

# **UGANDA**

**Model Contract**

## **1999 Model Production Sharing Contract**

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**UGANDA**

**Model Production Sharing Agreement of August 1999  
For Petroleum Exploration, Development & Production  
In Uganda**

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**THIS AGREEMENT** is made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 200\_ 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 \_\_\_\_\_ a company duly organised and existing under the laws of \_\_\_\_\_.

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

**WHEREAS**, the Petroleum (Exploration and Production) Act 1985 makes provision with respect to exploring for and producing Petroleum and authorises the Minister of Natural Resources to grant Exploration and Production Licences to any person or entity, subject to certain limitations and conditions;

**WHEREAS**, Section 2 of the Act authorises the Government to enter into an agreement, not inconsistent with the Act, with any person or entity in respect of, inter alia, the terms and conditions of the grant of a Licence under the Act;

**WHEREAS**, Licensee has applied for an Exploration Licence over the area described in, and shown on the map in Annex A hereof aflame Minister, in accordance with Section 9 of the Act, intends to grant the said Licence and

**WHEREAS**, Licensee intends, on terms and conditions set out under this Agreement and has represented that he/she has or can obtain resources, to undertake Petroleum Operations in the area aforesaid and has for that purpose the necessary financial capacity, technical competence and professional skill to carry out such Operations;

NOW, THEREFORE, the parties hereto agree as follows:

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## **ARTICLE 1 Definitions**

**1.1.** In this Agreement, unless the context otherwise requires:

**1.1.1** "Act" means the Petroleum (Exploration and Production) Act of 1985 as amended and in effect from time to time.

**1.1.2** "Advisory Committee" means the Committee constituted pursuant to Article 5.

**1.1.3** "Affiliated Company" means any entity directly or indirectly effectively controlling, or effectively controlled by, or under direct or indirect effective 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), 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** "Albertine Graben" means that geological entity within the Republic of Uganda together with such contiguous area or areas of the Democratic Republic of Congo which together are known collectively as the Albertine Graben and recognised as such by the international geological profession.

**1.1.6** "Allowable Contract Expenditures" means those expenditures as so categorised in the Accounting and Financial Procedure described in Annex "C".

**1.1.7** "Appraisal Programme" means a programme carried out following one or more Discovery (ies) of Petroleum for the purpose of delineating the Petroleum Reservoirs) to which that discovery or these discoveries relate(s) in terms of thickness and lateral extent and estimating the quantity of recoverable Petroleum therein.

**1.1.8** "Appraisal Well" means any Well drilled for purposes of an Appraisal Programme.

**1.1.9** "Associated Gas" means Natural Gas which is produced in association with Crude Oil, and includes solution gas or gas cap gas, from a Petroleum Reservoir recovered as gas at the surface by separation or other primary field processes.

**1.1.10** "Barrel" means a quantity consisting of forty-two (42) United States gallons, liquid measure, corrected to a temperature of sixty degrees (60°) Fahrenheit.

**1.1.11** "Calendar Month" means any of the twelve (12) months of a Calendar Year.

**1.1.12** "Calendar Quarter" means a period of three (3) consecutive Calendar Months commencing with first day of January, April, July and October of each Calendar Year.

**1.1.13** "Calendar Year" means a period of twelve (12) Calendar Months according to the Gregorian Calendar starting with January 1st and ending with December 31st.

**1.1.14** "Commercial Production" means production of Crude Oil or Natural Gas or both and delivery of the same at the Delivery Point under a programme of regular production and sale.

**1.1.15** "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 an Exploration Licence granted to Licensee pursuant to Article 3 and/or subject to a Production Licence granted to Licensee pursuant to Article 7.

**1.1.16** "Contract Expenses" means Exploration Expenditures, Development and Production Expenditures and Operating Expenses incurred by Licensee in Conducting

Petroleum Operations hereunder determined in accordance with the Accounting and Financial Procedure described in Annex "C".

**1.1.17** "Contract Revenues" means the sum of all proceeds of sales of Petroleum and monetary equivalent to the value of other dispositions of Licensee's share of Petroleum produced and saved and not used in Petroleum Operations and any other proceeds from Petroleum Operations hereunder.

**1.1.18** "Contractor" means any person, company or entity employed by or on behalf of the Licensee for the purpose of carrying out petroleum operations.

**1.1.19** "Crude Oil" means any hydrocarbon which at atmospheric pressure and a temperature of 60° Fahrenheit is in a liquid state at the well head or gas/oil separator or which is extracted from Natural Gas in a plant, including distillate and condensate and has been produced from the Contract Area.

**1.1.20** "Delivery Point" means the point at which Crude Oil passes through the intake valve of the pipeline or tanker (truck, aeroplane or rail wagon) at the terminal in Uganda, or such other point which may be agreed to in writing by the Parties. In respect of Natural Gas, the Delivery Point shall be such point as may be agreed to in writing by the Parties.

**1.1.21** "Development and Production Expenditures" means those expenditures as so categorised in the Accounting and Financial Procedure described in Annex "C".

**1.1.22** "Development Operations" has the meaning ascribed to it in the Act but does not include operations beyond the Delivery Point.

**1.1.23** "Development Plan" means a development plan referred to in Section 20(3) of the Act.

**1.1.24** "Discovery" means a Discovery of Petroleum within the meaning of the Act.

**1.1.25** "Effective Date" means the date on which this Agreement is signed by all Parties hereto.

**1.1.26** "Exploration Licence" means the petroleum exploration licence referred to in paragraph 3.1 and granted pursuant to Section 8 of the Act.

**1.1.27** "Exploration Expenditures" are all necessary, appropriate and economical, direct and allocated indirect costs incurred in the search for petroleum and appraisal of Discoveries in the Contract Area as so categorised in the Accounting and Financial Procedures described in Annex C.

**1.1.28** "Exploration Period" means the First, Second and Third Exploration Periods referred to in paragraph 3.1.

**1.1.29** "Exploration Well" means a Well, other than an Appraisal Well, drilled in the course of Exploration Operations conducted hereunder.

**1.1.30** "Good Oilfield Practices" means all of those things that are generally accepted in the international petroleum industry as good, safe and efficient in the carrying out of Exploration or, as the case may be. Development operations and that an experienced, reasonable and prudent operator, engaged in a similar activity under similar circumstances elsewhere, would use.

**1.1.31** "Government" means the Government of the Republic of Uganda.

**1.1.32** "Government Production Share" has the meaning ascribed to it in Article 10.

**1.1.33** "Income Tax Act" means the Income Tax Act of 1997 as amended and in effect from time to time.

**1.1.34** "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 9.4.

**1.1.35** "Joint Operations" means operations in or relating to a Development Area carried out under a Joint Venture Agreement.

**1.1.36** "Joint Venture Assets" has the meaning ascribed to it in paragraph 9.4.

**1.1.37** "Joint Venture Interest" has the meaning ascribed to it in paragraph 9.4

**1.1.38** "Licence Area" means an area over which an exploration or production licence has been issued.

**1.1.39** "Licensee" means any person, company or entity and includes any other person, company or entity to whom the said companies or any of their approved assignees or successors assign directly their Participating Interest in whole or in part in any Exploration Licence or Production Licence.

**1.1.40** "Market Price" has the meaning ascribed to it in paragraph 12.1.1.

**1.1.41** "Maximum Efficient Rate" means the maximum rate of production of Crude Oil from a Development Area, without excessive decline of production or excessive loss of reservoir pressure, in accordance with good oilfield practice and the provisions of paragraph 7.8.

**1.1.42** "Natural Gas" means both Associated and Non-associated Gas and all its constituent elements produced from any Well in the Contract Area and all non-hydrocarbon substances therein.

**1.1.43** "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 9, designated for the purpose of holding Joint Venture Interest in the Joint Venture Assets attributable to a Development Area, and includes an approved assignee, of such body corporate provided such assignee satisfies the requirements of Article 9.

**1.1.44** "Non-Associated Gas" means Natural Gas other than Associated Gas.

**1.1.45** "Operating Expenses" means those expenses as so categorised in the Accounting Procedure described in Annex "C".

**1.1.46** "Operatorship" means responsibility assigned to any person, company or entity to conduct petroleum operations on behalf of the Licensee in the Licence Area.

**1.1.47** "Participating Interest" in relation to any Licence held by Licensee hereunder means an undivided and unencumbered interest in the rights and obligations under the Licence.

**1.1.48** "Participation Share of Production" has the meaning ascribed to it in paragraph 9.4 (c).

**1.1.49** "Party", or "Parties" means the signatories to this Agreement and any successors or assignees thereof, either individually or collectively, as the case may be.

**1.1.50** "Petroleum Operations" means Exploration Operations and Development Operations.

**1.1.51** "Pipeline Company" means the company referred to in Article 13.

**1.1.52** "Production Licence" means a petroleum production licence granted pursuant to Section 21 of the Act and the provisions of this Agreement.

**1.1.53** "Seaboard Terminal" means a terminal at Mombasa, Kenya or any other sea port agreed to by the parties at which crude oil is lifted into the tankers for export.

**1.1.54** "Sub-contractor" means any person, company or entity employed by or on behalf of a Contractor for the purpose of carrying out petroleum operations.

**1.1.55** "Tax Year" shall mean a period of twelve (12) consecutive calendar months commencing on 1st January and ending on the following 31st December, according to the Gregorian Calendar.

**1.1.56** "Venture Assets" means the property whether real or personal owned or acquired by Licensee in connection with Petroleum Operations hereunder and includes the Exploration Licence and any Production Licences granted hereunder.

**1.1.57** "Work Programme and Budget" means an itemised statement of Petroleum Operations to be carried out in the Contact Area and a detailed breakdown of the Contract Expenses associated therewith, including both capital and operating budgets, all in a form acceptable to the Government.

**1.2** The following words when used in this Agreement have the meanings ascribed to them in the Act:

"Block"

"Commissioner"

"Development Area"

"Discovery Area"

"Exploration Operations"

"Licence"

"Minister"

"Petroleum"

"Petroleum Production Licence"

"Petroleum Reservoir"

"Well"

## **ARTICLE 2 Agreement**

This Agreement constitutes an agreement made under Section 2 of the Act.

This Agreement supersedes and replaces any provisions on the same subject to any other agreement, whether written or oral, prior to the date of this Agreement.

## **ARTICLE 3 Responsibilities and Grant of Rights**

**3.1.** Contemporaneously herewith. Licensee is granted, under and in accordance with the Act, an Exploration Licence in respect of the Contract Area in the form set forth in Annex "B-1". The said Exploration Licence shall have a term not exceeding four (4) years ("First Exploration Period"), counted from the first day of the First Calendar Month following the Effective Date. Not less than ninety (90) days prior to the expiration of the First Exploration Period, Licensee may apply to the Government for renewal of the Exploration Licence covering the Contract Area. Such renewal shall be granted to Licensee subject to Licensee having (i) fulfilled its obligations under the Act and this agreement, including its relinquishment obligations under paragraph 3.5, during the First Exploration Period, and (ii) submitted with such application an undertaking to comply with the minimum work and expenditure obligations for the Second Exploration Period specified in Article 4. A maximum two (2) successive renewals of said Exploration Licence not exceeding (2) years each ("Second Exploration Period" and "Third Exploration Period") shall, subject to the requirements of the Act, be granted to Licensee upon application by Licensee to the Government in the prescribed manner.

**3.2** Notwithstanding the provisions of the preceding paragraph and without prejudice to the provisions of paragraph 3.4.2., in the event that on the ninetieth day before the date on which an Exploration Licence is due to expire Licensee is in the process of completing seismic or drilling operations under this Agreement, or the processing or



interpretation of data resulting therefrom, and provided that said operations are being conducted diligently and starting in good time and in accordance with Good Oilfield Practices, Licensee may apply for the renewal of any 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 Petroleum Operations within the Contract Area for the term of the Exploration Licences and any Production Licence granted to it in accordance with all applicable legislation and provisions of this Agreement.

**3.4** Licensee, on giving to the Government not less than ninety (90) days notice in writing (the "Surrender notice"), may:

**3.4.1** Surrender its rights and be relieved of its obligations in respect of the whole of the Contract Area if its minimum work and financial obligations under Article 4 hereof in respect of the relevant Exploration Period have been fulfilled in accordance with Section 51 of the Act;

**3.4.2** in respect of the Exploration Licence or any renewal thereof, elect to surrender its rights in respect of the whole of the Contract Area and be relieved of its minimum work and financial obligations under Article 4 in respect of the then current Exploration Period at any time within sixty (60) days following the date on which Licensee completes:

- a. the interpretation of seismic works exceeding those provided under paragraph 4.2.1 (i) and actually being executed at the end of the preceding Exploration Period; or
- b. the drilling, testing or plugging of any Exploration Well actually being executed at the end of the preceding Exploration Period in which event(s) the Surrender Notice shall be reduced to thirty (30) days; and

**3.4.3** at any time after the grant of the Exploration Licence, surrender its rights and be relieved of its obligations in respect of any block or blocks forming part of the Contract Area provided, however, that no surrender by Licensee of its rights over any part of the Contract Area shall relieve Licensee of its obligation to satisfy the minimum work and financial obligations referred to in Article 4 hereof in respect of the Exploration Period during which it gives the Surrender Notice.

