be deemed to have elected not to participate.

8.3.4 If a Party wishes to propose Sole Risk Drilling under Clause 8.2.2(i)(c), such Party shall give as much notice as possible to the other Parties setting out such relevant information as is necessary in order to allow the other Parties to consider the proposal and elect whether or not to participate within the period hereinafter specified. Each of the Parties receiving such a notice shall respond to it, by notice to the other Parties, within forty-eight (48) hours thereof (or within such longer period as may be specified in the notice), electing whether or not to participate. Any Party failing to respond within the said period shall be deemed to have elected not to participate.

8.3.5 If the Percentage Interests of the Parties electing to participate together with the Percentage Interest of the Party proposing the Sole Risk Drilling are not less than the percentage provided

under Article 5.3 the Party proposing the Sole Risk Drilling together with any other Parties which have elected to participate may, subject to the conditions of Article 8.2.2(i)(b) or (c) in the case of Sole Risk Drilling thereunder, within thirty (30) days following the expiration of the said notice, request the Operator (subject to Article 8.2.8) to undertake the Sole Risk Drilling. In such event, if the same arose as a result of the Management Committee voting against, or failing to vote in favour of an AFE under, a current exploration Programme, such Programme shall be deemed amended accordingly and the Operator shall promptly notify the Parties of the consequential amendments to the current exploration Budget. In the case of a notice given under Article 8.3.3, the Sole Risk Drilling may not be commenced later than one hundred and eighty (180) days following such notice and, in the case of a notice given under Article 8.3.4, the Sole Risk Drilling may be commenced as soon as it is possible to do so without interference to the Operations on that well.

8.4 **Sole Risk Payments**

8.4.1 If Sole Risk Drilling carried out under Article 8.2.2(i)(a), (b) or (c) has resulted in a particular Discovery or Sole Risk Drilling has been carried out under Article 8.2.2(i)(d) in respect of a particular Discovery and a Party which was a Non-Sole Risk Party shall have the obligation to compensate the Sole Risk Party (if more than one Non-Sole Risk Party and/or Sole Risk Party, then in proportion to their respective Percentage Interests) amounts calculated on the following basis:

- (i) on the date that the Non-Sole Risk Party makes such election, two hundred (200) per cent of the amount such Non-Sole Risk Party would have contributed to the Joint Account had such Sole Risk Drilling been conducted as part of the Operations; and
- (ii) on the date that the Minister authorises the commencement of a Development Programme in respect of a Discovery resulting from Sole Risk Drilling, five hundred (500) per cent of the amount paid in compensation to the Sole Risk Party under Article 8.4.1 (i) above.

The compensation owing under Article 8.4.1 (i) above shall be effected by the Non-Sole Risk Party bearing the Sole Risk Party's share of expenditures under the Joint Account for a period necessary to discharge such obligation commencing as soon as practicable following the Non-Sole Risk Party's election. The compensation owing under Article 8.4.1 (ii) above shall be effected by the Non-Sole Risk Party paying in cash to the Sole Risk Party the required amount, unless such Parties mutually agree upon an alternative form of compensation.

The election to be made by the Non-Sole Risk Party shall be made, in the case of further exploration or appraisal work to be carried out, within thirty (30) days of receipt by the Non-Sole Risk Party of the relevant approved Programme and Budget for such work, or, in the case of a Development Programme being the next operation to be carried out, within ninety (90) days of

receipt of such approved Programme.

8.5 **Sole Risk Development**

8.5.1 In the event that a proposal is made to the Management Committee that a Development Programme and Budget should be prepared for a particular Discovery, and such proposal does not receive the approval of all the Parties, then, provided that any appraisal Programme approved by the Management Committee and relating to that Discovery has been completed any Party may give notice to the other Parties that it intends to prepare a Development Programme and Budget for that Discovery. Such Party together with such other Parties as within thirty (30) days of receipt of such notice give counter-notice of their wish to participate therein, shall be entitled to proceed with the preparation thereof and to submit the same for approval by the Management Committee.

8.5.2 If a Development Programme and Budget is approved by the Management Committee then the Party which prepared the Development Programme and Budget shall be entitled to charge all reasonable costs incurred in the preparation thereof to the Joint Account.

8.5.3 In the event that, following the submission to the Management Committee of a proposed Development Programme and Budget for a particular Discovery the Management Committee does not approve such Development Programme and Budget within the period therein provided, then a Party may give notice to the other Parties of its intention to develop the Discovery as a Sole Risk Development. Such notice shall be accompanied by details of its proposed Development Programme and Budget. The other Parties may give counter-notice that they wish to participate in the proposed Development Programme:

- (i) within thirty (30) days of such notice if the proposed Development Programme and Budget is the same as, or substantially similar to, that which was not approved by the Management Committee; or
- (ii) within ninety (90) days of such notice if the proposed Development Programme and Budget is substantially different from that which was not approved by the Management Committee.

If the other Parties elect to participate the Parties shall proceed with the development in accordance with such Development Programme and Budget.

8.5.4 If the development of a Discovery is carried out in accordance with the provisions of Article 8.5.3, then the Parties which prepared the Development Programme and Budget shall be entitled to charge all reasonable costs incurred in the preparation thereof to the Joint Account relating to that Discovery.

8.5.5 In the event that, following approval by the Management Committee of a Development Programme and Budget or following any notice served under Article 8.5.3, less than all the Parties, or in the

case of Article 8.5.3 less than all the Non-Sole Risk Parties, elect to participate in the development of a Discovery within the periods therein respectively provided, those Parties which elect to participate or in the case Article 8.5.3 the Sole Risk Party and those Non-Sole Risk Parties which elect to participate, shall be entitled to proceed with the development of the Discovery at their Sole Risk in accordance with the relevant Development Programme and Budget provided that if, upon the Government authorising the commencement of the development, such Development Programme and Budget has been or is required to be amended (which shall for the avoidance of doubt include any change in the date of commencement of the development) then the Parties participating in the Development Programme shall as soon as practicable following such authorisation give notice to the other Parties of such amendments and within thirty (30) days of such notice:

- (i) any of the Parties participating in such Development Programme may, by notice to all the other Parties, elect not to proceed with the Development Programme; and/or
- (ii) any of the Parties not participating in the Development Programme for the Discovery may, by notice to all the other Parties, elect to do so.

Those Parties which, at the expiry of the said period of thirty (30) days, are participating in the Development Programme shall be obliged to carry it out.

8.5.6 In the event that, following the Government authorising the commencement of a development in which all the Parties are participating, any of the Parties elects not to proceed with the Development Programme, the other Parties shall be entitled to proceed with the Development Programme in accordance with the approved Development Programme and Budget (as amended) and, if they do so proceed, shall be obliged to carry out the Development Programme.

