

[MODEL]

PRODUCTION SHARING AGREEMENT

FOR

**[PETROLEUM EXPLORATION, DEVELOPMENT AND
PRODUCTION] or [PETROLEUM DEVELOPMENT AND PRODUCTION]**

IN THE

REPUBLIC OF UGANDA

BY AND BETWEEN

THE GOVERNMENT OF THE REPUBLIC OF UGANDA

AND

COMPANY X

COMPANY Y

COMPANY Z

CONTRACT AREA Y

DAY.....MONTH.....YEAR.....

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THIS AGREEMENT is made and entered into this _____ day of _____, 20____ by and between the Government of the Republic of Uganda, acting through the Ministry of Energy and Mineral Development, of P.O Box 7270 Kampala, Uganda (hereinafter referred to as "Government") and

[X], a company duly organized and existing under the laws of [●], having its registered office at [●] and of P.O. Box [●] (hereinafter referred to as ("X") and herein represented by its duly appointed and authorised representative [●]; and

[Y], a company duly organized and existing under the laws of [●] and of P.O. Box [●] in [●] registered under the Companies Act, 2012 hereinafter referred to as ("Y") and herein represented by its duly appointed and authorised representative [●]; and

[Z], a company duly organized and existing under the laws of [●] and of P.O. Box [●] in [●] registered under the Companies Act, 2012 hereinafter referred to as ("Z") and herein represented by its duly appointed and authorised representative [●]

(hereafter collectively referred to as the "Licensee"),

The Government and the Licensee shall individually be referred to as a "Party" and collectively as the "Parties".

WHEREAS, Petroleum in or under any land or water in Uganda is the property of the Republic of Uganda;

WHEREAS, the Petroleum (Exploration, Development and Production) Act, 2013 makes provision with respect to exploration, development and production of petroleum and authorises the Minister responsible for Petroleum Activities to grant Petroleum Exploration and Petroleum Production Licences to any person or entity, subject to such conditions as the Minister may determine;

WHEREAS, Section 6 of the Act authorises the Government to enter into an agreement relating to Petroleum Activities consistent with the Act, with any person;

WHEREAS, the Licensee has duly applied for a [Petroleum Exploration Licence under Section 56 (1)] a [Petroleum Production Licence under Section 69 (4)], [*Delete as appropriate*], over the area described herein, and shown on the map in Annex A hereof and the Minister, in accordance with [Section 58 of the Act] [Section 75 of the Act]/*Delete as appropriate*, shall therefore, following the signing of this Agreement, grant the said Licence to Licensee; and

WHEREAS, the Licensee, having represented that it has and can obtain required resources to undertake Petroleum Activities in the Contract Area and has to this end the necessary financial capacity, technical competence,

appropriate experience, and professional skills to carry out such activities on terms and conditions set out under this Agreement and the Licence, all subject to the laws of Uganda;

NOW, THEREFORE, the Parties hereto agree as follows:

ARTICLE 1

Definitions

- 1.1.1 In this Agreement, unless the context otherwise requires:
- 1.1.2 "Act" means the Petroleum (Exploration, Development and Production) Act, 2013 as amended and in effect from time to time.
- 1.1.3 "Affiliated Company" means any entity directly or indirectly controlling, or controlled by, or under direct or indirect common control with a specified entity. For the purposes of this definition, "Control", when used with respect to any specified entity, means the power to direct, administer and dictate policies of such entity (it being understood and agreed that it is not necessary to own directly or indirectly fifty percent (50%) or more of such entity's voting securities to have control over such entity, but ownership, direct or indirect, of fifty percent (50%) or more of such entity's voting securities shall automatically indicate control), the power to appoint, or prevent the appointment of half, or more than half, of the directors of the body corporate or the power to exercise, or control the exercise of, the right to cast votes in respect of not less than two fifths of the total number of votes in respect of issued equity shares in the body corporate; and the terms "controlling" and "controlled" have meanings corresponding to the foregoing.
- 1.1.4 "Agreement" means this instrument and the annexes attached hereto, including any extensions, renewals or amendments thereof agreed to in writing by the Parties.
- 1.1.5 "Appraisal Programme" means a programme carried out following one or more Discovery(ies) of Petroleum for the purpose of delineating the Petroleum Reservoir(s) to which that Discovery or these Discoveries relate(s) in terms of thickness and lateral extent and determining the characteristics thereof and estimating the quantity of recoverable Petroleum therein.
- 1.1.6 "Appraisal Well" means any Well drilled as part of an Appraisal Programme.
- 1.1.7 "Associated Natural Gas" means Natural Gas which is extracted from a Petroleum Reservoir in association with Crude Oil, and includes solution gas or gas cap gas, and recovered as gas at the surface by separation or other primary processing.
- 1.1.8 "Available Natural Gas" means Natural Gas produced and saved in the Contract Area, minus Royalty on Natural Gas as provided for in Article 9.
- 1.1.9 "Available Petroleum" means Available Crude Oil or Available Natural Gas or both.

- 1.1.10 "Available Crude Oil" means Crude Oil produced and saved in the Contract Area, minus Royalty on Crude Oil as provided for in Article 9.
- 1.1.11 "Barrel" means a quantity consisting of forty-two (42) United States gallons, liquid measure, corrected to a temperature of fifteen point six degrees (15.6°) Celcius and under one (1) atmosphere pressure..
- 1.1.12 "Calendar Month" means any of the twelve (12) months of a Calendar Year.
- 1.1.13 "Calendar Quarter" means a period of three (3) consecutive Calendar Months commencing with first day of January, April, July or October of each Calendar Year.
- 1.1.14 "Calendar Year" means a period of twelve (12) Calendar Months according to the Gregorian Calendar, starting with January 1st and ending with December 31st.
- 1.1.15 "Commercial Production" means Production of Petroleum and delivery of the same at the Delivery Point under a programme of regular Production and sale.
- 1.1.16 "Contract Area" means (a) on the Effective Date, the area described in Annex A and shown on the map in Annex A; and (b) thereafter, the whole or any part of such area which, at any particular time, remains subject to Petroleum Exploration Licence and/or subject to a Petroleum Production Licence or Licences.
- 1.1.17 "Contract Expenses" means Exploration Expenditures, Development Expenditures and Operating Expenses incurred by the Licensee in conducting Petroleum Activities hereunder determined in accordance with the Accounting and Financial Procedure as set forth in Annex "B".
- 1.1.18 "Contract Revenues" means the sum of all proceeds of sales of Petroleum and monetary equivalent to the value of other dispositions of Licensee's Cost Petroleum entitlement, Profit Petroleum entitlement, credits and any other proceeds from Petroleum Activities hereunder.
- 1.1.19 "Contractor" means any person, company or entity contracted by or on behalf of the Licensee for the purpose of carrying out Petroleum Activities.
- 1.1.20 "Cost Gas" means, the portion of the total value of Available Natural Gas from the Contract Area which the Licensee is entitled to take in a particular period, for the recovery of Contract Expenses as set out in Article 11.
- 1.1.21 "Cost Oil" means, the portion of the total value of Available Crude Oil from the Contract Area which the Licensee is entitled to take in a particular period, for the recovery of Contract Expenses as set out in Article 11.

- 1.1.22 "Cost Petroleum" means Cost Oil or Cost Gas or both.
- 1.1.23 "Cost Recovery" has the meaning ascribed to it in Article 11.
- 1.1.24 "Crude Oil" means any naturally occurring liquid consisting of a mixture of hydrocarbons and other organic compounds found beneath the earth's surface and includes liquids obtained from Natural Gas by condensation or extraction.
- 1.1.25 "Delivery Point" means the point at which petroleum passes through the intake valve of the pipeline, vessel, vehicle or craft at a terminal or refinery, in Uganda.
- 1.1.26 "Development Expenditures" means those expenditures as so categorised in the Accounting and Financial Procedure in Annex "B".
- 1.1.27 "Development" means the planning, placement, construction and installation of Facilities needed for Production of Petroleum but does not include operations beyond the Delivery Point.
- 1.1.28 "Effective Date" means the date on which this Agreement is signed by all Parties hereto.
- 1.1.29 "Exploration Expenditures" means those expenditures incurred in carrying out Exploration as so categorised in the Accounting and Financial Procedure described in Annex "B"
- 1.1.30 "Exploration Period" means the duration of a Petroleum Exploration Licence as set forth in section 61 of the Act and further detailed in Article 3 of this Agreement.
- 1.1.31 "Exploration Well" means a Well, other than an Appraisal Well, drilled in the course of Exploration activities conducted hereunder.
- 1.1.32 "Government" has the meaning as set forth in the preamble.
- 1.1.33 "Government's Share of Profit Petroleum" has the meaning ascribed to it in Article 12.
- 1.1.34 "Joint Activities" means Petroleum Activities pursuant to this Agreement carried out under a Joint Venture Agreement.
- 1.1.35 "Joint Venture Agreement" means an agreement, not inconsistent herewith, between Licensee and the Nominee of the Government to be negotiated and executed pursuant to paragraph 10.1

- 1.1.36 "Joint Operating Agreement" means the contract between the parties constituting the Licensee, and its appendices and amendments, relating to the joint conduct of Petroleum Activities within the Contract Area.
- 1.1.37 "Joint Venture Assets" has the meaning ascribed to it in paragraph 10.2 .a.
- 1.1.38 "Joint Venture Interest" has the meaning ascribed to it in paragraph 10.2 .b.
- 1.1.39 "LIBOR" means the London Inter-Bank Offer Rate for six-month maturates of USD as quoted by the International Swaps and Derivative Association or such other bank being an ICE LIBOR contributor panel bank as the Parties may agree.
- 1.1.40 "Licensee" has the meaning set forth in the preamble and shall be construed to include the permitted successors and assignees under Article 22 hereof.
- 1.1.41 "Market Price" has the meaning ascribed to it in Article 14.
- 1.1.42 "Nominee" means a body corporate established by or under a law in force in the Republic of Uganda wholly owned or controlled by the Government pursuant to Article 10 of this Agreement, designated for the purpose of holding any State Participation interest under this Agreement pursuant to the procedure set forth in Article 10, and includes any approved assignee of such body corporate provided such assignee satisfies the requirements of Article 10 of this Agreement and applicable law.
- 1.1.43 "Non-Associated Natural Gas" means Natural Gas other than Associated Natural Gas.
- 1.1.44 "Operating Expenses" means those expenses as so categorised in the Accounting and Financial Procedure described in Annex "B".
- 1.1.45 "Operating Committee" means the Committee established in the Joint Operating Agreement pursuant to Article 2.
- 1.1.46 "Participating Interest" means, in relation to any Licence an undivided and unencumbered interest in rights and obligations under the Licence.
- 1.1.47 "Party", or "Parties" has the meaning set forth in the preamble.
- 1.1.48 "Petroleum Activity" means planning, preparation, installation or execution of activities related to Petroleum including Reconnaissance, Exploration, Development, Production, Transportation of Petroleum, storage, and cessation of activities or decommissioning of Facilities, not beyond the Delivery Point;

- 1.1.49 "Petroleum Exploration Licence" means the Petroleum Exploration Licence granted in accordance with section 58 of the Act.
- 1.1.50 "Petroleum Produced and Saved" means gross Petroleum produced minus impurities such as water or solids produced along with Petroleum, Petroleum recycled to the Petroleum Reservoir, Petroleum used in Petroleum Activities or flared or otherwise unavoidably lost under the provisions of this Agreement.
- 1.1.51 "Petroleum Production Licence" means a Petroleum Production licence granted in accordance with Section 75 of the Act.
- 1.1.52 "Pipeline Company" means the company referred to in Article 15.
- 1.1.53 "Profit Petroleum" has the meaning ascribed to it in Article 12.
- 1.1.54 "Royalty" has the meaning ascribed to it in Article 9.
- 1.1.55 "Seaboard Terminal" means a terminal at any seaport agreed to by the parties at which Crude Oil is lifted into the tankers for export.
- 1.1.56 "Signature Bonus" means a single, non-recoverable lump sum payment by the Licensee to Government upon the granting of a Petroleum Exploration Licence or Petroleum Production Licence.
- 1.1.57 "Sub-contractor" means any person, company or entity contracted by or on behalf of a Contractor for the purpose of carrying out Petroleum Activities.
- 1.1.58 "State Participation" means the involvement of the Government or its Nominee in Petroleum Activities in accordance with section 124 (1) of the Act and Article 10 of this Agreement.
- 1.1.59 "USD" means "United States Dollars"
- 1.1.60 "Venture Assets" means the property whether movable, immovable, tangible or intangible real or personal owned or acquired by Licensee in connection with Petroleum Activities hereunder and includes the Petroleum Exploration Licence and any Petroleum Production Licences granted hereunder.
- 1.1.61 "Work Programme and Budget" means an itemised statement of Petroleum Activities to be carried out pursuant to this Agreement and a detailed breakdown of the Contract Expenses associated therewith, including both capital and operating budgets, all in a form acceptable to the Government.

1.1.62 For the avoidance of doubt, unless the context otherwise requires, any term that is not defined in this Agreement but is defined in the Act shall have the same meaning as in the Act.

ARTICLE 2

Participating Interests

2.1 Subject to Article **10** of this Agreement, the initial Participating Interest of the Parties comprising the Licensee shall be as follows:

[X Company]_____ : [%]
[Y Company]_____ : [%]
[Z Company]_____ : [%]

2.2 The Licensee shall enter into and submit a duly executed Joint Operating Agreement acceptable to the Government, between the Parties comprising the Licensee within thirty (30) days of its execution date and in any case not later than ten (10) days from the Effective Date or such longer period as may be agreed to by the Government. The said Joint Operating Agreement shall be consistent with the provisions of this Agreement, the Act and Regulations and shall provide for, among other things:

- (a) the appointment, resignation, removal and responsibilities of the Operator;
- (b) the establishment of an Operating Committee comprising of an agreed number of representatives of Parties comprising the Licensee and chaired by the Operator;
- (c) functions of the said Operating Committee taking into account the provisions of this Agreement, conditions and procedures for decision making, frequency and place of meetings;
- (d) contribution to costs, default, sole risk, withdrawal, disposal of Petroleum, the joint venture accounting procedures and assignment as between the parties to the Joint Operating Agreement; and
- (e) the rights and obligations of the parties comprising the Licensee.

2.3 Notwithstanding the provisions of this Article 2, where more than one party comprise the Licensee, liability for the parties shall be joint and several.

ARTICLE 3

Responsibilities and Grant of Rights

- 3.1. Contemporaneously herewith, the Licensee is granted, under and in accordance with the Act and Regulations, a [Petroleum Exploration Licence under Section 58 of the Act] [Petroleum Production Licence under section 75 of the Act] [*Delete as appropriate*] in respect of the Contract Area in the form set forth in the Regulations.