**3.5** Notwithstanding the provisions of Section 15 of the Act, the following mandatory relinquishment provisions shall apply:

**3.5.1** if Licensee applies for a renewal of the Exploration Licence on or before the end of the First Exploration Period, Licensee shall relinquish the number of blocks constituting in total area not less than fifty percent (50%) of the original Contract Area;

**3.5.2** if Licensee applies for the second renewal of the Exploration Licence on or before the end of the Second Exploration Period, Licensee shall relinquish an

additional number of blocks constituting in total area not less than twenty five percent (25%) of the original Contract Area;

**3.5.3** the Licensee shall relinquish land within the Contract Area so as to comply to the satisfaction of the Minister with the following requirements:

- a. no relinquishment of a part only of a Block shall be permitted;
- b. the area(s) to be relinquished shall consist of a number of contiguous Blocks so arranged that so far as possible:
  - i. each Block other than the Blocks defining the boundaries of such shall be contiguous on all sides with other Blocks;
  - ii. the shape of the relinquished area should be approximately rectangular;
  - iii. the direction of its boundaries should be roughly north-south and east-west; and
  - iv. its longer boundaries should not be more than three times the length of its shorter boundaries.

**3.5.4** Any areas which Licensee elects to surrender pursuant to paragraph 3.4.3 shall be credited against the area which Licensee is next required to relinquish pursuant to this paragraph 3.5. Licensee shall not be required to relinquish pursuant to this paragraph 3.5 any area which constitutes a discovery or Development Area or any part thereof and said Discovery or Development Area shall be subtracted from the original Contract Area for the purpose of calculating the area to be relinquished pursuant to paragraph 3.5.1 to 3.5.2.

**3.6** The Government reserves the right to grant licences to other legal persons to prospect for, explore for and mine minerals within the Contract Area, and further reserves to itself the right to so prospect, explore and mine directly. Licensee shall use its best efforts to avoid obstruction or interference with such Licensees' 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 Operations within the Contract Area.

**3.7** In the event that Licensee discovers minerals other than Petroleum in the Contract Area which may be of economic value, 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

**3.8** If more than one person or entity comprises Licensee, the duties and obligations of the persons or entities constituting Licensee hereunder shall be joint and several.

**3.9** The Government shall in as far as is permitted by the law assist the Licensee to obtain rights of ingress to and egress from the Contract Area and any petroleum facilities used in Petroleum Operations and to obtain rights of way and rights to construct related Petroleum Operations facilities as may be reasonably required by the Licensee. The Licensee shall meet all the associated costs and expenses.

## **ARTICLE 4 Programme**

**4.1** Licensee shall commence Exploration Operations in Uganda within four (4) calendar months of the Effective Date.

**4.2** In discharge of its obligation to carry out Exploration Operations in the Contract Area, Licensee shall, in accordance with the provisions of this Article, 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 day on which the Exploration Licence becomes effective pursuant to Article 3 and terminating on the fourth anniversary of such date:

**(a) Exploration Area [\_\_\_\_\_]**

Undertake geological, geochemical, geophysical and related studies and review all existing gravity data, maps, reports, publications, research papers and other data and information available.

The acquisition, processing and interpretation of not less than [\_\_\_\_\_] line kilometres of seismic data; and the drilling of one exploration well whose location and depth Government and Licensee shall agree on. The seismic data shall be acquired in such a manner as to adequately sample the entire Contract Area.

**(b) Minimum Exploration Expenditure US\$ [\_\_\_\_\_] million**

Preliminary Geological, Geophysical and other studies US\$ [\_\_\_\_\_] Seismic Data US\$ [\_\_\_\_\_] Drilling US\$ [\_\_\_\_\_] million

**4.2.2 Second Exploration Period.**

Commencing on the day on which the Exploration Licence is renewed pursuant to Article 3 hereof and terminating on the second anniversary of such date.

**Exploration Area [\_\_\_\_\_]**

**(i) Minimum Work Programme:**

The acquisition, processing and interpretation of not less than [ ] line kilometres of seismic data, and the drilling of two exploration wells whose location and depth Government and Licensee shall agree on. The seismic data shall be acquired in such a manner as to adequately sample the remaining Contract Area.

**(ii) Minimum Exploration Expenditure US\$ [\_\_\_\_\_] million**

Seismic Data US\$ [\_\_\_\_\_] million Drilling US\$ [\_\_\_\_\_] million

**4.2.3 Third Exploration Period.**

Commencing on the day on which the Exploration Licence is renewed pursuant to Article 3 hereof and terminating on the second anniversary of such date.

#### **4.2.4 Exploration Area**

##### **(i) Minimum Work Programme:**

The acquisition, processing and interpretation of not less than [\_\_\_\_\_] line kilometres of seismic data, and the drilling of [\_\_\_\_\_] exploration wells whose location and depth Government and Licensee shall agree on. The seismic data shall be acquired in such a manner as to adequately sample the remaining Contract Area.

##### **(ii) Minimum Exploration Expenditure US\$ [\_\_\_\_\_] million**

Seismic Data US\$ [\_\_\_\_\_] million Drilling US\$ [\_\_\_\_\_] million

**4.3** For the purpose of this Article, Exploration Wells shall, except as provided in Article 42, be drilled on a location determined by 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 good oil industry practices, unless before reaching the aforementioned depth:

- a. basement is encountered;
- b. further drilling would present a foreseeable danger which cannot reasonably be contained;
- c. impenetrable formations are encountered;
- d. significant hydrocarbon-bearing formations are encountered which require protecting, thereby preventing such depth from being reached.

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), (b) and (c) immediately above occur. In all other circumstances in which a Well is terminated at a lesser depth, Licensee shall have the option to either (i) drill a substitute Exploration Well or (ii) 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.

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

**4.4** Compliance with the required minimum Exploration Expenditures in any Exploration Period shall not relieve Licensee of its obligation to comply with the required minimum Work Programme for such Exploration Period nor shall compliance with the required minimum Work Programme for any Exploration Period relieve Licensee of its obligation to comply with the required minimum Exploration Expenditures for such Exploration Period.

**4.5.** 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 Licence, 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 First Exploration Period or Second and Third, as the case may be,

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

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

B = "U.S. Industrial Goods Wholesale 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.

**4.6** The Exploration Licences issued to 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 Exploration Licences issued pursuant to Article 3 and the terms and conditions of such Licences and any renewal thereof shall be drawn accordingly.

#### **4.7**

- a. On or before the Effective Date, the Licensee shall provide a Bank Guarantee in the form set forth in Annex D, and amounting to the minimum expenditure of the work program to be undertaken by Licensee in the Contract Area during the First Exploration Period pursuant to paragraph 4.2.1. 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, upon the expiration of the Exploration Licences, or upon the date of termination of this Agreement, or upon surrender of the entire Contract Area by Licensee pursuant to paragraph 3.4, whichever first occurs, Licensee has not expended for Exploration Operations 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, at the end of the initial term of the First Exploration Licence or any Exploration Period, Licensee has not expended for Exploration Operations

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 Licensee to the Government.

**4.8** For the purpose of this Act, and without prejudice to their recoverability as Contract Expenses for other purposes under this Agreement, expenditure by 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 17(1)(b) 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 19.2, shall be treated as Exploration Expenditure obligations set forth in paragraph 4.2;
- c. travel expenses in connection with Petroleum Operations;
- d. property purchase or rental in connection with Petroleum Operations;
- e. the training of Ugandan nationals pursuant to Article 18 of this Agreement; and
- f. any annual charges in respect of surface rentals due in accordance with Article 26 of this Agreement.

## **ARTICLE 5 Advisory Committee**

**5.1** Not later than ninety (90) days after the Effective Date, a Committee shall be established by the Government and Licensee to be known as the Advisory Committee. The Advisory Committee shall consist of four (4) members, two (2) of whom shall be appointed by the Government and two (2) by Licensee. The Chairman of the Advisory Committee shall be designated by the Government from among the members it has appointed. The Government and Licensee shall also designate alternate members and shall have the right to designate an alternate member at any time, which right shall be exercised by written or telexed notification addressed to the other party hereto. In the case of absence or incapacity of a member of the Committee, his alternate shall automatically assume the rights and obligations of the absent or incapacitated member.

**5.2** All meetings of the Advisory Committee shall be held in Kampala or such other place in Uganda or elsewhere as may be unanimously agreed by the members of the Committee. Ordinary Meetings of the Advisory Committee shall be held at least twice a year during the Exploration Period and at least once a Calendar Quarter following the grant of the first Production Licence. Special meetings of the Advisory Committee may be called on reasonable notice by either party for the purposes of reviewing any major development or problems in Petroleum Operations, and recommending appropriate action to be taken. Meetings of the Committee shall require a quorum of three (3) members. The Secretaryship of the Advisory Committee shall be entrusted to Licensee. Votes at the Advisory Committee meetings shall only be made on matters included in the respective agenda, unless the members of the Advisory Committee unanimously agree otherwise. Any member of the Committee may vote by written and signed proxy held by another member. The Government and Licensee shall have

the right to bring expert advisers to any meeting of the Committee to assist in the discussions of technical and other matters requiring expert advice.

**5.3** Without prejudice to the rights and obligations of Licensee for the conduct of the Petroleum Operations carried out hereunder, the Advisory Committee shall have the following functions:

**5.3.1** to review and approve:

- i. any proposed Exploration Operations contained in the annual Work Programmes and Budgets, or any amendment thereto, presented thereto by Licensee under Article 6; and
- ii. any Appraisal Programmes, or any amendment thereto, presented thereto by Licensee under Article 7 until such time as the provisions of paragraph 5.3.2 are applicable;

**5.3.2** at any time after the date on which an application for a Production Licence is made by Licensee in respect of any part of the Contract Area, and for as long as there is production from the Contract Area, to review and approve, subject to such reasonable modifications as the Advisory Committee may consider necessary, any Appraisal Programmes, or any material amendments thereto, presented to the Committee by Licensee under Article 7;

**5.3.3** to review and approve:

- i. the annual Work Programmes and Budgets, or any material amendment thereto, presented to the Committee by Licensee which relate to Development Operations; and
- ii. drilling programmes and related budgets submitted to the Committee by Licensee pursuant to, and subject to the conditions provided in Article 4 in respect of Exploration Wells;

**5.3.4** to review and Improve the production forecast statements prepared by Licensee prior to their presentation to the Government pursuant to paragraph 7.8;

**5.3.5** to ensure that the accounting of costs and expenses and the maintenance of operating records and reports for the Petroleum Operations are made in accordance with this Agreement and the accounting principles and procedures generally accepted in the international petroleum industry; and

**5.3.6** to review and make recommendations to Licensee with respect to any proposals made by Licensee concerning the application for renewal of the Exploration Licence, or the surrender or relinquishment of any part of the Contract Area.

**5.4** Decisions of the Advisory Committee pursuant to paragraph 5.3 shall be made unanimously through consultation. All decisions made unanimously shall be equally binding upon the Government and Licensee. Without limitation to the foregoing, any Development Plan recommended by the Advisory Committee shall be deemed to have met the requirements of Section 22 (1) of the Act. Regarding the matters on which agreement cannot be reached, the Government and Licensee may convene another

meeting and shall attempt, in good faith, to find another solution. However, if the Advisory Committee fails thereafter to reach a decision on the matters specified in paragraph 5.3 above;

- i. within thirty (30) days of the date of the Advisory Committee meeting at which Licensee's first submission in respect of the matters specified in paragraphs 5.3.1, 5.3.5 and 5.3.6 above is considered;
- ii. within forty-five (45) days of the date of the Advisory Committee meeting at which Licensee's first submission in respect of the matters specified in paragraphs 5.3.2, 5.3.3 and 5.3.4; is considered;

the parties may refer the matter for determination in accordance with paragraph 23.3. The determination in accordance with paragraph 23.3 shall be final and with this determination the programme, budget or forecast shall be deemed to have been approved by the Advisory Committee as determined, except that Licensee, may, in the case of a determination made concerning matters specified in paragraph 5.3.2, within thirty (30) days of receipt of such determination notify the Government that the Discovery to which such programme relates is no longer considered to be of commercial or potential commercial interest, as the case may be, within the meaning of proviso A to Section 17(1)(b) of the Act. If Licensee so notifies the Government, the provisions of Section 18 of the Act shall apply.

