

Exploration and Production Sharing Agreement

1 March 1997

between the Government of the Republic of the Sudan
and China National Petroleum Corporation,
Petronas Carigali Overseas SDN BHD,
State Petroleum Corporation,
and Sudapet Ltd.

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EXPLORATION AND PRODUCTION SHARING AGREEMENT

This Agreement is made on 1st day of March, 1997 between the Government of the Republic of the Sudan, hereinafter called the "Government", represented by the Minister of Energy and Mining on the first part and;

CHINA NATIONAL PETROLEUM CORPORATION, a company incorporated in the People's Republic of China (hereinafter referred to as "CNPC") and;

PETRONAS CARIGALI OVERSEAS SDN BHD, a company incorporated in Malaysia (hereinafter referred to as "PCOSB") and;

STATE PETROLEUM CORPORATION, a corporate body incorporated under the laws of the Province of British Columbia, Canada with its head office located in Calgary, Alberta, under the laws of the wholly owned subsidiary of Arakis Energy Corporation a public company under the laws of the Province of Alberta, Canada with its head office in Calgary, Alberta, Canada; (hereinafter referred to as "SPC") and,

SUDAPET LTD, a wholly owned company of the Government, incorporated under the laws of the Republic of the Sudan (hereinafter referred to as "SUDAPET", of the second part.

Both parties of the first and second part may sometimes individually be referred to as "Party" and collective as the "Parties".

Whereas all petroleum in its natural state in strata lying within the boundaries of the Sudan or within the territorial waters of the continental shelf of the development of its petroleum resources and the Contractor desires to join and assist the Government in the exploration and development of the petroleum resources within the Contract Area, and;

Whereas, the Government, wishing to promote the development of its petroleum resources, entered into Production Sharing Agreement, dated August 29, 1993 the original production sharing agreement (hereinafter referred to as "OPSA") with SPC

Whereas, the Government and SPC agreed, in accordance with "Consortium Principles between the Government and SPC dated 28 August, 1996" attached herewith in Annex "E" (the "Consortium Principles") to establish a Consortium to everyone the difficulties to conduct the Sudan Petroleum Project and whereas the Government, in accordance with the Consortium Principles; invited interested parties to participate in free negotiations in Khartoum towards establishing a Consortium including SPC which Consortium will replace SPC in the valid OPSA and together will finance, construct, own and operate an export pipeline from the Contract Area to the Red Sea Coast; and

Whereas SPC incurred all of the expenses for Petroleum Operations in the Contract Area between August 29, 1993 (the effective date of the OPSA) and November 29, 1996 ("Transfer Date") and has created additional value to the Contract Area prior to the Transfer Date; and

Whereas the Government proposed that Hydrocarbons be produced under the OPSA, as amended pursuant to an agreement to be reached between the Government and a Consortium which would assume the rights and obligations under the amended form of OPSA and transporter by a pipeline company, also to be established by the

Consortium (such company hereinafter referred to as "Pipeline Company") which shall be entitled to receive a tariff payable by the Parties hereto and by third parties; and

Whereas to establish the Consortium, the principles governing the same, and to provide for the continuous conduct of Petroleum Operations in the Contract Area prior to execution of formal agreements, the Parties entered into the Interim Agreement dated December 2, 1996)" the Interim Agreement") in accordance with the terms of a proposal provided to the Government by CNPC as a basis (such proposal and its subsequent further clarification being hereinafter referred to as " the Proposal"); and

Whereas the Contractor hereby acquires all right, title and interest in and to, and subject as provided herein is willing to assume and undertake all of the commitments and obligations provided in the Agreement with respect to the exploration, development and production of petroleum in the Contract Area from and after the Transfer Date. CNPC, PCOSB and SUDAPET will earn their respective rights under the Agreement as of the Transfer Date and shall have no liability in respect to performance of any obligations under the OPSA or for any damage, losses, actions, suits, or cases of action whatsoever accruing prior to the Transfer Date; and

Whereas the Contractor is willing to undertake the obligations provided hereinafter with respect to the exploration, development and production of petroleum in the Contract Area and represents to have the required financial ability, technical competence and professional skills necessary to carry out Petroleum Operations hereinafter described; and

Whereas the Contractor will form a joint operating company to conduct Petroleum Operations, hereunder and to conduct construction and operation of the pipeline and has represented to have the required financial ability, technical competence and professional skills necessary to carry out the Petroleum Operations hereinafter described; and

Whereas the Government represents that it has the authority to enter into this Agreement and all transactions contemplated herein;

Now therefore the Parties hereto agree as follows:

ARTICLE I DEFINITIONS

In the Agreement, including its Annexes, words in the singular include the plural and vice versa, and unless the context shall otherwise clearly indicate, the following terms whenever used in this Agreement including its Annexes shall have the following meanings respectively assigned to them below:

1.1 "Accounting Procedure" means the accounting rules, procedures and requirements as set out in Annex C hereto.

1.2 "Affiliated Company" means for the purposes of this definition Contractor, or

(a) a company which is directly controlled by Contractor or any of the companies constituting Contractor,

(b) a company which directly or indirectly controls Contractor or any of the companies constituting Contractor, and

(c) a company which is directly or indirectly controlled by a company which directly or indirectly controls Contractor or any of the companies constituting Contractor.

For the purpose of this definition "control" shall mean ownership of more than fifty percent (50%) of all votes outstanding and entitled to vote the equity interest and/or the power to direct the management and policies of such company.

1.3 "Agreement" means this agreement between the Parties, including the Annexes attached hereto, as amended or supplemented from time to time in accordance with this Agreement.

1.4 "Appraisal" means any or all operations such as (but not to be limited to) geological, geophysical, and any other surveys and any interpretation of data relating thereto as may be contained in approved Work Programmes and Budgets and the drilling of such shot-holes and well, the production testings, PVT and core analyses and the purchase or acquisition of such supplies, materials and equipment therefor, all as any be contained in approved Work Programmes and Budgets.

1.5 "Appraisal Well" means an Exploration well which is not a Wildcat Well but which is drilled with the objective, if necessary, of further defining and evaluating the extent, production capacity and potential recoverable reserves of hydrocarbon relating to a Discovery indicated by a Wildcat Well, and in order to confirm, if necessary, whether the Discovery is a Commercial Discovery or not.

1.6 "Associated Gas" means Natural Gas, commonly known as gas-cap gas, which overlies and is contact with significant quantities of Crude Oil in a reservoir, and/or solution gas dissolved in Crude Oil in a reservoir.

1.7 "Average Daily Production" means the total cumulative Net Adjusted Production of Crude Oil or Gas, as the case may be, for a certain period of time divided by the number of calendar days in that period of time.

1.8 "Barrel" in relation to Crude Oil shall consist of forty two (42) United States gallons liquid measure corrected to a temperature of sixty degrees (60) Fahrenheit and absolute pressure of fourteen decimal six nine six (14.696) pounds per square inch.

1.9 "Bcf" means one billion (1,000,000,000) Cubic Feet;

1.10 "Block" means each of Exploration Blocks 1a, 2a, and 4 as set out in Annex A and the Development Block comprising the sub-blocks described in Annex A-1 and indicated by the map in Annex B.

1.11 "Budget" means the estimated provisional annual expenditures expected to be incurred in an approved Work Programme for any Financial Year.

1.12 "Calendar Year" means a period of twelve (12) consecutive months commencing with the first day of January and ending the last day of December, according to the Gregorian Quarters, Months and Days to be reckoned accordingly.

1.13 "Commercial Discovery" means a Discovery that is subject of a Declaration of Commerciality.

1.14 "Contract Area" means Exploration Blocks 1a, 2a and 4 together with the development Block containing the Existing Oil Fields. This area may be reduced from time to time subject to Article V.

1.15 "Contractor" means, on the Effective Date, CNPC, PCOSB, SPC and SUDAPET and at any time thereafter shall include their legal successors and permitted assigns.

1.16 "Contractor Year" means a period of twelve (12) consecutive months according to the Gregorian Calendar and starting either on the Effective Date or any anniversary of the Effective Date.

1.17 "Co-operative Development Programme" means a plan or agreement for co-operative development operations for separately owned contract areas, primarily for the purpose of sharing and allocation of relevant development costs on a basis as defined in the agreement, while the production operations are carried out on competitive basis.

1.18 "Cost Gas" means that portion of gas allocated for the cost recovery as set forth in Article VII.

1.19 "Cost Oil" means that portion of gas allocated for the cost recovery as set forth in Article VII.

1.20 "Crude Oil" or "Liquid Hydrocarbon" means any hydrocarbon found in or produced from the Contract Area, free of water, sand and other foreign substances which is a liquid state at the well head separator, corrected to a reference pressure of one (1) atmosphere and a reference temperature of sixty degrees Fahrenheit (60oF) or which is extracted from the gas or casing head gas in a plant. Such term shall also without limitation include distillate, condensates from Natural Gas.

1.21 "Cubic Foot" or "CF" when applied to gas means the volume of gas that occupies (1) cubic foot of space measured dry at fourteen decimal six nine six (14.696) pounds per square inch absolute pressure at a temperature of sixty degrees Fahrenheit (60oF)

1.22 "Cubic Meter" means for the purpose of the Agreement a value measure equivalent to six decimal tow eight nine eight one (6.28981) Barrels at standard conditions of temperature and pressure.

1.23 "Development" shall include all the operations and activities, including primary and subsequent recovery projects based on reservoir engineering and other studies, conducted with a view to develop a field(s), under the Agreement in respect to, but not limited to:

(a) the drilling ,deepening, plugging, side tracking and completing of wells capable of producing, or assisting to produce Petroleum in accordance with sound oil-field and economic practices.

(b) the design, construction, engineering, installation, operation, servicing and maintenance of equipment, lines, systems, facilities, plants (such as, without limitation, separators, compressors, generators, pumps and tankage, gathering lines, pipelines, and all facilities required to be installed for production, pressure maintenance, treatment, storage and transportation of Petroleum to the Intake Point of the Transportation System) and related operations and such other treat, handle, store, flare, make Petroleum ready for transport and delivery for export and conveyance to a pipeline or a refinery located in or near the vicinity of Contract Area, or otherwise for local utilization, and to undertake to repressure, recycle, and conduct all other incidental or necessary operations, activities and services required or expedient for the better conduct or result of the above activities, all in accordance with the sound oil-field and economic practices.

1.24 "Development Block" means sub-blocks 1b and 2b together, the boundaries of which are defined in Annex A-1.

1.25 "Development Wells" means those wells drilled within the assumed limits of a Geological Feature subsequent to the drilling of a Discovery Well on such Geological Feature and Declaration of Commerciality in respect of the said Discovery. For the purpose of the Agreement, all wells drilled in the Development Block shall be deemed Development Wells.

1.26 "Discovery Well" means the first well on any geological feature which after testing in accordance with good, sound and accepted oil industry practice, including time for such testing, is capable of producing petroleum at a rate that economically justifies the undertaken of Appraisal work. The date of the establishment of a "Discovery Well", to be indicated by a written notice to the Minister (hereinafter referred as "Notice Of Discovery"), shall be within ninety (90) days after the date on which testing for such well is completed according to the above.

1.27 "Declaration if Commerciality" means a written statement delivered by the Contractor to the Minister to the effect a Discovery in Contractor's opinion can be commercially developed and produced and that the Contractor intends to submit to the Minister a field development plan and budget for approval.

1.28 "Delivery Measurement Point" (DMP) means the point immediately before the Delivery Point where the Parties' entitlements of Net Adjustment Production of Crude Oil are measured.

1.29 "Delivery Point (s)" means, in relation to Crude Oil, the point (s) where the Parties shall receive their entitlements of Net Adjusted Production of Crude Oil under the Agreement, which also means the point (s) where the inlet flange of the intake pipe of the loading tanker is connected with the facilities of the export terminal.

1.30 "Development Unit" means the Development Block and in respect to each Exploration Block, the area as defined pursuant to Sub-Clause 3.5.9 Article III.

1.31 "Development Expenditure" shall have the meaning set forth in Article VII.

1.32 "Development Plan(s)" means a scheduled programme and budget estimate specifying the Development operations which Contractor plans to carry out in respect of a Commercial Discovery(s).

1.33 "Dinar" or "Local Currency" means the currency of the Republic of the Sudan.

1.34 "Discovery" means a structural or stratigraphic feature proved by drilling and testing to be hydrocarbon-bearing.

1.35 "Dollar" or "USD" means currency of the United States of America.

1.36 "Duration of Agreement" shall have the meaning as set forth in Sub-Clause 3.3.1 of Article III.

1.37 "Effective Date" shall mean the 29th day of November, 1996 However the effective date of the OPSA is 29/8/1993.

1.38 "Existing Oil Fields" means Oil Fields previously discovered by Chevron Overseas Petroleum Inc. including the wells drilled and the facilities installed within the Development Block prior to the effective date of OPSA.

1.39 "Exploration" shall include any or all operations such as (but not limited to) geological, geophysical, geochemical and other survey, investigation, tests and any interpretation of data relating thereto as may be contained in and identified as such in approved Work Programmes and Budgets and the drilling of shot holes, core holes, stratigraphic tests, and other drilling and testing operations, exploration wells and appraisal wells, and other drilling and testing operations for the purpose of obtaining geological information, discovery of Petroleum, evaluation of a Petroleum fields (s) and appraisal of petroleum discoveries and the purchase, acquisition, storage and transportation of all supplies, materials, equipment, manpower and all other services and devices incidental thereto, all as may be contained in approved Work Programmes and Budgets. The verb "Explore" shall mean the act of conducted outside the Existing Oil fields and such Exploration operations are deemed as Development operations for the purpose of cost recovery under the Agreement.

1.40 "Exploration Block" means each of the Blocks 1a, 2a and 4 the boundaries of which are defined in Annex A.

1.41 "Exploration Expenditures" shall have the meanings set forth in Article VII.

1.42 "Exploration Period" means, in respect of any Exploration Block, the periods prescribed in Sub-Clauses 3.5.1 and 3.5.2 of Article III.

1.43 "Exploration Well" means either a Wildcat Well or an Appraisal Well.

1.44 "Financial Year" means the Calendar Year starting on January 1st and ending on December 31st, both dates being inclusive.

1.45 "First Commitment Period" shall have the meaning, in respect of the Exploration Blocks, set out in clause 3.5 of Article III.

1.46 "First Commercial Production" means, in relation to Crude Oil, for each Development Unit the date on which the cumulative Net Adjusted Production of

Crude Oil, excluding any such Crude Oil from early and/or extended production testing as may be approved by Minister in order to better define the quantity, quality and other attributes of any Discovery, attributable to the relevant Development Unit exceeds one hundred thousand (100,000) Barrels.

1.47 "Foreign Party" means China National Corporation (CNPC), or Petronas Carigali Overseas Sdn Bhd (PCOSB), or State Petroleum Corporation (SPC), collectively called Foreign Parties.