[The Petroleum Exploration Licence shall have a term of years ("First Exploration Period"), counted from the Effective Date subject to renewal in accordance with the Act, Regulations and this Agreement. A maximum of two successive renewals of said Petroleum Exploration Licence not exceeding two (2) years each ("Second Exploration Period" and "Third Exploration Period") shall, subject to the requirements of the Act and Regulations, be granted to Licensee upon application by Licensee to the Government in the prescribed manner.]¹

[The Petroleum Production Licence shall have a term of ... years, counted from the Effective Date subject to renewal in accordance with the Act, Regulations and this Agreement. A maximum of two successive renewals of said Petroleum Production Licence not exceeding five (5) years each shall, subject to the requirements of the Act and Regulations, be granted to Licensee upon application by Licensee to the Government in the prescribed manner.]²

- 3.2 Notwithstanding the provisions of the preceding paragraph and without prejudice to Sections 62 and 63 of the Act, in the event that on the ninetieth day before the date on which a Petroleum Exploration Licence is due to expire, the Licensee is in the process of completing acquisition of seismic or drilling operations under this Agreement, or the processing or interpretation of data resulting therefrom, and provided that the said operations are being conducted diligently and started in good time and in accordance with Best Petroleum Industry Practices , the Licensee may apply for the renewal of any Petroleum Exploration Licence pursuant to paragraph 3.1 before but in no case later than fifteen (15) days prior to the date of expiry of the then current period of validity of said Licence.
- 3.3 Licensee shall, subject to the Act and Regulations and the terms and conditions herein set forth, have the exclusive right to conduct Exploration Activities within the Contract Area for the term of the Petroleum Exploration Licence and /or Development and Production Activities in respect of any Production Licence granted to it in accordance with all applicable legislation and provisions of this Agreement.

¹ This text applies to an Petroleum Exploration Licence

² This text applies for a direct application for a Petroleum Production Licence

- 3.4 The Government reserves the right to grant licences to other legal persons to prospect for, explore for and mine minerals other than Petroleum within the Contract Area, and further reserves the right to prospect, explore and mine directly. The Licensee shall use its best efforts to avoid obstruction or interference with such Licensee's or Government operations and similarly the Government shall use its best efforts to ensure that its own operations or those of third parties do not obstruct or interfere with Licensee's Petroleum Activities within the Contract Area
- 3.5 In the event that Licensee discovers natural resources other than Petroleum in the Contract Area, it shall report such discovery to the Government within thirty (30) days of the making of such discovery and shall supply a sample of such minerals to the Government.

ARTICLE 4

Exploration Work Programme

- 4.1 The Licensee shall commence Exploration in Uganda within two (2) Calendar Months of the Effective Date.
- 4.2 In discharge of its obligation to carry out Exploration in the Contract Area, the Licensee shall, in accordance with the Act, Regulations and this Agreement, carry out the following minimum work programmes and shall expend not less than the corresponding sums specified as adjusted pursuant to paragraph 4.5:

4.2.1 First Exploration Period

Commencing on the Effective Date and terminating on the [second anniversary] of such date:

(a) Minimum Work Programme [Biddable item]

Undertake geological, geochemical, geophysical and related studies and, where available review relevant existing data - including seismic, gravity and magnetic, maps, reports and publications on the Contract Area.

[The acquisition, processing and interpretation of not less than XXX line kilometres of 2D seismic data].

[The acquisition, processing and interpretation of not less than XXX square kilometres of 3D seismic data].

[The drilling of XXX Exploration Wells whose location and depth Government and Licensee shall agree on].

(b) Minimum Exploration Expenditure [Biddable item]USD --- million

Preliminary geological, geochemical and geophysical studies	USD -
-	-
[2D Seismic data	USD]-
[3D Seismic data	USD]--
[Drilling of wells	USD]--

4.2.2 Second Exploration Period.

Commencing on the day on which the Petroleum Exploration Licence is renewed pursuant to the Act and in accordance with Article 3 of this Agreement and terminating on the [second anniversary] of such date.

(a) **Minimum Work Programme** [*Biddable item*] :

[Acquisition, processing and interpretation of additional XXX line kilometres of 2D seismic data]

[Acquisition, processing and interpretation of additional XXX square kilometres of 3D seismic data],

[The drilling of XXX exploration wells whose locations and depths Government and the Licensee shall agree on].

(ii) **Minimum Exploration Expenditure** **USD --- million**
[*Biddable item*]

[2D Seismic data USD] --

[3D Seismic data USD]--

[Drilling of wells USD]-

4.2.3 Third Exploration Period

Commencing on the day on which the Petroleum Exploration Licence is renewed for the second time pursuant to the Act and Article 3 hereof and terminating on the [second anniversary] of such date.

(a) **Minimum Work Programme** [*Biddable item*]:

[Acquisition, processing and interpretation of additional XXX line kilometres of 2D seismic data],

[Acquisition, processing and interpretation of additional XXX square kilometres of 3D seismic data],

[Drilling of XXX Exploration Wells whose locations and depths Government and Licensee shall agree on].

(b) **Minimum Exploration Expenditure** **USD ---- million**
[*Biddable item*]

[2D Seismic data USD] --

[3D Seismic data USD]--

[Drilling of wells USD]-

4.3 For the purpose of this Article, Exploration Wells shall, except as provided in Article 4.2, be drilled on a location determined by the Licensee and the Government and to a depth necessary for the evaluation of the sedimentary section established by the available data as the deepest objective formation and consistent with Best Petroleum Industry Practices, unless before reaching the aforementioned depth:

- (a) further drilling would present a foreseeable danger which cannot reasonably be contained;
- (b) basement or impenetrable formations are encountered;

For the purpose of this paragraph 4.3, the term "Basement" shall mean the geological basement below which Petroleum cannot be found and produced.

4.4 In such circumstances, the drilling of any Exploration Well may be terminated at a lesser depth and such Well shall, except where the circumstances described in subparagraphs (a), and (b) immediately above occur before the Licensee has attained two thirds of the target depth provided for in the drilling programme, relating to such well, be deemed to have satisfied the minimum depth criteria provided for hereunder. In all other circumstances in which a Well is terminated at a lesser depth, the Licensee shall have the option to either:

- (a) drill a substitute Exploration Well; or
- (b) pay to the Government the amount by which the drilling budget for such well on a dry hole basis, pursuant to paragraph 4.2 exceeds actual expenditures incurred in the drilling thereof.

4.5 Compliance with the required minimum Exploration Expenditures in any Exploration Period shall not relieve the Licensee of its obligation to comply with the required minimum Work Programme for such Exploration Period however, compliance with the required minimum Work Programme for any Exploration Period may relieve the Licensee of its obligation to comply with the required minimum Exploration Expenditures for such Exploration Period.

4.6. The required minimum Exploration Expenditure stipulated in paragraph 4.2 for each Exploration Period (other than the First Exploration Period), shall be adjusted at the end of (i) the First Exploration Period, in the case of the minimum Exploration Expenditures for the Second Exploration Period, (ii) the Second Exploration Period, in the case of the minimum Exploration Expenditures for the Third Exploration Period, as follows:

$$I' = I \times \frac{B}{A}$$

I' = minimum Exploration Expenditures for the Second or Third Exploration Period, as the case may be;

I = minimum Exploration Expenditures stipulated in paragraph 4.2 for the period in question;

A = "U.S. Industrial Goods Producer Price Index" as first reported in "International Financial Statistics" as published by the International Monetary Fund for the Calendar Month of the Effective Date; and

B = "U.S. Industrial Goods Producer Price Index" as first reported in "International Financial Statistics" as published by the International Monetary Fund of the Calendar Month in which the period in question commences.

4.7 The Petroleum Exploration Licence issued to the Licensee pursuant to Article 3 and any available renewal thereof shall be on terms and conditions relating to Minimum Work Programmes and Exploration Expenditures which correspond to the obligations of Licensee under this Article and it is accordingly understood and agreed that any discharge by Licensee of its obligations under this Article in respect of any Exploration Period will discharge for that period the minimum work and expenditure obligations of Licensee in respect of the Petroleum Exploration Licences issued pursuant to Article 3 and the terms and conditions of such Licences and any renewal thereof shall be drawn accordingly:

(a) On or before the Effective Date, the Licensee shall provide a Performance Guarantee in the form set forth in Annex C, and amounting to eighty percent (80%) of the minimum Exploration Expenditure which shall, inter alia, guarantee the payment by Licensee of the sums, if any, due and payable to the Government pursuant to paragraph 4.7(b) and (c) hereunder.

(b) If, subject to paragraph 4.4, upon the expiration of the Petroleum Exploration Licences, or upon the date of termination of this Agreement, or upon surrender of the entire Contract Area by Licensee, whichever first occurs, the Licensee has not expended for Exploration

sums (including any sums previously paid pursuant to paragraph 4.7(c)) at least equal to the total minimum Exploration Expenditures (as adjusted pursuant to paragraph 4.5) required hereunder for the period in question, the shortfall amount corresponding to the unexpended minimum Exploration Expenditures, as adjusted, shall be paid by Licensee to the Government.

- (c) If, subject to paragraph 4.4, at the end of the initial term of the First Petroleum Exploration Licence or any Exploration Period, the Licensee has not expended for Exploration sums at least equal to the minimum Exploration Expenditures, (as adjusted), required hereunder for such period, the shortfall amount corresponding to the unexpended minimum Exploration Expenditures (as adjusted pursuant to paragraph 4.5) for such period shall be paid by the Licensee to the Government.

4.8 For the purpose of this Agreement, and without prejudice to their recoverability as Contract Expenses for other purposes under this Agreement, expenditure by the Licensee on the following shall not be treated as Exploration Expenditures for the purpose of satisfying the minimum Exploration Expenditure obligations set out in paragraph 4.2:

- (a) any Appraisal Programme required to discharge Licensee's obligations under Section 66(2) of the Act;
- (b) the value of stock items listed in inventory; provided, however, that any loss on the disposal of any such stock item, as well as the book value of those stock items (if any) which become the property of the Government pursuant to paragraph 21.2, shall be treated as Exploration Expenditure obligations set forth in paragraph 4.2,
- (c) property purchase or rental in connection with Petroleum Activities;
- (c) the training of Ugandan nationals pursuant to the Act, Regulations and Article 19 of this Agreement;
- (d) any annual fees in accordance with section 155 of the Act; and
- (e) Bonuses payable in accordance with the Act and Article 8 of this Agreement.

ARTICLE 5

Work Programmes and Budgets

- 5.1 So long as any Petroleum Exploration Licence or Petroleum Production Licence issued to Licensee herein remains in force, at least sixty (60) days prior to the beginning of each Calendar Year, the Licensee shall prepare and submit to the Authority for its review and, approval, a detailed annual Work Programme and Budget, setting forth the Exploration Activities and/or Development which the Licensee proposes to carry out in the ensuing Calendar Year and the estimated cost thereof. Where the Petroleum Exploration Licence or Petroleum Production Licence commences in the middle of a Calendar Year, an annual Work Programme and Budget for the period from the date of effectiveness of the First Petroleum Exploration Licence or the date of effectiveness of a Petroleum Production Licence to the end of the Calendar Year in which such date falls shall be presented to the Authority for its review and approval in accordance with section 10 (2) of the Act within ninety (90) days of the Effective Date for review.
- 5.2 Every Work Programme and Budget submitted to the Authority during the Exploration Period pursuant to this Article and every revision or amendment thereof shall be consistent with the requirements set out in the Act, Regulations and Article 4 relating to Minimum Work Programme and Expenditure for the Exploration Period within which the Work Programme and Budget will fall.
- 5.3 With the approval of the Authority, the Licensee may amend any aspect of the annual Work Programme or Budget relating to Exploration Activities submitted to the Authority provided such amendment is consistent with the Licensee's obligations under Article 4.

ARTICLE 6

Discovery, Development and Production

Early Production of Petroleum

- 6.1 (a) If during the term of a Petroleum Exploration Licence or renewals thereof granted pursuant to the Act and Regulations, the Licensee makes a Discovery of Petroleum in the Contract Area which alone, or in conjunction with other Discoveries previously made in the Contract Area might be developed and brought into early production with a view to satisfying the internal consumption requirements of Uganda, the Government may notify the Licensee accordingly upon which Government and Licensee shall meet to determine whether the Development of the said Discovery or Discoveries would be economically and technically feasible.
- (b) In determining whether the Discovery or Discoveries as the case may be is (are) economically and technically feasible, Government and the Licensee shall consider whether an early production scheme would, inter alia, jeopardise the subsequent recovery of Petroleum from the Petroleum Reservoir(s), create a health or safety risk or would otherwise involve a departure from the standards of Best Petroleum Industry Practices.
- (c) In the event that Government and the Licensee determine the Discovery or Discoveries, as the case may be, to be economically and technically feasible and agree upon the terms and conditions for the implementation of an early production scheme, a Petroleum Production Licence may be granted to the Licensee in accordance with the Act and the Regulations in respect of the Discovery(ies) subject thereto and thereafter the Licensee shall complete the facilities necessary for the Government to take delivery of production from the said Discovery(ies) ex-field and all costs associated with the taking of delivery therefrom shall be for the Government's account.
- (d) The production shall be sold at Market Price as computed in accordance with the Act and Regulation and payment shall be made in United States Dollars within 60 days following the end of the Calendar month in which deliveries are made.

Grant and Renewal of a Petroleum Production Licence

- 6.2 Upon application by the Licensee for a Petroleum Production Licence in accordance with the Act and Regulations, the Minister shall in accordance with the Act and Regulations issue to Licensee the Petroleum Production Licence over the extent of the Discovery that lies within the Contract Area in the form prescribed in the Regulations covering the Development Area for a period for which the application has been made but not exceeding twenty (20) years counted from its date of issuance.
- 6.3 A Petroleum Production Licence may be renewable twice in accordance with the Act and Regulations.
- 6.4 Not less than sixty (60) days prior to the beginning of each Calendar Year following the commencement of Commercial Production, the Licensee shall prepare and furnish to the Government for its review and approval (which approval shall not be unreasonably withheld) a forecast statement setting forth by Calendar Quarter, the total quantity of Crude Oil (by quality, grade and gravity) and Natural Gas that the Licensee estimates can be produced, saved and transported hereunder from each Development Area during such Calendar year in accordance with Best Petroleum Industry Practices. The Licensee shall endeavour to produce in each Calendar Year the forecast quantity.

ARTICLE 7

Records, Reports and Data

The Licensee shall submit to the Government Records, Reports, and Data in accordance with the Act and Regulations.

ARTICLE 8

Bonuses

- 8.1 Upon the signing of this Agreement, the Licensee shall pay to Government a sum of United States Dollars -----(USD-----) as Signature Bonus.
- 8.2 Production Bonuses, in the amount indicated hereunder, shall be due and paid by the Licensee to Government:
- (a) When the cumulative production in the Contract Area, as from the Date of Commencement of Commercial Production, first reaches volumes of 50,000,000 BOE, the Licensee shall pay to the Government 5,000,000 USD as Production Bonus.
 - (b) Thereafter on each additional 25,000,000 BOE, the Licensee shall pay to the Government 3,000,000 USD.

The above mentioned Production Bonuses shall be paid within thirty (30) days following the date on which each of the aforesaid cumulative production volumes are first achieved.