Licensee's proposal shall prevail provided that such proposal is not inconsistent with the relevant provisions of this Agreement and in particular, the minimum work and expenditure obligations specified in Article 4.

**5.5.** All costs and expenses associated with the activities of the Advisory Committee which are borne by Licensee may be treated as Contract Expenses.

## **ARTICLE 6 Work Programmes and Budgets**

**6.1** So long as any Exploration Licence or Production Licence issued to Licensee herein remains in force, at least sixty (60) days prior to the beginning of each Calendar Year, Licensee shall prepare and submit to the Advisory Committee for its review and, where required pursuant to Article 5, approval, a detailed annual Work Programme and Budget, setting forth the Exploration Operations and/or Development Operations which Licensee proposes to carry out in the ensuing Calendar Year and the estimated cost thereof. An annual Work Programme and Budget for the period from the date of effectiveness of the First Exploration Licence to the end of the Calendar Year in which such date falls shall be presented to the Advisory Committee within ninety (90) days of the Effective Date for review in accordance with paragraph 5.3.1.,

**6.2** Every Work Programme and Budget submitted to the Advisory Committee during the Exploration Period pursuant to this Article and every revision or amendment thereof shall be consistent with the requirements set out in Article 4 relating to minimum work and expenditure for the Exploration Period within which the Work Programme and Budget will fall.



**6.3** After giving notice to the Advisory Committee, Licensee may amend any aspect of the annual Work Programme or Budget relating to Exploration Operations submitted to the Advisory Committee provided such amendment is consistent with Licensee's obligations under Article 4. Any notice given pursuant to this paragraph shall state reasons why, in the opinion of Licensee, an amendment is necessary or desirable and the views and recommendations of the Advisory Committee with respect to any such amendment shall be given due consideration by Licensee. In all other cases where Licensee wishes to amend the annual Work Programme and Budget, the amendment shall be referred to the Advisory Committee for its review and approval, which approval shall not be unreasonably withheld, before Licensee may proceed with its operations on the basis of such amended Work Programme and Budget.

## **ARTICLE 7 Discovery, Development and Production**

**7.1** Where, pursuant to Section 17 of the Act, notice has been given to the Government of a Discovery in the Contract Area, Licensee shall forthwith inform the Government of the steps it proposes to take to satisfy the requirements of Section 17(1)(a)(iii) of the Act.

**7.2** Unless, following a Discovery by Licensee in the Contract Area, Licensee gives in respect of such Discovery a notice to the Minister for the purpose of paragraph A of the provision to section 17 (1) (b) of the Act or unless the provisions of paragraph B of that Proviso are otherwise applicable. Licensee shall promptly after the technical evaluation of the test results relating to such Discovery has been completed, prepare and submit for the consideration of the Advisory Committee its proposals for an Appraisal Programme to meet its obligations as Licensee under the Act. Notwithstanding the foregoing, in the event that Licensee notifies the Government within thirty (30) days following the date on which its technical evaluation of the test results relating to a Discovery has been submitted to the Government, the said Discovery does not in and of itself warrant immediate appraisal and provides reasonable justification therefor, an exemption from the requirements of Section 17 (1)(b) of the Act may be granted by the Minister, pursuant to paragraph B of the proviso to that Section, for so long thereafter as Licensee is carrying out continuous Exploration Operations in the Contract Area.

**7.3** As soon as the Advisory Committee has, pursuant to paragraph 5.3.2, reviewed and approved an Appraisal Programme submitted by Licensee as aforesaid, Licensee shall promptly thereafter commence implementation thereof.

### **7.4**

- i. If during the term of any Exploration Licence or renewals thereof granted pursuant to this Agreement, 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 licensee accordingly upon which the parties shall meet to determine whether the development of the said Discovery or Discoveries would be economically and technically feasible.

- ii. In determining whether the Discovery or Discoveries as the case may be is (are) economically and technically feasible, the parties 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 Good Oilfield Practice.
- iii. In the event that the parties 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 (including offtake arrangements), a Production Licence shall be granted to Licensee in respect of the Discovery Area(s) subject thereto and thereafter Licensee shall complete the facilities necessary for the Government to take delivery of production from the said Discovery Area(s) ex-field and all costs associated with the taking of delivery therefrom shall be for the Government's account.

It is understood, however, that Licensee shall not be required to produce crude oil at a rate higher than the Maximum Efficient Rate in connection with the scheme.

- iv. Any crude oil production delivered to the Government pursuant to the provisions of this Article 7.4 (iii) shall serve to reduce Licensee's obligation to otherwise supply crude oil for the internal consumption requirements of Uganda pursuant to Paragraph 15.1 and will not prejudice Licensee's rights under paragraph 7.8 thereafter in respect of the subsequent grant of a Production Licence in relation to a wider Discovery Area(s) which includes the said Discovery Area(s). It is understood, however, that crude oil production shall continue to be made available to the Government in accordance with the terms and conditions agreed to in 7.4 (iii) above.
- v. Nothing in this Article shall require Licensee to undertake the completion of the field facilities required for the early production scheme in the event that Licensee reasonably determines that such scheme (including the terms and conditions for the implementation thereof) is not economically or technically feasible.

**7.5** Before applying for a Production Licence pursuant to Section 19 of the Act, Licensee shall consult with the Advisory Committee in connection with the preparation of a Development Plan to be submitted by Licensee to the Minister in accordance with Section 20 of the Act.

**7.6** If the parties are unable to settle amicably any dispute or difference as to whether the Development Plan meets the requirements of Section 22 of the Act within twelve (12) calendar months of the date of the Minister's aforesaid notification, either party may refer the matter to a sole expert pursuant to Article 23.

If, as a consequence of the said award, Licensee determines that the development project (in respect of which the Development Plan was submitted) ceases to be commercially attractive, Licensee may so notify the Government in writing within six (6) Calendar Months of the date of said award, whereupon the Government shall have

the right to require Licensee to relinquish its rights with respect to the Discovery Areas which are the subject of such Development Plan and to forfeit its rights to any subsequent production therefrom.

**7.7** Upon submission by Licensee of a Development Plan that meets the requirements of Section 22 of the Act together with the application for a Production Licence, the Minister shall promptly issue to Licensee a Production Licence in the form attached hereto in Annex "B-II covering the Development Area for a period not exceeding twenty five (25) years counted from its date of issuance.

A production Licence shall be renewable, upon application, by Licensee in the prescribed manner, for a term equal to the period between the initial grant of such Production Licence and the commencement of Commercial Production, but in no event exceeding five (5) years. The Minister shall not impose conditions for the granting or renewal of a Petroleum Production Licence under Sections 21(a) and 27 of the Act which are inconsistent with the terms of this Agreement or the requirements of the Act.

**7.8** Licensee shall use its best efforts to produce Crude Oil from each Development Area at the Maximum Efficient Rate. The Maximum Efficient Rate of production for Crude Oil and the production rate for Non-associated Gas shall be estimated in the Development Plan for each such area. Such rates shall be reviewed annually at the time of submission by Licensee of the annual Work Programme and Budget to the Advisory Committee pursuant to paragraph 5.3.3 and revised, if necessary, by mutual agreement.

**7.9** Not less than sixty (60) days prior to the beginning of each Calendar Year following the commencement of Commercial Production, 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 Licensee estimates can be produced, saved and transported hereunder from each Development area during such Calendar year in accordance with Good Oilfield Practices. Licensee shall endeavour to produce in each Calendar Year the forecast quantity.

**7.10** In the event that Licensee wishes to establish a refinery to refine the crude oil and natural gas that the Licensee estimates can be produced. Government may grant the Licensee the right to establish such refinery.

## **ARTICLE 8 Records, Reports, Data and Inspection**

**8.1** Licensee shall prepare and maintain accurate and current records of Petroleum Operations and its activities in the Contract Area hereunder. The accounting records will be maintained in accordance with accepted international petroleum industry practices and standards. Licensee shall furnish the Government in conformity with the Act and this Agreement, and as the Government may reasonably require, information, reports and data concerning its activities and operations under this Agreement.

**8.2** The Government and its duly authorised representatives shall have full and complete access to the Contract Area at all reasonable times with a right to observe Petroleum Operations and upon at least thirty (30) days advance written notice to the Licensee shall have the right to inspect all assets, records and Data owned or maintained by Licensee relating to Petroleum Operations and this Agreement. In doing so, the Government and its representatives shall not unduly interfere with Licensee's Petroleum Operations. Licensee shall provide the Government, on daily basis where applicable, with copies of any Data acquired in the Petroleum Operations (include geological and geophysical reports, logs and well surveys) and information and final interpretations of such Data in the Licensee's possession that are acquired during Petroleum Operations. However, the Government and its representatives may make a reasonable number of surveys, drawings, tests and copies for the purpose of implementing this Agreement. In so doing, the Government and its representatives shall be entitled to make reasonable use of the equipment or instruments of Licensee provided that no damage to the equipment or instruments or interference with the Petroleum Operations hereunder shall result from such use. The Government and its representatives shall be given reasonable assistance by Licensee for such functions, and Licensee shall afford to the Government and its representatives all facilities and privileges afforded to its own personnel in the field including the use of office space and housing free of charge.

**8.3** Licensee shall save and keep for the duration of this contract a representative portion of each sample of cores, cuttings and fluids taken from the Exploration Wells drilled which shall be forwarded to the Government or its representatives at such time and in the manner directed by the Government. All cores and samples acquired by Licensee shall be available for inspection by the government or its representatives at all reasonable times. Notwithstanding the above. Operator will supply to the Government (Permanent Secretary, Ministry of Energy and Mineral Development/copy to Commissioner, Petroleum Exploration and Production Department) a telefaxed summary of field geological, and/or geophysical operations from any field geological or geophysical survey being carried out including but not limited to: details of locations sampled, foot traverses measured, kilometres of aeromagnetic, gravity/seismic data acquired, etc.; and on a daily basis a telefax containing details of drilling operations carried out during the previous 24 hours including but not limited to a summary of lithologies penetrated, tops encountered, gas and oil shows, tests, cores and logging runs, future plans (including abandonment plans at least 24 hours prior to inception) and on a regular basis, and at any rate not later than four months after the conclusion of any geological, geophysical or drilling operation, reproducible copies and digital tapes of all surface logs, airmag, gravity, seismic and other records as well as processed data, and all subsurface information including but not limited to geological, electrical, mechanical and other logs, surveys, reports, records, from a well on the geology and drilling operations carried out as well as final well reports and final completion logs, together with one envelope of washed and dried ditch cuttings and one cloth bag of unwashed ditch cuttings at all sampling intervals and one vertical half of all cores cut.

**8.4** Notwithstanding paragraph 8.3 above. Licensee shall be freely permitted to export samples for purposes of testing and analysis. Originals of technical data and records can be exported with the permission of the Government provided that an exact copy of that data, on a storage media similar to that being exported, is maintained in the

Republic of Uganda and provided that such exported records and data shall be repatriated to the Republic of Uganda.

**8.5** In addition to the material stipulated in paragraph 8.3, supra. Licensee shall provide, in accordance with the standards and practice of the Petroleum Industry, at no cost to the Government, in an appropriate and reproducible form and in a prompt and timely manner all maps, sections, profiles and other representative original and interpretational geophysical, geological or engineering data ("Data"), Such Data (which shall include all magnetic tapes and any other storage media, whether raw, processed or reprocessed) shall be forwarded to the Government or its representatives in the prescribed manner or otherwise at such time and in the manner directed by the Government.

Subject to the provisions of paragraph 8.6, all original data resulting from Petroleum Operations are the property of the Republic of Uganda, including, but not limited to, geological, geophysical, petrophysical, engineering, well logs, magnetic tapes, cuts of core and cutting samples, production data and completion status reports and any other data which the Licensee may compile during the term hereof, including all reports, analyses, interpretations, maps and evaluations thereof prepared by the Licensee and any sub-licensees or consultants to the Licensee or by Affiliated Companies, and cuttings of all samples that have been obtained or compiled during the term hereof (in this Agreement referred to as "Data").

**8.6** Except as provided in paragraphs 8.7 and 8.8, all Data submitted to the Government by Licensee shall be kept confidential and not reproduced or disclosed to third parties by any party to this Agreement except, in the case of disclosure by the Licensee, with the prior written consent of the Government or, in the case of disclosure by the Government prior to the relinquishment of the area to which they relate, with the prior written consent of Licensee, which consents (whether of the Government or Licensee) shall not be unreasonably withheld or delayed.