1.48 "Gas" means a mixture of hydrocarbons and varying quantities of non-hydrocarbons that exist either in the gaseous phase or in solution with Crude Oil in natural underground reservoirs, and, when produced, remain in gaseous phase at atmospheric conditions of temperature and pressure, and is classified as either Associated gas or Non-associated Gas.

1.49 "Gas Field" means an area consisting of a single reservoir or multiple reservoirs all grouped on, or related to, the same individual Geological Feature from which Non-associated gas may be produced.

1.50 "Geological Feature" means a separate and closed structure and/or stratigraphic trap of a given producing horizon.

1.51 "Intake Point" means the injection point between the pipeline network operated by Contractor under the Agreement and the Transportation System operated by or under the control of Transporter.

1.53 "Manager" means the person or entity entrusted by Contractor with the management of Petroleum Operations hereunder and referred to in Articles IV and X hereof.

1.54 "Minimum Work And Expenditure Obligations" means the minimum work and expenditure commitments to be undertaken by Contractor as stipulated in Article IV.

1.55 "Minister" means the Minister of Energy and Mining or any other Minister, entity or person designated from time to time by the Government to represent it in respect of the Agreement.

1.56 "Minister Representative" means a person designated from time to time by the Minister in relation to administering the Agreement. Minister Representative shall include the Minister.

1.57 "Net Adjusted Production of Crude Oil" means all barrels of Crude Oil produced from the Contract Area, less base sediments and water, saved and not used in Petroleum Operations and measured upstream of the Intake Point of the Transportation System at the Production Measurement Point, less the normal daily pipeline and terminal losses, including but not limited to shrinkage, weight loss and fuel, between the Intake Point and the Delivery Points as provided in Heads of Crude Oil Transportation Agreement.

1.58 "New Oil Field" means Oil Field discovered by Contractor in the Contract Area.

1.59 "Non-associated Gas" means Natural Gas which is found in a reservoir that does not contain significant quantities of Crude Oil.

1.60 "Oil Field" means an area consisting of a single reservoir or multiple petroleum reservoirs all grouped on, or related to, the same individual geological structural feature, or stratigraphic conditions from which Crude Oil may be produced commercially, and which area that may be modified from time to time, pursuant to Article III, based on any new information received from Appraisal or Development operations.

1.61 "Operating Expenses" shall have the meaning set forth in Article VII.

1.62 "Parent Company" means in respect to any Foreign Party constituting the Contractor the incorporated entity which owns all of the issued and outstanding shares of the relevant company.

1.63 "Participating Interest" means the undivided percentage interest of each party constituting Contractor in the rights, privileges, duties and obligations under the Agreement.

1.64 "Petroleum" means all natural hydrocarbons whether liquid, gaseous or solid including liquid crude oil of various densities, gas, casing head gas, asphalt and all other hydrocarbon substances that may be found in, produced or capable of production or otherwise obtained and saved from the Contract Area under the Agreement, and all substances that may be extracted therefrom.

1.65 "Petroleum Costs" means all expenditures incurred and payments made by Contractor in connection with or in relation to the carrying out of Petroleum Operations determined in accordance with the provisions of the Agreement and the Accounting Procedures as set out in Annex C.

1.66 "Petroleum Operations" means the Exploration, Development, Production operations and other activities related thereto contemplated under the Agreement.

1.67 "Production operations" means any and all operations related to production, transportation and storage of Petroleum including (but not limited to) workovers, stimulations, operating, staffing, supervising, servicing, repairing and maintaining of any and all wells, and all field facilities.

1.68 "Production Measurement Point" (PMP) means the point where the Crude Oil is measured immediately before being transferred to Transporter.

1.69 "Profit Gas" shall have the meaning as set forth in Article VII.

1.70 "Profit Oil" shall have the meaning as set forth in Article VII.

1.71 "Retained Sub-block(s)" means any Sub-block retained by the Contractor in accordance with Articles III and V.

1.72 "Second Commitment Period" shall have the meaning, in respect of the Exploration Blocks, set out in clause 3.5 of Article III.

1.73 "State" or "Sudan" means the Republic of the Sudan and "Government" shall mean the Government of the Republic of the Sudan or any agency or state owned corporation or a company over which the Government has control, authorized by the

Government to undertake any duties or obligations or to exercise any rights under the Agreement.

1.74 "Start-up Date" means in relation to the Transportation System the date when the first tanker loaded with crude oil delivered by the Transporter leaves the export terminal for the international market.

1.75 "Sub-block" means Sub-blocks 1b and 2b in respect to the Development Block and in respect to the Exploration Blocks those individual areas defined by a five (5) minute geographical grid, provided however, that the Sub-blocks at the perimeter of any Exploration Block shall only extend up to the boundary of the Exploration Block.

1.76 "Sub-contractors" means the sub-contractors of the Contractor for Petroleum operations according to the provisions of the Agreement.

1.77 "Tax Year" means the period of twelve (12) consecutive months for which tax returns or reports are required according to any applicable income, profits or other tax laws or regulations of the Sudan.

1.78 "Transporter" means the Crude Oil transporting company as defined in the Transportation Agreement.

1.79 "Transportation Agreement" means the agreement between the Transporter and the Parties relating to the transportation of Crude Oil from the Intake Point to the Delivery Point(s).

1.80 "Transportation System" means any and all installations, equipment or facilities from the Intake Point up to and including the loading flange at the export terminal operated by or under the control of the Transporter, which are necessary for the transportation, storage, metering and loading of Crude Oil under the Transportation Agreement.

1.81 "Unitized Development Programme" means a plan of development and production operations for the recovery of oil and/or gas subject thereto as a single consolidated unit for the allocation of costs and benefits on a basis as defined in the unitization agreement as set forth in clause 3.8 of Article III.

1.82 "Wildcat Well" means the first well located on a Geological Feature which is structurally or stratigraphically separate from a geological feature previously drilled by Contractor. Notwithstanding the foregoing, in the event the said Geological Feature is compartmentalized or separated into fault blocks, then the first well drilled in each such fault block that is not in pressure communication in the hydrocarbon phase with another fault block in the said Geological Feature shall be deemed a Wildcat Well.

1.83 "Work Programme" means an itemization and time schedule of the Petroleum Operations to be carried out under the Agreement.

1.84 "Year" means a period of twelve (12) consecutive months according to the Gregorian Calendar.

ARTICLE II ANNEXES TO THE AGREEMENT

(1) The following Annexes shall constitute integral parts of this Agreement and shall have equal force, validity and effect therewith:

(a) Annex "A" which is a description of the Exploration Blocks 1a (Unity), 2a (Heglig) and 4 (Kaikang) in the Contract Area covered and affected by the Agreement, and Annex "A-1" which is a description of the Development Block.

(b) Annex "B" which is the map of the Contract Area covered and affected by the Agreement, and showing the Exploration Blocks and the Development Block containing the Existing Oil Fields.

(c) Annex "C" which is the Accounting Procedure applicable to the Agreement.

(d) Annex "D" which is the form and amount of the Bank Guarantee by a reputable international bank acceptable to the Government to be furnished by the Parties constituting Contractor within thirty (30) days of the date of signature of the Agreement. In lieu of the said Bank Guarantee, the Parties constituting Contractor may at their option provide to the Government a guarantee from their Parent Companies in the form attached as Annex D-1.

(e) Annex "E" which is the Consortium Principles dated August 29, 1996.

(f) Annex "F" which is The Interim Agreement dated November 29, 1996.

(2) In the event of contradiction between the provisions of the Annexes and those of this Agreement, the provisions set out in the latter, shall to the extent of such contradiction, prevail.

ARTICLE III GRANT OF RIGHTS AND TERM

3.1 The Government hereby grants Contractor, subject to the terms, covenants and conditions set out in the Agreement, the exclusive right to conduct Petroleum Operations in the Contract Area described in Annexes "A", "A-1" and "B" including all other supporting activities normally associated with such Petroleum Operations. The terms and conditions of such grant of rights shall be as follows:

3.2 Scope Of the Agreement:

3.2.1 The Contractor, subject to the provisions of the Agreement, shall:

(a) carry out Petroleum Operations to explore for, appraise, develop and produce Commercial Discovery(s) in the Contract Area,

(b) provide all capital, machinery, equipment, technology, personnel and services necessary for carrying out Petroleum Operations,

- (c) incur all Petroleum Costs required for carrying out Petroleum Operations; and
- (d) fulfill all financial and other obligations of the Contractor and enjoy all rights and benefits of Contractor as provided in the Agreement.

The Parties constituting the Contractor shall have the following Participating Interest under the Agreement:

CNPC = 40%
PCOSB = 30%
SPC = 25%
SUDAPET = 5%

Notwithstanding the Participating Interest mentioned hereinabove, the Parties constituting the Contractor shall each be jointly and severally responsible towards the Government for all obligations and liabilities of Contractor under the Agreement.

3.2.2 Contractor shall have the exclusive right to develop all petroleum fields within the Contract Area, including but not limited to the construction of the infrastructure necessary for transportation and delivery to the Intake Point of the Transportation System and lifting and sale of Contractor's share of all crude oil and gas, produced from the Contract Area herein, at the Delivery Point.

3.3 Basic Term Of the Agreement

3.3.1 Subject to the provisions as hereinafter provided in the Agreement, the basic Duration of Agreement determined from the Effective Date shall be as follows:

- (a) Twenty five (25) Contract Years from the Effective Date for any Development Unit in the Exploration Blocks (Blocks 1a, 2a and 4); and
- (b) Twenty (20) Contract Years from the Effective Date for the Development Block comprising the Sub-blocks 1b and 2b.

3.4 Development Block:

3.4.1 Development of Existing Oil Fields: Contractor shall undertake the development of all currently Existing Oil Fields in the Development Block comprising Sub-blocks 1b and 2b of the Contract Area in accordance with the work commitments pursuant to Article IV of the Agreement.

3.4.2 Further Exploration: Contractor may undertake concurrently Exploration and Appraisal operations in the said Block outside of the Existing Oil Fields and any Discovery of Crude Oil as a result of such Exploration and Appraisal operations shall be defined as New Oil Field(s) and the provisions of Sub-Clauses 3.5.5, 3.5.6 and 3.5.8 of Article III shall apply mutatis mutandis in respect of such New Oil Field(s).

3.4.3 Development period: The Duration of Agreement for the Development Block, and if applicable New Oil Field(s) in the Development Block, shall be twenty (20) Contract Years determined from the Effective Date. This term shall be renewed for a further additional period of five (5) Contract Years upon six (6) months prior written notice from Contractor to the Minister and with the approval of the Minister, which

approval shall not be unreasonably withheld, provided Contractor shall have fulfilled its obligations under the Agreement.

3.5 Exploration Blocks (Blocks 1a, 2a and 4)

3.5.1 Exploration Period for Block 4: Contractor shall be granted a term of six (6) Contract Years determined from the Effective Date hereof for the Exploration Period in respect of Block 4 and such Period shall be divided into two commitment periods, namely, mandatory First Commitment Period of four (4) Contract Years and optional Second Commitment Period of two (2) Contract Years to be elected by the Contractor at its option upon sixty (60) days written notice to the Minister and subject to Contractor having fulfilled its Minimum Work Obligations for the preceding period in the manner stipulated hereunder and having presented a program of Minimum Work Obligations to be performed in the elected commitment period in accordance with Article IV of the Agreement.

3.5.2 Exploration Period for Block 1a and 2a: Contractor shall be granted a term of five (5) Contract Years determined from the Effective Date hereof for the Exploration Period in respect of Blocks 1a and 2a, and such Period shall be divided into two commitment periods, namely, mandatory First Commitment period of three (3) Contract Years and optional Second Commitment Period of two (2) Contract Years to be elected by the Contractor at its option upon sixty (60) days written notice to the Minister and subject to Contractor having fulfilled its Minimum Work Obligations for the preceding commitment period in the manner stipulated hereunder and having presented a program of Minimum Work Obligations to be performed in the elected commitment period in accordance with Article IV of the Agreement.

3.5.3 Exploration Blocks: The rights of Contractor to conduct Exploration operations under the Agreement shall terminate if no Discovery Well is established by the end of the last Year of the Exploration Period in respect of the said Blocks pursuant to Sub-Clauses 3.5.1 and 3.5.2 of Article III herein above or upon the completion of drilling and testing of any wells actually being drilled or tested at the end of last Year of the Exploration Period, but shall not exceed this period by more than six (6) months.

3.5.4 Notice of Discovery: In the event of a Discovery, Contractor shall notify (hereinafter referred to as the "Notice of Discovery") the Minister with a written report setting forth all relevant information with respect to the Discovery within ninety (90) days after completion of drilling and testing of the Wildcat Well which led to the Discovery of Crude Oil (herein after referred to as "New Oil Field") or of Natural Gas (herein after referred to as "Gas Field"), when in the opinion of Contractor, Exploration operations indicate a Discovery which merits further study and Appraisal.

3.5.5 Appraisal: In the event a New Oil Field is established, the Contractor shall undertake the Appraisal of the said New Oil Field by drilling at least one Appraisal Well, if technically and economically considered as necessary, in all cases to such depths and at such locations for the purpose of delineating the reservoir and appraising its potential for production in accordance with the good and sound oil industry practice and standards. In making the Appraisal the Contractor shall take into consideration the recoverable reserves, production, transportation tariff, estimated crude oil prices, and all other relevant technical and economic factors. Such Appraisal in respect of a New Oil Field shall be undertaken by the Contractor in full consultation with the Minister and, after close consultations between the Parties,

Contractor shall determine whether in Contractor's opinion the said New Oil Field is a Commercial Discovery worthy of commercial development.

3.5.6 Declaration of Commerciality: Upon completion of the Appraisal activities, as stipulated in Sub-Clause 3.5.5 of Article III, which include the drilling of appraisal wells, and if the Contractor's opinion the New Oil Field is a Commercial Discovery, Contractor shall prepare and submit to the Minister a report together with a written Declaration Of Commerciality in respect of such Discoveries within twelve (12) months if drilling is not necessary for the appraisal, but in any event not later than twenty four (24) months from the Notice of Discovery.

3.5.7 Extension for Appraisal operations: If a Discovery of Crude Oil is established during commitment period of the Exploration Period and the Contractor elects not to enter into the next period, Contractor shall be allowed to retain, notwithstanding the provisions of Article V, the Sub-block or Sub-blocks in which the said Discovery is located for an additional period of twenty four (24) months or twelve (12) months from the date of the Notice of Discovery subject to Sub-Clause 3.5.6 above, in order to continue appraisal work to determine whether such Discovery of Crude Oil constitutes a Commercial Discovery.

3.5.8 Development Work Programme: Not later than ninety (90) days following the date of Declaration Of Commerciality in respect of New Oil Field, Contractor shall prepare, in consultation with the Minister, a Field Development Plan and Budget for the development of such New Oil Field. Once a Work Program and Budget is approved in respect to a New Oil Field, Contractor shall have the obligation to implement such approved Work Program in accordance with the terms set forth in this Agreement. Development of such New Oil Field shall thereafter be started promptly by Contractor in accordance with good and sound oil industry practice and acceptable petroleum engineering principles and shall be continued until such discovery is fully developed.