ARTICLE 9

Royalty

- 9.1 In accordance with Section 154 of the Act, Government shall take the following Royalty on the Gross Total Daily Production in Barrels of Oil Per Day (BOPD) for each Contract Area, such Gross Total Daily Production defined as the total output of Crude Oil less all water and sediments produced and all amounts of Petroleum re-injected into the Petroleum Reservoir;

<u>Gross Total Daily Production (BOPD)</u>	<u>Royalty</u>
(a) Where the production does not exceed 5,000	$(2\frac{1}{2} + X)\%$
(b) Where the production is higher than 5,000 but does not exceed 10,000	$(5 + X)\%$
(c) Where the production is higher than 10,000 but does not exceed 20,000	$(7\frac{1}{2} + X)\%$
(d) Where the production is higher than 20,000 but does not exceed 30,000	$(10 + X)\%$
(e) Where the production is higher than 30,000 but does not exceed 40,000	$(12\frac{1}{2} + X)\%$
(f) Where the production is higher than 40,000	$(15 + X)\%$

- 9.2 The Royalty stipulated in paragraph 10.1 shall be received by government on a monthly basis whether in kind or in cash depending on Government's preference. Government shall have the right to receive Royalty in cash payable in US Dollars, on a Monthly basis, notifying the Licensee of its choice 90 days in advance. Once the Government has exercised its option, the same shall continue unless the Government informs the Licensee otherwise. If such notification is not made by Government, the Royalty shall be collected by Government in kind at the Delivery Point.

- 9.3 The BOPD calculation shall be done monthly on the basis of total daily production. For avoidance of doubt, the Royalty calculation above shall not be on an incremental basis.

9.4 Royalties on Natural Gas shall be negotiated by the Parties upon establishment of commerciality.

ARTICLE 10

State Participation.

- 10.1 Government or its Nominee may elect to enter into a Joint Venture Agreement with Licensee thereby allowing for State Participation for no more than twenty percent (20%) and Government shall inform Licensee of its decision in writing within 120 days of the receipt of the application for a Petroleum Production Licence. The Licensee agrees to carry the costs of Government or its Nominee through Development to Production. These costs are recoverable and will be repaid out of the Government's or Government Nominee's share of Cost Petroleum.
- 10.2 (a) For purposes of this provision the Venture Assets attributable to a Contract Area (hereinafter called the "Joint Venture Assets") are:
- (i) In case of the first Petroleum Production Licence granted, the Petroleum Production Licence and any movable or immovable, tangible or intangible property wherever the same may be situated, acquired for the purpose of carrying on Joint Activities in the Contract Area subject thereto or acquired for the purpose of carrying on Petroleum Activities in the Contract Area where such property was acquired before the grant of the first Petroleum Production Licence;
 - (ii) In the case of a second or subsequent Petroleum Production Licence granted, that Petroleum Production Licence and any movable or immovable, tangible or intangible property acquired for the purpose of carrying on Joint Activities in that Contract Area or acquired for the purpose of carrying on Petroleum Activities or Joint Activities in the Contract Area where such property was acquired after the date on which a Production Licence was last granted and before the grant of the second or, as the case maybe the next subsequent Petroleum Production Licence.
- (b) Immediately following the grant of each Petroleum Production Licence, the Licensee, or each entity comprising the Licensee at that time, will promptly take such action as may be necessary to assign to the Government or its Nominee, an undivided proportionate share in the Venture Assets equal to the Government or its Nominee's Participating Percentage Interest with effect that thereafter, the Licensee, or each such entity, shall have an interest in the Joint Venture Assets (hereinafter referred to as its "Joint Venture Interest") equal to its Participating Interest in those Assets immediately before the grant of such Petroleum Production Licence reduced by the product of that interest and the Joint Venture Interest acquired by the Nominee of the Government.

ARTICLE 11

Cost Recovery

- 11.1 In case of a Commercial Discovery and subject to the auditing provisions set forth in this Agreement and the laws of Uganda, the Licensee shall be entitled to recover its Contract Expenses incurred in the carrying out of Petroleum Activities in accordance with the provisions of this Article 11.
- 11.2 For purposes of Cost Recovery, ring fencing around each Contract Area shall apply. In the event that a Licensee has more than one Contract Area, the calculations shall be done on a Contract Area by Contract Area basis. There shall be no consolidation.
- 11.3 Subject to the auditing provisions set forth in this Agreement and the laws of Uganda, the Licensee may freely retain in each Calendar Year a portion of the Available Crude Oil (hereinafter referred to as "Cost Oil") and a portion of Available Natural Gas (hereinafter referred to as "Cost Gas") in no event greater than sixty five percent (65%) of each of the Available Crude Oil and/or the Available Natural Gas, as the case may be, or only any lesser percentage which would be necessary and sufficient. When in any Calendar Year, Contract Expenses are less than the maximum value of Cost Petroleum, the difference shall become part of, and included in the Profit Petroleum as provided for in Article 12.
- 11.4 Exploration Expenditures incurred by the Licensee in the Contract Area up to the date of first Commercial Production shall be aggregated, and the Licensee shall be entitled to recover the aggregate of such Exploration Expenditures out of the Cost Petroleum at the rate of one hundred percent (100%) per annum of such Exploration Expenditures beginning from the date of such Commercial Production.
- 11.5 The Licensee shall be entitled to recover out of the Cost Petroleum from the Contract Area the Exploration Expenditures which it has incurred in any Year after the date of Commercial Production at the rate of one hundred percent (100%) per annum of such Exploration Expenditures beginning from the date such Exploration Expenditures are incurred.
- 11.6 Development Expenditures incurred by the Licensee in the Contract Area up to the date of first Commercial Production shall be aggregated, and the Licensee shall be entitled to recover out of the Cost Petroleum the aggregate of such Development Expenditures at the rate of one hundred percent (100%) per annum of such Development Expenditures beginning from the date of such Commercial Production.
- 11.7 The Licensee shall be entitled to recover out of the Cost Petroleum from the Contract Area the Development Expenditures which it has incurred after the date

- of first Commercial Production at the rate of one hundred percent (100%) per annum of such Development Expenditures beginning from the date such Development Expenditures are incurred.
- 11.8 The Licensee shall be entitled to recover in full during any Calendar Year the Operating Expenses incurred in that Calendar Year out of the Cost Petroleum.
- 11.9 If during any Calendar Year the Cost Petroleum is not sufficient to enable the Licensee to recover in full the Contract Costs due for recovery in that Calendar Year in accordance with the provisions of paragraphs 11.4 to 11.8 then-
- (a) recovery shall first be made of the Operating Expenses;
 - (b) recovery shall next be made of interest charges on Development Expenditures;
 - (c) recovery shall next be made of the Development Expenditures; and
 - (d) recovery shall then be made of the Exploration Expenditures.
- 11.10 The unrecovered portions of Contract Expenses shall be carried forward to the following Calendar Year and the Licensee shall be entitled to recover such Contract Expenses in such Calendar Year or the subsequent Calendar Years as if such Contract Expenses were due for recovery in that Calendar Year, or the succeeding Calendar Years, until the unrecovered Contract Expenses have been fully recovered subject to the limitation set out in Article 11.3 or until termination of the Contract, where such termination occurs earlier, whatever the reason thereof. Any unrecovered cost shall not be recovered by the Licensee after such termination.
- 11.11 For the purposes of this Article, as well as Article 12, costs, expenditure, sales and income shall be converted into production unit equivalents, and vice versa both in physical and monetary terms, using the relevant prices established pursuant to Article 15 for Crude Oil and Article 18 for Natural Gas.
- 11.12 The Licensee's Cost Petroleum entitlement to be lifted and disposed of under this Article 11 shall be determined for each Calendar Quarter and in respect of the unrecovered Contract Expenses cumulated up to the end of such Calendar Quarter. In respect of a given Calendar Quarter, the volume of Cost Petroleum to be lifted and disposed of by Licensee shall be provisionally calculated on the basis of the Contract Expenses and the relevant Cost Petroleum quarterly estimates provided for under paragraph 11.13 below. Within thirty (30) days of the end of the aforementioned Calendar Quarter, adjustments in respect thereto shall be made on the basis of the quarterly updates under paragraph 11.13 below,

evidencing Contract Expenses actually incurred, the corresponding Cost Petroleum which should have been lifted by the Licensee and the balance thereof (positive or negative) with respect to the Cost Petroleum actually lifted in that Calendar Quarter. Within ninety (90) days of the end of each Calendar Year, final calculation shall be prepared based upon the detailed accounts submitted by Licensee for such Calendar Year pursuant to Article 28 and any necessary adjustments shall be made. Any discrepancy arising concerning the determination of Contract Expenses and Cost Petroleum, which cannot be resolved amicably between the Government and Licensee, shall be referred to and resolved pursuant to the provisions of paragraph 24.2

- 11.13 Not less than thirty (30) days prior to the beginning of each Calendar Year, Licensee shall prepare and furnish to the Authority an estimate by Calendar Quarters for that Calendar Year of all Contract Expenses to be incurred and Licensee's Cost Petroleum entitlement thereof. Such estimates shall, as far as possible, be consistent with the Petroleum production forecast furnished pursuant to paragraph 6.4 and shall set forth the assumed Market Price under Article 14 upon which they are based. Quarterly updates of such estimates shall be submitted by the Licensee to the Authority for approval within thirty (30) days after the end of each Calendar Quarter. Such estimates, and the quarterly updates thereto, shall serve as the basis for the quarterly provisional calculations of Licensee's Cost Petroleum and the adjustments thereto, as required pursuant to paragraph 11.12.
- 11.14 Deposits in the Decommissioning Fund made in accordance with the Act and the Regulations shall be cost recoverable as Operating Expenses.
- 11.15 Where more than one Party constitutes the Licensee, the percentage of the total Cost Petroleum from the Contract Area which shall be available to each such Party in any Calendar Year for recovery of its share of Contract Costs shall be determined on the basis of the respective Participating Interest of each such Party.

ARTICLE 12

Production Sharing

- 12.1 The amount of the Available Petroleum remaining after the deduction of the Cost Petroleum as provided for in Article 11, is hereinafter referred to as "Profit Petroleum". The Government and the Licensee shall share in the Profit Petroleum in each Calendar Year in accordance with the provisions of this Article.

A Party's share of Profit Petroleum in any Calendar Year, shall be calculated on the basis of the "R-Factor" actually achieved by the Licensee at the end of the preceding Calendar Year for the Contract Area in accordance with paragraph 12.5.

- 12.2 To determine the percentage share of Profit Petroleum to which the Licensee is entitled, the "R-Factor" shall be calculated each year in accordance with paragraph 12.3.

- 12.3 The "R-Factor" shall be calculated as follows:

$$R = X / Y$$

Where:

X is equal to the "Cumulative Net Revenues" actually received by the Licensee;
and

Y is equal to the "Cumulative Capital Expenditures" actually incurred by the Licensee.

"Cumulative Net Revenues" means total Net Revenues, as defined below, received by the Licensee from the Effective Date until the end of the Calendar Year immediately preceding the Calendar Year in question.

The Net Revenues of the Licensee from their Petroleum Activities in any particular Year is the Aggregate value for the Year of the following:

- (i) Cost Petroleum entitlement of the Licensee as provided in Article 11;

plus

- (ii) Profit Petroleum entitlement of the Licensee as provided in this Article 12;

plus

(iii) the Licensee's Credits of the type specified in the Accounting and Financial Procedure;

less

(iv) the Licensee's Operating Expenses incurred on or in the Contract Area.

"Cumulative Capital Expenditures" means total Capital Expenditures as defined below, incurred by the Licensee from the Effective Date until the end of the Calendar Year immediately preceding the Calendar Year in question.

Capital Expenditures incurred by the Licensee in the Contract Area in any particular Calendar Year is the aggregate value for the Calendar Year of:

(i) the Licensee's Exploration Expenditures incurred on or in the Contract Area pursuant to Article 11;

plus

(ii) the Licensee's Development Expenditures incurred on or in the Contract Area pursuant to Article 11.

12.4 For the purposes of the calculation of the R-Factor, costs or expenditures which are not cost recoverable as provided in the Accounting and Financial Procedure shall be excluded from Contract Expenses and be disregarded.

12.5 The share of Profit Petroleum to which the Licensee and the Government shall be entitled (from the first day of production) is equal to the relevant percentage according to the value of the R-Factor as indicated in the table below:

R-Factor	Licensee's Share of Profit Petroleum (in percentage)	Government's Share of Profit Petroleum (in percentage)
$R \leq 1.000$	50	50
$1 < R \leq 3.000$	$Z = 50 - [25*(R - 1)/2]$	100-Z
$R > 3.000$	25	75

'R' denotes R-Factor of Licensee at the end of preceding Year, rounded off to three decimal places.

- 12.6 Any discrepancy arising in the determination of the R-Factor, which cannot be resolved amicably, shall be referred to and resolved in accordance with paragraph 24.2
- 12.7 The Government shall have the right to receive its share of Profit Petroleum in cash Dollars, on a Quarterly basis, notifying the Licensee of its choice 30 days in advance. If such notification is not made by Government, the Profit Petroleum shall be collected by Government in kind at the Delivery Point. Once the Government has exercised its option, the same shall continue unless the Government informs the Licensee otherwise. The valuation shall be in accordance with Article 14.
- 13.8 Where the Government has informed the Licensee of its intention to take its share in kind, the Parties shall mutually agree on a procedure for delivery of the Government's share of Profit Petroleum and, where relevant, the composition of the Petroleum which is to be delivered.
- 12.9 The determination of Profit Petroleum to be shared shall be provisionally determined for each Calendar Quarter based on provisional estimated figures of Contract Expenses, production, prices, income and any other Credits with the relevant Quarterly adjustment and on the basis of the value of the "R-Factor" achieved at the end of the preceding Calendar Year. All such provisional estimates and adjustments shall be approved by the Authority.
- 12.10 When it is necessary to convert monetary units into physical units of production equivalents or vice versa, the price or prices determined pursuant to Articles 14 for Crude Oil/Condensate and Article 18 for Natural Gas respectively shall be used.
- 12.11 Within ninety (90) days of the end of each Calendar Year, a final calculation of Profit Petroleum based on actual costs, quantities, prices and income for the entire Calendar Year shall be completed and any necessary adjustments to the sharing of Profit Petroleum shall be agreed upon between the Government and the Licensee and made within thirty (30) days thereafter.
- 12.12 The Profit Petroleum due to the Licensee in any Calendar Year from the Contract Area shall be divided amongst the Parties constituting the Licensee, in proportion to their respective Participating Interest.

ARTICLE 13

Taxation

- 13.1 All taxes, duties, levies or other lawful impositions applicable to Licensee shall be paid by the Licensee in accordance with the laws of Uganda.
- 13.2 Any tax dispute shall be handled in accordance with the objections and appeals mechanisms stipulated under the laws of Uganda.

ARTICLE 14

Valuation and Measurement of Petroleum

14.1 The Market Price for Crude Oil produced shall be determined by the Government at the end of each Calendar Month commencing with the Calendar Month in which Commercial Production begins in USD (hereafter referred to as Delivery Period) in accordance with the Regulations and this Article 14.

14.1.1 The Market Price used to value Crude Oil, where arm's length transactions have been made in freely convertible currencies in the preceding month, shall be the weighted average of the per-Barrel net realised price obtained FOB the agreed point of export, and shall be less the average transport tariff per Barrel for that month for the transportation of Crude Oil from the Delivery Point to the point of export.

14.1.2 Each Company constituting the Licensee shall separately submit to the Authority, within fifteen (15) days of the end of each Delivery Period, a report containing the actual prices invoiced in their respective Arm's Length Sales for any Crude Oil. Such reports shall distinguish between term sales and spot sales and itemise volumes, customers, prices received and credit terms, and a Company shall allow the Authority to examine the relevant sales contracts.