**8.7** The provisions of paragraph 8.6 shall not prevent disclosure by:

- i. Licensee to an Affiliated Company, its home government or any department, agency or instrumentality thereof if required by law, recognised stock exchanges on which shares of the Licensee or its Affiliated Companies are traded, financial institutions and professional advisers and arbitrators and experts appointed pursuant to Article 23 of this Agreement;
- ii. Licensee to bona fide prospective assignees of a Participating Interest or to a corporation with which Licence is conducting bona fide negotiations directed towards a merger or consolidation, upon fifteen (15) days prior written notice to the Government identifying the parties to which disclosure will be made; provided, however, that the Government may veto any such disclosure where a party to which such disclosure is proposed is in bona fide discussions with the Government regarding rights to conduct Petroleum Operations Uganda;
- iii. the Government to any agency of the Government, financial institution or person acting as a consultant or professional adviser to the Government, and arbitrators and experts appointed pursuant to Article 23 of this Agreement; and
- iv. the Government for statistical purposes or in connection with award of new acreage.

All Data disclosed to third persons shall be disclosed on terms which to the extent possible ensure that the same are treated as confidential by the recipient for so long as such Data remains subject to the confidentiality undertakings specified in paragraph 8.6.

**8.8** Without prejudice to the above provisions, the Government may provide data and information that may come into its possession and may be relevant to enable the Licensee carry out its exploration activities under this Agreement. The Data shall be treated with confidentiality and shall not be disclosed to third parties without the written consent of Government.

**8.9** None of the Parties hereto shall be bound by the confidentiality undertaking set forth in paragraph 8.6 with respect to any Data which are or become in the public domain through no fault of such Party or which were already known by such Party before the Effective Date or which became known to such Party other than by reason of a breach of the undertakings in paragraph 8.6.

**8.10** Licensee, its Affiliated Companies, Contractor or Sub-Contractors shall disclose to Government the technology necessary for the evaluation and understanding of any raw data or processed data resulting from Licensee's work in the Contract Area.

## **ARTICLE 9 Royalty and State Participation.**

**9.1** In respect of the requirements of Section 46 of the Act, Licensee shall pay to Government the following Royalty on the gross total daily production in barrels of oil per day (bopd) for each Contract Area.

<b>Gross Total Daily Production (BOPD)</b>	<b>Royalty</b>
Where the production does not exceed 2,500	5.0%
Where the production is higher than 2,500 but does not exceed 5,000	7.5%
Where the production is higher than 5,000 but does not exceed 7,500	10%
Where the production exceeds 7,500	12.5%

**9.2.** The Royalty stipulated in paragraph 9.1 shall be received by Government on a monthly basis whether in kind or in cash depending on government's preference.

**9.3.** The bopd calculation shall be done monthly on the basis of monthly production.

**9.4** The 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 the Government shall inform the Licensee of its decision in writing within 120 days of the receipt of the application for a Production Licence. Government (or its Nominee) shall be entitled to participate Development Area by Development Area. The Licensee agrees to carry the costs of the Government or its Nominee through development to production. These costs are recoverable including interest at the London Inter Bank Offer Rate (LIBOR) quoted at or about 11:00 am on

the date next to when they were incurred by the Licensee. These costs will be repaid out of sixty (60%) percent of Government's share of cost recovery oil. Government will be responsible for any taxes arising out of its share of the Joint Venture-

- a. For purposes of this provision the Venture Assets attributable to a Development Area (hereinafter called the "Joint Venture Assets") are:
  - i. in case of the first Production Licence granted, the Production Licence and any real or personal property wherever the same may be situated, acquired for the purpose of carrying on Joint Operations in the Development Area subject thereto or acquired for the purpose of carrying on Petroleum Operations in the Contract Area where such property was acquired before the grant of the first Production Licence;
  - ii. in the case of a second or subsequent Production Licence granted, that Production Licence and any real or personal property acquired for the purpose of carrying on Joint Operations in that Development Area or acquired for the purpose of carrying on Petroleum Operations or Joint Operations 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 Production Licence.
- b. Immediately following the grant of each Production Licence, Licensee, or each entity comprising Licensee at that time, will promptly take such action as may be necessary to assign to the nominee of the Government, an undivided proportionate share in the Venture Assets equal to the Nominee of the Government's Participating Percentage Interest with effect that thereafter, 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 Production Licence reduced by the product of that interest and the Joint Venture Interest acquired by the Nominee of the Government.
- c. "Participation Share of Production" means a proportion of the Petroleum produced and saved from the Contract Area and not used or lost in Joint Operations and such proportion attributable to Licensee and the Nominee of the Government shall be equal to their respective Joint Venture Interests in Joint Venture Assets.
- d. Gas Royalties will be negotiated upon the discovery of gas.

## **ARTICLE 10 Cost Recovery and Production Sharing**

**10.1** For purposes of Cost Recovery and Production Sharing, 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 by contract basis. There shall be no consolidation.

**10.2** All exploration, development, production and operating expenditures, as defined in Annex C, incurred by the Licensee shall be recovered from 50% of gross oil production after deduction of the Royalty specified in paragraph 9.1. Cost recovery in respect of gas production will be negotiated upon the discovery of gas.

**10.3** After the cost recovery specified in paragraph 10.2 the following Government/Licensee split will apply on the remaining total daily production (profit oil),

	<b>Production BOPD</b>	<b>Government Production Share</b>	<b>Licensee Production Share</b>
(i)	Where production does not exceed 5,000	50%	50%
(ii)	Where production is higher than 5000 but does not exceed 10,000	55%	45%
(iii)	Where production is higher than 10,000 but does not exceed 20,000	60%	40%
(iv)	Where production is higher than 20,000 but does not exceed 30,000	65%	35%
(v)	Where production is higher than 30,000 but does not exceed 40,000	75%	25%
(vi)	Where production is higher than 40,000	85%	15%

**10.4** The Government/Licensee profit oil split is based on total production and not on incremental production.

**10.5** The calculation for the Government/Licensee split shall be based on monthly production.

**10.6** The Government shall receive its share of profit oil in kind or in cash depending on its (Government) preference. The valuation shall be in accordance with Article 12.1.1.

**10.7** The Licensee shall carry forward to subsequent years all unrecovered costs until full recovery is completed

**10.8** Not less than thirty (30) days prior to the beginning of each Calendar Year, Licensee shall prepare and furnish to the Government for approval, which approval shall not be unreasonably withheld, an estimate by Quarters for the forthcoming Calendar Year of (i) all Contract Revenues and Contract Expenses to be incurred, (ii) Income Tax of Licensee (or each entity comprising Licensee, as the case may be) in respect of taxable income derived from Petroleum Operations carried out hereunder, for such Calendar Year. Such estimate shall be consistent with the forecast statement furnished pursuant to paragraph 7.8 and the annual Work Programme Budget approved by the Advisory Committee pursuant to Article 5. and shall set forth the other assumptions and projections upon which it is based. Quarterly updates of such estimate shall be submitted by Licensee to the Government for approval (which approval shall not be unreasonably withheld) within thirty (30) days after the end of each Quarter.



## **ARTICLE 11 Taxation**

All central, local district administrative, municipal or other taxes, duties, levies or other lawful impositions applicable to Licensee shall be paid by the Licensee in accordance with the laws of Uganda in a timely fashion.

## **ARTICLE 12 Valuation and Measurement of Petroleum**

**12.1** Crude Oil shall, for all purposes of this Agreement, be valued at the end of each Calendar Quarter as follows:

**12.1.1** Except as provided in paragraph 12.1.2, the market price ("Market Price") used to value Crude Oil shall, where arm's length sales transactions in freely convertible currencies of Crude Oil to third parties have been made during the preceding month, be the weighted average of the per Barrel net realised price obtained FOB the seaboard terminal point of export for such arm's length third party sales less, in the event that a separate pipeline company is formed pursuant to paragraph 13.2 the average tariff charge per Barrel for such month imposed by the pipeline company for transporting the oil from the Delivery Point to the seaboard terminal point of export.

**12.1.2** If less than fifty percent (50%) by volume, of Crude Oil sales from the Contract Area during such month fall under paragraph 12.1.1, the Market Price for such month shall be the simple arithmetical average of the prevailing per Barrel selling prices in such quarter of a basket of the three (3) 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, taking into account differences in point of sale, quality, grade, gravity or sulphur content and any special terms and conditions relating to the sale of such crude oils, less, in the event that a separate pipeline company is formed pursuant to paragraph 13.2, 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 point of export.

**12.1.3** For the purposes of determining the Market Price as described above, 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.

**12.1.4** The Market Price shall be determined at the end of each month in United States Dollars in accordance with paragraph 12.1.

**12.2** Any disagreement concerning the determination of Market Price under paragraph 12.1 shall be first considered by a pricing committee composed of two (2) representatives from the Government and two (2) representatives from Licensee. In the event the pricing committee 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 in accordance with paragraph 23.2. During such referral, which shall in no event take longer than thirty (30) days, the Market Price for the preceding month shall apply and adjustments, if any, shall be made in the following month based on the decision of the expert.

**12.3** Natural Gas shall be valued in accordance with the provisions of paragraph 16.4.

**12.4** Licensee shall install, operate and maintain at the Delivery Point equipment for measuring the volume and quality of the Petroleum produced and save hereunder, 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 Government, which approval shall not be unreasonably withheld or delayed. The Government or its authorised representatives, at its own expense and risk (save where injury or damage results from the Gross Negligence or Willful Misconduct of Licensee), shall have the right to inspect and require Licensee to test in its presence such equipment and devices at all reasonable times. The equipment and devices used or installed pursuant to this paragraph shall not be replaced or altered without the prior approval of the Government, which approval shall not be unreasonably withheld or delayed; provided, however, that in the case of urgency or so as to prevent the interruption of ongoing production, Licensee may proceed with such replacement or alteration without the prior approval of the Government but shall immediately thereafter notify the Government of such replacement or alteration.

**12.5** Licensee shall undertake to measure the volume and quality of the Petroleum produced and saved hereunder, consistent with generally accepted practices in the international petroleum industry, with the frequency and according to procedures which shall be approved by the Government, which approval shall not be unreasonably withheld or delayed.

**12.6** If it is determined, following an inspection or test carried out or witnessed by the Government or its representatives, that the equipment, devices or procedures used for measurement are inaccurate and exceed the permissible tolerances, which shall be established by agreement between the Government and Licensee with reference to normal international oil industry standards, and such determination is verified by an independent surveyor of international repute acceptable to both parties, such inaccuracy shall be deemed to have existed for one-half of the period since the last previous such inspection or test, unless it is proved that such inaccuracy has been in existence for a longer or shorter period. Appropriate adjusting payments or refunds covering such period shall be made within thirty (30) days from the date of such determination.

## **ARTICLE 13 Pipeline Transportation**

**13.1** Licensee shall have the right to take and transport to an ocean port 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 facilities. The Government shall assist Licensee on matters involving rights of way, licences or other authorisations required under Uganda law in connection with such facilities and shall assist Licensee in its negotiations with neighbouring countries regarding rights of way and other conditions relating to the construction, operation and maintenance of such facilities in such countries.

**13.2** It is understood by the Parties hereto that the construction, financing, operation and maintenance of an export pipeline, pumping stations and related seaboard terminal facilities shall be carried on through 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 of loading. In such event, the operations of the Pipeline Company will not be included within the meaning of Petroleum Operations under this Agreement and any related Licences.

**13.3** Any Development Plan submitted to the Minister by Licensee pursuant to Section 20 of the Act shall include 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 said transportation arrangements involve the formation of a separate Pipeline Company pursuant to paragraph 13.2, 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 a reasonable return thereon; such return will be determined having regard to the risks assumed by shareholders of the Pipeline Company in out-laying the funds for the construction, operation and maintenance of such facilities and the cost of borrowing such funds as are required; and
- c. in the case of proposals by Licensee for the initial construction of the export pipeline, such proposals shall ensure that the pipeline and related facilities are of sufficient design capacity to handle and transport to the seaboard terminal the estimated production entitlements of all Parties hereto from the Contract Area. If at any time, the throughput capacity of such facilities should be insufficient to handle and transport the respective production entitlements of such Parties, available capacity shall be shared between the Parties in the proportion which each Party's production entitlement bears to the total quantity of production which would otherwise be available for transportation hereunder.

**13.4** The Government or its Nominee shall be fully involved in the determination of the tariff charges for the pipeline.

**13.5.** Transportation tariff charges of the Pipeline Company, and any costs incurred beyond the Delivery Point shall not be allowable Contract Expenses hereunder.

## **ARTICLE 14 Marketing and Lifting**

**14.1** It is understood that Licensee may itself purchase the Nominee's production entitlement made available pursuant to this paragraph in lieu of disposal of same to third parties, in which event the price at which any such purchase by Licensee shall be effected shall be determined pursuant to Article 12. In the event that Licensee elects not to exercise its rights under paragraph 14.2, the Government may, at any time by notice in writing to Licensee, also require Licensee to assist the Government in the sale of all or part of the Government Production Share attributable to Government pursuant to Article 10. The terms and conditions on which 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.