3.5.9 Development Unit: In respect to each Exploration Block, the Development Unit for such Block shall mean the aggregate, whether contiguous or non-contiguous, of :

- (i) the Retained Sub-block or Retained Sub-blocks, within an Exploration Block, which contain a New Oil Field(s) in respect to which a Declaration of Commerciality has been made; and
- (ii) any other Sub-blocks (added from time to time to form part), within the relevant Exploration Block, which contain a New Oil Field, provided however that a Declaration of Commerciality must be made in respect to at least one (1) New Oil Field within an Exploration Block to form a Development Unit.

Where as a result of Development and Production operations it appears reasonably likely to the Parties that an Oil Field within a Development Unit is larger than originally delineated and extends beyond the relevant retained Sub-block(s), then the Government shall grant to the Contractor the required additional sub-block(s), to be converted into and to form part of the Development Unit so that the said New Oil Field may be fully covered by Sub-blocks to be retained as Development Unit provided that the following conditions are fulfilled in respect of the said additional sub-block(s)

- (a) no Petroleum operation by government is ongoing;

(b) no prior grant of right to Third Parties;

(c) Surface rentals deemed accrued from date of relinquishment are paid.

3.5.10 Discovery deemed Non-Commercial by Contractor: If the Contractor does not make a Declaration of Commerciality in respect of a New Oil Field within twenty four (24) months from the date of the Notice of Discovery, the Minister shall have the right, after sixty (60) days notice to Contractor, to develop, produce and separately dispose of all Crude Oil from such New Oil Field at its sole risk, cost and expense, provided however, that such right of the Minister, when exercised, shall not unduly impede the Petroleum Operations contemplated under the Agreement.

Said notice shall state the specific New Oil Field to be developed, the wells to be drilled, the production facilities to be installed and the Minister's estimated cost thereof in respect of the said New Oil Field. Within thirty (30) days after receipt of the said notice, Contractor shall have an opinion, in writing, to elect to develop the said New Oil Field in accordance with the provisions of this Article as provided for in the case of a Commercial Discovery. In such event the Sub-block(s) in which the said New Oil Field is located, if not already part of the relevant Development unit, shall be converted into and shall form part of the relevant Development Unit and all terms of this Agreement shall continue to apply to the said New Oil Field in accordance with the provisions provided for in the Agreement.

In the event Contractor does not so elect, and the Minister exercises his rights to proceed with the development, the said New Oil Field shall be removed from the Contract Area covered by the Agreement, the said Agreement remaining unaltered save for the removal of the particular New Oil Field referred to above.

3.5.11 Development period: The Development period shall be twenty five (25) Contract Years commencing from the Effective Date. This period shall be renewed for a further additional period of five (5) Contract Years upon six (6) months prior written notice from Contractor to the Minister, upon approval of the Minister, which approval shall not be unreasonably withheld and provided Contractor shall have fulfilled its obligations under the Agreement.

3.5.12 Failure to effect Production: In the event that no Commercial Production is established, directly, from any Sub-block(s) in which a New Oil Field is located in the relevant Development Unit within four (4) Years from the date of Declaration of Commerciality, the said Sub-block(s) shall be relinquished, unless Contractor shall have demonstrated and justified to the Minister promptly in due time during the said four (4) year duration, that the delays were due to circumstances beyond the control of the Contractor, or due to operational considerations of the Transportation System, or the delay is at the request of the Minister, and the Parties have agreed to extend the Development Period I request to the affected field with a reasonable extension before the expiry of the said period of four years.

3.5.13 Production Restraint and Development Deferral: In the event the planned level of production and/or Development operations in respect of any proposed or approved annual Work Programme are restrained or deferred in any Development Unit for operational considerations of the Transportation System and/or for national interest consideration, the Parties hereby agree that for any decrease in the rate of production, arrangements will be made for Contractor to recover at a later date (inclusive of a date beyond the expiry date of the Agreement) from the Development

Units within the Contract Area, the quantity of Crude Oil equal to the decreased production which Contractor in accordance with good oil field practice would have otherwise produced in the absence of such production restraints. It is also hereby agreed that for any deferral of planned Development operations, the Development period for the affected New Oil Field shall be extended accordingly.

3.5.14 Supplemental Exploration Works in the Development Units: Contractor may conduct Exploration operations in the Development Units in the relevant Exploration Blocks after the expiry of the Second Commitment Period (hereinafter referred to as "Supplemental Exploration Works") in accordance with the following conditions:

(a) Supplemental Exploration Work(s) shall be proposed and the corresponding Exploration plan including provisional cost estimate and Budget covering a period of four (4) Years (hereinafter referred to as "Supplemental Exploration Period") shall be submitted to the Minister, for approval in respect to any or all Development Units;

(b) Subject to Sub-Clause (c) herein below, the said Supplemental Exploration Works shall be at Contractor's sole risk, costs and expenses;

(c) In the event Contractor makes one or more new Commercial Discoveries anytime during a Supplemental Exploration Period, then all sole risk costs and expenses incurred by Contractor in accordance with Work Program and Budget approved by the Minister during the entire Supplemental Exploration Period will be recoverable starting from the Financial Year in which commercial production first commences in any of the said new Commercial Discovery(s), in accordance with the provisions of Article VII.

(d) In the event no new Commercial Discovery is made during a Supplemental Exploration Period, then all sole risk costs and expenses incurred by Contractor during the said Supplemental Period shall not be recoverable.

(e) Contractor may elect additional Supplemental Exploration Period(s) up to a maximum of three consecutive, concurrent Periods in respect of any or all Development Units and the provisions of Sub-Clauses (a), (b), (c) and (d) hereinabove shall apply mutatis mutandis.

3.6 Costs

Contractor shall bear and pay the costs and expenses required in carrying out Petroleum Operations under the Agreement in accordance with approved Work Programme and Budget. Contractor shall look only to the Petroleum to which it is entitled under the Agreement to recover such costs, expenses and other fees incurred in the development of oil and gas reserves in the Contract Area. Such costs and expenses shall not include interest on investments, and shall be recoverable in the manner provided for in Article VII. During the term of the Agreement and its extension, the total amount of production achieved in the conduct of such operations shall be divided between the Government and Contractor in accordance with the provisions of Article VII.

3.7 Diligent Work

Contractor shall diligently, efficiently and promptly perform all its duties set forth in the Agreement and in accordance with good, sound and acceptable oil industry economic and business standards and practices.

3.8 Unitization Agreement

In the event that a Discovery extends beyond the boundary of the Contract Area, or the Retained Sub-blocks that the Minister is unable to extend for reasons as stipulated in Sub-Clause 3.5.9 of Article III, Minister and Contractor shall use reasonable efforts to enter into an agreement for a Unitized Development Programme (to the extent such Unitized Development Programme merits technical consideration over the Co-operative Development Programme, in accordance with internationally accepted industry practice), with a single operator, either between themselves or with the party or parties that have rights to the additional area to which such Discovery extends. It is understood that such unitization agreements involving the Contractor Area will provide for a fair allocation of Crude Oil and/or Gas reserves within Oil and/or Gas Fields that are the subject of the aforesaid unitization agreements.

ARTICLE IV WORK PROGRAM AND EXPENDITURE

4.1 The Contractor agrees as from the Effective Date to and commits to undertake in the Contract Area the program set forth herein below:

4.2 Detailed Work Commitment For Development Block

Mandatory Commitment Period from Effective Date to Start-up Date

(a) Contractor shall drill and complete a minimum of thirty (30) Development Wells in the Development Block to establish a combined minimum production level of 65,000 BOPD deliverability to meet the timing of the Start-up Date of the Transportation System. The Minimum Expenditure Obligation in respect of the said development drilling operations shall be sixty million (60,000,000) U.S. Dollars.

(b) Contractor shall acquire one hundred and fifty square-kilometers (150 km²) 3-D seismic data to better define drilling locations. The Minimum Expenditure Obligation in respect of the said acquisition of new seismic data, processing and reprocessing shall be three million (3,000,000) U.S. Dollars.

(c) After the Start-up Date, Contractor will drill, complete and re-complete wells as required to maintain deliverability compatible with good international oil field practices, standards and economic criteria.

4.3 Detailed Work Commitment For Block 2a – Exploration

Mandatory First Commitment Period (3 Years)

(a) Contractor shall acquire and process one thousand line-kilometers (1,000 km) of new seismic data and reprocess at least 50% of the existing seismic data, if required,

to evaluate the said Exploration Block and define additional exploration drilling locations. The Minimum Expenditure Obligation in respect of the said acquisition of new seismic data, processing and reprocessing shall be four million (4,000,000) U.S. Dollars.

(b) Contractor shall drill seven (7) Wildcat Wells and the Minimum Expenditure Obligation in respect of the said Wildcat Wells shall be seventeen million and five hundred thousand (17,500,000) U.S. Dollars.

(c) Contractor will retrieve, store, catalogue, organize and copy all available exploration data including geological, geophysical, drilling, testing, analysis and engineering data. If required, the seismic data applicable will be reprocessed to enhance the interpretation.

(d) The Contractor can, at its sole discretion but after consultation with the Minister, substitute two Development wells for each Wildcat Well commitment.

Optional Second Commitment Period (2 Years)

(a) Contractor shall acquire and process five hundred line-kilometers (500 km) of new seismic data. The Minimum Expenditure Obligation in respect of the said acquisition of new seismic data and processing shall be one million and five hundred thousand (1,500,000) U.S. Dollars.

(b) Contractor shall drill five (5) Wildcat Wells and the Minimum Expenditure Obligation in respect of the said Wildcat Wells shall be twelve million and five hundred thousand (12,500,000) U.S. Dollars.

(c) The Contractor can, at its sole discretion but after consultation with the Minister, substitute two Development wells for each Wildcat Well commitment.

Detailed Work Commitment For Block 1a – Exploration

Mandatory First Commitment Period (3 Years)

(a) Contractor shall acquire and process one thousand two hundred and fifty line-kilometers (1,250 km) of new seismic data and reprocess at least 50% of the existing seismic data, if required, to evaluate the said Exploration Block and define additional exploration drilling locations. The Minimum Expenditure Obligation in respect of the said acquisition of new seismic data, processing and reprocessing shall be four million seven hundred and fifty thousand (4,750,000) U.S. dollars.

(b) Contractor shall drill seven (7) Wildcat Wells and the Minimum Expenditure Obligation in respect of the said Wildcat Wells shall be seventeen million and five hundred thousand (17,500,000) U.S. Dollars.

(c) Contractor will retrieve, store, catalogue, organize and copy all available exploration data including geological, geophysical, drilling, testing, analysis and engineering data. If required, the seismic data applicable will be reprocessed to enhance the interpretation.

(d) The Contractor can, at its sole discretion but after consultation with the Minister, substitute two Development Wells for each Wildcat Well commitment.

Optional Second Commitment Period (2 Years)

(a) Contractor shall acquire and process five hundred line-kilometers (500 km) of new seismic data. The Minimum Expenditure Obligation in respect of the said acquisition of new seismic data and processing shall be one million and five hundred thousand (1,500,000) U.S Dollars.

(b) Contractor shall drill four (4) Wildcat Wells and the Minimum Expenditure Obligation in respect of the said Wildcat Wells shall be ten million (10,000,000) U.S Dollars.

(c) The Contractor can, at its sole discretion but after consultation with the Minister, substitute two Development Wells for each Wildcat Well commitment.

4.5 Detailed Work Commitment For Block 4 – Exploration

Mandatory First Commitment Period (4 Years)

(a) Contractor shall acquire and process three thousand and five hundred line-kilometers (3,500 km) of new seismic data and reprocess at least 50% of the existing seismic data, if required, to evaluate the said Exploration Block and define additional exploration drilling locations. The Minimum expenditure Obligation in respect of the said acquisition of new seismic data, processing and reprocessing shall be eleven million (11,000,000) U.S Dollars.

(b) Contractor shall drill six (6) Wildcat Wells and the Minimum Expenditure Obligation in respect of the said Wildcat Wells shall be fifteen million (15,000,000) U.S Dollars.

(c) Contractor will retrieve, store, catalogue, organize and copy all available exploration data including geological, geophysical, drilling, testing, analysis and engineering data. If required, the seismic data applicable will be reprocessed to enhance the interpretation.

(d) The Contractor can, at its sole discretion but after consultation with the Minister, substitute two Development Wells for each Wildcat Well commitment.

Optional Second Commitment Period (2 Years)

(a) Contractor shall acquire and process one thousand line-kilometers (1,000 km) of new seismic data. The Minimum Expenditure Obligation in respect of the said acquisition of new seismic data and processing shall be three million (3,000,000) U.S Dollars.

(b) Contractor shall drill six (6) Wildcat Wells and the Minimum Expenditure Obligation in respect of the said Wildcat Wells shall be fifteen million (15,000,000) U.S Dollars.

(c) The Contractor can, at its sole discretion but after consultation with the Minister, substitute two Development Wells for each Wildcat Well commitment.

4.6. The fulfillment of the work obligations shall only relieve the Contractor of the corresponding expenditure obligations. However, the fulfillment of the expenditure obligations shall not relieve the Contractor of the corresponding work obligations.

In the event that the Agreement is still in force the Contractor will be entitled to recovery of its costs in accordance with Article VII. In the event that no commercial discovery is established by the end of the sixth year, or in the event that the Contractor relinquishes the Contract Area, the Government shall not bear any of the aforesaid expenses spent or paid by the Contractor.

4.7 Contractor shall be responsible for the preparation and performance of the Work Program within the Contract Area, which shall be implemented in a workmanlike manner and consistent with good and sound industry practice.

4.8 Unless Contractor has relinquished its rights under this Agreement, Contractor shall be entitled to recover all payments and expenditures for work contracted for in the development of commercial production and in the manner provided for under Article VII.

4.9 Contractor shall advance all necessary funds for all materials, equipment, supplies, personnel, administration and operations for the work and related activities pursuant to the Work Program and Budget and the Government shall not be responsible to bear or repay any of the aforesaid costs or any cost incidental thereto.

4.10 Contractor shall, using suitable up-to-date equipment, machinery, and methods and conducting operations hereunder in accordance with good oil and gas field practices, carry out a program designed to achieve the maximum possible exploitation compatible with proper economics for each Commercial Discovery.

4.11 Prior to the beginning of each year, the Contractor shall prepare in consultation with the Minister a Work Programme for each Block setting forth the operations which the Contractor proposes to carry out during the ensuing year in accordance with Article XXXIV.