14.1.3 For the purposes of determining the Market Price as described in paragraph 14.1.2, no account shall be taken of Crude Oil sales to Affiliated Companies or restricted or distress transactions or any transactions not at arm's length including government to government, barter or discount deals.

14.1.4 If less than fifty (50%) of the Crude Oil sales from the Contract Area have been executed at arm's length as provided for under paragraph 15.2, the Market Price shall be the weighted average of the prevailing per-Barrel selling prices in such month of a basket of the three most similar internationally traded crude oils listed by the American Petroleum Institute (API) and chosen from the major crude oil producing countries in the Arabian Gulf and Africa, or other benchmarks as may be agreed by the parties, taking into account differences in point of sale, and quality, grade, total acid number, gravity or sulphur content and the average tariff charge per Barrel for that month imposed by the pipeline company for the transportation of Crude Oil hereunder from the Delivery Point to the FOB Seaboard Terminal or any other point of export. In the event that the API listing ceases to be published or is not published for a period of thirty (30) consecutive days, the Parties shall agree on an alternative daily publication.

14.1.5 Any disagreement concerning the determination of Market Price under this Article shall be first considered in a meeting convened by the Minister composed of two technical representatives from the Government and two technical representatives of the Licensee.

14.1.6 Where the meeting referred to under paragraph 14.1.5 cannot reach a unanimous decision within thirty (30) days of the end of the relevant month, either party may refer the matter for determination by an expert appointed by the parties, under paragraph 24.2. If the matter is referred to the sole expert, within ten (10) days of the said appointment, the Parties shall provide the expert with all information the expert may reasonably require. Within fifteen (15) days from the date of his appointment, the expert shall report to the Parties on the issue(s) referred to him for determination, applying the criteria or mechanism set forth herein and indicate his decision thereon to be applicable for the relevant Delivery Period for Crude Oil and such decision shall be accepted as final and binding by the Parties.

14.2 The provisions specified above for the determination of the price of sales of Crude Oil shall apply mutatis mutandis to Condensates.

14.3 The price of Natural Gas shall be determined as provided in Article 18.

14.4 Licensee shall, in accordance with Regulations and consistent with Best Petroleum Industry Practices, undertake to measure the volume and quality of the Petroleum Produced and Saved hereunder, and at such frequency as approved by the Authority.

14.4.1 Licensee shall install, operate and maintain at the Delivery Point equipment for measuring the volume and quality of the Petroleum including gravity, density, temperature and pressure measuring devices and any other devices that may be required for the purposes of implementing this Agreement. All measurement equipment and devices shall, prior to their installation or usage, be approved by the Authority. The Authority shall have the right to inspect and require Licensee to test in its presence such equipment and devices at any time. The equipment and devices used or installed pursuant to this paragraph shall not be replaced or altered without the prior approval of the Authority.

14.4.2 If it is considered by the Authority, following an inspection or test carried out, that the equipment, devices or procedures used for measurement are inaccurate and exceed the permissible tolerances with reference to normal international oil industry standards, such inaccuracy shall be deemed to have existed for one-half of the period since the previous such inspection or test, unless it is proved that such inaccuracy has been in existence for a longer period.

Appropriate adjusting payments or refunds covering such period shall be made within thirty (30) days from the date of such determination.

14.4.3 The Licensee shall keep full and accurate accounts concerning all Petroleum measured and tests carried out on equipment, at a location in Uganda readily accessible to Government.

14.5 For purposes of valuation and measurement, the Licensee shall be required to submit to the Authority monthly information pertaining to transportation tariff beyond the Delivery Point to the Point of sale.

ARTICLE 15

Pipeline Transportation

- 15.1 Subject to Article 18 and the Laws of Uganda, the Licensee shall have the right to take and transport to an ocean port or other point of loading for export all Petroleum to which it is entitled hereunder and, in connection therewith, shall have the right to construct, operate and maintain an export pipeline, pumping stations, storage and related Seaboard Terminal or other facilities.
- 15.2 Subject to the Laws of Uganda, it is understood by the Parties hereto that the construction, financing, operation and maintenance of an export pipeline, pumping stations and related Seaboard Terminal or other facilities shall be carried on through a separate pipeline company ("the Pipeline Company") which shall be responsible for the handling and transportation of Petroleum from the Delivery Point in Uganda to the ocean port or other point of loading. In such event, the operations of the Pipeline Company will not be included within the meaning of Petroleum Activities under the Act and this Agreement and any related Licences.
- 15.3 Any Field Development Plan submitted to the Minister by the Licensee pursuant to Section 71 of the Act shall include the Licensee's proposals with regard to the arrangements for the transportation to the terminal of each of the Parties' production entitlements hereunder.

In the event the said transportation arrangements involve the formation of a separate Pipeline Company pursuant to paragraph 15.2, such proposals shall, unless otherwise agreed, be consistent with the following principles:

- (a) each Party shall assume and pay the transportation tariffs charged by the Pipeline Company related to their respective shares of the Petroleum transported, which obligation may, in the case of the Nominee or the Government, be discharged by each of the Nominee and the Government foregoing in favour of the Pipeline Company a portion of their respective production entitlements so transported equal in value to the tariffs due in respect of the transportation of such production entitlements from the Delivery Point to the FOB Seaboard Terminal point of export;
- (b) the transportation tariff charged, to the extent that the Parties hereto are able to determine the same, shall be set at a level at which the Pipeline Company will cover the costs of constructing, financing, operating and maintaining the export pipeline and related facilities together with the return to be agreed on by the Parties. If within 90 days, the Parties are unable to agree

on the return, either Party may refer the matter for determination in accordance with Paragraph 24.2.

- 15.4 The Government or its Nominee shall be fully involved in the determination of the tariff charges for the pipeline.
- 15.5 Any costs incurred beyond the Delivery Point and Transportation tariff charges of the Pipeline Company, shall not be recoverable under this Agreement.

ARTICLE 16

Marketing and Lifting

- 16.1 The Government or its Nominee shall have the right to receive its production entitlement pursuant to Articles 9, 10 and 12 in cash in USD, on a Quarterly basis, notifying the Licensee of its choice 30 days in advance. If such notification is not made by Government, the production entitlement shall be collected by Government in kind at the Delivery Point. Once the Government has exercised its option, the same shall continue unless the Government informs the Licensee otherwise. The valuation shall be in accordance with Article 14.
- 16.2 The Government or its Nominee may, at any time by notice in writing to the Licensee, require the Licensee to assist the Government in the sale of all or part of the Government's or its Nominee's production entitlement. The terms and conditions on which the Licensee will so assist the Nominee and/or the Government to any such disposal will be agreed between the Government and/or the Nominee, as the case may be, and Licensee.
- 16.3 The Licensee may, with prior agreement with the Government, purchase the Government's or its Nominee's production entitlement made available pursuant to this paragraph in lieu of disposal of the same to third parties, in which event, the price at which any such purchase by the Licensee shall be determined pursuant to Article 15 and the Regulations.
- 16.4 Not less than twelve (12) Calendar Months prior to the commencement of Commercial Production from any Development Area, the Licensee shall submit to the Government for approval proposed procedures containing operating regulations and financial terms covering the scheduling, storage and lifting of Crude Oil from each such Development Area. The procedures shall address the subjects and items required for efficient and equitable Activities including, but not limited to: rights of Parties, notification time, maximum and minimum quantities, duration of storage, scheduling, conservation, spillage, liabilities of the Parties and penalties for over-and under-lifting, safety and emergency procedures. The procedures shall be consistent with national standards and Best Petroleum Industry Practices.
- 16.5 The Parties shall consult together regularly in order to establish a provisional collection programme. The Parties shall draw up, before the commencement of any Commercial Production in the Petroleum Production Licence, a collection procedure laying down the methods for applying the present Article.

ARTICLE 17

Domestic Requirements

- 17.1 Out of the total quantity of Crude Oil production to which the Licensee is entitled in each Calendar Quarter, the Government may in accordance with Sections 121 and 122 of the Act elect to take a quantity of Crude Oil, of the gravity, grade and quality of its choice, that the Government requires to satisfy the requirements of internal consumption in Uganda for such Calendar Year in accordance with the Act and Regulations. The Government shall reimburse the Licensee for such quantity in USD at the price as calculated in accordance with Section 123 of the Act and paragraph 14.1 hereof within thirty (30) days after the end of the Calendar Month in which such delivery takes place, unless otherwise agreed between the Parties.
- 17.2 If the Government elects to exercise its rights under paragraph 17.1, it shall notify Licensee in writing not less than ninety (90) days prior to the commencement of each six (6) Calendar Months of each Calendar Year specifying the quantity, and designating the grade and quality, that it elects to take in kind based upon the production forecasts and annual and quarterly estimates, furnished to the Government pursuant to paragraphs 6.8 and 14.5. Any adjusting payments or refunds shall be made within ninety (90) days of the end of each Calendar Year on the basis of actual quantities.
- 17.3 The Parties hereby agree that the Refineries in Uganda shall have the right of first refusal on the Petroleum produced from the Contract Area provided that the Refineries are taking the Petroleum at the Market Price.

ARTICLE 18

Natural Gas

18.1 The Licensee shall have the right to use Associated Natural Gas for Petroleum Activities, including, but not limited to, reinjection for pressure maintenance, and improving the recovery of Petroleum, power generation and recycling operations.

(a) Non-Associated Natural Gas

18.2 In the event of a Non-Associated Natural Gas Discovery, the Licensee shall diligently engage in discussions with the Government with a view to determining whether the appraisal and exploitation of said Discovery of Non-Associated Natural Gas have a potentially commercial nature.

18.3 If, after the above-mentioned discussions, the Licensee considers that the Non-Associated Natural Gas Discovery merits appraisal, it shall undertake an appraisal work programmer with respect to such Discovery in accordance with section 66 (2) of the Act and Article 6.

18.4 For purposes of assessing the commerciality of the Non-Associated Natural Gas Discovery, the Licensee shall have the right, if it so requests at least two (2) months prior to the expiry of the second renewal of the Exploration Period to be granted the extension of the Exploration Period with respect to the Appraisal Area related to said Discovery, for a term of two (2) years starting from the expiry of the second renewal of the Exploration Period.

18.5 In addition, the Parties shall jointly assess the possible outlets for the Natural Gas from the Discovery in question, both on the local market and for export, together with the necessary means for its marketing, and they shall consider the possibility of a joint marketing of their shares of production in the event the Natural Gas Discovery would not otherwise be commercially exploitable.

18.6 Following completion of appraisal work, in the event that the Parties jointly decide that the exploitation of a Discovery is justified to supply the local market, or to develop and produce that Natural Gas for export, the Licensee shall submit to the Minister, prior to the expiry of the above-mentioned two (2) years' period, a Field Development Plan in accordance with the provisions of Section 71 (3) of the Act, Regulations and this Agreement.

18.7 The Licensee shall then proceed with the Development and Production of that Natural Gas in accordance with the approved Field Development Plan and the provisions of this Agreement applicable to Crude Oil shall apply, *mutatis mutandis*, to Natural Gas, unless otherwise specifically provided in this Agreement.

- 18.8 If the Licensee considers that the Non-Associated Natural Gas Discovery does not merit appraisal, the Minister may in accordance with the Act require the Licensee to relinquish its rights on the area encompassing said Discovery.
- 18.9 In the same manner, if the Licensee, after completion of appraisal work, considers that the Non-Associated Natural Gas Discovery is not commercial, the Minister may, with a three (3) months' prior notice, require the Licensee to relinquish its rights on the Appraisal Area related to said Discovery.
- 18.10 In both cases, the Licensee shall forfeit its rights on all Petroleum which could be produced from said Discovery, and the Minister may then carry out, or cause to be carried out, all the appraisal, development, production, treatment, transportation and marketing work relating to that Discovery, without any compensation to the Licensee, provided, however, that said work shall not cause prejudice to the performance of the Petroleum Activities by the Licensee.

(b) Associated Natural Gas

- 18.11 Associated Natural Gas which is not used in Petroleum Activities, and the processing and utilisation of which, the Parties agree is not economical, shall be returned to the subsurface structure, or may be flared subject to the Act. In the event that the Licensee chooses to process and sell Associated Natural Gas, the Licensee shall notify the Government of the same and upon such notification, the Government and the Licensee shall, as soon as practicable thereafter and subject to the Act meet with a view to reaching an agreement on the processing and sale of such gas. In the event Licensee chooses not to process and sell Associated Natural Gas, the Government may elect to offtake at the outlet flange of the gas-oil separator and use such Associated Gas which is not required for Petroleum activities. There shall be no charge to the Government for such Associated Natural Gas, provided that the cost to gather, process and utilize such Associated Natural Gas shall be for the account of the Government.
- 18.12 The Licensee shall have the right to extract Natural Gas liquids and condensate for disposition under the terms relating to Crude Oil.
- 18.13 The value to be attributed to Natural Gas shall be determined as follows:
- 18.13.1 Gas which is used as per paragraph 18.1 or flared with the approval of the Government and subject to the Provisions of the Act or re- injected or taken by Government pursuant paragraph 18.11 shall be ascribed a zero value;
 - 18.13.2 For arm's length sales to third parties, be equal to the net realised price obtained for such Natural Gas at the Delivery Point;

18.13.3 For sales other than at arm's length sales to third parties, be determined by agreement between the Government and Licensee, provided, however, that such price or value shall reflect the following:

- (a) the quantity and quality of the Natural Gas;
- (b) the price at which arm's length sales of Natural Gas from other sources in Uganda, if any, are then being made;
- (c) the price at which arm's length sales to third parties, if any, of Natural Gas imported into Uganda are being made;
- (d) the purpose for which the Natural Gas is to be used; and
- (e) the international market price of competing or alternative fuels or feedstock.

18.13.4 Arm's length sales to third party shall not include sales to Affiliated Companies of the Licensee or to the Government, any Ugandan public authority or any other entity controlled directly or indirectly by the Government.

ARTICLE 19

Training, Research and Employment

- 19.1 Licensee shall train and employ suitably qualified Ugandan citizens in accordance with the Act and Regulations.
- 19.2 The Licensee shall, if so requested by the Government, provide opportunities for Government personnel to be seconded for on-the-job training or attachment in all phases of its Petroleum Activities in the Contract Area, or elsewhere in the world where Licensee has operations. Such training or attachment shall include continuing education and short industry courses mutually identified as beneficial to the secondee. Costs and other expenses connected with such secondment of Government personnel shall be borne by the Licensee and considered as Contract Expenses. The Licensee shall make proposals for the training of Government personnel under this paragraph and submit to the Authority as part of the work programme.
- 19.3 Licensee shall pay to Government, or its Nominee, on the Effective Date and each anniversary of the Effective Date thereafter, a training and research fee as follows:

First Exploration Period	USD 200,000 per 12 months.
Second Exploration Period	USD 200,000 per 12 months.
Third Exploration Period	USD 200,000 per 12 months.
Development Period	USD 300,000 per 12 months.
Following commencement of production	USD 400,000 per 12 months, per Licence.