**14.2** Licensee shall have the right to purchase all or any part of the Government Production Share attributable pursuant to Article 10 upon giving written notice to the Government not less than ninety (90) days prior to the commencement of each six (6) Calendar Months of each Calendar Year, specifying the quantity which it elects to purchase, provided, however,; that such right of purchase shall not apply in respect of all or any part of the Government Production Share which may be required to satisfy the requirements of internal consumption of Uganda or in connection with government to government sales or with barter transactions and provided further that the price at which any such purchase by Licensee shall be effected shall be determined pursuant to Article 12. The Licensee's right to purchase any part of Government's Production Share should not be used in such a manner as to leave Government with only a small volume of production that is unnecessarily difficult and expensive to dispose of.

**14.3** Not less than twelve (12) Calendar Months prior to the commencement of Commercial Production from any Development Area, Licensee shall submit to the Government for approval proposed procedures and related operating regulations and financial terms covering the scheduling, storage and lifting of Crude Oil from each such Development Area.

The procedures, regulations and terms shall comprehend the subjects necessary to efficient and equitable operations 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. To the extent that such procedures, regulations and terms are consistent with generally accepted practices in the International Petroleum Industry, the Government may not unreasonably withhold such approval.

## **ARTICLE 15 Domestic Requirements**

**15.1** Out of the total quantity of Crude Oil production to which the Licensee is entitled in each Calendar Quarter, the Government may 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. The Government shall reimburse the Licensee for such quantity in United States Dollars at the price as calculated pursuant to paragraph 12.1 hereof within thirty (30) days after the end of the Calendar Month in which such delivery

takes place, unless otherwise agreed between the parties. The maximum quantity of Crude Oil that the Government may take to satisfy the internal consumption requirements of the country shall be calculated by multiplying the total quantity of Crude Oil produced from the Contract Area during the period under consideration, less consumption of Crude Oil incidental to Petroleum Operations, by a fraction, the numerator of which is the internal consumption requirements of Uganda during the period, and the denominator of which is the volume of Crude Oil produced in Uganda by all Licensees (including Licensee). Any Crude Oil production dedicated to an early production scheme in any such Calendar Year pursuant to paragraph 7.4 shall be deducted from the maximum quantity so determined for such Calendar Year.

**15.2** If the Government elects to exercise its rights under paragraph 15.1, 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 7.8 and 11.5. 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.

## **ARTICLE 16 Natural Gas**

**16.1** licensee shall have the right to use Associated Gas for Petroleum Operations, including, but not limited to, re-injection for pressure maintenance, power generation and recycling operations.

**16.2** Where Non-associated Gas has been discovered in the Contract Area and Licensee has not pursuant to paragraph 7.2 given in respect of the Discovery a notice to the Minister for (he purpose of paragraph A of the proviso to Section 17(1)(b) of the Act, the Parties shall, unless the provisions of paragraph B of such proviso are otherwise applicable, as soon as possible after completion by Licensee of an appraisal programme, or sooner if so agreed, meet together with a view to reaching an agreement on the development, production, processing and sale of such gas.

**16.3** Associated Gas which is not used in Petroleum Operations, and the processing and utilisation of which, in the reasonable opinion of Licensee is not economical, shall be returned to the subsurface structure or may be flared with the consent of the Government- In the event that Licensee chooses to process and sell Associated Gas, Licensee shall notify the Government of the same and upon such notification, the Government and Licensee shall, as soon as practicable thereafter, meet together 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 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 Operations, in which event. Licensee may flare such gas until such time as the facilities are in place to enable the Government to take delivery (hereof. There shall be no charge to the Government for such Associated Gas, provided that the cost to gather such Associated Gas at the point of being flared and to process and utilize it shall be for the account of the Government.

**16.4** The value to be attributed to Natural Gas shall:

**16.4.1** For arm's length sales to third parties, be equal to the net realised price obtained for such Natural Gas at the Delivery Point;

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

- i. the quantity and quality of the Natural Gas;
- ii. the price at which arms length sales of Natural Gas from other sources in Uganda, if any, are then being made;
- iii. the price at which arms length sales, if any, of Natural Gas imported into Uganda are being made;
- iv. the purpose for which the Natural Gas is to be used; and
- v. the international market price of competing or alternative fuels or feedstocks.

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

## **ARTICLE 17 Purchases in Uganda**

**17.1** In procurement. Licensee shall give preference to goods which are produced or available in Uganda and services which are rendered by Ugandan citizens and companies, unless such goods and services are offered on terms which are not equal to or better than imported goods and services with regard to quality, price and availability at the time and in the quantities required.

**17.2** The Licensee shall establish appropriate procedures, including tender procedures, for the acquisition of goods and services which shall ensure that the suppliers and Sub-Contractors in Uganda are given adequate opportunity to compete for the supply of goods and services. The tender procedures shall include, inter alia. the financial amounts or value of contracts which will be awarded on the basis of selective bidding or open competitive bidding, (the procedure for such bidding, and the exception to bidding in cases of emergency, and shall be subject to the approval of the Advisory Committee.

**17.3.** Within sixty (60) days after the end of each Calendar Year, the Licensee shall provide the Government with a report outlining its achievements in utilising Uganda during that Calendar Year.

**17.4.** Goods shall include equipment, materials and supplies.

## **ARTICLE 18 Training and Employment**

**18.1** Licensee agrees to train and employ suitably qualified Ugandan citizens in its Petroleum Operations and, following the commencement of Commercial Production, to undertake the schooling and training of Ugandan citizens for staff positions, including administrative and executive management positions. Licensee will also require its Contractors to do the same. Licensee undertakes to gradually replace its expatriate staff with suitably qualified and experienced Ugandan citizens as are then

available but, if the Licensee satisfies the Advisory Committee that no suitably qualified and experienced Ugandan citizens are available who are capable of filling key senior management or technical positions. Licensee shall employ expatriate staff in such positions. An annual programme for training and phasing in of Ugandan citizens shall be established by Licensee and shall be submitted for approval to the Advisory Committee, along with the annual Work Programmes and Budgets referred to in Article 6. Within thirty (30) days of the end of each Calendar Year, Licensee shall submit a written report to the Government describing the number of personnel employed, their nationality, their positions and the status of training programmes for Ugandan citizens.

**18.2** Licensee shall also be required to establish an annual programme, satisfactory to the Government, to train personnel of the Government to undertake skilled and technical jobs in Petroleum Operations.

**18.3** Licensee shall deposit with government, or its Nominee, upon the delivery of the Bank Guarantee and each anniversary of the Effective Date thereafter, the following amounts for training of Government personnel selected by the Government and other associated costs for each twelve (12) Calendar Months period-First Exploration Period US \$ 200,000.00 per 12 months. Second Exploration Period US \$ 200,000.00 per 12 months. Third Exploration Period US \$ 200,000.00 per 12 months. Following commercial production US \$ 400,000.00 per 12 months.

**18.4** Subject to the provisions of paragraph 18.1, Licensee shall be free to employ foreign nationals to the extent that suitably qualified and experienced Ugandan nationals cannot be found to fill a position.

Upon application in the prescribed manner by Licensee, the Government shall expeditiously provide the necessary work permits and other approvals required for the employment and residence of expatriate personnel and their families in Uganda by Licensee or its Contractors for the purposes of this Agreement.

## **ARTICLE 19 Title to Assets**

**19.1** 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 surface rentals payable pursuant to Article 26) by Licensee until the date upon which this Agreement is terminated.

**19.2** All equipment and other assets, whether fixed or movable, acquired and owned by Licensee for use in the Petroleum Operations 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:

- i. such equipment and assets have been fully depreciated for Income Tax purposes, or the costs thereof have otherwise been fully recovered, pursuant to Article 10 hereof; or
- ii. this Agreement is terminated.

**19.3** Licensee shall have unlimited and exclusive use of such equipment and assets where ownership thereof is transferred pursuant to paragraph 19.2(i) and shall not be obligated to make any payment for the use of the same during the term of this Agreement. Licensee, so long as such equipment and assets are used exclusively for Petroleum Operations and are in its custody, shall be liable to keep the same in good repair and working order, normal wear and tear excepted.

**19.4** The provisions of this Article shall not apply to assets and equipment used in the Petroleum Operations and owned by third parties, which assets may be freely exported from Uganda.

## **ARTICLE 20 Foreign Exchange Control**

**20.1** 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 21 Assignment**

**21.1** 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 not party hereto, in whole or in part, any of its rights, privileges, duties or obligations under this Agreement without the prior written consent of the Minister. The assignee shall undertake to the Government to be bound by the terms and conditions of this Agreement. Any change of operatorship shall also require the prior written consent of the Minister.

**21.2** In the event that Licensee wishes to assign, in whole or in part, any of its rights, privileges, duties or obligations hereunder or proposes a change of operatorship as aforesaid, the written consent thereto of the Minister shall not be unreasonably withheld or delayed.

**21.3** Notwithstanding the provisions of paragraph 21.1, if Licensee assigns in whole or in part to any Affiliated Company, Licensee, as assignor and the 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 unless the parties otherwise agree.

**21.4** 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 obligation of Licensee under this Agreement, including a Bank Guarantee substantially in the form set forth in Annex "D".

**21.5** 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 an Exploration Licence and such additional information as the Minister may require.

## **ARTICLE 22 Danger to Persons, Property or Environment**



**22.1** If any works or installations erected by Licensee or any operations conducted by Licensee endanger 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 international environmental standards and local circumstances, the Licensee shall 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. Licensee shall discontinue Petroleum Operations in whole or in part until Licensee has taken such remedial measures or has repaired any damage. In the event that Licensee fails to take the appropriate remedial measures within a reasonable time period, the Government may after consultation with Licensee, carry out such remedial measures for Licensee's account.

**22.2** Before commencing any works or operations hereunder, or recommencing any works or operations 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), Licensee shall consult with the Government regarding the nature and extent of the work or operations to be conducted in such areas taking into consideration Good Oilfield Practices. In carrying out such works and operations in such areas, Licensee shall give disregard to the importance of minimising the damage and disturbance to the environment and wildlife and, where any damage or disturbance would result, shall take all reasonable steps to limit the extent of the damage or disturbance so caused.

**22.3** In the event of protest from responsible concerned third parties within or outside Uganda regarding the conduct of Petroleum Operations in any National Park or Game Reserve and the consequent effects upon the environment or wildlife, the Government and Licensee shall meet to determine what if any action should be taken.

**22.4 The Licensee shall:**

- a. conduct the Petroleum Operations in a manner likely to promote the conservation of the natural resources of Uganda and the protection of its environment;
- b. employ the most advanced techniques for the prevention of environmental damage which may be caused by Petroleum Operations, and for the minimisation of the effect of Petroleum Operations on adjoining or neighbouring lands; and
- c. implement the proposals contained in its Development Plan regarding the prevention of pollution and take any further action as may be necessary for the treatment of wastes, the safeguarding of natural resources and the progressive reclamation and rehabilitation of lands disturbed by petroleum production.

**22.5** The Licensee undertakes, for the purposes of this Agreement, to take all necessary and adequate steps

- a. to ensure adequate compensation for injury to persons or damage to property caused by the effect of the Petroleum Operations; and
- b. to avoid irremediable environmental damage to the Contract Area and adjoining or neighbouring lands.

**22.6** If the Licensee fails to comply with the terms of paragraph (b) of Clause 22.5 or contravenes any law on the prevention of environmental damage and such failure or contravention results in any environmental damage, the Licensee shall take all necessary and reasonable measures to remedy such failure or contravention and the effects hereof.

**22.7** The measures and methods to be used by the Licensee for purposes of complying with the terms of paragraph (b) of Clause 22.5 shall be determined in timely consultation with the Minister upon the commencement of Petroleum Operations or whenever there is a significant change in the scope or method of carrying out Petroleum Operations, and the Licensee shall take into account the international standards applicable in similar circumstances and the relevant environmental impact study carried out in accordance with Clause 22.8. The Licensee shall notify the Minister 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 Minister to take appropriate regulatory or other action where Petroleum Operations pose a material danger to public health and safety or may result in significant irreversible damage to the environment.

**22.8** The Licensee shall cause a consulting firm or individuals of international standing to carry out two environmental impact studies (together with the updating of the latter referred to in Clause 22.11), in order

- a. to determine the prevailing situation relating to the environment, human beings, wildlife or marine life in the Contract Area and in the adjoining or neighbouring areas at the time of the studies; and
- b. to establish what the effect will be on the environment, human beings, wildlife or marine life in the Contract Area in consequence of the Petroleum Operations to be undertaken under this Agreement, and to submit for consideration by the Parties measures and methods contemplated in paragraph 22.7 for minimising environmental damage and carrying out site restoration in the Contract Area.