4.12 Contractor shall entrust the Management of Petroleum Operations under this Agreement to its technically competent manager. The name of such Manager shall, upon appointment, be forthwith notified to the Minister. The Manager shall be entrusted by Contractor with sufficient powers to carry out immediately and comply with all lawful directions given to Contractor by the Minister or his representative under the terms of this Agreement or any laws or regulations issued or hereafter to be issued which are applicable hereunder.

4.13 Contractor shall provide the Minister, within forty-five (45) days at the end of each Quarter a statement of the expenditures incurred in such Quarter and a summary of cumulative expenditures since the effective date and after First Commercial Production, a statement of cost recovery both as detailed in Annex "C". Contractor's records and necessary original supporting documents in respect of such Quarter shall be available for inspection by the Minister or his authorized representative at any time during regular working hours for three (3) months from the date of receiving such statements. Within three (3) months from the date of receiving such statement, the Minister shall advise the Contractor in writing if he considers that:

(a) The recording of costs is not correct, and/or

(b) The costs of goods or services supplied are not corresponding to the international market prices for goods or services of similar quality supplied on similar terms prevailing at the time such goods or services were supplied, and/or,

(c) the condition of the materials furnished by Contractor does not tally with their prices, and/or,

(d) the costs incurred are not reasonably required for operations.

Contractor shall confer with the Minister in connection with any problems thus presented and the parties shall attempt to reach a settlement which is mutually satisfactory except for (e) below.

(e) Records and supporting documents are incomplete or unavailable or not original.

4.14 (a) If within the time limit of three (3) months provided for in Clause 4.13 above, the Minister has not advised the Contractor of his objection to any statement, such statement shall be considered approved.

(b) The Contractor shall provide replies for any inquiries, explanations, objections, raised by the Minister within forty-five (45) days from receipt of such written inquiries. If the Contractor does not comply with the provision of this paragraph such relevant cost would be considered disapproved until final determination by both Parties.

4.15 Contractor pursuant to the implementation of provisions of this Article and the Agreement shall furnish the Government, within thirty (30) days from the date of signing this Agreement, with a Bank Guarantee or with a Parent Company Guarantee for the work commitment and minimum financial obligations and liabilities stipulated herein and in accordance with the form and content in Annex "D" of the Agreement.

ARTICLE V RELINQUISHMENTS

(1) MANDATORY : Contractor shall at the end of the First Commitment Period relinquish to the Government part of each Exploration Block not less than fifty percent (50%) of the area of the Block that is not covered by Retained Sub-blocks and at the end of the second Commitment Period the Contractor shall relinquish to the Government the remainder of the original Contract Area except as provided below:

Contractor's obligations to relinquish parts of the Contract Area pursuant to the above shall not apply to the following:

(a) Development Sub-blocks 1b and 2b;

(b) Any part of Contract Area which is covered by Retained Sub-block(s).

(c) Any part of the Contract Area allowed by Minister to be retained by Contractor for the evaluation of a Discovery of Crude Oil as stipulated in sub-clause 3.5.7 of Article III.

(2) VOLUNTARY : Contractor may voluntarily during any commitment period and upon thirty (30) days written notice relinquish all or any part of the Contract Area provided that at the time of such voluntary relinquishment its obligations under Article IV have been adequately and promptly satisfied.

(3) Unless otherwise agreed to by the Minister, the area or areas to be relinquished shall be by Sub-block. The shape of any area to be relinquished shall be convenient to allow Exploration and Development to be conducted therein by the Government.

(4) Notice of relinquishment shall be accompanied by a map and a description indicating the precise extent of the area to be relinquished and the area to be retained. Following the approval of the Minister of the map such area shall be deemed to have been relinquished.

(5) Upon relinquishment, the area or areas of the original Exploration Blocks so relinquished shall cease to be part of the Contract Area covered by this Agreement. Accordingly, the Agreement shall be considered as terminated in relation thereto.

(6) Any voluntary relinquishment shall be credited toward the mandatory relinquishment of the whole Contract Area covered by the Agreement.

(7) If during a commitment period the Contractor gives a notification of relinquishment of the whole Exploration Blocks covered by the Agreement or any part thereof or at the expiry of the commitment periods, the Contractor has not at that time fulfilled its minimum work commitments then due under Article IV for such commitment period then the Contractor shall pay to the Minister the under expenditure which shall be the difference between the total amount of minimum financial commitment then due and the actual expenditure subject to Sub-Clause 4.13 of Article IV.

ARTICLE VI EXCHANGE RIGHTS AND OBLIGATIONS

6.1 Funds transferred into the Sudan for local expenditures, funds utilized abroad to purchase goods and services, charges for services performed by Contractor or its sub-contractors outside the Sudan, and all other expenditures and investments under the Agreement shall be registered with Sudan Exchange Control which shall issue appropriate written confirmation to Contractor that said expenditures and investments are registered as foreign investments.

6.2 Contractor is authorized to open and operate a United States Dollar account in a local bank.

6.3 Funds required by Contractor to meet local expenditures shall be imported in freely convertible currencies.

6.4 Purchase or sale of foreign exchange shall be effected at the daily prevailing rates as quoted by commercial banks operating in the Sudan based on rates as quoted by the Bank of Sudan, provided the exchange rate applicable to Contractor's operations shall not be less favorable than that available to any private, commercial or industrial undertaking in the Sudan.

6.5 Contractor is authorized to open and operate accounts in foreign banks outside the Sudan. Withdrawals from said accounts shall be used for payments of goods and services acquired abroad and for transferring to local banks in the Sudan the required amounts to meet expenditures in Sudanese currency in connection with its activities under the Agreement. Quarterly statements shall be submitted to the exchange control showing funds credited to said account, disbursement made, interest earned and paid and the outstanding balance.

6.6 Contractor is guaranteed for the Duration of Agreement the following exchange rights:

(a) To provide in freely convertible foreign currencies all funds for operations under the Agreement.

(b) To hold such funds abroad and Contractor shall not be obliged to transfer to the Sudan funds or assets held outside the country except such funds as are necessary to meet its requirements for Sudanese currency.

(c) To retain abroad and freely dispose of all Contractor's proceeds from the export and sale of petroleum and Contractor shall not be obliged to remit such export proceeds to the Sudan except such proceeds as may be needed to meet its expenses and obligations in the Sudan.

(d) Contractor and its sub-contractors shall be authorized to pay their expatriate employees working in the Sudan in foreign currencies outside of the Sudan and such employees shall only be required to bring into the Sudan such foreign exchange as required to meet their personal living expenses. Expatriate employees shall be exempt from payment of Sudanese personal income tax.

(e) Contractor shall be entitled to maintain a special account for non-Sudanese funds which can be disbursed only for the purpose of purchasing traveler's cheques for Contractor employees for travel purposes. Such traveler's cheques shall only be issued on presenting evidence of sufficiency of funds in a special account.

ARTICLE VII RECOVERY OF COSTS AND EXPENSES AND PRODUCTION SHARING

7.1 Petroleum Costs

(a) For the purpose of the Agreement and for determining the classification of all costs, expenses and expenditures for their recovery, the following terms whenever used shall have the meanings respectively assigned to them as below :

(b) "Exploration Expenditure" shall mean all expenditures, costs and expenses for Exploration operations including such expenditures, costs and expenses incurred from the effective date of the OPSA.

(c) "Development Expenditure" shall mean all expenditures, costs and expenses for Development operations including such expenditures, costs and expenses incurred from the effective date of the OPSA.

7.2 Amortization and Recovery

For the purpose of the recovery of all costs and expenses relating to Petroleum Operations under the Agreement, the following principles shall apply:

(a) All Operating Expenses shall be recovered in the Calendar Year in which they are incurred, subject however that all Operating Expenses incurred prior to the commencement of First Commercial Production shall be accumulated and shall be recoverable as from such date.

(b) Exploration and Development Expenditures accumulated prior to the commencement of First Commercial Production shall be amortized over a period of four (4) Calendar Years, prorated for partial Calendar Year, in equal amounts, commencing from the date on which First Commercial Production occurs and shall be recoverable as from such date.

(c) Exploration and Development Expenditures incurred after the commencement of First Commercial Production shall be amortized over a period of four (4) Calendar Years, prorated for partial Calendar Year, in equal amounts, commencing from the date on which such expenditure is incurred and shall be recoverable as from such date.

(d) Exploration and Development Expenditures incurred pursuant to Article III Sub-Clause 3.5.14 shall be amortized over a period of four (4) Calendar Years, prorated for partial Calendar Year, in equal amounts, commencing from the date on which commercial production occurs from any or all of the new Commercial Discoveries made pursuant to Article III Sub-Clause 3.5.14 and shall be recoverable as from such date.

7.3 Development Block

7.3.1 Cost Oil and Profit Oil

All Crude Oil produced from the development Block and not used for Petroleum Operations in any Calendar Year shall be saved, taken and disposed of as hereinafter stipulated. For the avoidance of doubt, the Net Adjusted Production of Crude Oil attributable to all Oil Fields in the said Development Block shall be commingled and the said Development Block shall be ring-fenced for the purpose of cost recovery and profit sharing and such commingled production in any Calendar Year shall be allocated for cost recovery and profit sharing in the following manner:

(a) Forty percent (40%) shall be allocated for cost recovery (hereinafter referred to as "Cost Oil")

(b) The balance of sixty percent (60%) shall be allocated for profit sharing (hereinafter referred to as "Profit Oil")

7.3.2 Cost Recovery

(a) The value of the said Cost Oil shall be determined in accordance with Article XXXV. From such value of Cost Oil, Contractor shall recover all costs and expenses in respect of all Petroleum Operations in the said Development Block, subject to the Accounting Procedure and auditing provisions under the Agreement. Such costs and expenses of Petroleum Operations shall be recovered from the said value of Cost Oil in the manner stipulated hereinabove.

(b) To the extent that, in each Calendar Year, costs, expenses or expenditures recoverable pursuant to Sub-Clause 7.3.2 (a) above exceed the value of Cost Oil produced in such Financial Year, the excess shall be carried forward for recovery in the next succeeding Financial Year(s) until fully recovered.

(c) If in any Financial Year costs, expenses or expenditures recoverable pursuant to Sub-Clause 7.3.2(a) above shall be less than the value of Cost Oil then the remaining balance of such Cost Oil (hereinafter referred to as "Unused Cost Oil") shall be taken solely by the Government.

7.3.3. Sharing Of Profit Oil:

The said Profit Oil pursuant to Sub-Clause 7.3.1(b) here above shall be taken and disposed of separately by the Government and the Contractor in the following proportions :

(a) If the Average Daily Production of Crude Oil in a Financial Year is equal to or less than 25,000 Barrels per day then it shall be taken and disposed of separately by the Government and Contractor in the following proportions :

Government 61.5%
Contractor 38.5%

(b) If the Average Daily Production of Crude Oil in a Financial Year is more than 25,000 Barrels per day but equal to or less than 50,000 Barrels per day, then that portion or increment of the Average Daily Production of Crude Oil in excess of 25,000 Barrels per day but equal to or less than 50,000 Barrels per day shall be taken and disposed of separately by the Government and Contractor in the following proportions :

Government 71%
Contractor 29%

(c) If the Average Daily Production of Crude Oil in a Financial Year is more than 50,000 Barrels per day, then that portion or increment of the Average Daily Production of Crude Oil in excess of 50,000 Barrels per day shall be taken and disposed of separately by the Government and Contractor in the following proportions :

Government 80%
Contractor 20%

7.4 Development Units in Blocks 1a, 2a and 4

7.4.1 Cost Oil and Profit Oil

All Crude Oil and Gas produced from the Development Units in the Exploration Blocks and not used for Petroleum Operations in any Calendar Year shall be saved to the extent applicable, taking the Development Unit for each Block separately, and disposed of as hereinafter stipulated provided always that no costs, expenses and expenditure incurred by the Contractor in Petroleum Operations in respect of any Development Unit from one Block shall be a burden on cost oil of the Development Unit in another Block. For the avoidance of doubt, the Development Unit for each Block is ring-fenced, and the Net Adjusted Production of Crude Oil and the production of Gas, if any, available for sale pursuant to Article XXXII, attributable to the respective Development Units, shall not be commingled, for the purposes of cost recovery and profit sharing.

The said production attributable to the respective Development Unit in any Calendar Year shall be allocated for cost recovery and profit sharing in the following manner:

(a) Forty five percent (45%) of the said Net adjusted Production of Crude Oil shall be allocated for cost recovery (hereinafter referred to as "Cost Oil") and the balance of fifty five percent (55%) shall be allocated for profit sharing (hereinafter referred to as "Profit Oil").

Forty five percent (45%) of the said Gas production available for sale shall be allocated for cost recovery (hereinafter referred to as "Cost Gas"). The balance of fifty five percent (55%) shall be allocated for profit sharing (hereinafter referred to as "Profit Gas").

7.4.2 Cost Recovery

(a) The value of the said Cost Oil and Cost Gas for each Development Unit shall be determined in accordance with Articles XXXV and XXXII respectively. From such value of Cost Oil and Cost Gas, Contractor shall recover all costs and expenses in respect of all Petroleum Operations in the relevant Development Unit, subject to the Accounting Procedure and auditing provisions under the Agreement. Such costs and expenses of Petroleum Operations shall be recovered from the said value of Cost Oil and Cost Gas in the manner stipulated hereinabove.

(b) To the extent that, in each Financial Year, costs, expenses or expenditures recoverable pursuant to Sub-Clause 7.4.2 above exceed the value of Cost Oil and Cost Gas produced in such Financial Year, the excess shall be carried forward for recovery in the next succeeding Financial Year(s) until fully recovered.

(c) If in any Financial Year costs, expenses or expenditures recoverable pursuant to Sub-Clause 7.4.2 above shall be less than the value of Cost Oil and Cost Gas then the remaining balance of such Cost Oil and Cost Gas (hereinafter referred to as "Unused Cost Oil" and "Unused Cost Gas" respectively) shall be taken solely by the Government.