8.5.7 In the event that less than all the Parties participate in the Development Programme for a Discovery in respect of which Sole Risk Drilling has been carried out then, unless the Parties participating in such Development Programme unanimously agree otherwise, the Participating Interest of each Party in such Development Programme shall be the percentage which its Percentage Interest is of the aggregate Percentage Interest of those Parties participating in such Development Programme.

8.5.8 Any Party which does not participate in the Development Programme for a Discovery shall have no further rights in such Development Programme.

ARTICLE 9 - APPRAISAL PROGRAMME AND COMMERCIAL DISCOVERY

- 9.1 The Operator shall immediately inform PETROGUIN of any Discovery made in the course of Operations hereunder. It shall then submit to the Management Committee, within ninety (90) days, a report on the Discovery and, where the Operator considers that the Discovery merits evaluation, an appraisal programme and budget.
- 9.2 Within 30 days of submittal of the appraisal programme and budget, the Management Committee shall decide whether the Discovery should be evaluated. If the Management Committee approves the appraisal programme, the Operator shall proceed with the evaluation work.
- 9.3 A Discovery shall be considered commercial when the estimated sales revenues from the quantities of Petroleum likely to be produced for the project life cover the costs of exploration, development and transport by pipeline to the delivery point and provide a commercially acceptable margin of profit in the COMPANY'S opinion after payment of all taxes including Royalties.
- 9.4 Upon the completion of the evaluation work, the Operator shall submit to the Management Committee a report stating whether there is a Commercial Discovery and the Management Committee shall determine the commerciality of the Discovery.
- 9.5 In the event that a Discovery is declared commercial by the Management Committee, PETROGUIN and the COMPANY shall jointly be awarded a Development Licence by decree in accordance with the provisions of Article 10 of this Agreement and the Petroleum Law.
- 9.6 In the event a Discovery is declared to be uncommercial by the Management Committee any Party shall have the right before the expiry of any Exploration Licence and extensions thereof to apply for a Development Licence after giving notification to the other Parties at least 30 days prior to making such application. Any Party wishing to join in the application shall advise the proposing Party in writing within such 30 day period and shall participate in proportion to its Percentage Interest share. Within 30 days of the application being made the Government shall award the Development Licence to the participating Parties.
- 9.7 If in the COMPANY's opinion a Discovery is not commercial and is deemed economically marginal by the Management Committee, the Parties shall meet with the Minister with a view to agreeing possible fiscal incentives that may justify a declaration of commerciality subject to 9.3 as defined in Article 9.4 above.

ARTICLE 10 - DEVELOPMENT PLAN AND EXPLOITATION

- 10.1 Application for a Development Licence shall be accompanied by the development plan adopted by the Management Committee.
- 10.2 The development plan shall be prepared by the Operator on sound engineering and economic principles as practised by the international petroleum industry and shall contain:
- (a) designation of the proposed Development Area;
 - (b) feasibility study;
 - (c) programmes and detailed cost estimates for the spacing, drilling and completion of wells and for the construction, establishment and operation of all facilities and services related to the recovery, treatment, transportation and storage of Petroleum from the Development Area.,
 - (d) a production forecast and an estimate of the production profile and profile and determination of the Maximum Efficient Rate (MER) based on such profile together with an estimate of the investment and expenses involved; and
 - (e) an estimate of time required to complete each phase of the development plan.
- 10.3 Within 30 days of receipt of the application for a Development Licence, the Government shall by decree issue jointly to the Parties in accordance with their Participating Interest under this Agreement a Licence over the Development Area and which shall supersede the Exploration Licence.
- 10.4 The duration of the Development Licence shall be 20 years from the date of its publication in the Boletin Oficial or as may be extended by the mutual agreement of the Parties and the Government.
- 10.5 Where development operations result in an extension outside the original Development Area, the Development Area shall be increased accordingly, provided that the adjusted area shall be entirely within the Agreement Area.
- 10.6 If the Parties make more than one Commercial Discovery within the Agreement Area, each shall be subject to a separate Development Licence pursuant to the provisions of this Article 10.
- 10.7 The Maximum Efficient Rate (MER) shall be decided by the Management Committee.

ARTICLE 11 - DISPOSAL OF PRODUCTION

11.1 Rights

Each Party shall have the right to lift and dispose of its share of Petroleum produced in proportion to its Participating Interest and shall also have the right freely to export its share of production, subject to Article 25 of the Petroleum Law. In order to sustain optimum production consistent with good oil and gas field practices, if a Party fails to take such share in a given period, the other Parties shall have the right to lift and export such share on terms to be incorporated in the offtake arrangements referred to in Article 5.2.1.

11.2 Delivery

11.2.1 Each Party's share of production shall be delivered to its ex-loading terminal for liquid hydrocarbons and ex-processing plant in the case of natural gas.

11.2.2 After delivery each Party shall be individually responsible for risks, transport fees, taxes duties and all other charges relating to its share of Production, as well as for tonnage losses.

11.3 Domestic

11.3.1 In order to fulfil the obligation to contribute to the domestic market on advantageous conditions in compliance with Article 25 of the Petroleum Law, the Operator shall deliver to PETROGUIN a quantity of Crude Oil in accordance with the provisions of Article 11.3.2 below.

11.3.2 The quantity referred to in Article 11.3.1 above shall not exceed for each calendar year a percentage of the quantity of crude oil corresponding to domestic consumption, minus any royalty taken in kind and minus the total production due to PETROGUIN in Guinea-Bissau after deduction of that part of production allocated by PETROGUIN for the reimbursement of exploration expenses.

This percentage shall be equal to the ratio of the production due to the Operator under this Agreement to the total production of crude oil of all foreign companies engaged in Petroleum Operations in Guinea-Bissau.

11.3.3 The price charged by the Operator for supplying the domestic market shall be the Market Price as described hereinafter in Article 11.3.6 and shall be payable in US Dollars.

11.3.4 The Operator shall be notified by the competent authorities of the procedures to be applied for this Article 11, including quantities to be delivered, delivery schedules, and the adjustment of any differences between forecasts and actual deliveries.

11.3.5 Upon the request of PETROGUIN the Operator shall market all or part of PETROGUIN's share of production and shall pay PETROGUIN a price based on the weighted average of prices obtained by the Operator on the international market in the course of the calendar quarter for sales FOB port of loading for exportation of comparable quality, density and quantity of crude oil under this Agreement.

In the event PETROGUIN decides to take all its share of production and market it for its own account, the companies shall have a preferential right to such production based on the price offered FOB in arms-length, third party transactions for crude oil of comparable quality, density and quantity.

11.3.6 The market price FOB ("Market Price") used to value Crude Oil under this Agreement shall be, where arms length sales have been made to third parties during the previous Quarter, the average of the realised prices for such arm's length third party sales and, in the case that no third party sales have been made in the previous Quarter, an average of the prevailing term selling prices of a basket of three most similar internationally traded crudes chosen from different countries, such choice of crudes to be made prior to first production and reviewed annually thereafter taking into account differences in quality, quantity, location, terms and conditions. The COMPANY and PETROGUIN shall freely exchange all information relevant to such mutual determination.