**22.9** The timing of the above studies shall be determined by the Minister.

**22.10** Such studies shall be updated and submitted the Minister.

- i. with each application for a subsequent Production Licence (such updated study to form part of its Development Plan relating thereto);
- ii. with each application for a renewal of the Exploration Licence under Article 3.2, or for relinquishment under Article 3.5;
- iii. not less than three months prior to the termination of the Exploration Licence; and
- iv. on such other occasion as the Minister or the Commissioner or a government environmental protection agency may request in the light of actual or threatened environmental damage resulting from or relating to the Petroleum Operations.

**22.11** The studies mentioned in Clause 22.8 shall contain proposed environmental guidelines to be followed in order to avoid irremediable environmental damage and shall include, but not be limited to

- a. access cutting;
- b. cleaning and timber salvage;
- c. wildlife and habitat protection;
- d. fuel storage and handling;
- e. use of explosives;
- f. camps and staging areas;
- g. liquid and solid waste disposal;
- h. cultural and archaeological sites;
- i. selection of drilling sites;
- j. terrain stabilisation;
- k. protection of freshwater horizons;
- l. blowout prevention plan;
- m. flaring during completion and testing of gas and oil wells;
- n. well abandonment;
- o. rig dismantling and site completion;
- p. reclamation for abandonment; and
- q. noise control.

**22.12** In addition to the studies mentioned in paragraph 22.8, the Licensee shall include in each Work Programme and Budget to be submitted annually to the Minister in accordance with Article 6, and in any amendment thereto, an environmental impact statement relating to the work to be undertaken as provided in that document and reporting on work undertaken in accordance with the preceding Work Programme.

**22.13** The Licensee shall ensure that:

- a. Petroleum Operations are carried out in an environmentally acceptable and safe manner consistent with good international industry practice and applicable laws and that such operations are properly monitored;
- b. the pertinent completed environmental impact studies are made available to its employees and to its Contractors to develop adequate and proper awareness of the measures and methods of environmental protection to be used in carrying out the Petroleum Operations; and
- c. any agreement entered into between the Licensee and its Contractors relating to the Petroleum Operations 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.

**22.14** The Licensee shall, before carrying out any drilling, prepare and submit for review by the Minister an oil spill and fire contingency plan designed to achieve rapid and effective emergency response in the event of an oil spill or fire.

**22.15** In the event of

- a. an emergency or accident arising from Petroleum Operations affecting the environment, the Licensee shall forthwith notify the Minister 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 Operations affecting the environment, the Licensee shall take such action as may be prudent and necessary in accordance with good international petroleum industry practice in such circumstances.

**22.16** If the Licensee fails to comply with any terms contained in this Article within a period determined by the Minister under any such terms, the Minister may, after giving the Licensee reasonable 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 such interest as may be determined in accordance with Section 1.4(c) of Annex C to this Agreement.

**22.17** The Licensee shall on the expiration or termination of this Agreement or on relinquishment of part of the Contract Area

- a. remove all equipment and installation from the Contract Area or relinquished area in a manner agreed with the Minister in terms of an abandonment or decommissioning plan;
- b. take all action necessary to prevent hazards to human life or to property of others or the environment; and
- c. take all action necessary in accordance with Good Oilfield Practice to reclaim and rehabilitate all lands disturbed by Petroleum development and production.

## **ARTICLE 23 Arbitration**

**23.1** Except as otherwise provided in paragraph 23.2, any dispute, controversy or claim arising out of or relating to this Agreement shall be settled by arbitration by submission to the International Centre for Settlement of Investment Disputes ("the Centre") pursuant to the convention on the Settlement of Investment Disputes between States and Nationals or other States and the arbitration rules promulgated thereunder. Pursuant to said convention and arbitration rules, the Parties hereby consent to arbitration thereunder. For the purposes of Article 23(1) of said Convention, the Parties agree that any dispute, controversy or claim arising out of or relating to this Agreement is a legal dispute arising directly out of an investment. The arbitration award may take the form of an order to pay a sum of money, or an order to perform an act, or an order to refrain from an act, or any combination of such orders. The place of arbitration shall be London, England. Arbitrators who are nationals of Uganda or of any of the countries from which any of the entities comprising Licensee originate may not be appointed to the arbitration panel. The award rendered shall be final and conclusive. 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. As far as practicable, the Parties shall continue to implement this Agreement during the pendency of any dispute.

**23.2** If for any reason the requestor arbitration proceedings is not registered by the Centre, or if the Centre fails or refuses to take jurisdiction over a dispute submitted to

it pursuant to the provisions of paragraph 23.1, such dispute shall be finally settled by arbitration under the Rules of Arbitration of the United Nations Centre for International Trade Law by three (3) arbitrators appointed in accordance with the said Rules, -the said arbitration shall take place in London, England. 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.

**23.3** Any matter in dispute between the Government and Licensee arising under paragraphs 5.4, 7.6, 9.3(2), 12.2 and 32.2 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 Licensee.

If the Government and 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:

- i. unless he shall be qualified by education, experience and training to determine the subject matter in dispute; or
- ii. if at the time of his appointment or at any time before he makes his determination under such an appointment, he has or may have some interest of duty which conflicts or may conflict with his function under such appointment.

The expert shall render his decision within (60) days after the date of this appointment, unless the Parties otherwise agree. In rendering his decision, the expert shall do so within the context of the provisions of this Agreement, the Act and the standards of Good Oilfield Practices. The decision of the expert shall be final and binding on both Licensee and the Government. The expert's fees and expenses, and the costs associated within 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 24 Insurance and Indemnification**

**24.1** To ensure that Licensee, its Contractors and Sub-Contractors shall meet their obligations to third parties, or to the Government, that might arise in the event of damage, loss or injury (including environmental damage or injury, removal of wrecks and cleaning up caused by accidents) caused by Petroleum Operations, Licensee shall maintain in force an insurance policy through an international insurance company of good financial standing covering the activities of itself, its Contractors and Sub-Contractors and the employees of all such parties. Such insurance policy shall waive subrogation against the Government, and shall provide that it may not be cancelled except upon thirty (30) days' prior written notice to the Government. A certificate giving evidence of such insurance policy shall be furnished to the Government within

ninety (90) days of the Effective Date. The limits, coverage, deductibles and other terms shall be consistent with accepted practices in the international petroleum industry. In the event that no response is received by Licensee from the Government within fifteen (15) days of the submission by Licensee of such insurance terms to the Government for approval, such approval shall be deemed granted. To the extent that such third party liability insurance is unavailable or is not opined, or does not cover part or all of any claims for damage, loss or injury caused by or resulting from Petroleum Operations, Licensee shall remain fully responsible and shall defend, indemnify and hold the Government harmless against all such claims by the Government arising from any such damage, loss or injury.

**24.2** Licensee shall indemnify, defend and hold the Government harmless against all third party claims for damage, loss or injury, including, without limitation, claims for loss or damage to property or injury or death to persons, caused by or resulting from any Petroleum Operations conducted by or on behalf of Licensee.

## **ARTICLE 25 Force Majeure**

Except as otherwise provided in this Article, each party shall be excused from complying with the terms of this Agreement, except for the payment of monies due, for so long as such compliance is prevented or delayed by strikes, wars (declared or undeclared), hostilities, blockade, embargo, unavailability or rationing of supplies, materials and/or equipment imposed by law, decree, regulation and/or instruction at the insistence or request of any Government authority, insurrection, civil disorder, terrorist acts, sabotage, quarantine restrictions, epidemics, accidents, riots, labour disturbance, any act or failure to act of a Governmental agency or local body, acts of God, perils of navigation, storm, flood, earthquake, lightning and other exceptional adverse weather condition, explosion, fire or by any act or cause that is reasonably beyond the control of such party, such causes, whether similar or dissimilar to the events listed above, being herein called "Force Majeure". In the event that either party hereto is rendered unable, wholly or in part, by any of these causes to carry out its obligations under this agreement, such party shall give notice and details of Force Majeure in writing to other party within seven (7) days after its occurrence. In such cases, the obligations of the party giving the notice shall be suspended during the continuance of any inability so caused. Such party shall do all reasonably within its power to remove such cause. If through Force Majeure, the fulfilment by the parties of any of the obligations under this Agreement shall be delayed, the period of such delay, shall be added to the time allowed under this Agreement for the fulfilment of such obligations or the exercise of any right dependent thereon, provided however, where an event of Force Majeure is likely to exceed thirty (30) days, or where the total period of the Force Majeure event exceeds ninety (90) days in any Calendar Year, the Parties shall meet to discuss the consequences of the Force Majeure and the course of action to be taken to mitigate the effects thereof and to be adopted in the circumstances, and in such event, the additional period for fulfilment of obligations and the extension of the term of the Exploration Licence, or the Petroleum Production Licence, as the case may be, shall be agreed between the Parties.

## **ARTICLE 26 Annual Surface Rentals**

**26.1** Licensee shall pay an annual charge in respect of surface rentals for the area subject to an Exploration Licence or any Production Licence granted hereunder as follows:

a. annual surface rental for the area which remains subject to an Exploration Licence:

i. First Exploration Period:

US\$2.50 per square kilometre or part thereof;

i. Second Exploration Period:

US\$5.00 per square kilometre part thereof,

i. Third Exploration Period:

US\$7.50 per square kilometre or part thereof.

b. Annual surface rental in respect of a Development Area subject to a Production Licence: US\$500.00 per square kilometre or part thereof.

**26.2** Annual surface rentals payable pursuant to this Article shall be paid to the Government 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 surface rentals shall be made by the Government in respect of any area that ceases to be subject to a Licence mid-year.

**26.3** Annual surface rentals do not replace other charges that may be levied for entry in parts of the Licence Area arising out of specialised land use such as national parks or nature reserves.

## **ARTICLE 27 Termination**

**27.1** This Agreement shall be deemed to have been terminated if the Exploration Licence granted to Licensee pursuant to Article 3 and any Production Licence granted to Licensee under Article 7 have either expired, or have under and in accordance with the Act, or any relevant provision of this Agreement, been surrendered by the Licensee or been lawfully cancelled or terminated by the Government, 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 Exploration Licence and Production Licences granted hereunder, upon giving thirty (30) days written notice of its intention to do so, if Licensee:

**27.2.1** 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 arbitration proceedings in respect thereof pursuant to paragraph 25.1 in which case the period of

thirty (30) days after notice shall be counted from the date of issuance of an arbitration award requiring Licensee to pay the amount in dispute;

**27.2.2** has otherwise committed a material breach of the terms and conditions of this Agreement or any Licence granted pursuant to Articles 3 and 7;

**27.2.3** fails to comply with the Act or any lawful acts, Regulations, orders or instruction? issued by the Government or the terms of this Agreement; or

**27.2.4** 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 27.2.1 and 27.2-2 are remedied by Licensee within the thirty (30) day period following the notice of termination as aforesaid, such termination shall not become effective.

**27.4** If the circumstance or circumstances that would result in termination under paragraph 27.2.3 and 27.2.4 are remedied by Licensee within the sixty (60) day period following the notice of termination as aforesaid or where the breach cannot be remedied within a sixty (60) day period. Licensee has commenced the works or steps necessary to remedy such breach during such 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 27.2.3 or 27.2.4 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** Where two or more persons constitute Licensee, this Agreement may not be terminated:

**27.6.1** pursuant to paragraphs 27.2.1,27.2.2 or 27.2,3 above where, in respect of a liability which is a several liability, one or some only of the persons constituting Licensee is in breach of the provisions hereof or has so failed in compliance provided that the Petroleum Operations continue in accordance with the provisions of this agreement; or

**27.6.2** pursuant to paragraph 27.2.4 above, where the bankruptcy, liquidation or composition relates to one or some only of the persons constituting Licensee provided that the Petroleum Operations continue in accordance with the provisions of this Agreement.

**27.7** In any case felling under paragraph 27.6 above, the Government, subject to paragraphs 27.3,27.4 and 27.5 may, upon giving thirty (30) days written notice of its intention to do so, terminate the Participating or Joint Venture Interest herein, and in any related Licences, of the person or persons in breach, or which have failed in compliance, or, as the case may be, have become bankrupt, gone into liquidation or made a composition as aforesaid ("the Defaulting Party") but nothing in this



paragraph shall affect the rights and obligations of any other person who constitutes Licensee which shall remain in full force and effect.

In such event, the Defaulting Party shall forthwith assign, unconditionally and without consideration, to the other persons constituting Licensee and, in respect of any Licence in which the Nominee of the government has a Joint Venture Interest, to (he Nominee of the Government its entire Participating or Joint Venture Interest under this Agreement and any related Licences.