7.4.3 Sharing of Profit Oil

The said Profit Oil pursuant to Sub-Clause 7.4.1 (a) here above shall be taken and disposed of separately by the Government and the Contractor in the following proportions :

(a) If the Average Daily Production of Crude Oil in a relevant Development unit in a Financial Year is equal to or less than 25,000 Barrels per day then it shall be taken and disposed of separately by the Government and Contractor in the following proportions :

Government 60%
Contractor 40%

(b) If the Average Daily Production of Crude Oil in a relevant Development Unit in a Financial Year is more than 25,000 Barrels per day but equal to or less than 50,000 Barrels per day, then that portion or increment of Average Daily Production of Crude Oil in excess of 25,000 Barrels per day but equal to or less than 50,000 Barrels per day shall be taken and disposed of separately by the Government and Contractor in the following proportions :

Government 70%
Contractor 30%

(c) If the Average Daily Production of Crude Oil in a relevant Development Unit in a Financial Year is more than 50,000 Barrels per day, then that portion or increment of the Average Daily Production of Crude Oil in excess of 50,000 Barrels per day shall be taken and disposed of separately by the Government and Contractor in the following proportions :

Government 80%
Contractor 20%

7.4.4 Sharing of Profit Gas

The Profit Gas pursuant to Sub-Clause 7.4.1 (b) hereinabove shall be taken and disposed of separately by the Government and the Contractor in the following proportions :

(a) If the Average Daily Production of Gas in a relevant Development Unit in a Financial Year is equal to or less than two hundred and fifty (250) MMCFD then it shall be taken and disposed of separately by the Government and Contractor in the following proportions :

Government 60%
Contractor 40%

(b) If the Average Daily Production of Gas in a relevant Development Unit in a Financial Year is more than two hundred and fifty (250) MMCFD, but equal to or less than five hundred (500) MMCFD then that portion or increment in excess of two hundred and fifty (250) MMCFD per day but equal to or less than five hundred (500) MMCFD per day shall be taken and disposed of separately by the Government and Contractor in the following proportions :

Government 70%

Contractor 30%

(c) If the Average Daily Production of Gas in a relevant Development Unit in a Financial Year is more than 500,000 MCFD then that portion or increment in excess of 500,000 MCFD per day shall be taken and disposed of separately by the Government and Contractor in the following proportions :

Government 80%

Contractor 20%

7.5 Entitlements To Crude Oil And Gas

7.5.1 The quantities of Cost Oil in barrels which Contractor is entitled to lift provisionally in any Calendar Quarter shall be determined in accordance with the provisions of Article XXV and subject to Sub-Clause 7.5.2 hereunder.

7.5.2 The quantities of Crude Oil in terms of Net Adjusted Production of Crude Oil to be lifted by Contractor and Government during a given Calendar Year shall be provisionally calculated during the first fortnight of the month of December preceding the said Calendar Year on the basis of factors defined by the Parties under the terms of this Article VII and Article XXXV.

Thereafter, before the end of every Quarter of the said Calendar Year, the aforesaid quantities shall be readjusted in relation to the best data available to the Parties.

Before the end of the first Quarter following the said Calendar Year, the quantities due to the Contractor and Government for the said Calendar Year shall be finally determined by the Parties and approved by the Minister.

Re-adjustments which may be made shall apply to the quantities of Net Adjusted Production of Crude Oil to be lifted immediately thereafter.

7.5.3 In the event of Gas sales under the Agreement, the quantities of Cost Gas in MMCF which Contractor is entitled to take provisionally in any Quarter shall be determined based on Gas price realized in any Gas sales contract and the provisions of Sub-Clause 7.5.2 shall apply mutatis mutandis.

7.5.4 Government shall have the right to separately take all of its share of Profit Oil and the share of Profit Gas, plus the Unused Cost Oil and the Unused Cost Gas, to which it is entitled as determined by this Article.

Contractor shall be entitled to take and separately dispose and export all of its share of Cost Oil and the share of Cost Gas, plus its share of the Profit Oil and the Profit Gas, to which it is entitled as determined by this Article.

However, the Parties hereby agree that the quantities of Crude Oil to which Contractor is entitled as its share of Cost Oil and share of Profit Oil until the Start-up Date shall be lifted by Government (such quantities hereinafter referred to as "Overlifted Quantities"). Such Overlifted Quantities in Barrels shall be reimbursed in kind to the Contractor to the extent of and out of Government's share of Crude Oil at the export Delivery Point commencing from the Start-up Date and continuing until such Overlifted Quantities are fully reimbursed, subject to a mutually agreed downward adjustment factor to the said Overlifted Quantities based on actual

reduction in volume of Crude Oil due to shrinkage, weight loss and fuel consumption in the Transportation System, as though the Overlifted Quantities would have gone through such reduction in volume had they been transported using the Transportation System.

7.6 Treatment of Straddling Field(s)

In the event an Oil Field in the Contract Area straddles over more than one Exploration Block and/or Development Block, then the Crude Oil produced from such field and all costs and expenses incurred for Development and Production operations in respect of the said Field shall be apportioned to the relevant Blocks using the principles commonly adopted for allocation of production in a unitized development.

7.7 Payments under the Agreement

All payments due under the Agreement to either Party, unless otherwise expressly provided for, shall be paid in U.S Dollars under payment terms acceptable to the receiving Party and paid to an account designated by such receiving Party.

ARTICLE VIII TITLE TO ASSETS

(1) The Government shall become the owner of all assets acquired and owned by Contractor in connection with the Petroleum Operations carried out by Contractor in accordance with the following:

(a) Land (including buildings and fixed structures thereon) shall become the property of the Government as soon as it is purchased or acquired.

(b) Title to other fixed and moveable assets shall be transferred from Contractor to the Government at the end of the Quarter in which total costs of all such assets have been recovered by Contractor in accordance with the provisions of Article VII, or on the occurrence of any termination of this Agreement, whichever first occurs. The book value of the assets acquired during each Financial Year Quarter shall be communicated by Contractor to the Minister within thirty (30) days of the end of the Quarter.

(2) During the Duration of Agreement and any renewal period Contractor is entitled to the full-use of all fixed and moveable assets in the Contract Area, and any other area approved by the Minister. Contractor shall not dispose any of the assets except with the approval of the Minister.

(3) Contractor shall submit to the Minister a detailed statement showing the life expectancy of all assets purchased for use in the Sudan in accordance with the details for the assets register as provided for in the Accounting Procedures.

**ARTICLE IX
BONUSES, RENTALS, ROYALTIES, TAXES AND OTHER
PAYMENTS**

9.1 Bonuses

(1) Contractor shall pay to the Government the sum of Ten Million U.S. Dollars (\$10,000,000) as a signing bonus payable in five (5) installments:

(a) the first installment of One Million U.S. Dollars (\$1,000,000) payable within thirty (30) days of the Effective Date.

(b) the second installment of One Million U.S. Dollars (\$1,000,000) payable within six (6) months of the Effective Date.

(c) the third installment of One Million U.S. Dollars (\$1,000,000) payable within twelve (12) months of the Effective date.

(d) the fourth installment of One Million U.S. Dollars (\$1,000,000) payable within eighteen (18) months of the Effective Date.

(e) the fifth installment of Six Million U.S. Dollars (\$6,000,000) payable within ten (10) days from the date of signature of the Agreement.

(f) In addition to the above the Contractor shall pay to the Government a signing bonus of Five (5) Million U.S. Dollars (\$5,000,000) of which payment shall start on the date of signing of the interim agreement.

The sums indicated in items (a), (b), (c), (d), and (f) hereinabove are deemed to have been paid as of the Effective Date.

(2) (a) Contractor shall pay to the Government the sum of Five Million U.S. Dollars (\$5,000,000) as a production bonus when the first time the minimum cumulative production of Crude Oil from the Contract Area for a period of thirty (30) producing days equal to 1,500,000 (one million and five hundred thousand) Barrels.

(b) Contractor shall also pay to the Government the additional sum of Ten Million U.S. Dollars (\$ 10,000,000) as a further production bonus when for the first time the minimum cumulative producing of Crude Oil from the Contract Area for a period of thirty (30) producing days equal to 2,250,000 (two million two hundred and fifty hundred thousand) barrels.

(c) Contractor shall also pay to the Government the additional payment sum of Ten Million U.S. Dollars (\$10,000,000) as a further producing bonus when for the first time the minimum cumulative production of Crude Oil from the Contract Area for a period of thirty (30) producing days equal to 3,000,000 (three million) Barrels.

(d) Any Party constituting Contractor shall pay to the Government an assignment bonus in an amount equal to the sum of Two Million U.S. Dollars (\$2,000,000) in the event that the Agreement or any right, privilege, duty or obligation herein is assigned to a third party.

(e) Each sum provided for under Clause 9.1 paragraph 2 above shall have be paid within thirty (30) days following the expiry of the referenced period of thirty (30)days.

For the avoidance of doubt, the production bonuses payable pursuant to Clauses 9.1 paragraphs 2(a), 2(b) and 2(c) of this Article shall each be payable once only when the accumulated production of Crude Oil from the Contract Area at the Intake Point, during a period of thirty (30) producing days first attains the respective minimum cumulative values stipulated in the said Clause 9.1 paragraphs 2 (a), 2 (b), and 2 (c).

Contractor shall pay at the beginning of each Financial Year commencing on the effective Date and while this Agreement remains in effect a scholarship, training and technical bonus of Five Hundred Thousand U.S. Dollars (\$500,000). The initial payment will be made within thirty (30) days after the signature of the Agreement. This payment will increase to one million U.S. Dollars (\$1,000,000) per year after the Start-up Date, promoted for partial Contract Year.

Contractor shall pay at the beginning of each Financial Year to the Minister for social development purposes a contribution of Three Hundred Thousand U.S . Dollars (\$300,000). This annual social development contribution will increase to Five Hundred Thousand U.S. Dollars (\$500,000) after the Start-up Date, and for partial of Contract Year.

The Contractor shall within thirty (30) days of signing this Agreement pay to Government a one-time "Local Facility Contribution" of Five Hundred Thousand U.S. Dollars (\$500,000).

9.2 Rentals

Contractor shall pay in advance annual surface rentals (prorated for partial Calendar Year, if applicable), for areas retained under the Agreement, as follows:

- (a) During the First Commitment Period for each one square kilometer – Ten U.S. Dollars (\$10.00) per annum.
- (b) During the Second Commitment Period for each one square kilometer – Twenty U.S. Dollars (\$20.00) per annum.
- (c) After the expiry of the relevant Exploration Periods for one square kilometer – Fifty U.S. Dollars (\$50.00) per annum.
- (d)(d) Sub-Blocks retained in the Development Unit before the expiry of the Exploration Period for each one square kilometer Fifty U.S. Dollars (\$50.00) per annum.
- (e) During the Development period and any extension thereof for each one square kilometer – Fifty U.S. Dollars (\$50.00).

9.3 Royalties and Taxes

(1) Subject to paragraph 2 of this Clause 9.3 herein below, Contractor shall be subject to the laws in force in the Sudan and the regional or provincial or municipal

sub-divisions thereof which impose taxes on or are measured by income or profit tax or charge (hereinafter referred to as "Sudan income taxes"). Contractor shall comply with the requirements of such laws with respect to the filling of returns, the assessment of tax, the keeping for review by authorized persons of books and records, the payment of the tax in the stipulated time and all other requirements of the said laws.

(2) Government shall assume, pay and discharge, on behalf of Contractor, Contractor's Sudan income taxes as well as any other taxes that might be imposed now or in the future on Contractor's operations out of the sums received by the Government's share of Crude Oil and Gas.

(3) Government shall deliver to the entities constituting Contractor within six (6) months following the end of each Tax Year, tax receipts and all other documents certifying that Contractor severally and individually has fulfilled all of its receptive income tax obligations, as well as local tax obligations specified hereunder.

(4) Government shall own and be entitled, during the production period, including renewal, to any royalty payable under the laws of Sudan on the total quantity of petroleum produced and saved from the Contract Area and not used in operations hereunder. Said royalty shall be borne or paid out of the Government's share of Petroleum and shall not be the obligation of Contractor. Such payments of royalties shall not be deemed to result in income to Contractor.

9.4 Notice of Payments

The aforesaid bonuses and funds including the surface rentals shall not be recovered by Contractor from Cost Oil and Cost Gas.

ARTICLE X OFFICE AND SERVICE OF NOTICE

(1) Contractor shall maintain an office in the Sudan directed by the Manager at which notices shall be validly served. In this respect any notice or request required or permitted to be given or made to Contractor under the Agreement shall be deemed to be duly given or made when delivered by hand, registered mail, cable or facsimile to Manager's office.

(2) The Manager shall be entrusted by Contractor with the power to carry out immediately and comply with all local written directions given to him by the Minister or the Minister Representative under the terms of the Agreement or any regulations issued or hereafter to be issued which are applicable hereunder.

(3) All notices shall be deemed as served to the Minister when delivered by hand, registered mail, cable or facsimile to his office.

(4) Nothing in this Article shall be deemed to relive Contractor from the obligation to file any report, return or other communication required by the laws of the Sudan at the time and in the manner therein prescribed.

ARTICLE XI DILIGENT AND WORKMANLIKE OPERATIONS

(1) Contractor shall conduct its operations in the Contract Area with due diligence and in a workmanlike manner and in accordance with good and sound methods and standards of the petroleum industry. Contractor shall take all reasonable measures to prevent loss or waste of petroleum above or under the ground in any form during drilling, producing, gathering and distributing or storage operations. Without prejudice to the generality of the aforesaid, Contractor shall:

(a) Take whatever practical measures are necessary to prevent any injurious ingress of water or damage of any kind to any petroleum bearing formation which may be encountered while drilling operations are in progress or upon abandonment of any well shall carefully locate and preserve any fresh water sources discovered in the course of such operations.

(b) Take all reasonable precautions against fire and any unwarranted wasting of Crude Oil, Gas or water.

(2) Upon completion of the drilling of a prospective well, Contractor shall inform the Minister of the time when the well will be tested and the production rate ascertained.

(3) Except in instances where multiple producing formations in the same well can be produced economically only through a single tubing string, Petroleum shall not be produced from multiple oil carrying zones through one string of tubing at the same time, except with the prior written approval of the Minister.

(4) Contractor shall record data regarding the quantities of petroleum and water produced monthly from the Contract Area. Such data shall be sent to the Minister within thirty (30) days after it is obtained. Daily or weekly statistics regarding the production from the Contract Area shall be available at all reasonable times for examination by the Minister.

(5) Daily drilling records and graphic logs of wells must show the quantity and type of cement and the amount of any other materials used in the well of the purpose of protecting petroleum, gas bearing or fresh water strata.

(6) Contractor shall within six (6) months of the date of signature of the Agreement provide the Minister with standards and procedures for the conduct of Petroleum Operations for review and agreement.

ARTICLE XII CUSTOMS EXEMPTIONS

Imports and exports of all items shall be subject to customs laws and regulations the in force, to any consular fees of general application, and to any fees or charges of general application for use of ports, harbors or other services or facilities made available by the Government, subject to the foregoing:

(1) Contractor and its sub-contractors shall be permitted to import and shall be exempted from customs duties with respect to the importation of any machinery, equipment, material, vehicles, supplies and consumable or moveable property which is a piece of capital equipment and/or necessary for Petroleum Operations, and which is to be used solely in carrying on Petroleum Operations as certified by the Minister's representative and such other articles as the Minister may from time to time approve.

(2) The exemption provided in paragraph (1) of this Article shall not apply to any imported items when in the opinion of the Minister items comparable in price, quality and delivery dates are obtainable in the Sudan. In comparing the prices of the items sought to be imported with the like items obtainable in the Sudan, there shall be added to the prices of the items sought to be imported duty-free the consular fees, freight and insurance and other costs, charges or fees, other than imported duties, normally incurred through shipment, unloading and clearance through Sudanese customs.