For the purposes of determining Market Price as described above, no account shall be taken of sales to Affiliates or of Crude Oil exchanges including Government to Government deals, barter deals, discounts, or restricted or distress transactions or any other transactions not at arm's length.

The Market Price will be determined at the end of each Quarter in US Dollars in accordance with the procedure of this Article 11.3.6 and, subject to the approval of the Minister, will be officially published.

In the case of any disagreement concerning the Market Price to be applied, which cannot be settled amicably within thirty (30) days of the end of the relevant Quarter, the matter shall be finally settled by a referee jointly designated by both PETROGUIN and the COMPANY, or failing agreement on such designation, by a referee to be designated by the President for the time being of the Swedish Petroleum Institute in Stockholm (Sweden). During such reference, which shall in no event take longer than thirty (30) days, the Market Price for the previous Quarter shall apply and adjustments, if any, shall be made in the following Quarter based on the decision of the referee. The decision of the referee will be final and binding on both PETROGUIN and the COMPANY and shall be officially published.

Each Party shall bear its own share of costs associated with such a reference.

ARTICLE 12 - UNITISATION

- 12.1 Where a Commercial Discovery in this Agreement Area extends into another Agreement Area, the Minister may require that the development and production of the field be carried out jointly consistent with general Petroleum Industry practice. Where non-commercial deposits of Petroleum in the Agreement Area would, if exploited with non-commercial deposits in another Agreement Area be commercial, the Minister may make a similar requirement.
- 12.2 If the Minister so requires, the Operator shall in cooperation with the operator of the other Agreement Area, prepare a proposal for the joint exploitation of the deposits involved, which proposal shall be submitted promptly to the Minister for approval.
- 12.3 If such proposal is not promptly submitted to the Minister, the Minister may prepare or cause to be prepared a proposal for the account of the parties involved in accordance with the generally accepted standards of the international Petroleum Industry for the joint exploitation of the deposits and shall submit such proposal to the parties involved.
- 12.4 This Article shall also be applicable to a deposit which extends into an area which is outside the territory of the Republic of Guinea-Bissau. In that case, the Government may reasonably impose such special rules as are necessary to satisfy any conditions arising from external agreements entered into by Guinea-Bissau with neighbouring countries for the development and production of the deposit.

ARTICLE 13 - GAS HYDROCARBONS

- 13.1 If a Discovery of Natural Gas is made which may lead to a commercial development, the Parties shall undertake a feasibility study of a development project for gas.
- 13.2 PETROGUIN and the COMPANY shall meet to determine the special conditions of such an exploitation and to negotiate the terms of an exploitation agreement for gas where, unless otherwise agreed, the provisions of this Agreement shall prevail.
- 13.3 Gas which is not used in petroleum operations and which is not commercially produced shall be reinjected into the subsurface structure.

However, the Government may authorise the flaring of Natural Gas when it is justified under the following conditions:

- a) during production tests;
- b) when it is in accordance with good oil field practice;
- c) when it is required for technical or financial circumstances;

Natural Gas flared with the approval of PETROGUIN shall be deemed to be used in petroleum operations.

- 13.4 If the COMPANY do not consider the Associated Gas commercial, and where that gas is not required for use in petroleum operations, the PETROGUIN may take, process and utilise such gas without compensation to COMPANY, and at the sole cost and risk of PETROGUIN.

ARTICLE 14 - TRANSPORT OF PETROLEUM

- 14.1 In the event of Commercial Discovery, the Operator shall have the right to build and operate pipelines for the transport of Petroleum.
- 14.2 The prior approval of the Minister (which shall not be unreasonably withheld) shall be required before the construction of the pipeline may begin and the Operator shall promptly provide the Minister with all relevant technical information and cost estimates. In the absence of a reply by the Minister within 90 days from the date of notification by the Operator, the pipeline project shall be deemed to have been approved.
- 14.3 The Minister may require that parties under separate Agreements share in the transport of Petroleum through one pipeline and in such event the other parties and the Operator shall meet and agree on appropriate arrangements including tariff arrangements. In the absence of such an agreement, the Minister shall determine the arrangement to apply.

ARTICLE 15 - BONUS AND ROYALTY

15.1 In the event of a Commercial Discovery, the COMPANY shall pay PETROGUIN a bonus of \$_____,000 US Dollars the commencement of commercial production.

15.2 Pursuant to the provisions of the Petroleum Tax Law and the Decree approving the terms of this Agreement, the COMPANY shall pay the Government a royalty for all Crude Oil produced. The per cent royalty to be paid on an incremental basis shall be determined by the following production levels from each Commercial Discovery averaged over each calendar quarter:

0 - barrels per day	%
barrels per day	%
per day and greater	%

15.3 In the event of a Commercial Discovery of Natural Gas a 5% flat rate royalty will be payable to the Government.

15.4 The Government may take the royalty wholly or partly in cash or in kind. In the event the Government wishes to take the royalty in kind, it shall so notify the COMPANY 90 days in advance. Unless the Government elects otherwise, the royalty shall be paid in cash and shall be calculated as the percentage of actual receipts for each such calendar quarter less the costs of initial treatment and transportation from the Delivery Point to the point of sale.

15.5 If the Government elects to take royalty in kind any underlifted or overlifted oil in respect of royalty will be deducted from or added to the amount of royalty in kind deliverable in respect of the next quarter or quarters.

ARTICLE 16 - INCOME TAXES

- 16.1 The Parties to this Agreement shall be subject to Income Tax (Section A and B) in accordance with the Petroleum Law and in accordance with Decree No. 40/83. Both the taxable profit and tax payable under Title II of this Decree shall be calculated in US Dollars.
- 16.2 By the end of the term defined in Article 25.3 income tax payable under Section A of Title II of The Petroleum Tax Laws and in accordance with the Industrial Tax Code set out in Decree No. 39/83 will be assessed at a single tax rate of 35% on the taxable profit arising under this joint venture, as defined by both Decrees.

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- 16.4 Except for the taxes and charges contained in this Agreement and in the Decree 40/83, the Parties shall be exempt from all other taxes or charges including stamp taxes, customs dues and levies as referred to in Article 4 of Decree No. 40/83 except for levies for the benefit of Customs Staff of:-

For goods of value up to US\$1 00,000	0.15%
U S\$1 00, 000 to U S\$ 1, 000, 000	0.10%
Value over US\$1,000,000	0.05%

ARTICLE 17 - FINANCIAL PROVISIONS

17.1 Expenditure and Payment

17.1.1 Each Party's share of the expenditure incurred on its behalf by the Operator shall correspond to its respective Percentage Interest on the day when the corresponding programmes and budgets are approved. PETROGUIN's share shall be advanced by the COMPANY for all costs related to exploration programmes in the Agreement Area. Following the declaration of a Commercial Discovery, each Party shall be responsible for the payment of its share of expenditure.