Such assignment will be made in undivided proportionate shares corresponding to the undivided proportionate shares in which such other persons and, in respect of any Licence in which the Nominee has a Joint Venture Interest, the Nominee hold Participating or Joint Venture Interests in the subsisting Licences.

**27.8** On termination of this Agreement and any related Licences or of an 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 complete accounts, books and records reflecting all revenues, costs and expenses associated with Petroleum Operations under this Agreement in accordance with the Accounting Procedure set out in Annex "C" of this Agreement and accepted international petroleum industry accounting standards and procedures. The said accounting records shall be kept in Uganda in US Dollars and in Uganda Shillings.

**28.2** 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 acceptable to both parties, at the expense of Licensee. It is understood that the Government retains the authority to review and audit Licensee's books, at Licensee's expense, and records, with respect to Petroleum Operations conducted hereunder, either directly or through an independent accountant of international standing designated by the Government. Subject to the provisions of the Accounting procedure set forth in Annex "C", such audit right will terminate twenty-four (24) Calendar Months after the closure of the subject year's accounts or such longer period as may be required in exceptional circumstances. Any exceptions to Licensee's accounts must be officially communicated to Licensee within thirty (30) Calendar Months of the closure of the subject year's accounts.

**28.3** "Nothing in this Article 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 of any Company.

**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 personally handed to an authorised representative of the Party for whom intended or sent by registered airmail or by cable, telex, or telefax, except as otherwise provided herein, at or to the address of such Party for whom 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: Commissioner for Petroleum Exploration and Production  
Telephone No.256-41-320714  
Telefax No. 256-41-320437

a. Licensee:

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**ARTICLE 30 Applicable Law**

This agreement shall be governed by, interpreted and construed in accordance with the laws of Uganda.

**ARTICLE 31 Entire Agreement and Amendments**

This Agreement embodies the entire agreement and understanding between 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.

**ARTICLE 32 Waiver**

**32.1** 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 defies whether of a like or a different character,

### **ARTICLE 33 Confidentiality**

**33.1** 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 terms "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 Article 8, 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 Operations 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 production and production activities.

**IN WITNESS HEREOF**, the Parties hereto have caused this Agreement to be executed by their respective duly authorised representatives as of the day and year first above written.

Signed for and on behalf of The Government of Uganda

By: \_\_\_\_\_  
Minister for Energy and Mineral Development

In the presence of \_\_\_\_\_

Signed for and on behalf of Licensee

By: \_\_\_\_\_  
Managing Director

In the presence of \_\_\_\_\_

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**ANNEX A**  
**Description of Contract Area [\_\_\_\_\_]**

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

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**ANNEX B-1**  
**Form of Exploration Licence**

I, \_\_\_\_\_, Minister of Energy and Mineral Development, pursuant to the powers conferred upon me by Section 8 of the Petroleum (Exploration and Production) Act 1985 ("the Act") hereby grant to [\_\_\_\_\_] a company duly organised and existing under the laws of \_\_\_\_\_, ("Licensee") this Exploration Licence to conduct Exploration Operations within and with respect to the Contract Area described in the Production Sharing Agreement entered into by and between the Government of the Republic of Uganda and Licensee, dated \_\_\_, 200\_ ("the Agreement"), hereby conferring upon Licensee the exclusive right to explore for petroleum in the said Contract Area and to carry on such operations and execute such works as necessary for that purpose for a term of [\_\_\_\_\_] years from the Effective Date hereof [subject to renewal] in accordance with the provisions of the Act and the terms and conditions of said Agreement, which forms an integral part of this Licence.

**IN WITNESS WHEREOF**, I have granted the licence aforesaid with effect from \_\_\_\_\_ 200 and set out my hand and seal this \_\_\_ day of \_\_\_\_\_ 200 \_\_\_.

Minister of Energy and Mineral Development.

Attachments:

- Description of Exploration Area(s)
  - Map of Exploration Area(s)
- 

## **ANNEX B-II Form of Production Licence**

I, \_\_\_\_\_, Minister of Energy and Minerals, pursuant to the powers conferred upon me by Section 21 of The Petroleum (Exploration and Production) Act 1985 ("the Act") hereby grant to \_\_\_\_\_, a corporation duly organised and existing under the laws of \_\_\_\_\_, ("Licensee") this Petroleum production licence to conduct Development Operations within and with respect to the Discovery Area(s) described and shown on the map in the attachment to this licence hereby conferring upon Licensee the exclusive right to develop said areas and produce petroleum therefrom, and to carry on such operations and execute such works as are necessary for that purpose for a term of [\_\_\_\_\_] (\_\_\_\_) years from the effective date hereof in accordance with the provisions of the Act, the Development Plan adopted in connection therewith and the terms and conditions of the Production Sharing Agreement entered into by and between the Government of the Republic of Uganda and Licensee, dated \_\_\_\_\_, 200 which form an integral part of this Licence. The subsequent execution of a Joint Operating Agreement by Licensee and [the Nominee of the Government] in relation to the Discovery Area(s) subject hereto in accordance with the terms of said Production Sharing Agreement, is a requirement of this Licence.

**IN WITNESS WHEREOF**, I have granted the licence aforesaid with effect from \_\_\_\_\_, 200\_\_ and set out my hand and seal this \_\_\_ day of \_\_\_\_\_ 200 .

Minister of Energy and Minerals

Attachments:

- Description of Discovery Area(s)
  - Map of Discovery Area(s)
- 

## **ANNEX C 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.

## **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 recognised 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 recognised 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.
- b. All reports, books, accounts and records of Licensee will be prepared and maintained in accordance with this Agreement and, where there are no relevant provisions in the Agreement, in accordance with normal practices in the international petroleum industry and generally accepted and recognised accounting standards.
- c. All accounts, books, records and reports of Licensee required hereunder shall be maintained 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 supervisory function under this Agreement.
- d. The licensee shall report to Government on a monthly basis, all expenditures, production, prices, sales, receipts, cost recovery and production sharing related to Petroleum Operations in the Licence area.

## **1.3 Language and Units of Account**

- a. Accounts shall be maintained in Uganda Shillings and in United States Dollars; however, the United States Dollar accounts will prevail in case of conflict. Metric units and Barrels shall be employed for measurements required under this Annex. The language employed shall be English, Where necessary for clarification. Licensee may also maintain accounts and records in other languages, units of measurement and currencies.
- 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.

- i. Amounts received and costs and expenditures made in Uganda Shillings, United States Dollars or any other currency shall be converted into Uganda Shillings or United States Dollars, 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, often percent (10%) or more in the rates of exchange between the Uganda Shilling, the United States Dollar 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 United States Dollar, 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 United States Dollar, the Uganda Shilling or the currency in question as issued on the day on which such increase or decrease is reached.
  3. A record of the exchange rates used in converting Uganda Shillings, United States Dollars or any other currency hereunder shall be maintained by Licensee.

#### **1.4 Payments**

- a. AH payments between the Parties shall, unless otherwise agreed, be in United States Dollars and through a bank designated by each receiving party. Payments between the Parties may be effected by way of set-off between mutual and undisputed liabilities as and when such liabilities accrue.
- b. Discharge of Licensee's obligation with respect to Income Tax, the Nominee of the Government's Participation Share of Production and the Government's Production Share shall be made in accordance with the Agreement.
- c. All sums due by one party to the other under the Agreement during any Calendar Month shall, for each day such sums are overdue during such month, bear interest compounded daily at an annual rate equal to the average London Interbank Offered Rate for six (6) months as quoted at 11.00 a.m. London time on the first business day of such month by the London Office of Citibank N.A plus five (5) percentage points.

#### **1.5 Audit and Inspection Rights of Government**

- a. The Government shall have the right, upon fifteen (15) days' prior written notice to Licensee, to audit directly or through an independent accountant, at its own cost. Licensees' accounts and records maintained in relation to the Petroleum Operations carried out hereunder with respect to each Calendar

Year within twenty four (24) 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 notified to Licensee within thirty (30) Calendar Months of the closure of the subject year's accounts.

For purposes of auditing, the Government may examine and verify at reasonable times all charges and credits relating to the Petroleum Operations 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. 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 Licensee directly or indirectly serving the Petroleum Operations including visiting personnel associated with those operations.

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 to the extent Licensee is able to present the required information without infringing the confidential or proprietary nature of such information, in the event that such infringement would occur, the Government may require Licensee (at Licensee's expense) to obtain an audit certificate from an independent external auditor of international standing (selected by Licensee and acceptable to the Government) verifying such charge(s). If Government desires verification of charges from Affiliates of Licensee, Licensee shall, upon the Government's request and at Licensee's expense, obtain an audit certificate to such effect from the statutory auditors of the Affiliate concerned attesting that such rates do not include a profit element and have been consistently and reasonably applied.

- b. The Government shall make every reasonable effort to conduct audits in a manner which will result in the minimum of inconvenience to Licensee. Licensee shall make every reasonable effort to co-operate with the Government and its statutory auditors or the independent auditors, as the case may be, will provide reasonable facilities and assistance. Subject to the provisions of paragraph 1.5(c) hereunder, only one audit may be carried out by the Government in respect of the accounts for any single Calendar Year.
- c. Any Government audit shall be completed within (6) Calendar Months of its commencement. 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 twenty-four (24) Months may have expired.

Such further investigation shall be commenced within thirty (30) days and be concluded within sixty (60) days of the receipt of such reply and the report related to



such further investigation shall be circulated within ninety (90) days of the conclusion of such father investigation. All adjustments resulting from an audit, as agreed between Licensee and the Government, shall be made promptly by Licensee and be reported to the Government Any unresolved dispute arising in connection with an audit shall be referred to the Advisory Committee and if not resolved thereby shall be referred for expert determination pursuant to paragraph 23.3 of the Agreement.

- d. 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 five (5) Calendar Years Showing their date of issue.
- e. 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 33.1 and 33.2 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 Arms Length Transactions**

Except as may be otherwise agreed in writing between the Government and Licensee or as may be provided in Article 12 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 arms 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 Operations carried out hereunder and to exclude any costs and expenses which should otherwise be allocated to those activities which would not constitute Petroleum Operations hereunder.

It is understood, however, that any Exploration or Development and Production Expenditures associated with a unit development involving a Discovery Area which

extends into a neighbouring country shall be allocated on the basis of the petroleum reserves attributable to that portion of the Discovery Area located in each country.

## **SECTION 2 Classification, Definition and Allocation of Costs and Expenditures**

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

**2.1 Exploration Expenditures** are 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, including:

- a. aerial, geophysical, geochemical, palaeontological, geological, topographical and seismic surveys and studies and their interpretation;
- b. core hole drilling and water well drilling;
- 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 these purposes including access roads and purchased geological and geophysical information;
- e. a portion of all Service Costs (as hereinafter defined) allocated to Exploration Operations on an equitable basis and consistently applied;
- f. a portion of all General and Administrative Expenses (as hereinafter defined) allocated to Exploration Operations based on projected budget expenditures subject to adjustment on the basis of actual expenditure at the end of the Calendar year concerned; and
- g. any other Contract Expenses incurred 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 and Production Expenditures** shall consist of all necessary, appropriate and economical expenditures (other than those referred to in paragraph 2.3) incurred in Development Operations in relation to a Development Area including:

- 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. completing those wells described in paragraph 2.1 (c) 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 well;
- c. 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;
- d. the costs of transportation facilities installed up to the Delivery Point, including but not limited to pipelines, compressors, and storage facilities;
- e. engineering and design studies for field facilities;

- f. a portion of all Service Costs allocated to the Development Operations on an equitable basis and consistently applied;
- g. a portion of all General and Administrative Expenses allocated to the Development Operations based on projected budget expenditures which will be adjusted to actual expenditures at Calendar Year end; and
- h. any other expenditure incurred in Development Operations 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.

**2.3 Operating Expenses** are all necessary, appropriate and economical expenditures incurred in the Petroleum Operations hereunder after the start of the Commercial Production (but including intangible drilling costs such as, but not limited to, labour, consumable material and services having no salvage value which are incurred in the drilling operations 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, Development and Production Expenditures and general administrative expenses and service costs otherwise allocated to Exploration Expenditures or Development and Production Expenditures pursuant to subparagraphs 2.1(e) and (f) and 2.2(f) and (g) 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** are all necessary, appropriate and economical direct and indirect expenditures in support of the Petroleum Operations including, but not limited to, warehouse, piers, marine vessels, vehicles, motorised rolling equipment, aircraft, fire and security stations, workshops, water and sewage plants, power plants, housing, community and recreational facilities and furniture, 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(f) and 2.3 to Exploration Expenditures, Development and Production 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 Operations, including, but not limited to, supervisory, accounting and employee relations services carried out by Licensee in Uganda.
- b.
  - i. Licensee's Affiliated Companies' personnel and services costs (other than those otherwise provided for in paragraph 4.1(e)(ii) of this Annex) incurred in connection with the Petroleum Operations carried out hereunder, and
  - ii. Reasonable travel expenses of such Affiliated Companies\* personnel in the general and administrative category listed in subparagraph (i) above in connection with the Petroleum Operations carried out

- c. All General and Administrative Expenses shall be necessary, appropriate and economical and will be regularly allocated as specified in subsection 2.1(f), 2.2(g) and 2-3 to Exploration Expenditures, Development and Production Expenditures and Operating Expenses.