ARTICLE 20

Title to Assets

- 20.1 All land shall become the property of the Government as soon as it is acquired by the Licensee, subject to its continued use rent-free (save in respect of acreage rentals payable pursuant to Section 155 of the Act and Article 28 and or where applicable any fees that may be associated with leasehold tenure) by the Licensee until the date upon which this Agreement is terminated.
- 20.2 All equipment and other assets, whether fixed or movable, acquired and owned by the Licensee for use in the Petroleum Activities hereunder shall become the property of the Government (or the Nominee of the Government), if the Government so desires, free from all mortgages and other encumbrances upon the earlier of the date upon which:
- (a) the costs thereof have otherwise been fully recovered, pursuant to Article 11 hereof or such equipment and assets have been fully depreciated for Income Tax purposes; or
 - (b) this Agreement is terminated.
- 20.3 The Licensee shall have unlimited and exclusive use of such equipment and assets where ownership thereof is transferred pursuant to paragraph 20.2 (a) and shall not be obligated to make any payment for the use of the same during the term of this Agreement. The Licensee, so long as such equipment and assets are used exclusively for Petroleum Activities and are in its custody, shall be liable to keep the same in good repair and working order, normal wear and tear excepted.
- 20.4 The provisions of this Article shall not apply to assets and equipment used in the Petroleum Activities and owned by third parties.

ARTICLE 21

Foreign Exchange Control

Licensee shall comply with the procedures and formalities required by the laws and regulations relating to foreign exchange in force from time to time in Uganda.

ARTICLE 22

Assignment

- 22.1 The Licensee (which for the purposes of this Article shall include any person or entity comprising Licensee) may not assign to any person, Affiliated Company, firm or corporation, in whole or in part, any of its rights, privileges, duties or obligations under this Agreement without the prior written consent of the Minister.
- 22.2 Notwithstanding the provisions of paragraph 22.1, if the Licensee assigns in whole or in part to any Affiliated Company, the Licensee, as assignor and assignee, shall be fully jointly and severally liable for the performance of all rights, duties and obligations under this Agreement and any related Licences and shall be fully liable for the performance of any such assignee.
- 22.3 In the case of an assignment to a non-Affiliated Company, the assigning party shall provide to the Government an unconditional undertaking by the assignee to assume all obligations of the Licensee under this Agreement, including a Bank Guarantee, an Insurance Bond, and/or Parent Company Guarantee substantially in the form set forth in the Regulations.
- 22.4 The application for assignment shall be made by the Licensee in accordance with the Act and shall give full information on the proposed assignee as required in respect of an applicant for a Petroleum Exploration Licence or a Petroleum Production Licence and such additional information as the Minister may require.
- 22.5 Upon assignment of its interest in this Agreement, the assignor shall be fully released and discharged from its obligations hereunder to the extent that such obligations are assumed by the assignee.

ARTICLE 23

Danger to Persons, Property or Environment

- 23.1 The Licensee shall conduct all Petroleum Activities in accordance with the Act, Regulations, the National Environment Act, the Occupational Safety and Health Act, 2006 and other applicable laws in order to prevent or minimize danger human life or property or pollution or harm to wildlife or the environment.
- 23.2 If any works or installations erected by the Licensee or any Activities conducted by the Licensee endangers or may endanger persons or third party property or cause pollution or harm wildlife or the environment to a degree unacceptable to Government in accordance with applicable laws and international environmental standards and local circumstances, the Licensee shall in accordance with the laws of Uganda and this Agreement take appropriate remedial measures approved by Government within a reasonable period and to repair as far as it is reasonably possible any damage to the environment so caused. If, and to the extent necessary for this purpose, the Licensee shall in accordance with the Act discontinue Petroleum Activities in whole or in part until the Licensee has taken such remedial measures or has repaired any damage. In the event that the Licensee fails to take the appropriate remedial measures within a reasonable time period, the Government may, carry out such remedial measures for the Licensee's account.
- 23.3 Before commencing any works or activities hereunder, or recommencing any works or activities which have been discontinued for more than three (3) Calendar Months, in any part of the Contract Area which includes the area of a National Park or Game Reserve (as so designated under applicable Uganda law), the Licensee shall consult with the Government regarding the nature and extent of the work or activities to be conducted in such areas taking into consideration provisions of the law and Best petroleum industry practices .
- 23.4 The Licensee shall, in accordance with the laws of Uganda;
- (a) conduct the Petroleum Activities in a manner that shall promote the conservation of the natural resources of Uganda and the protection of its environment; and
 - (b) employ the most advanced and best available techniques for the prevention of environmental damage which may be caused by Petroleum Activities, and for the minimisation of the effect of Petroleum Activities on adjoining or neighbouring lands.

- 23.5 The Licensee undertakes, for the purposes of this Agreement, to take all necessary and adequate steps to ensure adequate compensation for injury to persons or damage to property caused by the effect of the Petroleum Activities.
- 23.6 The measures and methods to be used by the Licensee for purposes of complying with the terms of paragraph 23.5 shall be determined in timely consultation with the Authority upon the commencement of Petroleum Activities or whenever there is a significant change in the scope or method of carrying out Petroleum Activities, and the Licensee shall take into account the international standards and Best Petroleum Industry Practices applicable in similar circumstances and the relevant environmental impact study carried out in accordance with paragraph 23.8.
- 23.7 The Licensee shall notify the Authority in writing of the nature of the measures and methods finally determined by the Licensee and shall cause such measures and methods to be reviewed from time to time in view of prevailing circumstances, provided however, that any consultations or approval given pursuant to this Agreement shall not be deemed to limit the obligations of the Licensee as provided herein or the right of the Authority to take appropriate regulatory or other action where Petroleum Activities pose a material danger to public health and safety or may result in significant irreversible damage to the environment.
- 23.8 The Licensee shall ensure that:
- (a) Petroleum Activities are carried out in an environmentally acceptable and safe manner consistent with Best Petroleum Industry Practices and applicable laws and that such Activities are properly monitored;
 - (b) the required environmental impact studies are made available to its employees and to its Contractors and Sub-contractors to develop adequate and proper awareness of the measures and methods of environmental protection to be used in carrying out the Petroleum Activities; and
 - (c) any agreement entered into between the Licensee and its Contractors and Sub-contractors relating to the Petroleum Activities shall include the terms set out in this Agreement and any established measures and methods for the implementation of the Licensee's obligations in relation to the environment under this Agreement.
- 23.9 The Licensee shall, before carrying out any drilling, prepare and submit for review by Government an oil spill and fire contingency plan designed to achieve rapid and effective emergency response in the event of an oil spill or fire.
- 23.10 In the event of:

- (a) an emergency or accident arising from Petroleum Activities affecting the environment, the Licensee shall forthwith notify the Minister and the Authority accordingly;
 - (b) any fire or oil spill, the Licensee shall promptly implement the relevant contingency plan; and
 - (c) any other emergency or accident arising from the Petroleum Activities affecting the environment, the Licensee shall take such action as may be prudent and necessary in accordance with the applicable law and Best Petroleum Industry Practices in such circumstances.
- 23.11 If the Licensee fails to comply with any terms contained in this Article within a period determined by the Authority under any such terms, the Authority may, after giving the Licensee notice, take any action which may be necessary to ensure compliance with such term, and recover, immediately after having taken such action, all expenditure incurred in connection with such action from the Licensee together with interest determined at an annual rate equal to LIBOR plus five (5) percentage points.

ARTICLE 24

Dispute Resolution

- 24.1 Subject to Article 13 and paragraph 25.2, a dispute arising under this Agreement, except disputes relating to taxation, health, safety and environment, which cannot be settled amicably within one hundred and twenty (120) days, shall be referred to Arbitration in accordance with the United Nations Commission for International Trade Law (UNCITRAL) Arbitration Rules. The arbitration shall be conducted by three (3) arbitrators appointed in accordance with the said Rules. The said arbitration shall take place in London, a place agreed upon by the Parties. Judgement on the award rendered may be entered in any court having jurisdiction or application may be made in such court for a judicial acceptance of the award and an order of enforcement, as the case may be. The Arbitration award shall be final and binding on the Parties to this Agreement.
- 24.2 Any matter in dispute between the Government and Licensee arising under paragraphs 14.1 and 12.2, may, at the election of either of such parties by written notice to the other, be referred for determination by a sole expert to be appointed by agreement between the Government and the Licensee. If the Government and the Licensee fail to appoint the expert within sixty (60) days after receipt of such written notice, either of such parties may have such expert appointed by the then President of the Institute of Petroleum (London). If the aforesaid President shall be disqualified to act by reason of professional, personal or social interest or contract with the parties in dispute or their Affiliated Companies, the next highest officer for the time being of said Institute of Petroleum, who is not disqualified shall act in lieu of said President. No person shall be appointed to act as an expert under this section:
- (a) unless he or she shall be qualified by education, experience and training to determine the subject matter in dispute; or
 - (b) if at the time of his or her appointment or at any time before he or she makes his or her determination under such an appointment, he or she has or may have some interest of duty which conflicts or may conflict with his or her function under such appointment.

The expert shall render his or her decision within (60) days after the date of this appointment, unless the Parties otherwise agree. In rendering his or her decision, the expert shall do so within the context of the provisions of this Agreement, the Act, Regulations and the standards of Best petroleum industry practices. The decision of the expert shall be final and binding on both the Licensee and the Government. The expert's fees and expenses, and the costs associated with an appointment, if any, made by the President of the Institute of Petroleum (or the next highest officer thereof), shall be allocated to the Parties in dispute in such manner as the expert may determine.

ARTICLE 25

Force Majeure

- 25.1 Force Majeure shall be in accordance with Section 188 of the Act and this Article 25.
- 25.2 Any failure on the part of either the Licensee or Government to fulfil any of the conditions of this Agreement, , shall not constitute a breach of this Agreement, insofar as the failure results from an act of war, hostility, insurrection, storm, flood, earthquake or such other natural phenomenon beyond the reasonable control of the Licensee or Government. Force Majeure shall not apply to the payment of monies due at the time of occurrence. No delay or default of a party in performing any of the obligations resulting from this Agreement shall be considered a breach of this Agreement if such delay or default is caused by a case of Force Majeure.
- 25.3 In the event that either party hereto is rendered unable or considers that it is prevented from performing any of its obligations, wholly or in part, by the occurrence of Force Majeure, such party shall give notice and details of Force Majeure in writing to the other Party within seven (7) days after its occurrence specifying the grounds for establishing Force Majeure, and take all necessary and useful steps to ensure the normal resumption of the performance of the concerned obligations upon termination of the event constituting the Force Majeure and do all reasonably within its power to remove such cause.
- 25.4 If in the event of Force Majeure the performance of any of the obligations under this Agreement is delayed, that delay extended by the period of time required to repair the damage caused during such delay and to resume the Petroleum Activities shall be added to the time allowed under this Agreement for the fulfilment of such obligations or the exercise of any right dependent thereon and the exclusive Exploration or exploitation authorizations shall be extended by that period as regards the area concerned by Force Majeure.

Obligations other than those affected by Force Majeure shall continue to be performed in accordance with the provisions of this Contract.

ARTICLE 26

Annual Acreage Rentals

- 26.1 Licensee shall pay an annual charge in respect of acreage rentals for the area subject to a Petroleum Exploration Licence or any Production Licence granted hereunder as follows:
- (a) annual acreage rental for the area which remains subject to a Petroleum Exploration Licence:
 - (i) First Exploration Period:
USD 20 per square kilometre or part thereof;
 - (ii) Second Exploration Period:
USD 30 per square kilometre or part thereof;
 - (iii) Third Exploration Period:
USD 50 per square kilometre or part thereof.
 - (b) Annual surface rental in respect of an Area subject to a Production Licence: USD 1000 per square kilometre or part thereof.
- 26.2 Annual acreage rentals payable pursuant to this Article shall be paid to the Government in accordance with the Act and Regulations in advance and without demand commencing with the date on which the Licence or any renewal thereof is granted and thereafter on each anniversary of such date during the term of said Licence. No rebates of acreage rentals shall be made by the Government in respect of any area which ceases to be subject to a Licence mid-year.
- 26.3 Annual acreage rentals do not replace other charges that may be levied for entry into parts of the Contract Area arising out of specialized land use, such as national parks or nature reserves, for purposes other than Petroleum Activities.

ARTICLE 27

Termination

- 27.1 This Agreement shall be deemed to have been terminated if the Petroleum Exploration Licence granted to Licensee pursuant to the Act and Article 3 or any Petroleum Production Licence granted to Licensee pursuant to the Act and Article 6 have either expired, or have under and in accordance with the Act, Regulations, or any relevant provision of this Agreement, been surrendered by the Licensee in accordance with section 89 of the Act or been lawfully cancelled or terminated by the Government in accordance with section 90 of the Act, but save as aforesaid shall continue in full force and effect so long as Licensee continues to hold, or has a pending application for, any of the said Licences.
- 27.2 The Government shall have the right to terminate this Agreement and any Petroleum Exploration Licence and Petroleum Production Licences granted hereunder, upon giving sixty (60) days written notice of its intention to do so for reasons prescribed under section 90 (3) of the Act and where the Licensee:
- (a) fails to make any monetary payment required by law or under this Agreement for a period of thirty (30) days after the due date for such payment unless Licensee is contesting the obligation to make such payment and has commenced legal proceedings in respect thereof in which case the period of thirty (30) days after notice shall be counted from the date of issuance of a ruling, judgment or an award requiring Licensee to pay the amount in dispute;
 - (b) has otherwise committed a material breach of the terms and conditions of this Agreement or any Licence granted under the Act pursuant to Articles 3 and 6.
 - (c) violates either materially or repeatedly any Uganda laws, Regulations, conditions of a Licence, orders or instructions issued by the Government or the terms of this Agreement; or
 - (d) becomes bankrupt, or goes into liquidation because of insolvency or makes a composition with its creditors.
- 27.3 If the circumstances that would result in termination under paragraph 27. 2. (a) and 27.2. (b) are remedied by Licensee within the sixty (60) day period following the notice of termination as aforesaid, such termination shall not become effective.
- 27.4 Where the breach cannot be remedied within a sixty (60) day period and the Licensee has commenced the works or steps necessary to remedy such breach

during the notice period and is diligently continuing such works thereafter, or, where it is otherwise impossible to remedy such breach, adequate compensation has been offered to and accepted by the Government in respect thereof within such sixty (60) day period, such termination shall not become effective.

- 27.5 If the circumstance or circumstances that would otherwise result in termination under paragraph 27.2. (a) or 27 .2. (b) are the result of Force Majeure, then termination shall not take place so long as such Force Majeure continues and for such period thereafter as provided in Article 25.
- 27.6 On termination of this Agreement and any related Licences or of an Participating Interest therein, the rights thereunder of Licensee or the defaulting Party, as the case may be, shall cease but the termination shall not affect any liability incurred before the termination, and any legal proceedings that might have been commenced or continued against Licensee or such defaulting Party may be commenced or continued against him.

ARTICLE 28

Accounting and Audits

- 28.1 Licensee shall be responsible for maintaining, in original, complete accounts, books and records reflecting all revenues, costs and expenses associated with Petroleum Activities under this Agreement in accordance with the Accounting Procedure set out in Annex "B" of this Agreement, International Financial Reporting Standards (IFRS) and Best Petroleum Industry Practices. The said accounting records shall be kept at an office in Uganda in USD and in Uganda Shillings and in case of inconsistencies, the accounts maintained in USD shall prevail.
- 28.2 The Licensee shall submit to the Government regular statements and reports relating to Petroleum Activities as provided in Annex "B".
- 28.3 Nothing in this Agreement shall be construed as limiting the right of Government or any Officer of Government pursuant to any statutory power to audit or cause to be audited the books or activities of the Licensee, its Contractors or Sub-contractors.