17.1.2 The funds needed for payment of expenses shall be called monthly by the Operator, as set out in the annexed Accounting Procedure. The said funds shall be made available to the Operator in bank accounts designated by it, and in the manner and at times indicated in the Accounting Procedure.

17.2 Reimbursement of the advance for the financing of exploration work

17.2.1 In the event of a Commercial Discovery, the COMPANY shall be deemed to have advanced PETROGUIN's share of expenditures for exploration work incurred prior to the declaration of the Commercial Discovery.

17.2.2 The advance shall be reimbursed either in cash or in kind, subject to the provisions of this Article 17.2.

17.2.3 The first reimbursement if made in kind, shall take place on the day of first lifting. If it is made in cash, it shall take place within 35 days following the date of the first lifting. Subsequent reimbursements shall be made regularly in accordance with the same principle as a function of PETROGUIN's lifting, until the advances made to PETROGUIN by the COMPANY have been completely reimbursed.

17.2.4 When PETROGUIN elects to reimburse in kind, it shall deduct the quantity needed for reimbursement from the share of production due to it by virtue of its rights under this Agreement. However, PETROGUIN shall remit a quantity not less than ____% of the production lifted by it. This quantity shall be determined as a function of the annual production and shall be valued for export purposes at the current international market price as agreed by the Parties. It shall be delivered FOB port of loading as the quantities are lifted by PETROGUIN.

The quantity of Petroleum required to be supplied to the domestic market shall be valued at the lowest price for Crude Oil agreed by the Parties for the domestic market pursuant to Article 1 1 and shall be provided first from production remitted to the COMPANY under this Article 17.2.4.

17.2.5 When PETROGUIN chooses to make all or part of this reimbursement in cash, the amounts to be paid shall be determined with the same minimum of ____% of the value of production due to PETROGUIN from the producing fields, valued at the current international market price as defined in Article 11.3.6 of this Agreement.

17.3 Foreign Exchange and Repatriation of Capital

17.3.1 The Operator shall have the right to make direct payments from its offices outside Guinea-Bissau for the purchase of goods and services to be imported into Guinea-Bissau for the Operations carried out by the COMPANY as well as for the needs of the COMPANY's expatriate employees and foreign subcontractors-

17.3.2 The Operator shall have the right to open bank accounts outside Guinea-Bissau in foreign currencies for the deposit of its sales revenues and all other proceeds and to utilise and freely dispose of funds deposited in such bank accounts.

17.3.3 The Operator shall be obliged to deposit in any bank in Guinea-Bissau the funds which it requires to cover local expenses.

17.3.4 After the date of first commercial production, the Operator shall lodge with such bank in Guinea-Bissau the sums needed to cover all its local requirements as specified in the Petroleum Law and the Industrial Tax Code including, but not limited to, local expenses, royalties and estimated taxes, as such sums become due for payment.

17.3.5 It shall be understood that the amount of currencies to be exported or imported shall be based on financial statements duly certified by the Operator and supplied to the Manager of the Central Bank of Guinea-Bissau on a monthly basis.

17.3.6 Any Guinea-Bissau currency required by the Operator and its employees shall be obtained from any bank in Guinea-Bissau at the official rate of exchange generally available to other commercial buyers and sellers on the date of such purchase.

17.4 Liquidation of Joint Venture

17.4.1 Upon the expiry of this Agreement or in the event of the dissolution of the Joint Venture, the Management Committee shall undertake the liquidation of the Joint Account.

17.4.2 In the event of a disagreement between the Parties, the matter shall be referred to an expert appointed by mutual consent of the Parties for a final settlement. The expert shall have no right to vote at Management Committee meetings.

17.4.3 The Management Committee shall retain its powers until the liquidation of the Joint Account has been completed. It shall approve the accounts and decide on all matters concerning the Joint Account.

ARTICLE 18 - ASSIGNMENT OF INTEREST

- 18.1 A Party may assign or transfer any or all of its rights and obligations under this Agreement to any of its Affiliates, provided that the assigning Party shall notify the Minister in writing at least 30 days prior to the date of any proposed transfer or assignment, giving the name and address of the assignee and the percentage participation to be assigned.
- 18.2 A Party may not assign or transfer to a non-Affiliate any or all of its rights, duties and obligations under this Agreement without the prior approval of the Minister, which approval shall take into account the financial and technical capability of the assignee and shall not be unreasonably withheld.
- 18.3 In the case of assignment to a non-Affiliate, the Party shall notify the Minister in writing at least 30 days prior to the proposed assignment, giving the name and address of the assignee, and the percentage participation to be assigned. The Minister shall give his approval or state the reasons for his disapproval within twenty-five (25) days of such notification, it being agreed that in the absence of a reply by the Minister within twenty-five (25) days the assignment will be deemed to have been approved.
- 18.4 No assignment shall be made if it would result in any Party holding a Percentage Interest of less than 5%.
- 18.5 Any Assignee of an interest pursuant to this Article 18 shall become bound by all the rights, duties and obligations arising out of this Agreement.

ARTICLE 19 - TAX ON CONTRACTORS AND THEIR EMPLOYEES

19.1 Contractors and sub-contractors whose place of business is outside Guinea-Bissau and who *are* not permanently established in Guinea-Bissau but who have been contracted by the Operator to perform services inside Guinea-Bissau shall only be liable to a tax of 5 per cent of their gross receipts for such services in lieu of all other income taxes and charges in force in Guinea-Bissau. In the event however, that the contractor or sub-contractor shall establish residence in Guinea-Bissau for a period of more than 6 months, it shall be liable to all income taxes applicable to corporations in Guinea-Bissau.

19.2 The taxes set out in Article 19.1 above in accordance with Article 45 through 49 of Decree No. 39/83 (Industrial Tax Code) for the cost of services provided by Contractors and Sub-contractors whose place of business is outside Guinea Bissau which are directly connected with oil operations (drilling, leasing of equipment seismic survey or catering) of the Joint Venture, will not be payable until a Commercial Discovery is declared by the Joint Venture Management Committee and for that period only shall be the liability of the Parties of this Agreement.

The procedure to be followed by the Operator for the purpose of this clause are:

- i) The contracts negotiated with any Contractor or Sub-contractor under the terms of this Article 19.2 shall state the gross amount of the services and the amount of the withholding taxes the payment of which by the contractor is subject to a Commercial Discovery;
- ii) The date for the payment of these withholding taxes by virtue of a declaration of a Commercial Discovery is the moment of the filing of the first tax return for the year of the declaration of a Commercial Discovery and
- iii) The amount of the withholding taxes to be payable by the Operator under this clause 19.2 are accounted for as exploration costs and thus deductible in computing the taxes defined in Section A and B of Chapter II of Decree No. 40/83.