## **SECTION 3 Income Tax and Allowable Contract Expenditures**

### **3.1 Tax Accounting Principles**

The following tax accounting principles shall apply:

#### **3.1.1 Taxable Parties**

Income Tax shall be assessed on the basis of the Taxable Income of all corporations, individuals, partners, joint ventures, associates or other entities comprising Licensee from Petroleum Operations hereunder in accordance with the laws of Uganda.

#### **3.1.2 Consolidation Principles**

Income Tax in each Tax Year shall be assessed on the basis of the Aggregate Contract Revenues derived from, and allowable Contract Expenditures incurred in, the Petroleum Operations carried out hereunder.

#### **3.1.3 Carry Forward of Losses**

Commencing in the Tax Year in which initial Commercial Production commences, any deductions for Income Tax purposes in respect of allowable Contract Expenditures which remain unrecovered in any Tax Year from Contract Revenues shall be treated as an operating loss and may be carried forward as an allowable deduction to subsequent Tax Years until fully recovered from Contract Revenues.

### **3.2 Classification of Expenditures for Income Tax Purposes**

Contract Expenses shall be classified as follows for Income Tax purposes:

#### **3.2.1 Petroleum Capital Expenditures**

Petroleum capital Expenditures are those Contract Expenses which fall within the category of Development and Production Expenditures as described in paragraph 2.2 of this Annex "C".

#### **3.2.2 Petroleum Operating Expenditures**

Petroleum Operating Expenditures are those Contract Expenses that fall within the categories of Exploration Expenditure and Operating Expenses as described in paragraphs 2.1 and 2.3 of this Annex "C".

### **3.3 Capital Allowances**

Petroleum Capital Expenditures, as defined in paragraph 3.2.1 of this Annex "C", shall be depreciated for Income Tax purposes. In determining the amount of depreciation that is allowable as a deduction in any Tax Year, the following principles shall apply:

**3.3.1** Petroleum Capital Expenditures will be depreciated using the straight line method over six (6) years, save in respect of those expenditures referred to in subparagraph 2.2(d) of this Annex "C" which will be depreciated on a "unit of production" basis. The "unit of production" depreciation charge in each Tax Year shall be determined by dividing the total expenditure referred to in subparagraph 2.2(d) which remains unrecovered at the beginning of each such year by the then recoverable reserves (in barrels of oil or barrels of oil equivalent) in the Contract Area and multiplying the resulting figure by the total number of barrels of oil produced in the Tax Year in question.

**3.3.2** Deductions with respect to the depreciation of Petroleum Capital Expenditures shall be allowable commencing with (a) the Tax Year in which the capital asset is placed into service or if the Capital Expenditure does not relate to an asset which normally has a useful life beyond the year in which it is placed in service, the Tax Year in which the capital expenditure is incurred or (b) the Tax Year in which Commercial Production commences from the Contract Area, whichever is later.

#### **3.4 Definition of Allowable Contract Expenditures**

For each Tax year, commencing with the Tax Year in which Commercial Production commences from the Contract Area, Allowable Contract Expenditures which shall be deductible for the purpose of the calculation of Income Tax payable by Licensee shall consist of the sum of:

**3.4.1** the current Tax Year's Petroleum Operating Expenditures as determined pursuant to paragraph 3.2.2 of this Annex "C"; plus

**3.4.2** the current Tax Year's allowable deductions for depreciation of Petroleum Capital Expenditures as determined pursuant to paragraph 3.3 of this Annex "C" plus

**3.4.3** an amount with respect to any operating loss from prior Tax Years, determined in accordance with paragraph 3.1.3 of this Annex "C".

### **SECTION 4 Costs, Expenses, Expenditures and Credits of the Licensee**

#### **4.1 Costs Recoverable Without Further Approval of the Government**

Subject to the provisions of the Agreement, Licensee shall bear and pay the following costs and expenses in respect of the Petroleum Operations. These costs and expenses will be classified under the headings referred to in paragraph 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 cost of living, housing and drifter customary allowance afforded to expatriate employees in similar operations elsewhere of Licensee's employees directly engaged in the Petroleum Operations, irrespective of the location of such employees;
- 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 Republic of 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, hospitalisation, pensions, stock purchase and thrift plans and other benefits of a like nature customarily granted to Licensee's employees;
- 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 generally accepted practices in the international petroleum industry; and
- vi. any personal income taxes of the Republic of Uganda incurred by employees of Licensee and paid or reimbursed by Licensee.

**(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 Operations. The costs of those facilities, which are not used for the exclusive purpose of carrying out the Petroleum Operations, shall be apportioned on a consistent and equitable basis between the Petroleum Operations and the Licensee's other operations and those of its Affiliates.

**(d) Transportation**

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

**(e) Charges for Services**

**i. Third Party Costs**

The actual costs of contracts for technical and other services entered into by Licensee the Petroleum Operations, 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 Operations 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 Advisory Committee pursuant to Article 5 of the Agreement and will not exceed the charges billed to any Joint Operations in respect of such services pursuant to any Joint Operating Agreement relating to the Petroleum Operations 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. If necessary (but subject to the provision of paragraph 1.5(a) of this Annex), certified evidence regarding the basis of prices charged may be obtained from the auditors of the Affiliated Company.

**(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 Operations as may be required for use in the reasonably foreseeable future and the accumulation of surplus stocks will be avoided.

**ii. Warranty of Material**

Licensee does not warrant material beyond the supplier's or manufacturer's guarantee and, 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 Operations 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 arms 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 arms length transactions on the open market.
2. Used Material (Conditions "B" and "C")
  - i. 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.
  - ii. Material which cannot be classified as Condition "B" but which after repair and reconditioning will be further serviceable for original function as good used 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.
  - iii. Material which cannot be classified as Condition "B" or condition "C" shall be priced at a value commensurate with its use.
  - iv. 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).
  - v. When the use of material is temporary and its service to the Petroleum Operations 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.
  - vi. 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 Government or foreign public authority in connection with the Petroleum Operations, and paid directly or indirectly by Licensee, other than Income Tax imposed on Licensee (except as provided in Article 11 of the Agreement) and the Government Production Share attributable pursuant to Article 11 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. Costs and losses incurred as a consequence of events which are, and in so far as, not made good by insurance obtained under the Agreement are recoverable under the Agreement unless such costs have resulted solely from an act of wilful misconduct or negligence of Licensee.

**(i) Legal Expenses**



All 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 Area or any third party claim arising out of activities under the Agreement, or sums paid in respect of legal services necessary or expedient for the protection of the interest of Licensee are recoverable. 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 4.1(b) or 4.1(d) 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 Operations and such other training as required under Article 18 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 Operations provided that such interest rates and charges do not exceed prevailing commercial rates and only to the extent that such interest and financial charges relate to debt raised by Licensee to finance such operations (including loans from both Affiliates and Non-Affiliates) do not exceed fifty per cent (50%) of the total financing requirement. All loans from Affiliated Companies shall be subject to review and approval of the Government, which approval shall be given provided that the terms of such loans are comparable to those which could be obtained on an arms length basis from a non-Affiliated Company lender.

**(m)** Commissions paid to intermediaries by Licensee unless such commissions exceed the levels usually paid in the international oil industry under similar conditions in which event the approval of the Government shall be required, which approval shall not be unreasonably withheld.

**(n)** 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 Operations 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 Operations.

**(p)** Leasing expense 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.

**(q)** Communication charges: Costs of acquiring, leasing, operating and maintaining communication systems including, but not limited to, radio, telephone, e-mail, telecopier and telex systems.

## **4.2 Costs not Recoverable under the Agreement**

- a. Costs incurred before the Effective Date.
- b. Petroleum marketing or transportation tariff charges incurred beyond the Delivery Point.
- c. 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).
- d. Legal and other costs of arbitration and the independent expert in respect of any dispute referred for determination pursuant to Article 23 of the Agreement.
- e. Income Tax imposed on Licensee in accordance with the laws of Uganda.
- f. The Government Production Share determined pursuant to Article 10 of the Agreement.
- g. Fines and penalties imposed by Courts of Law of the Republic of Uganda.
- h. Costs incurred as a result of Wilful Misconduct or Gross Negligence of Licensee; and
- i. Interest incurred on loans raised by Licensee to finance Exploration Operations.

## **4.3 Other Costs and Expenses**

Other costs and expenses not covered or dealt with in the provisions of this paragraph and which are incurred by Licensee for the necessary and proper conduct of Petroleum Operations are recoverable.

## **4.4 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 Operations or any assets charged to the accounts under the Agreement when such operations or assets were insured and the premia charged to the accounts under the Agreement.
- b. Revenue received from outside 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 4.2(d) above.
- e. The actual net proceeds of sale realised from the disposal on an arms length basis of inventory materials under the Agreement and subsequently exported from the Republic of Uganda without being used-in inventory materials that are disposed of other than on an arms length basis and the value so determined shall be credited to the Accounts.

#### **4.5 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.

#### **SECTION 5 Records and Valuation of Assets**

Licensee shall maintain detailed records of property and assets in use for the Petroleum Operations in accordance with the normal practice in exploration 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 6 Revision of Accounting and Financial Procedures and Conflicts**

**6.1** 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.

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

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#### **ANNEX D Bank Guarantee (Date)**

**Ministry of Energy and Mineral Development PO Box 7270 Kampala Republic of Uganda**

Gentlemen:

#### **RE: OUR IRREVOCABLE LETTER OF GUARANTEE NO.**

In compliance with the request of \_\_\_\_ ("Licensee"), we, (Name of bank), issue this unconditional irrevocable letter of guarantee in favour of the Government of the Republic of Uganda ("the Government") for a sum not exceeding \_\_\_\_\_ United Dollars (US\$\_\_\_\_), as set forth in paragraph 4.7 of the Production Sharing Agreement ("Agreement"), dated \_\_\_\_\_, 200\_\_, by and between Licensee and the government, relating to Petroleum exploration, development and production in Uganda, to guarantee Licensee's faithful performance of its minimum exploration expenditure obligations as provided for in the Agreement. The said sum of

\_\_\_\_\_ United States Dollars (US\$\_\_\_\_\_) will be released in favour of Licensee on presentation to the bank of a certificate from the Government that the obligation of the Licensee has been fulfilled.

The terms and conditions of this Letter of Guarantee are as follows:

1. The said amount, or any part thereof, shall be paid to you upon our receipt of your written statement that the claimed sum is duly payable under the Agreement.
2. We hereby waive diligence, presentment, demand for payment, protest, any requirement that the Government exhaust any right or power or take any action against Licensee, all notices (whether of non-payment by Licensee, dishonour, protest or otherwise) and all demands whatsoever. Our obligations hereunder are continuing, absolute and unconditional, and will not be in any way affected by giving of time or any forbearance by the Government, the waiver or consent by the Government with respect to any provision of the Agreement, and irrespective of the validity, regularity, enforceability or value of the Agreement, or by any other circumstances which might otherwise constitute a legal or equitable discharge or defence of a surety or guarantor, all of which are hereby expressly waived.
3. Our obligations hereunder shall be paid in United States Dollars to the bank account designated by you, free and clear of and without reduction by reason of any and all present and future taxes, levies, imposts, deductions, assessments, charges or withholdings whatsoever levied, assessed, imposed or collected with respect thereto by the government of \_\_\_\_\_ or any political sub-division or taxation authority thereof or therein. We shall bear and pay any and all fees and expenses in relation to or in connection with this Letter of Guarantee.
4. In order to give effect to this letter of Guarantee, we hereby declare that the Government shall be at liberty to act as though we are the principal debtor, and we hereby waive all and any of the right as surety which may at any time be inconsistent with any of the above provisions.
5. Any claim or demand under this Letter of Guarantee shall be presented to us on or before the expiration of the date of the validity of this Letter of Guarantee.
6. This Letter of Guarantee shall be effective immediately and expire on \_\_\_\_\_, 200\_, [being the date ninety (90) days after the end of the Initial Exploration Period as defined in the Agreement], and thereafter automatically without any formality become null and void for all its effects and this Letter of Guarantee shall be returned to us immediately.

Yours very truly,

(Name of Bank)

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