ARTICLE 29

Notices

All notices and other communications required or permitted hereunder or any notices that one Party may desire to give to the other Party shall be in writing in the English language and deemed to have been properly delivered if physically delivered or sent by registered mail or by registered electronic mail, or telefax, except as otherwise provided herein, at or to the address of such Party for whom it is intended as indicated below, or such other addresses as any Party may from time to time designate by notice in writing to the other Party:

(a) Government:

Ministry of Energy and Mineral Development
P. O. Box 7270
Kampala
UGANDA

Attention: Permanent Secretary, Ministry of Energy and Mineral
Development
Telephone No: MEMD
Telefax No: MEMD

(b) Licensee:

For COMPANY X PETROLEUM (UGANDA) LIMITED:

Company x Petroleum (Uganda) Limited

Tel:
Email:

ARTICLE 30

Applicable Law

- 30.1 This agreement shall be governed by, interpreted and construed in accordance with the laws of Uganda.
- 30.2 The Parties agree that the terms and conditions of this Agreement are based on the existing laws of the Republic of Uganda and the terms contained in this Agreement. If, following the Effective Date, there is a change in the laws of Uganda which substantially and adversely alters the economic benefits accruing to the Licensee, the Licensee may within thirty six (36) Calendar Months from the date on which any such change has legal effect, notify Government accordingly and thereafter the Parties shall negotiate to agree upon the effect of the changes in law and the necessary adjustments to the Agreement in order to maintain the economic benefit of the Licensee which existed at the Effective Date of this Agreement PROVIDED that the Licensee shall comply with the requirement of the law at all times.
- 30.3 In the event that within one hundred and twenty (120) days of receipt of the notification, the parties are unable to agree that the Licensee's economic benefits have been substantially and adversely affected and/or are unable to agree on the modifications required to maintain the economic benefits of the Licensee which prevailed at the Effective Date, then either Party may refer the matter for Arbitration pursuant to paragraph 24.1.
- 30.4 For the avoidance of doubt, the provisions of paragraph 30.2 above are intended for maintaining the original economic benefits under the Agreement as at the Effective Date and shall not prevent the Government from enacting laws intended to levy additional profit tax on additional profits.
- 30.5 The provisions of paragraph 30.2 above shall not apply to changes in the laws of Uganda regarding health, safety and environmental standards.

ARTICLE 31

Entire Agreement and Amendments

- 31.1 This Agreement constitutes an agreement made under Section 6 of the Act.
- 31.2 This Agreement embodies the entire agreement and understanding between the Licensee and the Government relative to the subject matter hereof, and supersedes and replaces any provisions on the same subject in any other agreement between the Parties, whether written or oral, prior to the date of this Agreement. This Agreement may not be amended, modified, varied or supplemented except by an instrument in writing signed by Licensee and the Government which shall state the date upon which the amendment or modification shall become effective.

ARTICLE 32

Waiver

- 32.1 Subject to the Act and Regulations, the performance of any condition or obligation to be performed under this Agreement shall not be deemed to have been waived or postponed, except by an instrument in writing signed by the Party, which is claimed to have granted such waiver or postponement.
- 32.2 No delay, inaction, omission or other failure of either Party to act upon or enforce any right, or to seek redress from the other Party of any breach or alleged breach of any obligation, shall be deemed a waiver of such rights or acceptability of such breach.
- 32.3 No waiver by any Party of any one or more obligations or defaults by any other Party in the performance of this Agreement shall operate or be construed as a waiver of any other obligations or defaults whether of a like or a different nature.

ARTICLE 33

Confidentiality

- 33.1 Subject to the Constitution, the Act, Regulations, Access to Information Act, 2005, this Agreement and any confidential information of any Party hereto which becomes known to the other Party in connection with the performance of this Agreement shall not be published or disclosed to third parties without the former Party's written consent, except as otherwise provided herein, and provided however that such other Party may communicate confidential information to legal counsel, Accountants, other professional consultants, underwriters, lenders, agents, licensees or shipping companies to the extent necessary in connection with this Agreement, with the obligation of the parties receiving such information to maintain confidentiality, or to an agency of the government of the country of Licensee having authority to require such disclosure.
- 33.2 The term "confidential information" as used herein shall mean information identified as "confidential" by the Party originally in possession of it and disclosed to the other Party, excluding information previously known to the other Party or information which is publicly known (except through disclosure of the other Party in violation of this Article) or information that comes into the possession of such other Party other than through a breach of this confidentiality undertaking.
- 33.3 Except as otherwise provided in the Act, Regulations and any other applicable law, the confidentiality obligations of this Article shall expire upon relinquishment of the area to which the information relates.

ARTICLE 34

Disclaimer

- 34.1 Any reviews, provision of data or requests for information, data or otherwise from the Licensee by the Government or approvals by the Government or its Nominee under this Agreement is solely for the information of the Government and its satisfaction that the requirements of the Government as set forth herein have been satisfied by the Licensee. By making such reviews, requests or approvals, the Government makes no representation and the Licensee shall in no way so represent to third parties that such reviews, requests, approvals or otherwise are proof of the economic and technical viability of the Petroleum Activities to be undertaken by the Licensee.
- 34.2 The Government shall not be liable to the Licensee for and the Licensee shall defend and indemnify the Government from any claim, cost, loss, damage or liability arising out of any contrary representation by the Licensee.
- 34.3 The Licensee is solely responsible for the economic and technical feasibility, reliability or in case of Discovery, realisation of the viability of the Petroleum Activities.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement prepared in the Republic of Uganda in the English language to be executed in originals by their respective duly authorised representatives as of the day and year first above written.

Signed for and on behalf of The Government of the Republic of Uganda

By: _____
(Specify name)

MINISTER OF ENERGY AND MINERAL DEVELOPMENT

In the presence of: _____
(Specify name and Title)

Signed for and on behalf of Licensee:

[X]

By: _____
(Specify name and Title)

In the presence of: _____
(Specify name and Title)

[Signed for and on behalf of Licensee:

[Y

By: _____
(Specify name and Title)

In the presence of: _____]
(Specify name and Title)

[Signed for and on behalf of Licensee:

[Z]

By: _____

(Specify name and Title)

In the presence of: _____]

(Specify name and Title)

Description and Map of Contract Area

Contract Area -- comprises some -----square kilometres, is of ----- and is bounded along its outer margin by a continuous line which runs through the following geographical points and co-ordinates:

From the ---- / ----border due east at -----, -----

and thence to -----, -----

and thence to -----, -----

and thence to -----, -----

and thence to -----, -----

and thence to -----, -----

and thence to -----, -----

and thence to -----, -----

and thence to -----, -----

and thence to -----, -----

and thence due -----, -----

All geographical references shall be in accordance with MAP DATUM WGS1984, Projection GCS –WGS 1984, zone 36N/zone 36S

Accounting and Financial Procedure

SECTION 1

General Provisions

1.1 Definitions

For the purposes of this Accounting and Financial Procedure the terms used herein which are defined in the Agreement shall have the same meaning when used in this Accounting and Financial Procedure.

This Accounting and Financial procedure shall comply with the laws of Uganda.

1.2 Statements required to be submitted by Licensee

(a) Within ninety (90) days of the Effective Date, Licensee shall submit to and discuss with the Government a proposed outline of charts of accounts, operating records and reports, which outline shall be in accordance with generally accepted and recognized accounting systems and consistent with normal practice of the international petroleum industry and the requirements of this Agreement. Within ninety (90) days of receiving the above submission, the Government shall either indicate its approval of the proposal or may request revisions to the proposal to the extent that such outline is not in accordance with generally accepted and recognized accounting systems and consistent with the normal practices of the international petroleum industry and the requirements of this Agreement.

In the event that revisions are so requested by the Government, Licensee and the Government shall within one hundred and eighty (180) days after the Effective Date of the Agreement agree on the outline charts of accounts, operating records and reports which shall describe the basis of the accounting system and procedures to be developed and used under the Agreement. Following such agreement, Licensee shall expeditiously prepare and provide the Government with formal copies of the comprehensive charts of accounts related to the accounting, recording and reporting functions and allow the Government to examine Licensee's manuals and to review procedures which are, and shall be, observed under the Agreement.

Where the Government and the Licensee fail to agree within the 180 days, the Minister shall issue a format which shall be adopted by the Licensee.

- (b) All reports, books, accounts and records of Licensee will be prepared and maintained in accordance with the laws of Uganda and this Agreement and, where there are no relevant provisions in the Agreement, in accordance with Best Petroleum Industry Practices and International Financial Reporting Standards (IFRS)
- (c) All accounts, books, records and reports of Licensee required hereunder shall be maintained in original at Licensee's business office in the Republic of Uganda and will be available for the inspection and use of the Government and its representatives in carrying out its functions under the laws of Uganda and this Agreement.
- (d) The licensee shall report to Government on a quarterly basis, all expenditures, production, prices, sales receipts, Cost Recovery, production sharing and receipts of payments to the Government related to Petroleum Activities in the Contract Area.
- (e) Within ninety (90) days after the expiration of each Calendar Year, Licensee shall submit to the Government detailed accounts showing all Contract Expenses and Contract Revenues during the past Calendar Year. Before submission to the Government, the accounts shall be audited and certified by an independent chartered accountant or certified public accountant of international standing, registered in Uganda and acceptable to both Parties, at the expense of Licensee. The scope of audit shall have prior approval of the Authority. It is understood that the Government retains the authority to review and audit Licensee's books and records, with respect to Petroleum Activities conducted hereunder, either directly or through an independent accountant of international standing designated by the Government..
- (f) Notwithstanding the generality of the foregoing, the Licensee shall submit to the Authority statements relating to the Petroleum Activities as follows and in accordance with the laws and regulations of Uganda where other reporting requirements are established there:
 - (i) Production statement in accordance with the Regulations. The production statement shall be disaggregated into production per well, per producing field, per Petroleum Production Licence and per this Agreement's entire Contract Area

- (ii) Value of production and pricing statement (see Section 6.1 of this Accounting and Financial Procedure). This statement shall be disaggregated per licence and accumulated to this Agreement's entire Contract Area
- (iii) Statement of costs, expenditures and income (see Section 6.2 of this Accounting and Financial Procedure). This statement shall be disaggregated per licence and accumulated to this Agreement's entire Contract Area.
- (iv) Cost Recovery statement (see Section 6.3 of this Accounting and Financial Procedure).
- (v) Profit sharing statement (see Section 6.4 of this Accounting and Financial Procedure)
- (vi) Local procurement statement (as specified in the Regulations).
- (vii) End of year statement (see Section 6.5 of this Accounting and Financial Procedure).
- (viii) Budget statement (see Section 6.6 of this Accounting and Financial Procedure). This statement shall be disaggregated per licence and accumulated to this Agreement's entire Contract Area

1.3 Language and Units of Accounts

- (a) Accounts shall be maintained in Uganda Shillings and in USD. However, the USD accounts will prevail in case of conflict. Metric units and Barrels shall be employed for measurements required under this Annex B. The language employed shall be English.
- (b) It is the intent of this Accounting and Financial Procedure that neither the Government nor Licensee should experience an exchange gain or loss at the expense of, or to the benefit of, the other. However, any gain or loss resulting from the exchange of currency, will be credited or charged to the accounts as follows-
 - (i) Amounts received and costs and expenditures made in Uganda Shillings, USD or any other currency shall be converted into Uganda Shillings or USD, as the case may be, on the basis of the average of the buying and selling exchange rates between the

currencies in question as published by Bank of Uganda, prevailing on the last business day of the Calendar Month preceding the Calendar Month in which such amounts are received and costs and expenditures are paid.

- (ii) In the event of an increase or decrease, one time or accumulative, of ten percent (10%) or more in the rates of exchange between the Uganda Shilling, the USD or the currency in question, during any given Calendar Month, the following rates will be used-
 - (1) For the period from the first of the Calendar Month to the day when such increase or decrease is first reached, the average of the official buying and selling exchange rates between the USD, Uganda Shilling or the currency in question as issued on the last day of the previous Calendar Month.
 - (2) For the period from the day on which such increase or decrease is first reached to the end of the Calendar Month, the average of the official buying and selling exchange rates between the USD, the Uganda Shilling or the currency in question as issued on the day on which such increase or decrease is reached.

(c) A record of the exchange rates used in converting Uganda Shillings, USD or any other currency hereunder shall be maintained by Licensee.

1.4 Payments

- (a) All payments between the Parties shall, unless otherwise agreed subject to the Act and Regulations, be in USD and through a bank designated by each receiving party.
- (b) Discharge of Licensee's obligation with respect to Royalty, income tax, the Nominee of the Government's Participation Share of Production and the Government's Share of Profit Petroleum or any other payment due to Government shall be made in accordance with the laws of Uganda and this Agreement.

"Participation Share of Production" means a proportion of the Petroleum Produced and Saved from the Contract Area and not used or lost in Joint Activities and such proportion attributable to Licensee and the Government or its Nominee and shall be in accordance with their respective Joint Venture Interests in Joint Venture Assets.

1.5 Audit and Inspection Rights of Government

- (a) The Government shall have the right, upon five (5) days' prior written notice to Licensee, to audit directly or through an independent accountant, at its own cost, Licensee's accounts and records maintained in relation to the Petroleum Activities carried out hereunder with respect to each Calendar Year within thirty six (36) Calendar Months after the closure of the subject year's accounts. Notice of any exception to Licensee's accounts of any Calendar Year must be given to Licensee within sixty (60) Calendar Months of the closure of the subject year's accounts.
- (b) For purposes of auditing, the Government may examine and verify at reasonable times all charges and credits relating to the Petroleum Activities such as books of account, accounting entries, material records and inventories, vouchers, payrolls, invoices and any other documents, correspondence and records necessary to audit and verify the charges and credits. The Licensee shall make available in original to the auditor all such books, records, accounts and other documents and information. Furthermore, the auditors shall have the right in connection with such audit to visit and inspect at reasonable times all sites, plants, facilities, warehouses and offices of the Licensee directly or indirectly serving the Petroleum Activities including visiting personnel associated with those Activities.

If the Government desires verification of charges representing a proportionate share in the cost of Licensee's activities other than those carried out hereunder, it may require such verification.

If Government desires verification of charges from Affiliated Companies of Licensee, Licensee shall, upon the Government's request take all measures to facilitate Government to undertake the necessary verification. The Government may require the Licensee to obtain an audit certificate to such effect from the statutory auditors of the Affiliated Company concerned attesting that such rates do not include a profit element and have been consistently and reasonably applied.

- (c) The audit and inspection right shall extend to the operations beyond the Delivery Point which affect the measurement and valuation of Petroleum under Article 14.
- (d) The Government shall conduct audits in accordance with the laws of Uganda. Licensee shall co-operate with the Government and its statutory auditors or the independent auditors, as the case may be, and will provide reasonable facilities and assistance.
- (e) At the conclusion of each audit, the Government and Licensee shall endeavour to settle outstanding matters and a written report will be

circulated to all parties within three (3) Calendar Months of the conclusion of each audit. The report shall include all claims arising from such audit together with comments pertinent to the operation of the accounts and records. Licensee shall reply to the report in writing as soon as possible and in any event not later than three (3) Calendar Months following receipt of the report. Should the Government consider that the report or reply requires further investigation of any items therein, the Government shall have the right to conduct further investigations in relation to such item notwithstanding that the said period of thirty six (36) Months may have expired.