19.3 Employees residing in Guinea-Bissau for a period of more than 6 consecutive months shall be liable to Professional and Complementary Taxes on that part of their gross income which is entered as a cost in calculating income tax pursuant to the provisions of the Petroleum Tax and Industrial Tax Laws and the regulations in force. Employees of contractors that are permanently established in Guinea-Bissau are liable to the Professional and Complementary Taxes of Guinea-Bissau.

19.4 Payments by contractors to third party, non-residents of Guinea-Bissau, for services provided outside Guinea-Bissau as well as payments for equipment leased or material imported for use in Guinea Bissau shall be exempt from all withholding, turnover/gross receipts tax and import duties and customs levies. From the commencement of commercial production any tax due under this Article 19 shall be paid by the contractor, after deduction of payments made on behalf of his employees.

19.5 Subject to the condition stated in the Clause 19.2 above, the Operator shall be responsible for the timely payment of all taxes set out in 19.1 above by its contractors and sub-contractors.

ARTICLE 20 - OWNERSHIP OF MATERIAL AND EQUIPMENT

- 20.1 Subject to the obligations of Article 22 of this Agreement the Operator and its Contractors shall have the right to import into Guinea-Bissau all material and equipment necessary for <<<< Operations under this Agreement. Such material and equipment shall be exempt of all import duties and taxes in accordance with the provisions of Article 3 of Decree No. 40/83 other than Custom Fees for services provided as Customs Clearing as referred to in Article 16.4 of this Agreement.
- 20.2 Other than as specified in Article 20.1 above, all other imports by the Operator, its Contractors and their employees shall be subject to all generally applicable import duties and taxes of Guinea-Bissau.
- 20.3 The Operator, its Contractors and their employees may sell in Guinea-Bissau all imported items which are no longer needed for Operations; however, if such imports were exempt from import duties and taxes, the seller shall fulfil all formalities required in connection with the payment of duties and taxes imposed on such sales.
- 20.4 The Operator, its Contractors and their employees may export from Guinea-Bissau, exempt of all export duties and taxes in accordance with the provisions of Article 3 of Decree No. 40/83 all previously imported items which are no longer required for the Operations.
- 20.5 Equipment purchased by the Operator or any of its Contractors for use in Operations under this Agreement and which remain in Guinea-Bissau upon termination of this Agreement shall become the property of the PETROGUIN without cost.
- 20.6 The provision of Article 20.5 above shall not apply to equipment leased by the Operator or any of its Contractors for use in Operations under this Agreement. Such equipment may be freely exported from Guinea-Bissau.

ARTICLE 21 - EMPLOYMENT AND TRAINING OF NATIONALS

- 21.1 Where practicable the Operator and its Contractors shall employ qualified Guinea-Bissau nationals in connection with Operations and following the declaration of a Commercial Discovery shall undertake recruitment and training programmes including aid to local educational institutions in order to promote the participation of nationals at all levels of responsibility.
- 21.2 To this end, the Operator shall consult periodically with PETROGUIN to assure the priority employment of qualified nationals and the Operator and PETROGUIN shall agree on recruitment and training programmes.
- 21.3 The Operator and its Contractors shall be free to employ foreign nationals to the extent that, in Operators opinion, qualified Guinea-Bissau nationals cannot be found to fill a position. The Government shall extend all assistance to facilitate the provision of all labour and approval of all Labour and Immigration authorisations required for the employment of foreign personnel and the residence of such personnel and their dependents in Guinea-Bissau.
- 21.4 The Operator, in consultation with PETROGUIN, shall implement the following training commitments:

1. **During the exploration period**

- a) Orientation and training in the Operator's Office facilities, with special emphasis on technical and administrative training.
- b) On-the-job training for Guinea-Bissau nationals in geological, geophysical and drilling operations.
- c) Attendance at University courses and seminars.

During this Exploration phase, the COMPANY shall spend a minimum of _____,000 US Dollars per year for training programmes.

2) **Commencing with the Date of Commercial Discovery**

The COMPANY shall together spend a minimum of _____,000 US Dollars per year for appropriate technical and administrative programmes and aid to local educational institutions.

- 21.5 The costs of the training programmes shall be deducted for Income and Supplementary taxes stated in Title II of Decree 40/83.

ARTICLE 22 - PURCHASE OF LOCAL GOODS AND SERVICES

22.1 The Operator and its Contractors shall give preference to locally available goods and services, provided that they are competitive in quality, price and time of delivery to comparable goods and services that are available outside Guinea-Bissau.

22.2 The Operator and its Contractors may be required by the Minister to purchase locally produced materials if their price is not greater than 10% higher than the price of imported materials comparable in terms of quality, quantity and time of delivery.

ARTICLE 23 - WITHDRAWAL

- 23.1 Any Party shall have the right to withdraw from the Exploration Licence during the exploration period after giving ninety (90) days notice to the Minister, provided that it has fulfilled all the Work Obligations and financial commitments hereunder. Two (2) months notice shall be required for any withdrawal from a Development licence.
- 23.2 The Participation Interest of the withdrawing Party shall be assigned to the remaining Parties in proportion to their Percentage Interest or as otherwise agreed.
- 23.3 The withdrawing Party shall cease to vote in the Management Committee on any programmes or budgets which pertain to operations after the date of withdrawal.
- 23.4 The withdrawing Party shall remain liable and obliged to pay for its Participating Interest share of all net costs and obligations that in any way relate to the abandonment of Operations or a Sole Risk Project in which such withdrawing Party participated if abandonment occurs within five (5) years after the effective date of withdrawal and, prior thereto, such withdrawing Party shall provide the other Parties with such security therefor as is reasonably acceptable to all of the other Parties.
- 23.5 The withdrawing Party shall remain obliged to pay the Joint Account any amounts outstanding at the time of its withdrawal.
- 23.6 The withdrawing Party shall be bound by the confidentiality provisions of Article 27 hereunder.

ARTICLE 24 - DEFAULT

24.1 The Government may cause a Party to forfeit all its rights under this Agreement upon giving the defaulting Party ninety (90) days prior written notice if that Party:

- a) fails to comply with any material obligation under this Agreement and fails to rectify such breach within said ninety (90) days period or for such longer period as may be agreed;
- b) becomes insolvent or goes into liquidation; or
- c) fails to comply with the provisions of Article 15 of the Petroleum Law.

24.2 The Participating Interest of the defaulting Party shall be transferred to the other Parties proportionately or as otherwise agreed.