(3) Each expatriate employee of Contractors and sub-contractors, through Contractor, shall be permitted to import and shall be exempted from customs duties with respect to the reasonable importation of household goods, food stuffs, and equipment, including one automobile, provided that such items are imported for the sole use of the employee and his dependents and provide further that they shall be exported upon the transfer of or the termination of the expatriate employee's contract and that they shall not be resold by him in the Sudan except with the approval of the Minister. The exemption granted under this paragraph (3) shall not cover wearing items, tobacco, any drinks and beverages for household use.

(4) All items which are imported duty-free shall, as much as possible, be marked with the name or marks of Contractor in a manner difficult to obliterate.

(5) Any of the items imported into the Sudan either exempt or non-exempted from customs duties or imposts under this Article may be exported by the importing person at any time without the payment of any export duty of impost, subject to normal import and export procedures.

(6) Used but serviceable material, equipment and goods resulting from Petroleum Operations hereunder may with the approval of the Minister be sold within the Sudan provided that the applicable custom duties, taxes or imports are paid.

(7) Material, equipment and goods so damaged or used as to be non-serviceable and which are classified by Contractor or sub contractor as scrap or junk (any such Contractor's appraisal being subject to the Ministers scrutiny) may be resold as scrap upon payment of customs duties or imposts.

(8) Exemptions granted under paragraph (3) above to Contractor's expatriate employees shall last from the Effective Date hereof up to five (5) years after the Start-up Date.

(9) "Customs duties" as used herein shall mean import duties, taxes and imposts of general application which are payable as a result of the importation of the item or items hereunder but shall not include consular fees of general application, fees or charges of general application for use of ports and harbors or charges payable to the Government for facilities or services made available.

(10) There shall be no license required and Contractor shall be exempted from any duty, fee, oil export tax or any other financial impost in respect of the export of Contractor's share of Petroleum hereunder.

ARTICLE XIII RECORDS, REPORTS, INSPECTION, CONFIDENTIALITY AND AUDIT

(1) All the data of Exploration, Development, Production or any work related to the Petroleum Operation, are the property of the Government. The Contractor has the right to copy those data for its sole use. The original data should be stored in the Sudan unless otherwise specified by the Minister.

(2) Contractor shall furnish the Minister with:

(i) Daily drilling and geological reports when drilling are proceeding;

(ii) Weekly geophysical reports when geophysical data are being acquired;

(iii) Monthly and annual detailed activity reports to all Petroleum Operations and;

(iv) Such other reports as Contractor routinely generates for its own purposes in the conduct of Petroleum Operation, or as may be reasonably requested by the Minister.

(3) The Contractor shall maintain at its business office in the Sudan:

(a) Books of accounts showing complete, accurate, current and systematic financial records of its operations under the Agreement in accordance with the Accounting Procedure in Annex "C" hereof and good and sound accounting practices generally accepted in the petroleum industry, and such other books and records as may be necessary to show work performed under the Agreement or as may be required by law or by the Minister. Such books of accounts shall in addition be kept in accordance with such accounting system as the Minister approve and shall show all revenues reviewed by Contractor from its operations and all expenditures and provide for a clear understanding of the financial aspects of such operations including, but not limited to, the amount and value of all petroleum produced and saved hereunder. All books of accounts and financial statements shall be kept in terms of United States dollars.

(b) Copies of all maps, geological or other earth science reports and petroleum analysis (together with all field data which support such reports or data) production records, marketing reports and any other data obtained or compiled by Contractor as a result of its operations hereunder. Contractor shall in addition:

(i) Save and keep a representative portion of each sample cores and cuttings taken from drilling wells to be forwarded to the Minister in the manner directed by the Minister. All samples acquired by Contractor for its own purposes shall be considered available for inspection by the Minister.

(ii) Unless or otherwise agreed to by the Minister, in case of exporting any rock outside the Sudan, "with the approval of the Minister" samples equivalent in size and quality shall be delivered to the Minister before such exploration.

(4) Contractor shall submit information, data and reports to the Minister, in original form.

(5) Without prejudice to the generality of the aforesaid Contractor shall furnish the Minister with monthly returns showing amount of petroleum produced and saved. Such returns shall be delivered to the Minister within ten (10) days after the end of the month covered.

(6) Minister or his representatives may at any time access to and/or inspect the books, records, assets and data kept by Contractor, and all facilities and areas related to the operations hereunder. Contractor shall make its appropriate employees available to render assistance to any such access and/or inspection. In this respect, Contractor shall provide the Minister or his representatives with all the data, information, reports, records (as specified in this article), including but not limited to geological and geophysical reports, logs and well surveys and the interpretation of such data.

(7) Contractor shall cause its books of accounts to be audited by the Minister or his duly authorized Representatives at such times herein specified or as the Minister may direct, and the Contractor shall provide the Minister or the Minister Representatives with replies of receipt of such inquiries by Contractor. If the Contractor does not comply with the provisions of this paragraph (7) within the time specified herein the relevant cost submitted shall be considered rejected. Contractors records shall be presumed to be true and correct if no written exception is taken to any item within twenty four (24) Months from submission of the statement.

Any exception will be communicated to the Contractor within one hundred and twenty (120) days of completion of each audit. In the event such exception is not submitted by the end of the stipulated period, the books and records shall be deemed to be true and correct.

(8) The Minister shall treat all data and other information supplied by Contractor hereunder as confidential and shall not reveal such information to third parties except with the consent of Contractor, which consent shall not be unreasonably withheld, for the duration of exploration operations in the part or parts of the Contract Area which Contractor has not relinquished. The Minister and persons authorized by the Minister may nevertheless use any such information received from Contractor for the Minister of preparing and publishing general or public records or statistics on petroleum or other conditions in the Sudan and in connection with any dispute between the Minister and Contractor.

(9) The Government shall make available to Contractor all technical data and information in its possession with respect to the Contract Area.

The Contractor shall treat the said data information as confidential and shall not use the same for any purpose other than the Agreement, and shall not disclose them to any third party without a prior written approval of the Minister except that the approval of the Minister will not be required for the Contractor to disclose any such data or information (i) to its subcontractors, consultants or financial advisors that are

bound to a confidentiality obligation with respect to such data and information, (ii) as may be required by any court, tribunal or arbitration panel having jurisdiction in a legal process involving the Contractor, (iii) as may be required by any law or regulations applicable to the Contractor or (iv) as may be required by any stock exchange on which the securities of a Party constituting Contractor or its Affiliated Company are traded; provided that Contractor shall provide the Minister a copy of any such disclosure made pursuant to (ii) and (iv) herein.

(10) All information, data, and their interpretation and the studies acquired by the Contractor under the Agreement shall be considered as confidential and shall not be disclosed to any third party without the prior approval of the Minister, except that the approval of the Minister will not be required for the Contractor to disclose any of such data or information (i) to its subcontractors, consultants or financial advisors that are bound to a confidentiality obligation with respect to such data and information, (ii) as may be required by any court, tribunal or arbitration panel having jurisdiction in a legal process involving the Contractor, (iii) as may be required by any law or regulations applicable to the Contractor or (iv) as may be required by any stock exchange on which the securities of an Affiliated Company as traded; provided that Contractor shall provide the Minister a copy of any such disclosure made pursuant to (ii) and (iv) of paragraph (10) herein.

(11) On termination of this Agreement, the Contractor shall return all the data to the Minister.

ARTICLE XIV RESERVATION OF RIGHTS TO NATURAL RESOURCES

(1) Government reserves the right to search for, explore, develop and exploit natural resources, substances and any products other than petroleum and gas within the Contract Area covered by the Agreement. To this end the Government may conclude agreements with respect to natural resources discovered in the Contract Area. Any such agreements shall be on such terms and conditions that Contractor's operation hereunder shall not be impeded.

(2) If Contractor shall discover in the course of its operations any natural resources other than petroleum and gas it shall preserve the same in its original position and forthwith inform the Minister of the discovery and provide him with all data and information obtained. Contractor shall not work or appropriate such natural resources without the prior express written direction or approval of the Minister.

ARTICLE XV RESPONSIBILITY FOR DAMAGES AND INSURANCE

(1) Contractor shall indemnify the Government against all damages to which the Government may be held liable on account of Contractor's operations or any operations incidental thereto. To this end Contractor shall at all times indemnify and hold the Government and its officers and agents harmless from all claims and liabilities for death or injury to persons or damage to property arising out of

Contractor's failure to comply with laws and regulations issued by Government of Sudan. The Contractor and the companies constituting Contractor shall be jointly and severally liable under the Agreement.

(2) Government shall indemnify the Contractor against all damages to which it may be held liable on account of the Government's actions, or the actions of the Government's representatives. To this end Government shall at all times indemnify and hold the Contractor and its officers and agents harmless from all claims and liabilities for death or injury to persons or damage to property resulting from such actions.

(3) Contractor shall obtain and maintain insurance to cover the risks in connection with or in relation to Petroleum Operations and any other activities related thereto and as may be required by Sudanese Law and international oil and gas industry practice during the term of this Agreement.

(4) Contractor shall establish an insurance plan, to be approved by the Minister, for its operations hereunder and obtain the insurance policies in accordance therewith. Such insurance shall cover inter alia in the international oil and gas practice, damage to equipment, installations, third party liabilities, costs of blowouts and regaining control of wells. Contractor shall endeavor to ensure that its sub-contractors subscribe insurance to cover their risks under their relevant contracts.

(5) Cost incurred by Contractor under or pursuant to this Article shall be recoverable from Cost Oil except for Contractor's liability for proven negligence. For the purpose of the Agreement negligence shall mean intentional, or reckless disregard by supervisory or management staff of Contractor but shall not include any act or omission reasonably required to meet emergency conditions, any error or judgment or mistake made by any supervisory or management staff in the exercise, in good faith, of any function, authority or discretion conferred upon the Contractor.

ARTICLE XVI PRIVILEGES OF GOVERNMENT REPRESENTATIVES

Duly authorized Government representatives shall have access to the Contract Area covered by the Agreement and to the operations conducted therein. Minister representatives may examine the books, registers and records of Contractor and make extracts therefrom, surveys, drawings and tests for the purpose of observing the proper implementation of the Agreement provided always there shall be no undue hindrance with Petroleum Operations.

Minister's Representatives shall for this purpose be entitled to make reasonable use of the machinery, means and instruments of Contractor. Minister Representatives shall be given all assistance by agents and employees of Contractor. Contractor shall offer Minister Representatives equal privileges and facilities accorded to its employees, agents and contractors of equivalent status and shall provide them, free of charge, with the use of office space and accommodation while they are in the field for the purpose of achieving the objectives of this Article.

ARTICLE XVII

EMPLOYMENT AND TRAINING OF SUDANESE NATIONALS

(1) It is the desire of the Minister and Contractor that operations hereunder be conducted in a businesslike manner.

(2) Contractor shall submit a list of the expatriate administrative, professional and technical personnel, which the Contractor intends to employ for the conduct of the operations thereunder, to the Minister for approval which approval shall not be unreasonably withheld. The aforesaid list shall be accompanied with the Curriculum Vita (C.V.) and contract of service for each employee. Upon approval, the selected personnel shall be granted such entry, work and residence permits as may be required by the laws of the Sudan.

(3) Contractor shall select its employees and determine the number thereof with the consultation and approval of the Minister, to be used for operations hereunder.

(4) Contractor shall one month after the signature date of the Agreement and upon consultation with the Minister prepare and carry out specialized training programs for all qualified Sudanese employees engaged in Petroleum Operations hereunder with respect to applicable aspects of the petroleum industry. On-the-job training is to be a significant part of the training program. Contractor will undertake to replace gradually its expatriate staff by qualified nationals when they become available.

(5) Contractor will not hire unskilled labor including nurses and drivers – from outside the Sudan as expatriate employees.

(6) Contractor agrees to a goal of having the following proportion of Sudanese nationals, excluding unskilled labor, in its employees in Sudan;

5 years after the Effective Date – 60%
10 years after the Effective Date – 90%

In the event that the Contractor is unable to meet these goals, a detailed report will be submitted to the Minister providing evidence of reasons why the goals were not met.

(7) In order to comply with clause 6 of the Article XVII, the Contractor shall among other measures provide on a continuous basis for the training and career development of Sudanese nationals in order to qualify them for skilled, technical, administrative and managerial positions. Long term career development plans shall be detailed on yearly programs, in consultation with the Minister and with his ultimate approval.

(8) The Contractor shall after commencement of commercial production undertake on-the-job training of Government employees and officers in the number and the periods to be mutually agreed upon with the Minister. Such training shall include participation in Contractor's and subcontractors' operations.

ARTICLE XVIII LAWS AND REGULATIONS

(1) Contractor, its agents and sub-contractors shall observe, comply with and abide by Sudan's laws and regulations including, but not limited to, regulations for the safe and efficient performance of Petroleum Operations required to carry out the Agreement, regulations for the protection of the environment, sanitary regulations for the conservation of petroleum and natural resources of the Sudan, prevention of pollution, security and employment laws and regulations.

(2) Contractor shall not directly or indirectly or in any way whatsoever engage in any transaction prohibited by law.

(3) The interest, rights and obligations of the Government, the Minister and Contractor under, and for the effective term of the Agreement, shall be governed by the provisions of the Agreement and shall only be altered by mutual agreement of the parties hereto.

(4) Government shall use its authority and take all necessary action to promote and facilitate the Petroleum Operations whenever possible.

ARTICLE XIX RIGHT OF REQUISITION

(1) In case of national emergency and throughout its duration, but no longer, the Government may requisition all or part of the production from the Contract Areas hereunder and/or require Contractor to increase such production to the maximum. The Government may also requisition the oil and gas fields and related facilities.

(2) In all cases requisition shall not be effected except after notifying Contractor or its representative of the same by any written mode of communication.

(3) The requisition of production shall be effected by Ministerial Order. Any requisition of the oil and gas fields or any related facilities shall be effected by a Presidential Decree promulgated in accordance with the constitution of laws of the Sudan and the procedure therein contained.

(4) In the event of requisition, the Government shall pay Contractor, for the period during which requisition is maintained, Contractor's share as provided in Article VII hereof. Payment shall be made in United States Dollars to Contractor's account maintained outside the Sudan. Payment for all requisitioned Contractor's share as provided in Article VII hereof shall be made on the normal due dates for payment for the production if it were not requisitioned. The price of petroleum requisitioned shall be determined in accordance with Article XXXV.

(5) The Government agrees that a temporary requisition shall not be a ground for a permanent nationalization, expropriation or confiscation of Contractor's assets and/or Contractor's share of oil and gas production and/or related facilities.

ARTICLE XX SERVICES, PURCHASE AND CONTRACTS

(1) In disposing of petroleum, Contractor shall give first priority to local demand, and on a pro rata basis to other producers of petroleum in the Sudan. To this end Contractor shall upon achieving First Commercial Production comply with any request from the Government to sell petroleum for local consumption in the Sudan, over a period and in such type, grade, quantity and quality to be determined by the Government and agreed by the Contractor.