Such further investigation shall be commenced within thirty (30) days of the receipt of such reply and be concluded within ninety (90) days of investigation commencement and the report related to such further investigation shall be circulated within sixty (60) days of the conclusion of such further investigation. All adjustments resulting from an audit shall be made promptly by Licensee and be reported to the Government.

- (f) Without prejudice to the finality of matters as described in subsection 1.5(a), all documents referred to in that subsection shall be maintained by the Licensee and made available for inspection by Government for at least ten (10) Calendar Years following their date of issue.
- (g) Subject to the laws of Uganda, all information obtained by the Government pursuant to the provisions of this paragraph 1.5 shall be subject to the confidentiality requirements specified in paragraphs 35.1 and 35.2 of this Agreement.

1.6 Accrual Basis

All books, accounts and records shall be prepared on an accrual basis. Contract Revenues shall be attributed to the accounting period in which they are earned, and costs and expenses to the accounting period in which they are incurred, without the need to distinguish whether cash is received or disbursed in connection with a particular transaction. Costs and expenses shall be deemed to have been incurred, in the case of physical items, in the accounting period when Licensee acquires title thereto, and in the case of services, in the accounting period when such services are performed.

1.7 Arm's Length Transactions

Except as may be otherwise agreed in writing between the Government and Licensee or as may be provided in Article 14 of the Agreement, all transactions giving rise to revenues, costs or expenses under this Agreement which will be credited or charged to the books, accounts, records and reports prepared, maintained or submitted hereunder shall be conducted at arm's length or on such a

basis as will assure that all such revenues, costs or expenses will not be materially higher or lower, as the case may be, than would result from a transaction conducted at arm's length on a competitive basis with third parties.

1.8 Allocation of Shared Costs

To the extent that costs and expenses are incurred by Licensee in respect of activities which would only in part qualify as Contract Expenses hereunder, such costs and expenses shall be allocated to the books, accounts, records and reports maintained hereunder in such a manner as to avoid any duplication of cost, to fairly and equitably reflect the costs attributable to Petroleum Activities carried out hereunder and to exclude any costs and expenses which should otherwise be allocated to those activities which would not constitute Petroleum Activities hereunder.

It is understood, however, that any Contract Expenses associated with a unit Development involving a Petroleum Reservoir which extends into a neighbouring country or Contract Area shall be allocated on the basis of the petroleum reserves attributable to that portion of the Petroleum Reservoir located in each country or Contract Area.

SECTION 2

Classification, Definition and Allocation of Costs, Expenditures and Income

Contract Expenses incurred in connection with Petroleum Activities carried out hereunder shall be classified, defined and allocated as follows:

2.1 Exploration Expenditure

Exploration Expenditures shall consist of all necessary, appropriate and economical direct and allocated indirect costs incurred in the search for Petroleum and the appraisal of Discoveries in the Contract Area and are expenditures in respect of:

- (a) aerial, geophysical, geochemical, paleontological, geological, topographical and seismic surveys and studies and their interpretation;
- (b) core hole drilling and water well drilling as part of Exploration activities;
- (c) labour, materials and services used in drilling wells with the object of finding new Petroleum Reservoirs or for the purpose of appraising the extent of or subsequently producing Petroleum Reservoirs already discovered provided such wells are dry or are otherwise not completed as producing wells;
- (d) facilities used solely in support of activities under this paragraph 2.1 including access roads and purchased geological and geophysical information acquired in connection with Exploration Activities;
- (e) a portion of all Service Costs (as hereinafter defined) allocated to Exploration Activities on an equitable basis and consistently applied;
- (f) a portion of all General and Administrative Expenses (as hereinafter defined) allocated to Exploration Activities based on projected budget expenditures subject to adjustment on the basis of actual expenditure at the end of the Calendar Year concerned.
- (g) subject to agreement by the Parties, any other Contract Expenses incurred after the Effective Date prior to the commencement of Commercial Production in a Development Area and not otherwise covered by paragraph 2.2 below subject to paragraph 4.2.

2.2 Development Expenditures

Development Expenditures shall consist of all necessary, appropriate and economical expenditures (other than those referred to in paragraph 2.3) incurred in Development in relation to a Development Area and are expenditures in respect of;

- (a) drilling wells which are completed as producing wells and drilling wells for purposes of producing a Petroleum Reservoir already discovered provided such wells are completed as producing wells;
- (b) Drilling of wells for the injection of fluids into the Petroleum Reservoir to enhance recovery of Petroleum.
- (c) Completing those wells described in this paragraph 2.2 by way of installation of casing or equipment or otherwise after a well has been drilled for the purpose of bringing the well into use as a producing or injection well;
- (d) the costs of field facilities including field gathering systems, field production and treatment units, wellhead equipment, subsurface equipment, Natural Gas separation facilities, enhanced recovery systems, offshore platforms, Petroleum storage facilities in the field and related facilities, and field access roads for production activities;
- (e) The costs of Petroleum transportation facilities installed up to the Delivery Point, including but not limited to pipelines, compressors, and storage facilities;
- (f) Engineering and design studies for field facilities;
- (g) A portion of all Service Costs (as hereinafter defined) allocated to the Development on an equitable basis and consistently applied;
- (h) A portion of all General and Administrative Costs (as hereinafter defined) allocated to the Development based on projected budget expenditures which will be adjusted to actual expenditures at Calendar Year end.
- (i) Subject to agreement by the Parties, any other expenditure incurred in Development prior to the commencement of Commercial Production in a Development Area, other than those incurred in respect of operations carried out beyond the Delivery Point, subject to paragraph 4.2.

2.3 Operating Expenses

Operating Expenses shall consist of all necessary, appropriate and economical expenditures incurred in the Petroleum Activities hereunder after the start of the Commercial Production (including intangible drilling costs which are labour, consumable material and services having no salvage value which are incurred in the drilling Activities related to the drilling or deepening of producing wells whether incurred before or after the start of Commercial Production) which are other than Exploration Expenditures and Development Expenditures and General

and Administrative Expenses and Service Costs otherwise allocated to Exploration Expenditures or Development Expenditures pursuant to subparagraphs 2.1(e) and (f) and 2.2(g) and (h) above; Operating Expenses shall not, however, include tariff charges, if any, imposed by the Pipeline Company associated with the transportation of Petroleum from the Delivery Point to the Seaboard Terminal point of export.

2.4. Service Costs

Service Costs shall consist of all necessary, appropriate and economical direct and indirect expenditures in support of the Petroleum Activities in the Contract Area including, warehouses, piers, marine vessels, vehicles, motorised rolling equipment, aircraft, fire and security stations, workshops, water and sewage plants, power plants, housing, tools and equipment used in these activities. Service Costs in any Calendar Year shall include the total costs incurred in such year to purchase and/or construct said facilities as well as annual costs to maintain and operate the same. All Service Costs will be regularly allocated as specified in subparagraphs 2.1(e), 2.2(g) and 2.3 to Exploration Expenditures, Development Expenditures and Operating Expenses.

2.5 General and Administrative Expenses

- (a) All main office, field office and associated general and administrative costs incurred in relation to Petroleum Activities in the Contract Area, including supervisory, accounting and employee relations services carried out by Licensee in Uganda.

- (b) an annual overhead charge for services rendered by Licensee's Affiliated Companies to support and manage Petroleum Activities in the Contract Area, and for staff advice and assistance including financial, legal, accounting and employee relations services, but excluding any remuneration for services charged separately under this Accounting Procedure, provided that:-
 - (i) For the period from the Effective Date until the date on which the first Field Development Plan under the Contract is approved by the Government, this annual charge shall be Licensee's verifiable expenditure limited to 1% of Contract Costs.

 - (ii) From the date on which the first Field Development Plan is approved, the charge shall be verifiable expenditures restricted to an amount or rate to be agreed on between the Parties and stated in the Field Development Plan.

- (c) All General and Administrative Expenses shall be necessary, appropriate, economical and verifiable and will be regularly allocated as specified in subsection 2.1(f), 2.2(g) and 2.3 to Exploration Expenditures, Development Expenditures and Operating Expenses.

2.6. Income

Petroleum Produced and Saved shall be classified to segregate income from Natural Gas, Crude Oil and condensate and shall include closing stock. Petroleum Produced and Saved shall be valued as per Article 15 and 19. Other categories of income shall be appropriately classified so as to calculate the Profit Petroleum correctly.

SECTION 3

Costs, Expenses, Expenditures and Credits of the Licensee

3.1 Recoverable Costs

Subject to the provisions of this Agreement, Licensee shall bear and pay the following costs and expenses in respect of the Petroleum Activities. These costs and expenses will be classified under the headings referred to in Section 2 of this Annex. They are recoverable Contract Expenses by Licensee under the Agreement.

(a) Surface Rights

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

(b) Labour and Associated Labour Costs

- (i) gross salaries and wages including bonuses, and other customary allowance afforded to expatriate employees in similar Activities elsewhere of Licensee's employees directly engaged in the Petroleum Activities;
- (ii) Licensee's costs regarding sickness and disability payments applicable to the salaries and wages chargeable under subparagraph (i) above;
- (iii) expenses or contributions made pursuant to assessments or obligations imposed under the laws of the Uganda which are applicable to Licensee's cost of salaries and wages chargeable under (i) above;
- (iv) Licensee's cost of established plans for employees' life insurance and hospitalisation;
- (v) Reasonable travel and personnel expenses of employees of Licensee and their families including those made for travel and relocation of the expatriate employees assigned to the Republic of Uganda, all of which shall be in accordance with Licensee's normal practice, provided such is consistent with the laws of Uganda.

(c) Offices, Camps, Warehouses and other facilities

The cost of establishing, maintaining and operating any offices, camps, warehouses, workshops, housing, water systems and other facilities for the purpose of carrying out the Petroleum Activities. The costs of those facilities, which are not used for the exclusive purpose of carrying out the Petroleum Activities, shall be apportioned on a consistent and equitable basis between the Petroleum Activities and the Licensee's other operations and those of its Affiliated Companies.

(d) Transportation

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

(e) Charges for Services

(i) Third Party Contracts

The actual costs of contracts for technical and other services entered into by Licensee for the Petroleum Activities, made with third parties other than Affiliated Companies of Licensee are recoverable, provided that the prices paid by Licensee are in line with those generally charged by other international or domestic suppliers for comparable work and services.

(ii) Affiliated Companies of Licensee

Without prejudice to the charges to be made in accordance with paragraph 2.5 of this Annex, in the case of specific services rendered to the Petroleum Activities under contract with, and invoiced to, Licensee by an Affiliated Company of Licensee, the allowable charges will be based on actual costs without profits, will be no higher than the most favourable prices charged by the Affiliated Company to third parties for comparable services under similar terms and conditions elsewhere, will be included in any budget submitted to the Authority and will not exceed the charges billed to any Joint Activities in respect of such services pursuant to any Joint Operating Agreement relating to the Petroleum Activities carried out hereunder. The Licensee will, if requested by Government, specify the amount of such charges which represents an allocated proportion of the general material, management, technical and other costs of the Affiliated Company, and the amount which is the direct cost of providing the services concerned.

(f) Material

(i) General

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

(ii) Warranty of Material

In case of defective material or equipment, any adjustment received by Licensee from the suppliers/manufacturers or their agents will be credited to the accounts under the Agreement.

(iii) Value of Material Charged to the Accounts under the Agreement

(a) Except as otherwise provided in subparagraph (b) below, material purchased by Licensee for use in the Petroleum Activities shall be valued to include the invoice price less trade and cash discounts (if any), purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, loading and unloading fees, dock charges, forwarding and documentation fees, packing costs, freight to port of destination, insurance, taxes, customs duties, consular fees, other items chargeable against imported material and where practicable handling and transportation expenses from point of importation to warehouse or operating site, and its costs should not exceed those currently prevailing in normal arm's length transactions on the open market.

(b) Materials purchased from Affiliated Companies of Licensee shall be charged at prices not higher than the following:

(1) New Material (Condition "A") shall be valued at the current international price which should not exceed the price prevailing in normal arm's length transactions on the open market.

(2) Used Material (Conditions "B" and "C"):

(aa) Material which is in sound and serviceable condition and is suitable for reuse for its original function without reconditioning shall be classified as Condition "B" and priced at seventy-five percent (75%) of the current

price of new material defined in subparagraph (1) above.

(bb) Material which cannot be classified as Condition "B" but which after repair and reconditioning will be further serviceable for original function as good second hand material (Condition "B") shall be classified as Condition "C" and priced at fifty percent (50%) of the current price of new material as defined in subparagraph (1) above.

(cc) The cost of reconditioning shall be charged to the reconditioned material, provided that the condition C material value plus the cost of reconditioning does not exceed the value of condition B material.

(dd) Material which cannot be classified as Condition "B" or condition "C" shall be priced at a value commensurate with its use.

(3) Material involving erection costs shall be charged at the applicable condition percentage of the current knocked down price of new material as defined in subparagraph (1) above.

(4) When the use of material is temporary and its service to the Petroleum Activities does not justify the reduction in price as provided for in subparagraph (2)(ii) hereof, such material shall be priced on a basis that will result in a net charge to the accounts under the Agreement consistent with the value of the service rendered.

(iv) Stocks and consumables costs shall be charged to the accounts pursuant to the "Average Cost" method.

(g) Rentals, taxes, duties, and Other Assessments

All rentals, levies, charges, fees, compensation or other charges in respect of rights of way, contributions and any other assessment and charges levied by the Government or any Local Government in connection with the Petroleum Activities, and paid directly or indirectly by Licensee, other than Royalty, Income Tax imposed on Licensee, State Participation and Government's Share of Profit Petroleum attributable pursuant to Article 12 of the Agreement.

(h) Insurance and Losses

Insurance premia and costs incurred for insurance, provided that if such insurance is wholly or partly placed with an Affiliated Company of Licensee, such premia and costs shall be recoverable only to the extent generally charged by competitive insurance companies other than an Affiliated Company of Licensee.

(i) Legal Expenses

Subject to paragraph 3.2(h) below, all reasonable costs and expenses of litigation and legal or related services necessary or expedient for the producing, perfecting, retention and protection of the Contract Area, and in defending or prosecuting lawsuits involving the Contract Area or any third party claim arising out of Petroleum Activities under the Agreement or sums paid in respect of legal services necessary or expedient for the protection of the joint interest of Government and Licensee are recoverable but excluding claims arising out of issues relating to health, safety and environment and environmental damage or pollution. Where legal services are rendered in such matters by salaried or regularly retained lawyers of Licensee or an Affiliated Company of Licensee, such compensation will be included instead under subparagraph 3.1(b) or 3.1(e) above, as applicable.

(j) Training Costs.

Except where otherwise provided herein, all costs and expenses incurred by Licensee in training of its Ugandan employees engaged in the Petroleum Activities and such other training as required under Article 21 of the Agreement.

(k) General and Administrative Expenses.

The costs described in subparagraph 2.5(a) and the charge described in subsection 2.5(b).

(l) Interest and other financial charges incurred on loans raised by Licensee to finance Development provided that such interest rates and charges do not exceed LIBOR and only to the extent that such interest and financial charges relate to not more than fifty per cent (50%) of the total financing requirement of such activities (including loans from both Affiliated Companies and Non-Affiliated Companies).