ARTICLE 25 - BOOKS, ACCOUNTS AND AUDIT

- 25.1 The Operator shall keep complete financial accounts and records. Such accounts and records shall be prepared and maintained in conformity with petroleum industry practice as prescribed in the Accounting Procedure annexed to this Agreement. Following the declaration of a Commercial Discovery the accounts will be kept in English and Portuguese.
- 25.2 The accounts and records of the Joint Venture shall be certified by an independent auditor mutually acceptable to the Parties and shall be submitted along with the auditor's report to the Government within 150 days after the end of the calendar year to which they pertain.
- 25.3 The Operator shall file copies of the accounts to the tax authorities within 150 days after the end of the calendar year to which they pertain.

ARTICLE 26 - LIABILITY AND INSURANCE

- 26.1 The Operator shall conduct all drilling operations in accordance with good oilfield practice and shall exercise the necessary diligence and precautions to protect navigation, fishing and shipping and to prevent pollution of the marine environment. The Operator shall make all reasonable efforts to contain and clean up any significant quantities of Petroleum discharged in the course of its operations hereunder. The costs of such clean-up shall, subject to Article 17.1.1 hereunder, be borne in accordance with Article 26.2.
- 26.2 All damages, losses and liability incurred in Operations which are not covered by insurance policies procured or furnished under Article 26.3 and 26.5 hereunder shall be borne by the Parties in proportion to their Participating Interests subject to the provisions of Article 26.6 hereof save where they result from the Wilful Misconduct of the Operator.
- 26.3 The Operator shall for the Joint Account procure and maintain or cause to be procured and maintained all public liability, property, damage and other insurance against liabilities of the Parties and of the Operator approved by the Management Committee. The policies for any such insurance chargeable to the Joint Account of the Parties shall be endorsed with waivers of all rights of recourse against the non-operators. The Operator shall duly file all claims with respect to insurance arranged and maintained by it and shall take all necessary and proper steps to collect the proceeds and properly credit them to the Joint Account.
- 26.4 The Operator shall inform each Party in respect of all insurance procured by the Operator hereunder.
- 26.5 The Operator shall require all contractors performing work in respect of Operations to effect and maintain any and all insurance approved by the Management Committee and shall require all such contractors to obtain from their insurers waivers of all rights of recourse against the Operator and non-operators.
- 26.6 Subject as provided above, any of the Parties may obtain such insurance as it deems advisable for its own account at its own expense PROVIDED that insurances carried individually by any Party shall provide that underwriters waive their rights of subrogation against the Operator, the other Parties and against contractors and sub-contractors in favour of whom the Operator has waived rights of recourse on behalf of the Parties. Upon the request of the Management Committee a Party shall supply to it such evidence as it may reasonably require to establish that such insurances comply with these provisions. The Operator shall use all reasonable endeavours to furnish to each Party maintaining such additional insurance all such information as may be reasonably required in order to effect claims thereunder.

ARTICLE 27 - CONFIDENTIALITY

27.1 Confidential Data and Information

All data and information acquired or received by any Party under this Agreement are the property of the government of Guinea Bissau and shall be held confidential during the continuance of this Agreement and for a period of five (5) Years thereafter and shall not be divulged in any way to any third party, without the prior written approval of all the other Parties provided that:

- (a) a Party may, without such approval, disclose such data and information:
 - (i) to any Affiliate or bona fide intending assignee of such Party upon obtaining a strict undertaking of confidentiality from such Affiliate or assignee; or
 - (ii) to any outside professional consultants, upon obtaining a strict undertaking of confidentiality from such consultants provided that such Party shall promptly inform the other Parties of the name of any geological, geophysical or engineering consultants; or
 - (iii) to any bank or financial institution from whom such Party is seeking or obtaining finance, upon obtaining a strict undertaking of confidentiality from such bank or institution; or
 - (iv) to the extent required by the Acts, the Licence, any other applicable law or the regulations of any recognised investment exchange; or
 - (v) to the extent that the same has become generally available to the public; and
- (b) the Operator may disclose such data and information to such persons as may be necessary in connection with the conduct of the Operations upon obtaining a strict undertaking of confidentiality from such persons provided that the Operator shall promptly inform the other Parties of the names of such persons and the data and information disclosed to them.

In the event of any Party ceasing to hold a Percentage Interest, such Party shall nevertheless remain bound by this Clause 27.1.

27.2 Trading Rights

The Operator may, with the prior approval of the Management Committee and on such terms and conditions as it may determine, exchange any such data and information for other similar data and information and the Operator shall promptly provide the other Parties with a copy of the agreement relating to such exchange and all such other data and information provided that, notwithstanding the foregoing provisions of this Clause 27.2, if a Party is also the owner, part owner or holder of such other

data and information it shall not be entitled to prevent an exchange which has been approved by all the other Parties.

ARTICLE 28 - RIGHT OF REQUISITION BY THE GOVERNMENT

- 28.1 In case of national emergency, such as armed conflict, national disaster or the imminent expectation of same, the Government may requisition all or a part of the production from the Concession Area obtained hereunder.
- 28.2 In all cases such requisition shall not be effected until after inviting PETROGUIN and the Operator or their representatives by telex or registered letter with acknowledgement of receipt to express their views with respect to such requisition.
- 28.3 The requisition of production shall be effected by order of the Government.
- 28.4 In the event of any requisition as provided above, the Government shall indemnify in full the Parties for the period during which they requisition is maintained including:
- a) All damages which result from such requisition; and
 - b) full payment in US Dollars at the Market Price or in kind as the Parties may decide for all production so requisitioned.

ARTICLE 29 - FORCE MAJEURE

29. Performance of any obligations (other than an obligation to make payment of any monies due and outstanding) under and pursuant to this Agreement, the Joint Operating Agreement or the Licence by any of the Parties or the Operator or the MINISTER shall be excused in the event that such performance is prevented or substantially hindered by act of God, perils of navigation, storm, flood, earthquake, lightning, explosion, fire, hostilities, war, insurrection, civil commotion, acts of the public enemy, quarantine restrictions, epidemics, strike, riot or labour disturbance, unavailability or breakdown of machinery, inability to access the Area, or any other event beyond their reasonable control including compliance with any law or governmental order, rule, regulation or direction, inability or delay to obtain necessary permits, or authorisations, materials, equipment or services by reason of, but not limited to, the foregoing causes. No such event shall give the MINISTER or any of the Parties any claim against the Party or the Operator affected thereby or be deemed to cause a breach of this Agreement, the Joint Operating Agreement or the Licence, provided however that such Party or Operator will use reasonable diligence in overcoming the cause of the delay or hindrance and resume performance within a reasonable time after the said cause has been removed.
- 29.1 Failure of any Party to this Agreement to fulfil any of the terms and conditions of this Agreement or of any Licence shall not be deemed as a breach or default insofar as such failure arises from force majeure, provided that the affected party has taken all appropriate precautions and reasonable measures to fulfil its obligations.
- 29.2 If any Party is unable to fulfil its obligations due to force majeure, such Party shall, without delay, give notice to the other Parties in writing, supported by necessary justification and documentary evidence stating the cause of such inability and its efforts to remove such cause and remedy its consequences.
- 29.3 The term of this Agreement and the Licence as the case may be, shall be extended for the duration of the force majeure situation and such further period as determined by the Government to resume operations,
- 29.4 In the event Force Majeure exceeds a period of three (3) years continuously during the initial term or any renewal thereof, any of the parties to the Agreement may terminate this Agreement on three (3) months notice and such termination shall be deemed to be a Surrender on the expiry of the Licence and the Parties shall be deemed to have fulfilled all outstanding obligations.