(2) Contractor shall sell Crude Oil and Gas to all purchasers, including Government and Affiliate Companies, at prices not lower than the competitive international prices for oil or gas of the same grade, gravity and quality at the time of each sale. Contractor shall furnish the Minister with all evidence and information pertaining to such sales including, the contract of agreement of sale, a statement of the quantities sold including a detailed description, an indication of the purchasers and countries of destination, the per unit price realized F.O.B. at the port of export in Sudan and a statement of the prevailing international prices.

(3) With respect to any purchase, sale, or delivery pertaining to Petroleum Operations, it is agreed that all commissions, brokerage, fees, allowances or other similar fees shall in no event be allowed if internationally efficient operating petroleum companies are capable to undertake such purchase, sale or delivery by their own means. Without prejudice to the aforementioned in this paragraph (3) the commissions, brokerage fees, allowances and other considerations or compensation therefore, if allowed, shall in no event be higher than the local or the international rate, as the case may be.

(4) Contractor shall not obtain from any Affiliate Company or any other person or entity any services, assistance, advice or know-how save those an efficient, operating petroleum company internationally and in the normal conditions of things provide for itself. Contractor shall pay for such services, assistance, advice or know-how only on an actual, direct, fair and reasonable cost-reimbursable basis which shall in no case be higher than competitive international prices.

(5) Minister shall promptly be fully furnished with all information and evidence relating to the purchase, sale, delivery, service, assistance and advice referred to in paragraphs (3) and (4) above.

(6) Contractor shall give priority to local contractors as long as their terms and conditions are competitive with those of other contractors tendering for work related to Contractor's operations.

(7) Contractor shall give preference to locally manufactured materials, equipment and consumables which are available in the local market and comparable in quantity and quality to goods to be imported by Contractor.

(8) All procurement of equipment, facilities, goods, materials, supplies and services required for Petroleum Operations shall be on arm's length basis and shall, unless otherwise approved by JCC, be obtained as a result of competitive bidding.

(9) Contractor may utilize the services of Sudanese airlines or agencies thereof for passenger and cargo air transportation, provided such services are reasonably competitive in price and quality to the service otherwise available.

ARTICLE XXI HEALTH, SAFETY, MEDICAL AND EDUCATIONAL SERVICES

(1) Contractor shall install, maintain and use modern health and safety devices and shall practice modern health and safety procedures and precautions (including safety training instructions for its employees) in accordance with the best practices. Contractor shall comply with all written instructions as may, from time to time, be given by the Minister.

(2) Contractor shall from the start of commercial production furnish free medical treatment, care and attention to all employees of Contractor and Minister employees directly working in the Petroleum Operations of the Contract Area in which Contractor is conducting operations, and their respective spouse and children and shall establish, staff and maintain such dispensaries, clinics or hospitals which prudence shall require under the circumstances. Without limiting the generality of the foregoing, whenever Contractor employs one hundred and fifty (150) or more persons in any region or work site, it shall maintain there a dispensary or hospital headed by a resident medical doctor. Contractor shall notify the Minister immediately of any death of or serious injury to any person occurring in connection with Contractor's Petroleum Operations.

ARTICLE XXII ASSIGNMENT AND WITHDRAWAL

22.1 Assignment:

(a) Except as provided herein, Contractor or any Foreign Party shall not assign or transfer in whole or in part to any person, firm or corporation any of its rights, privileges, duties or obligations under this Agreement or mortgage, pledge or otherwise encumber an interest herein without the prior written consent of the Minister which consent shall not be unreasonably withheld. The Minister shall either grant or refuse to grant his consent within sixty (60) days of submission by the Contractor of a request for assignment. In the event SUDAPET proposes to assign or transfer its Participating Interest other than to a Government wholly owned entity then the Foreign Parties shall have the first right of refusal to take up such Participating Interest.

(b) Upon the consent of the Minister to any assignment, the assigning party shall within ninety (90) days submit to the Minister every executed and delivered instrument of assignment.

(c) The instrument of assignment shall contain a valid, and binding undertaking of the assignee to be bound by all covenants, terms and conditions of this Agreement and any modifications and additions thereto that up to such time have been made.

(d) The assigning Party shall pay an assignment bonus of two (2) Million U.S. Dollars to the Government on the date of assignment, unless such assignment is to a wholly owned subsidiary with the consent of the Minister within one year from the date of signature of the Agreement.

22.2 Withdrawal:

(a) In case of withdrawal of any of the Foreign Parties following execution of the Agreement, the remaining Foreign Parties shall assume full responsibility and obligations towards the continuation and the completion of the Work Program and shall divide the shares of the withdrawing party according to the percentages of their participation under the Agreement.

(b) The Contractor shall remain liable for any obligations and liabilities which have accrued prior to the effective date of such withdrawal.

(f) Petroleum Operations shall not cease or be suspended during any assignment and/or partial withdrawal.

ARTICLE XXIII FORCE MAJEURE

(1) Failure of either party to perform or comply with the conditions of this Agreement shall not be a ground for cancellation or give the Government any claim for damages insofar as such failure arises from an event of force majeure and the Contractor has taken all appropriate precautions, due care and reasonable alternative measures with the objective of avoiding such event and carrying out its obligations hereunder.

(2) Contractor shall take all reasonable measures to cure such failure and to fulfill the terms and conditions hereof with a minimum of delay.

(3) Contractor shall immediately and in any event not later than forty eight (48) hours notify the Minister of the occurrence of the event of force majeure and similarly notify the Minister of the restoration of normal conditions within the same period. Without prejudice to the provisions of Article XXIV, Contractor is bound to continue the performance of its obligations under this Agreement.

(4) For the purposes of this Article XXIII, force majeure shall include acts of God, fire, unavoidable accidents, acts of war, or conditions arising out of or attributable to war (declared or not declared), civil war, strikes and other labor disturbances (not attributable to the Party invoking force majeure), transportation, embargo or blockade, floods, storms, and other natural disturbances, insurrection, riots and other civil disturbances or any other cause not due to the fault of Gross Negligence of Contractor; provided that any such cause is beyond the reasonable control of the Minister or Contractor and not due to the fault or Gross Negligence of either of them including any event caused by the failure to observe good and sound oil/gas field engineering and business practices or by the Gross Negligence of the Contractor, its employees, agents or subcontractors.

(5) If as a consequence of Force majeure, Operations hereunder remain substantially in total suspension for an uninterrupted period of three (3) months, the duration of the term of this Agreement shall be extended for the affected Areas by the time of such suspension or suspensions; provided, however, that if (i) the duration of any such period of suspension during the First Commitment Period shall exceed twelve (12) months, (ii) the duration of any such period of suspension during the Second Commitment Period shall exceed twenty-four (24) months, or (iii) the duration of any such period of suspension during the term of this Agreement remaining after the expiration of the Exploration Period shall exceed forty eight (48) months, then either Party may terminate this Agreement in respect of the affected areas.

(6) The Government shall incur no responsibility whatsoever to Contractor, its employees, agents or sub-contractors for any damages, restrictions or loss arising in consequence of such event of force majeure except for an event of force majeure caused by the laws and regulations of Sudan hereafter enacted or issued that wholly or solely suspended Petroleum Operations in which the responsibility of the Government shall exclude any liability for consequential or punitive damages.

(7) Payment of surface rentals and training and social bonuses shall not be affected by any events of *force majeure*.

ARTICLE XXIV SETTLEMENT OF DISPUTES

(1) Any dispute or difference arising between the Government and Contractor in connection with, arising out of, or incidental to this Agreement or with respect to the interpretation, application or execution thereof shall in the first place be settled amicably. Failing such settlement it shall finally be settled by arbitration. In such event the Government and Contractor hereby consent to submit such dispute or difference to be finally settled by arbitration in accordance with Arbitration Rules of the United Nations Commission on International Trade Law ("UNCITRAL") as at present in force.

(2) All arbitration proceedings will be held in London, England, unless otherwise agreed by the parties, and shall be in English.

(3) The number of arbitrators shall be three (3) and shall be appointed as follows:

(a) each Party shall appoint one (1) arbitrator and so notify the other Party of such appointment and those two (2) arbitrators shall appoint the third arbitrator;

(b) if any of the arbitrators shall not have been appointed within thirty (30) days after receipt of written request to do so, either Party may request, in writing, the Chairman of UNCITRAL to appoint the arbitrator or arbitrators not yet appointed and to designate an arbitrator to be the Chairman of the arbitral tribunal. The Chairman shall forthwith send a copy of that request to the other Party.

The Chairman shall comply with the request within thirty (30) days from the receipt thereof or such longer period as the Parties may agree;

(c) if the arbitrator fails or is unable to act, his successor shall be appointed in the same manner as the arbitrator whom he succeeds;

(d) the decision of a majority of arbitrators shall be final and binding upon the Parties.

(4) The Government and Contractor undertake to comply with any provisional measures recommended by the arbitral tribunal.

(5) The parties shall extend to the arbitral tribunal all facilities (including access to Petroleum Operations) for obtaining any information required for the proper determination of the dispute.

(6) The operations and activities under this Agreement or which have given rise to arbitration shall continue during the arbitration proceedings.

(7) Judgment on any arbitral award of UNCITRAL may be entered in any court having jurisdiction for enforcement and the Government agrees not to assert any defense to such arbitration or enforcement based upon the State being a sovereign entity.

ARTICLE XXV TERMINATION

(1) Minister shall by written notice have the right to terminate the Agreement if the Contractor does not furnish the Bank Guarantees or Parent Company Guarantees in accordance with clause 15 of Article IV within thirty (30) days from the date of signature of the Agreement.

(2) Minister may by written notice terminate the Agreement and claim damages if any of the following events shall occur :

(a) If the Contractor fails to fulfill any of its work obligations which are material or significant and such default is not cured within sixty (60) days or such longer period as may be specified in the said notice.

(b) If Contractor shall fail to make any of the payments under this Agreement on the due dates or shall fail to comply with the work commitment fails to comply with any other conditions of the Agreement and such default is not cured within sixty (60) days) after notice by the Minister or within such longer period as may be specified in the notice.

(c) If any of the Foreign Parties shall voluntarily dissolve, liquidate or wind up its affairs, or shall make an assignment for the benefit of creditors or shall petition or apply to any tribunal for the appointment of a trustee or receiver for itself, or of any substantial part of its assets or shall commence any proceedings relating to it under any bankruptcy, organization, arrangement, insolvency or readjustment of debt or if an order to that effect is issued or an application is filed and such Foreign Party has consented or acquiesced thereto and the other Foreign Parties fail to take over such Foreign Party's participating interest within sixty (60) days notice from the Minister.

(d) If Contractor fails to comply with any final judgment of a competent court in relation to the Agreement or with any final decision of an arbitral tribunal constituted hereunder and such default is not cured within sixty (60) days after notice by the Minister.

(e) If the Contractor shall knowingly make to the Minister a false statement or representation of a material adverse consequence.

(f) If Contractor assigns any interest, duty, right or obligation under the Agreement contrary to provisions of Article XXII hereof, and such default is

(g) If Contractor extracts any minerals other than petroleum without the prior written consent of the Minister, except such extracts as may be unavoidable as a result of operations conducted hereunder within accepted petroleum industry practices and which promptly and in due time are notified to the Minister or his duly authorized representatives.

(3) Termination shall take place without prejudice to any right which may have accrued to the Government under the Agreement before or after such termination. Upon termination by the Government every right of Contractor hereunder shall cease except its right to remove its belongings from the Contract Area after settling all claims due the Government. Contractor shall not be relieved of its obligations which have accrued prior to the effective date of, or arising out of or related to the terminations.

ARTICLE XXVI GOVERNING LAW AND JURISDICTION

(1) Subject to Article XXIV the Agreement shall be governed by and construed in all respects in accordance with Sudan laws and regulations, and to be supplemented by standard customs and usage in the international petroleum industry and such accepted principles of international law as may be applicable. Government acknowledges Contractor has entered into the Agreement in reliance on the laws, decrees, rules and regulations of the Republic of the Sudan as they exist on the Effective Date of the Agreement, and the Government hereby confirms that all rights granted to the Contractor hereunder are in conformity with such laws, decrees and regulations.

(2) In the event that any change to the laws, decrees, rules or regulations of the Republic of the Sudan occurs subsequent to the Effective Date of the Agreement which materially restricts, divest or limit any rights or benefits accruing to Contractor which increases Contractor's financial obligations or economics under the Agreement or under laws, decrees, rules or regulations of the Republic of the Sudan as in existence of on the Effective Date hereof, the Contractor may, at any time thereafter, notify the Government in writing.

(3) For purposes of the above paragraph (2) but without limitation, a material increase in the Sudanese tax burden, including the imposition of an oil export tax, which is not of general application, levied on Contractor and sub-contractors, shall be treated as a material increase in Contractor's obligations.

(4) Promptly upon receipt of such notice referred to in paragraph (2) above, the Government and Contractor shall meet to negotiate, in good faith, and agree upon modifications which need to be made to the terms of the Agreement to restore Contractor's economic rights and benefits hereunder to a level equivalent to what they would have been, had such change not occurred, or upon such other remedies they agree may be appropriate. In the event that the Parties are unable to agree within ninety (90) days after Contractor's notice to the Government (i) whether a material change to the law decrees, rules or regulations of the Republic of the Sudan has occurred subsequent to the Effective Date which materially restricts, divests or limits any rights or benefits accruing to Contractor or which materially increases Contractor's financial obligations as aforesaid or (ii) upon the modifications which may be needed to the Agreement or upon such other remedy as may be required than either Party may refer the matter or matters in dispute for determination pursuant to Article XXIV of this Agreement. The arbitrators, in such event, shall be empowered to determine whether a material change in conditions has occurred and the modifications, if any, necessary to the Agreement to restore Contractor's economic rights and benefits to a level equivalent to what they would have been, had such change not occurred.

ARTICLE XXVII CONVENTIONS AGREEMENTS AND GOVERNMENT CONTRACTS

This Agreement shall not be construed so as to impose on the Government any obligation which conflicts with any obligations imposed on it by any convention by which the Government is bound, nor shall it, subject to Article XIV hereof, prejudice or constitute a derogation from any rights or privileges created by any agreement or contract, other than the Production Sharing Agreement covering the Contract Area under the Agreement by which the Government is bound.

ARTICLE XXVIII NON-WAIVER

The failure of either Party at any time to require performance by the other party of any provisions hereunder shall in no way affect the right of that party thereafter to enforce the same nor shall it affect that Party's right to enforce any of the other provisions of the Agreement; nor shall the waiver by either Party of the breach of any provisions hereof be taken or held to be a waiver of any subsequent breach of such provision or as a waiver of the provision itself.

ARTICLE XXIX RULING LANGUAGE

All communications, reports and records under the Agreement (as defined in Article XIII hereof) shall be made in the English Language which shall be the ruling language of the Agreement.