(n) Subject to approval of Government, expenditure on research into and development of new equipment, material and techniques for use in

searching for development and producing Petroleum directly related to the conduct of Petroleum Activities carried out under this Agreement.

- (o) Ecological and environmental charges: Costs for all measures taken to avoid waste and prevent damage or pollution in the conduct of the Petroleum Activities.
- (p) Leasing expenses: Costs incurred in connection with the leasing of property and equipment provided that such costs do not exceed prevailing commercial rates; and that any such leasing arrangements are concluded with parties which are not Affiliated Companies of Licensee; and that the cost of leasing is not more than that of purchasing the same equipment.
- (q) Communication charges: Costs of acquiring, leasing, operating and maintaining communication systems including, but not limited to, radio, telephone, telecopier and e-mail systems.
- (r) Payments into the Decommissioning Fund.

3.2 Costs not Recoverable under the Agreement

The following costs and expenses shall not be recoverable (whether directly as such or indirectly as part of any other charges or expense) for Cost Recovery and profit sharing purposes under the Agreement;

- (a) Costs incurred before the Effective Date.
- (b) Costs incurred in acquiring or transferring any interest in the Agreement or Licence issued under the Act and the Agreement.
- (c) Signature and other Bonuses
- (d) Costs incurred beyond the Delivery Point, including but not limited to petroleum marketing charges and transportation tariff charges
- (e) The costs associated with the provision of the Bank Guarantee pursuant to paragraph 4.7 of the Agreement and any payments made thereunder in respect of failure by Licensee to comply with its contractual obligations under the Agreement and any other amounts spent on indemnities with regard to fulfilment of contractual obligations by Licensee.
- (a) (f) Legal and other costs incurred in resolving any dispute between the Parties including litigation under the laws of Uganda and any dispute resolution pursuant to Article 24 of this Agreement.

- (b) Royalty.
- (c) Income Tax imposed in accordance with the laws of Uganda.
- (d) The Government's Share of Profit Petroleum determined pursuant to Article 13 of the Agreement.
- (e) Fines and penalties imposed under the laws of Republic of Uganda or elsewhere.
- (f) Costs incurred as a result of non-compliance by the Licensee with the legislation or the Contract, including costs incurred as a result of any negligent act or omission or wilful misconduct of the Licensee's Contractor, Sub-contractors and agents.
- (g) Interest incurred on loans raised by Licensee to finance Exploration Activities.
- (h) Commissions paid to intermediaries by Licensee.
- (i) Donations and charitable contributions.
- (j) Any other expenses incurred without the approval of the Authority.

3.3 Credits under the Agreement

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

- (a) The net proceeds of any insurance or claim in connection with the Petroleum Activities or any assets charged to the accounts under the Agreement when such Activities or assets were insured and the premia charged to the accounts under the Agreement.
- (b) Revenue received from third parties for the use of property or assets charged to the accounts under the Agreement.
- (c) Any adjustment received by Licensee from the suppliers/manufacturers or their agents in connection with a defective material the cost of which was previously charged by Licensee to the accounts under the Agreement.
- (d) Rebates, refunds or other credits received by Licensee which apply to any charge which has been made to the accounts under the Agreement, but excluding any awards granted to Licensee

under the arbitration or independent expert proceedings referred to in Subsection 3.2(d) above.

- (e) The actual net proceeds of sale realised from the disposal on an arm's length basis of inventory materials originally charged to the accounts under the Agreement and subsequently exported from the Republic of Uganda without being used in the Petroleum Activities. In the event that such inventory materials are exported but not sold by Licensee, or, if sold, are disposed of other than on an arm's length basis, such materials will be valued as used material pursuant to paragraph 3.1(f)(iii) of this Annex and the value so determined shall be credited to the Accounts.
- (f) The actual net proceeds from the sale or exchange by the Licensee of assets, plant or facilities, the acquisition costs of which have been charged to the accounts under the Agreement.
- (g) Gains resulting from foreign currency exchange.
- (h) Legal costs charged to the accounts under Section 3.1(i) of this Accounting Procedure and subsequently recovered by the Licensee; or
- (i) Proceeds of any interest received from Bank on the account maintained by Joint Venture for the Petroleum Activities.

3.4 Duplication of Charges and Credits

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

SECTION 4

Records, data and Valuation of Assets

Licensee shall maintain detailed records of property and assets in use for the Petroleum Activities in accordance with the Act, Regulations and normal practice in Exploration, Development and Production activities in the international petroleum industry. At reasonable intervals but at least once a year with respect to movable assets and once every five (5) years with respect to immovable assets, inventories of the property under the Agreement shall be taken by Licensee. Licensee shall give Government at least thirty (30) days written notice of its intention to take such inventory and Government shall have the right to be represented when such inventory is taken. Licensee will clearly state the principles upon which valuation of the inventory has been based. When an assignment of rights under the Agreement takes place, a special inventory may be taken by Licensee at the request of the assignee provided that the costs of such inventory are borne by the assignee and not charged to Contract Expenses hereunder.

SECTION 5

Revision of Accounting and Financial Procedures and Conflicts

- 5.1 The provisions of this Accounting and Financial Procedure may be amended by agreement between Licensee and the Government. The amendments shall be made in writing and shall state the date upon which the amendments shall become effective.
- 5.2 In the event of any conflict between the provisions of this Accounting and Financial Procedure and the Articles of Agreement, the Articles of the Agreement shall prevail.

SECTION 6

Reporting Statements

6.1 Value of Production and Pricing Statement

6.1.1 The Licensee shall, for the purposes of Article 14 of the Agreement, prepare a Statement providing calculations of the value of Petroleum Produced and Saved during each Calendar Month. This Statement shall contain the following information:

- (a) The quantities, and prices of sales of Crude Oil to third parties made during the Calendar Month in question.
- (b) The quantities and prices of sales of Crude Oil made during the Month in question, other than to third parties, if any.
- (c) The quantities of Crude Oil appropriated by the Licensee to refining or other processing without otherwise being disposed of in the form of Crude Oil.
- (d) The value of stocks of Crude Oil on the first day of the Calendar Month in question.
- (e) The value of stocks of Crude Oil on the last day of the Calendar Month in question.
- (f) The percentage volume of total sales of Crude Oil made by the Licensee during the Calendar Month that are arm's length sales to third parties.
- (g) The quantities and tariffs pertaining to Petroleum transported beyond the Delivery Point.
- (h) Information available to the Licensee, insofar as required for the purposes of Article 14 of the Agreement concerning the prices of competitive crude oils produced by the main petroleum producing and exporting countries including contract prices, discounts and premia, and prices obtained on the spot markets.

6.1.2 The Licensee shall, for the purpose of Article 18 of the Agreement prepare a statement providing calculations of the value of Associated Natural Gas and Non Associated Natural Gas produced, flared, internally used, saved and sold during each Calendar Month. This statement shall contain all information of the type specified in Section 6.1.1 for Crude Oil as is applicable to Natural Gas and such other relevant information as may be required by Government.

6.1.3 The Statements required pursuant to Sections 6.1.1 and 6.1.2 shall include a detailed breakdown of the calculation of the prices of Crude Oil, Associated Natural Gas and Non Associated Natural Gas pursuant to the provisions of Articles 14 and 18.

6.1.4 The value of production and pricing statement for each Calendar Month shall be submitted to Government not later than thirty (30) days after the end of such Calendar Month.

6.2 Statement of Costs, Expenditures and Income

6.2.1 The Licensee shall prepare with respect to each Calendar Quarter a statement of costs, expenditures and income under the Agreement using mercantile basis of accounting. The Statement shall distinguish between Exploration Expenditures, Development Expenditures and Operating Expenses and shall separately identify all significant items of costs and expenditure as itemised in Section 3 of this Accounting and Financial Procedure within these categories. The statement of income shall distinguish between income from the sale of Petroleum and incidental income of the sort itemised in Section 3.3 of this Accounting and Financial Procedure. If the Government is not satisfied with the degree of disaggregation within the categories, it shall be entitled to a more detailed breakdown. The Statement shall show the following:

- (a) Actual costs, expenditures and income for the Calendar Quarter in question;
- (b) Cumulative costs, expenditures and income for the Calendar Year in question;
- (c) Latest forecast of cumulative costs, expenditures and income at the Calendar Year end; and
- (d) Variations between budget forecast and latest forecast and explanations thereof.

6.2.2 The statement of costs, expenditures and income of each Calendar Quarter shall be submitted to Government not later than thirty (30) days after the end of such Calendar Quarter.

6.2.3 An annual statement of costs, expenditures and income shall be submitted as part of end of year statement under Section 6.5 of this Accounting and Financial Procedure within ninety (90) days after the end of each Calendar Year.

6.3 Cost Recovery Statement

6.3.1 The Licensee shall prepare with respect to each Calendar Quarter a Cost Recovery statement containing the following information:

- (a) Recoverable Contract Expenses carried forward unrecovered from the previous Calendar Quarter, if any.
- (b) Recoverable Contract Expenses for the Calendar Quarter in question.
- (c) Cumulative recoverable Contract Expenses for the Calendar Quarter in question (i and ii above).
- (d) Quantity and value of Cost Petroleum taken and disposed of by the Licensee for the Calendar Quarter in question.
- (e) Contract Expenses recovered during the Calendar Quarter in question as per Article 11.
- (f) Cumulative amount of Contract Expenses recovered up to the end of the Calendar Quarter in question.
- (g) Amount of balance recoverable Contract Expenses to be carried forward into the next Calendar Quarter.

6.3.2 The Cost Recovery statement for each Calendar Quarter shall be submitted to Government not later than thirty (30) days after the end of such Calendar Quarter.

6.3.3 An annual Cost Recovery statement shall be submitted as part of end of year statement under Section 6.5 of this Accounting and Financial Procedure within ninety (90) days after the end of each Calendar Year.

6.4 Profit Sharing Statement

6.4.1 The Licensee shall prepare with respect to each Calendar Quarter a profit sharing statement containing the following information:

- (a) The total amount of Profit Petroleum to be shared between the Government and the Licensee in the Calendar Quarter in question.
- (b) The amount of Profit Petroleum due to the Government and the Licensee as well as to each constituent of the Licensee in the Calendar Quarter in question.

6.4.2 The profit sharing statement shall be submitted to Government not later than thirty (30) days after the end of such Calendar Quarter.

6.4.3 The Licensee shall prepare an annual profit sharing statement containing the following information:

- (a) The calculation of the applicable net income as defined in Article 12 for the Calendar Year.
- (b) The R-Factor at the end of the Calendar Year.
- (c) The total amount of Profit Petroleum to be shared between the Government and the Licensee for the Calendar Year.
- (d) The amount of Profit Petroleum due to the Government and the Licensee as well as to each constituent of the Licensee for the Calendar Year.
- (e) The annual statement shall be submitted as part of end of year statement under Section 6.5 of this Accounting and Financial Procedure within ninety (90) days after the end of each Calendar Year.

6.5 End of Year Statement

- 6.5.1 The Licensee shall prepare a definitive end of year statement. The statement shall contain aggregated information in the same format as required in the production statement, value of production and pricing statement, statement of costs, expenditures and income, Cost Recovery statement and profit sharing statement, but shall be based on actual quantities of Petroleum produced, income accrued and costs and expenditures incurred. Based upon this statement, any adjustments that are necessary shall be made to the transactions concerned under the Agreement.
- 6.5.2 End of year statement shall further contain the item-wise justification for the variation between the actual costs, expenditure and income incurred and included in the statement of costs, expenditure and income vis-à-vis the budgets for corresponding line items.
- 6.5.3 The Licensee shall prepare and submit joint venture accounts to indicate the recoverable costs, value of Petroleum Produced and Saved, Cost Petroleum, Profit Petroleum, etc.
- 6.5.4 The end of year statement for each Calendar Year shall be duly audited under Article 30 and submitted to Government within ninety (90) days of the end of such Calendar Year.

6.6 Budget Statement

6.6.1 For the purpose of this Accounting and Financial Procedure, the Licensee shall prepare a budget statement for each Calendar Year. This Statement shall distinguish between budgeted Exploration Expenditures, Development Expenditures and Operating Expenses and shall show the following:

- (a) Forecast costs, expenditures and income for the Calendar Year in question;
- (b) A schedule showing the most important individual items of total costs, expenditures and income for the said Calendar Year; and
- (c) Estimated amounts to be spent in the Calendar Year on procuring goods and services in Uganda.

6.6.2 The budget statement shall be submitted to Government with respect to each Calendar Year not less than ninety (90) days before the start of the said Year provided that in the case of the Calendar Year in which the Effective Date falls, the budget statement shall be submitted within ninety (90) days of the Effective Date.

6.6.3 If the Government is not satisfied with the degree of disaggregation within the categories in 6.6.1 above, it shall be entitled to a more detailed breakdown.

Form of the Performance Guarantee (the "Guarantee")

1. We understand that, on [insert date]³, the Government of the Republic of Uganda (the "**Government**") and [insert name of Licensee], hereinafter referred to as the "**Company**", entered into a Production Sharing Agreement for [insert contract area or other specification as appropriate] in Uganda, (the "**PSA**").
2. Definitions set forth in applicable Ugandan Petroleum Law and the PSA, shall apply to this Guarantee, unless otherwise stipulated or the context otherwise requires.
3. We, the undersigned [insert the legal name of the bank], hereinafter referred to as the "**Bank**", hereby unconditionally and irrevocably on first demand guarantee in favour of the Government the punctual payment by the Company of all sums owed to the Government by the Company in relation to the Company's failure to fulfil the Minimum Work Program and minimum Exploration Expenditures pursuant to the PSA, in relation to the [⁴[....] Exploration Period / the initial term of the corresponding Petroleum Exploration License], up to a maximum of [.....] United States dollars (US\$) (the "**Guaranteed Amount**").
4. The Government may make multiple demands under this Guarantee up to the Guaranteed Amount.
5. Any claim by the Government under this Guarantee will be honoured within three banking days from the Bank's receipt of a first demand in writing stating that the Company has not fulfilled its obligations under the PSA and in what respect the Company is in breach of its obligations under the PSA.
6. Any demand hereunder shall be addressed to [bank + address + attention].
7. This Guarantee shall become effective upon its signature and shall expire [⁵upon notice issued by the Government stating that the Company's obligations under the PSA has been completed to the satisfaction of the Government / ⁶on [●] (the "**Expiration Date**") at the latest and any demand hereunder must be received by us on or before the Expiration Date.]
8. This Guarantee shall be binding on the Bank and its successors and assignees and shall be irrevocable.

⁴ Insert the relevant period/term.

⁵ Depending on the required duration of the Guarantee – this clause may be reworded to refer to the expiry of the Company's obligations relating to a specified term, such as the relevant Exploration Period.

⁶ We expect that the Banks would prefer a pre-set expiration date whereafter their obligations will terminate.

9. This Guarantee shall be governed by and construed in accordance with [Ugandan law] without regard to the conflict of law provisions thereof. We, the undersigned, agree that [the courts of Uganda] shall have [non-]exclusive jurisdiction to settle any dispute or claim arising out of or in connection with this Guarantee or its subject matter or formation (including non-contractual disputes or claims).

The duly authorised representative of the Bank has executed this Guarantee on this the day of

Very truly yours,
for and on behalf of
[the bank's legal name]