ARTICLE 30 - GOVERNING LAW AND SETTLEMENT OF DISPUTES

- 30.1 This Agreement shall be governed by the Laws of the Republic of Guinea-Bissau:
- 30.2 If at any time during the duration of this Agreement, there should arise any dispute with respect to the interpretation or implementation of this Agreement, which difference or dispute cannot be mutually resolved within 90 days the Parties shall submit to arbitration in accordance with UNCITRAL arbitration rules adopted by the UN Commission on international Trade Law on 28 April 1976.
- 30.3 The Parties agree to submit to the award of UNCITRAL on the matter in dispute and to consider it final and binding,
- 30.4 The place of arbitration shall be Geneva, Switzerland. Proceedings will be conducted in Portuguese and English.

ARTICLE 31 - GENERAL PROVISIONS

- 31.1 This Agreement may only be modified by an amendment signed by all the Parties.
- 31.2 This Agreement is in the Portuguese and English languages. In the event of any questions regarding the interpretation of the Agreement, both texts shall have equal weight.
- 31.3 The Parties to this Agreement understand that, whenever a Commercial Discovery is made, it is the intention of PETROGUIN and the Government to request the International Bank for Reconstruction and Development (the World Bank), in addition to any other entity that PETROGUIN and the Government may so approach to provide PETROGUIN with funds, to finance part of its Participating Interest share of the costs and expenses for development and exploitation operations and PETROGUIN and the Government undertake to use their best endeavours to obtain such financing provided it can be procured on competitive terms and conditions.

The World Bank has indicated its willingness to consider issuing a Letter of Cooperation at the request of the Government and the Parties stating that the World Bank will give full consideration to the possibility of development financing.

ARTICLE 32 - NOTICES AND COMMUNICATIONS

32.1 All notices and communications between the Parties shall be in writing and shall be delivered or sent by courier, telex or facsimile to the respective Party at the address, telex or facsimile number shown below, or such other address, telex or facsimile number as a Party may designate to the other Parties, and shall be deemed to be given upon receipt.

PETROGUIN

Empresa Nacional de Pesquisa
e Exploração Petrolíferas, EP
Caixa Postal 387 Bissau
Fax: 01 0 245 201 287
Attention of: General Director

32.2 In the event of a change of address, the Parties shall be notified of the new address.

ARTICLE 33 - ENTRY INTO FORCE

This Agreement shall enter into force upon the publication of the decree ratifying the provisions of this Agreement and granting the Exploration Licence to PETROGUIN and the COMPANY. The decree shall be published in the Boletín Oficial.

IN WITNESS WHEREOF, this Agreement is executed as of the day and year first above written.

EMPRESA NACIONAL DE PESQUISA E EXPLORACAO PETROLIFERAS, E.P.

AMORTIZATION RATES

<u>Type</u>	<u>Annual Rate</u>
1. Drilling	
Non-Producer	100
Producer	15
2. Buildings and Construction	
Permanent buildings and furniture	10
Software	50
Access roads and infrastructure	100
Home furnishings	15
Office equipment, including computers, telecommunications equipment	33
3. Vehicles	
Airplanes, automobiles	25
4. Production Installations	
Storage tanks, pipelines, extraction equipment, processing plants, separation facilities	20
5. Machinery and Tools	
Compressor, pumps, equipment transformers	33
6. Transport	
Barges, boats, tugs	20
7. Fixed Exploitation Assets	
Other than in 1-6	15
8. Intangibles	
Geological and geophysical exploration	100

ANNEX I

ACCOUNTING PROCEDURE

SECTION I

1. Introduction

The purpose of the Accounting Procedure is to outline the principles by which the Operator will account for operations conducted under the Agreement.

Procedures will be established and maintained in accordance with the normal practices of the industry, having due regard to the requirements of Non-Operators for information to enable them to meet their internal and statutory reporting requirements.

The Operator will maintain separately identifiable accounting records in sufficient detail as to enable it to meet such requirements and to demonstrate a system of cost control appropriate to the level of activities in progress at the time. All Advances received by the Operator from Parties, all expenditures incurred and all receipts obtained by the Operator in connection with Operations, will be recorded in the Joint Account.

It is the intention that the Operator should not make a profit or a loss by virtue of performing its duties under the Agreement.

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

2. Cash Calls

The Operator will be entitled to request each Party to pay Cash Calls to meet its Paying Interest share of anticipated expenditure for the succeeding month's operation in US Dollars, UK Sterling or any other currency as required to make substantial payments. For payments in any other currency under the equivalent of US \$1 00,000, cash will be called in US Dollars.

The Operator shall provide to each Party with each Cash Call a cash forecast for the following three months by currency.

Each Cash Call shall identify which approved AFEs or budget items the Cash Call relates to.

Following each Cash Call each Party shall pay, within 15 working days, to the designated bank account its US Dollar, UK Sterling or other currency Paying Interest share in sufficient time so that it is credited to the bank account on the due date specified.

The Operator may also, at its discretion, make a written request to each Party for a Special Cash Call in respect of any unforeseen expenditure the Paying Interest share of which should be paid by each Party within 5 working days.

If any Party fails to pay in full its Paying Interest share of any Cash Call by the due date the terms of Article 24 shall apply.

3. **Billings**

The Joint Account will be maintained in US Dollars and the Operator shall provide Non-Operators with billing statements on a Monthly or Quarterly basis as appropriate to the level of operations. These will be produced not later than forty five days from the end of the relevant Month or Quarter.

Billing statements will be on an accruals basis in the currency of payment and in US Dollars and US Dollars equivalent, showing current month, year to date and cumulative totals, analysed by AFE or by category of expenditure indicative of the nature thereof. An analysis of accruals by similar category will be included. The analysis of expenditure will be in sufficient detail to permit comparison with the approved budget.

Where the Operator translates into US Dollars, transactions in currencies other than US Dollars for the purposes of recording these in the Joint Account it will use its normal procedures and corporate rates, such procedures and rates to be advised to the Non-Operators.

All expenditure in currencies for which an Advance in the relevant currency has not been made shall be charged to the Joint Account in US Dollars or at the US Dollar equivalent, as described above, of the actual cost of purchase of such other currencies.

Any gains or losses resulting from the exchange of currency required for the conduct of Joint operations shall be credited or charged to the Joint Account.

The Operator shall also provide, with each billing statement, reconciliations between cash Advances and payments for each Party in source currencies.

4. **Audits**

Any Non-Operator shall have the right, at its own expense, to audit the accounts and records of the Joint Account for each Year before the end of the twenty-fourth Month after the end of such Year.

The right of audit shall include access to the records pertaining to the Operations, excluding those records which are generally considered as being of a proprietary nature or are maintained by an Affiliate of the Operator other than an Affiliate of the Operator which is conducting a substantial part of the Operations.

The Non-Operators shall give the Operator a minimum of thirty days notice of their intention to audit, and shall endeavour to conduct the audit jointly so as to minimise any inconvenience to the Operator. The Operator shall provide Non-Operators with all reasonable co-operation in the conduct of their audit.

The Operator shall reply in writing to an audit report within four (4) Months after the receipt of such report and both the Operator and Non-Operators will endeavour to resolve any outstanding matters as soon as practicable. Should the Non-Operators consider that the Operator's reply requires further investigation they shall have the right to conduct further investigations and make any consequent claims notwithstanding the twenty-four (24) Month access period may have expired. These further investigations should be made promptly. Any items outstanding twelve (12) Months after the conclusion of an audit may be referred to arbitration pursuant to the terms of Article 30.

Payment of Cash Calls and billings shall not restrict the rights of the Non-Operators to protest or question the correctness thereof. However, all billing statements will be conclusively presumed to be correct after twenty-four (24) Months following the end of the calendar year to which the billing statements relate unless within the said twenty-four (24) Month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favourable to Operator shall be made unless it is made within the same prescribed period.

When an audit finding has been agreed, the Operator shall make an adjustment to the Joint Account as soon as practicable.

In the event that evidence exists that the Operator has been guilty of wilful misconduct or gross negligence the Non-Operators shall have the right to conduct further audits and submit claims in respect of earlier periods than the then current twenty-four (24) Month access period.

SECTION II

1. Chargeable expenditure

The Operator shall charge to the Joint Account all items of expenditure necessary for the conduct of Operations. The Operator shall not charge expenditure which exceeds the total of an approved Budget by more than 10% unless specifically empowered to do so by the Agreement.

Costs necessary for the conduct of Operations may include, but shall not be limited to, Licence payments, Operator personnel costs including any necessary relocation and redundancy expenses, office costs, Materials, equipment, transport, third party services, repair of damage, recompense for losses, legal expenses, taxes, insurance costs, and the costs of local offices.

The Operator shall endeavour at all times to obtain competitive rates for all goods and services, having regard to quality, reliability and availability.

The Operator shall keep Non-Operators informed of any substantial insurance claims or litigation relevant to Operations, in accordance with the Agreement.

If facilities specially established for Operations serve the Operator outside of the Operations, the cost thereof shall be allocated on an equitable basis.

2. Operator personnel costs

The Operator shall provide personnel required to conduct Operations. Such personnel will either be employees or contractors of the Operator or its Affiliates.

(i) **Employees**

The Operator shall make charges to the Joint Account based upon a timewriting system whereby certain employees (timewriters) will complete timesheets detailing their time allocated to Joint Operations. The Operator will ensure that as many employees as practicable are timewriters.

Charges to the Joint Account will be based upon the time written to Operations as a proportion of total time written, applied to a pool of the Operator's total costs of employees and overheads excluding costs and overheads of a purely corporate nature.

The Operator may divide timewriters and associated costs into a number of separate pools as appropriate to the scope of the Operator's total activities.

Employees working locally and dedicated to Operations will be wholly chargeable to the Joint Account except insofar as they undertake work unrelated to the Operations in which case their costs will be allocated on an equitable basis.

(ii) **Contractors**

Short-term contractors working on Operations will be charged, at cost to the Joint Account on the basis of time spent on Operations.

Where long-term contractors are quasi-employees based in other than a dedicated office or location, their cost will form part of the pool of allowable overheads. The allocation of these costs will then be via the timewriting system referred to above in the same way as for employees of the Operator or its Affiliates.

3. **Material**

Material purchased from third parties for use in Operations shall be charged to the Joint Account at cost.

If any Materials or services are provided by the Operator or any Affiliate of the Operator these shall be provided at rates commensurate with the cost of ownership but which do not exceed those for equivalent Materials or services available from third parties. These costs will include, but not be limited to, labour, maintenance, depreciation and the cost of investment in the depreciated asset.

Charges and credits to the Joint Account in respect of transferred Material shall be made as follows:-

			% of original cost chargeable
New Material	(Condition A)	Good new Material	100
Good used Material	(Condition B)	Good used Material	75
Other used Material	(Condition C)	Usable after reconditioning	50
Other Material	(Condition D)	Bad order Material	to be appraised
Scrap Material	(Condition E)	Junk Material	prevailing prices

SECTION III

1. Receipts

Receipts will be credited to the Joint Account to the extent that they relate to Joint Operations.

Receipts relating to Operations will normally include, but shall not be restricted to, reimbursement of sums expended, insurance claims made, other claims made, Material returned and the sale of Material.

The Operator shall give Non-Operators the opportunity to bid for any surplus Materials and equipment, whose value either individually or in aggregate at the time of disposal exceeds \$1 00,000, which are to be sold. The sale will then be concluded upon terms favourable to Operations.

SECTION IV

1. **Budgets**

Budgets will be issued in accordance with Article 7 of the Agreement. The following information will be included:-

- (i) An estimate in US Dollars of the total cost of the relevant Programme sub-divided into appropriate classifications;
- (ii) An estimate of phasing by Quarter and by Contract Year of the total cost;
- (iii) A note of any significant assumptions made.

2. **Authorisation for Expenditure**

AFE's in respect of capital expenditures within an approved Work Programme and Budget will be issued on a timely basis to Non-Operators for their consideration consistent with giving them at least twenty-one (21) days to consider the matter.

Each AFE will give details of the work to be performed, the estimated cost thereof and the anticipated timing of expenditure.

Non-Operators voting in favour of AFE's shall indicate their approval by signing and returning a copy of the AFE form to the Operator on a timely basis and at the same time notify other Non-Operators of their approval.

Non-Operators voting against AFE's shall indicate their disapproval in writing by either telex, facsimile or letter to both the Operator and other Non-Operators indicating their reasons for such disapproval.

Non-Operators failing to reply after the expiry of the above twenty-one (21) day period for consideration and following a reminder from the Operator, shall be deemed to have approved the AFE.

ANNEX II
DESCRIPTION OF THE AGREEMENT AREA FOR BLOCK 3, GUINEA-BISSAU