ARTICLE XXX HEADINGS AND TITLES

The headings and titles of Articles of the Agreement are solely made for the convenience of the Parties hereto and shall not be used with respect to the interpretation or construction of the said Articles.

ARTICLE XXXI AMENDMENT, MODIFICATION AND REVISION

(1) This Agreement and the rights thereby granted and obligations therein stipulated may be amended, modified or revised by the mutual agreement of the Government and Contractor. Such amendments are to be in writing signed by both Parties.

(2) The Minister and Contractor shall annually, or at such times that either of them may request, consult each other to review and discuss such amendments, modifications, revisions or clarifications as either party may deem appropriate to ensure the fair and equitable operation of the Agreement in view of changing circumstances in the petroleum industry, and taking into consideration prevailing conditions in the Sudan.

ARTICLE XXXII NATURAL GAS

32.1 Disposition of Gas

(a) Notwithstanding any of the provisions of the Agreement, Contractor shall be allowed, upon obtaining the Minister's consent, which consent shall not be unreasonably withheld, to use any Gas discovered or produced in the Contract Area free of charge to carry out all Petroleum Operations in respect of Crude Oil including re-injection for pressure maintenance or re-cycling operations to effect maximum economic recovery of Crude Oil and the cost of such operations shall be regarded as a recoverable Petroleum Cost relating to Petroleum Operation in respect of Crude Oil.

(b) Subject to Clause 32.1 (a), if Gas is produced or capable of being produced from the Contract Area and is available for possible sale, the Government and Contractor shall in good faith study all possible economic alternatives for its use and decide on the best alternative for the Government and Contractor including its exploitation for

local industries or otherwise. All costs and expenses attributable to the production of Gas and its delivery for sale shall be recovered in accordance with the cost recovery principles of Article VII. The valuation of Cost Gas shall be based on Gas prices agreed upon in the relevant gas sales contract(s). Gas not exported nor sold in the local market(s) shall be the property of the Government.

(c) Should Contractor or the Government develop a market for Gas in the Sudan and other countries, Contractor and the Government shall promptly meet to agree and form a joint venture to market such Gas. Failing such agreement the Government shall exercise its right to take free of charge and to market such Gas at its sole account, risk and cost.

32.2 Joint Gas Marketing

In the event Parties agree to form a joint venture pursuant to Article 32.1 © above, the Parties shall negotiate for the sale of Gas on a joint-dedicated basis to a market for Gas at prices and upon terms common to both Parties which in the opinion of Minister and Contractor justify the development, production and delivery of Gas to such market, including the development of the said market (hereinafter referred to as "Gas Project") and the fiscal terms as provided for in Article VII in respect to Gas shall be accordingly amended, to the extent such amendments are warranted for the Contractor to undertake the said Gas Project. In such event, Contractor is not authorized to sell its share of Gas on any other basis save on a joint-dedicated basis.

The Parties recognize that priority shall be given to satisfying domestic demand for Gas from end-users in the Republic of Sudan. Government shall therefore have the right to reserve for the domestic gas market part of the Gas produced under the Agreement and available for sale after meeting the requirements for Petroleum operations. In the event that Government exercises such right, then the Minister may designate a Sudanese entity as local gas buyer. Such local gas buyer shall enter into a long term gas purchase contract with the Parties, as joint sellers, for the purchase of such Gas for the domestic market in accordance with internationally accepted industry practice for gas contracts, and the relevant gas prices for such contract shall be on a commercial basis.

ARTICLE XXXIII JOINT COORDINATION COMMITTEE

(1) Operations

(a) For the purpose of communication, coordination and proper carrying out of Petroleum Operations and subject to the provisions of the Agreement, the Parties hereto shall establish a Joint Coordination Committee (JCC) in accordance with the following terms:

(b) Government and Contractor shall each appoint four (4) full representatives respectively to form the JCC. All aforesaid representatives shall have the right to present their views on matters brought before the meetings held by the JCC. The chief representative from each Party shall be the spokesman on behalf of the Party to

the Agreement. Each Party shall have the right to change its representatives at any time by notifying in writing addressed to the other Party to that effect.

(c) The chairman of the JCC shall be the chief representative designed by the Minister and the vice chairman shall be the chief representative designed by the Contractor. The chairman of JCC shall preside over meetings of JCC. In his absence, one representative present at the meeting from the Government shall be designed to act as the chairman of the meeting. The Parties according to need, may designate a reasonable number of advertisers, experts, or outside consultants, who may attend all or part of the meetings in an advisory role as required without voting right.

(d) A regular meeting of the JCC shall be held at least once a Calendar Quarter, and other meetings, if necessary, may be held at the request of any Party to the Agreement upon giving reasonable notice of at least fifteen (15) days to the other Party of the date, time and venue of the meeting and the items to be discussed and the venue shall be Khartoum or other places as may be decided by the JCC from time to time.

(e) No action on any matter shall be taken at the meeting unless the matter has been included on the agenda or the chief representatives of the Parties agreed that a matter for which no prior notice has been given shall be dealt with at the meeting.

(2) Powers

Without prejudice to the rights and powers of the Minister under the provisions of the Agreement the JCC shall exercise the following powers:

(i) Review and recommend to the Minister the Work Programme and Budget and any revision thereto in accordance with the provisions of this Agreement and any subsequent amendments thereto.

(ii) Review and recommend on the award of task to subcontractors, procurement of any items, lease of equipment or engineering sub-contracts or service contracts within the budget, all subject to and in accordance with the provisions of the Agreement Procedures-

(iii) Determine and announce the date First Commercial Production.

(iv) Subject to the rights of the parties to disclosing in accordance with applicable laws, or to a governing stock exchange as set out in Article XIII to determine the scope and type of information and data provided to any third party in relation to Petroleum Operations. Approve all technical publications by either party concerning the Project.

(iv) Review and comment on the insurance program proposed by Contractor and emergency procedures on safety and environmental protection.

(v) Review and recommend personnel training programs and replacement of expatriate by nationals;

(vi) Review and approve minutes and/or resolutions of JCC meetings, and discuss, and review, other matters that have been proposed by either Party.

(vii) Review and examine matters required to be submitted to relevant authorities of the Government and/or approval of the Minister.

(3) Decisions Of The JCC

No recommendations may be made by JCC unless at least three (3) representatives of each Party are present at the meeting. Decisions of JCC shall be made unanimously through consultation. All decisions made unanimously shall be deemed as formal decisions and shall be equally upon the Parties.

When matters upon which agreement cannot be reached arise, the Parties may convene another meeting in an attempt to find a new resolution thereto based on the principle of mutual benefit. Failing agreement on such solutions, the matter shall be resolved with the Minister.

Notwithstanding the provisions laid down in paragraphs (1) and (2) above, if in respect of Exploration operations the JCC is unable to reach an unanimous decision at the second meeting, the Contractor's recommendations in respect of technical matters which have already been examined from Work Programme and corresponding Budget shall be adopted by the JCC provided that they comply with the provisions of the Agreement.

In the event the JCC is unable to agree on any particular item ("disputed item") in a Work Programme submitted by the Contractor, the Contractor shall have the option to proceed with the conduct of Petroleum Operations in respect of the disputed item at its sole risk. If, after undertaking the Petroleum Operations in respect of the disputed item at its sole risk, Contractor can demonstrate that such Petroleum Operation have resulted in material and tangible benefits to the parties, such disputed item shall then be deemed an approved item.

(4) At the end of each JCC meeting, the minutes and the decisions reached in accordance with the preceding paragraphs (1), (2) and (3) above shall be recorded in writing by the representative of the Contractor and signed by the representatives of both Parties as approved.

(5) The minutes of JCC meetings and the decisions reached in them shall be deemed strictly confidential and shall not be divulged by the Parties or by the members of JCC to any third party.

(6) All cost incurred by the Contractor and approved by the JCC for carrying out of Petroleum Operations and the JCC duties shall be considered as Petroleum Costs and be recoverable from Cost Oil or Cost Gas as the case may be, subject to the Accounting Procedures and other provisions of the Agreement.

However, the cost of services provided by consultants or experts shall be borne by the Party who appointed them pursuant to Article 10.1.3 herein above and shall not be considered as Petroleum Cost unless the consultant or expert is appointed by the Contractor at the request of the JCC.

Traveling expenses, including transport, food and lodging expenses incurred by the Parties' representatives within the framework of the meetings of the JCC shall be either paid directly or reimbursed by the Contractor to the Party who defrayed them

and shall be considered as Petroleum Cost and be recoverable from Cost Oil or Cost Gas, subject to Accounting Procedures and other provisions of the Agreement.

ARTICLE XXXIV WORK PROGRAMMES AND BUDGETS AND APPROVAL PROCEDURES

(1) Contractor shall submit for the approval of the Minister within ten (10) weeks from the date of signature of the agreement, first Work Programme and Budget setting forth the Petroleum operations which Contractor proposes to carry out and initiate for the first Financial Year. For the subsequent Financial Years, Contractor shall submit before the 1st October of each Financial Year for approval of the minister, a Work Programme and Budget setting forth the Petroleum Operations which Contractor proposes to carry out and initiate during the next Financial Year.

(2) Each activity, namely Exploration, Development and Production shall have its own Work Programme and Budget.

Each Work Programme and Budget shall set out in detail for each Quarter period all aspects of the proposed Petroleum Operations to be carried out including all relevant data and information and estimated costs, duration of each operation for each project and in the case of a Work Programme for a Production Unit, the estimated monthly rate of production of Crude Oil and Natural Gas for each Production Unit. Such Work Programme shall also include measures to be taken to comply with the Work Obligations of Contractors as specified in Article IV.

Each Work Programme and Budget shall include forecast of yearly activity for the four (4) Year period following the end of the relevant Financial Year or the period up to termination of the Agreement, whichever is shorter.

(3) No Petroleum Operations shall be carried out unless and until the relevant Work Programme and Budget have been approved in writing by the Minister. The Minister shall notify Contractor of its approval (whether or not conditional) or otherwise, of a proposed Work Programme and Budget: -

- 1) within thirty (30) days of receipt of the first Work Programme and Budget;
- 2) by 31st December of the previous Year, in respect of each subsequent Work Programme and Budget.

The Minister may give notice to Contractor that a proposed Work Programme and Budget submitted by Contractor is approved subject to such conditions as the Minister may specify in such notice or may give Contractor notice that a proposed Work Programme is to be revised either in whole or in part. If Contractor considers that any revision required by the Minister renders the Work Programme and Budget non-commercial, Contractor shall within forty-five (45) days notify to the Minister its reasons for coming to such a decision. Thereupon, the Minister and Contractor shall meet and discuss the revision required by the Minister with a view to resolving any differences. If the Parties fail to resolve their differences within sixty (60) days from

the date of the first of such meeting then, notwithstanding the foregoing, the Minister may direct Contractor to incorporate the revisions required by the Minister into the proposed Work Programme and Budget submitted by Contractor under this Article provided, however, that such change shall not increase or decrease the budget as proposed by Contractor of any affected expenditure item by more than ten per cent (10%) and does not substantially alter the general objectives of the Work programme in accordance with the Minimum Work and Expenditure Obligations for the Exploration Period and/or the agreed Development Plan.

It is recognized by the Minister and Contractor that the details of a Work Programme may require changes in the light of changing circumstances; thus Contractor may without the prior approval of the Minister, yet duly informed, make minor changes, which shall be deemed as part of the approved Work Programme and Budget provided that such changes shall not increase or decrease the approved Budget for any affected expenditure items by more than ten per cent (10%) and do not substantially alter the general objectives of the Work Programme.

ARTICLE XXXV VALUATION OF CRUDE OIL

35.1 It is the intent of the Parties that for the purposes of the valuation of Crude Oil to determine the value of Cost Oil under the Agreement, the prevailing market price for Crude Oil, net of transportation tariff, shall be the basis as further elaborated below.

35.2 For the purposes of determining the value of the quantity of Net Adjusted Production of Crude Oil allocated as Cost Oil pursuant to Article VII in each Quarter, the Crude Oil Price expressed in U.S. Dollars per Barrel at the Intake Point of the Transportation System (hereinafter referred to as "Net-back Crude Oil Price") for the said Quarter shall be used.

35.3 The Net-back Crude Oil Price for each quality of Crude Oil during any Quarter shall reflect the prevailing market price F.O.B. export Delivery Point expressed in U.S. Dollars per Barrel (hereinafter referred to as "Export Crude Oil Price") for that quality of Crude Oil for such Quarter, net of transportation tariff for delivery using the Transportation System to the export Delivery Point. Accordingly,

Net-back Crude Oil Price = [Export Crude Oil Price] minus [Tariff]

where: "Tariff" shall refer to the transportation tariff in U.S. Dollars paid or payable for each Barrel of Crude Oil lifted at the export Delivery Point in accordance with the provisions of the Crude Oil Pipeline Agreement.

Where, as a result of the transportation and delivery arrangement pursuant to Article XXVI, the quality (API grade, sulfur and other constituents) of crude oil lifted by Contractor is significantly different than the quality of Crude Oil produced under the Agreement due to the commingling with other crude oil in the Transportation System, and if any compensatory quality differential price adjustment is either received or paid by Contractor, as the case may be, in accordance with any mechanism provided for in the Transportation Agreement, such quality differential

price shall be applied to the Export Crude Oil Price before determining the Net-back Crude Oil Price.

35.4 The Export Crude Oil Price in any Quarter for each quality of Crude Oil produced under the Agreement shall be the weighted average price actually realized F.O.B. Delivery Point expressed in U.S. Dollars per barrel for all cargoes delivered during such Quarter by both Minister and Contractor to third parties in arm's length export sales (excluding barter and counter trade) and shall be determined in the following manner:

(a) Within ten (10) days following the end of each Quarter, the Parties shall exchange reports summarizing the actual sales realized in the said Quarter to third parties in arm's length export transactions. The report shall be substantiated with full supporting documentation, including copies of relevant commercial invoices, for each cargo together with pricing, payment terms, receipts and detailed price calculations.

(b) Following the exchange of information, the Parties shall agree on the export Crude Oil Price, failing agreement, Minister and Contractor shall meet, within ten (10) days of the aforesaid exchange of information, to discuss and to enable each Party to separately determine the Export Crude Oil Price.

(c) If Contractor considers that the Export Crude Oil Price as determined by Minister hereinabove, does not reflect the market conditions prevailing during the relevant Quarter, Contractor and Minister shall meet within ten (10) days of the written notification by Contractor and mutually agree upon the Export Crude Oil price. During the said meeting, Minister and Contractor shall endeavor to establish together the Export Crude Oil Price by reference also to prices of other crude oils which were sold on the export market on arm's length transactions between willing sellers and willing buyers during the same period, taking into account similar grade, quality, geographical area, sales terms and similar quantity.

(d) If at the end of the ten (10) days period referred to in paragraph (b) hereabove, or after the meeting referred to in paragraph (c) hereabove, the Parties fail to agree upon a Export Crude Oil Price for the Quarter, then the Export Crude Oil Price for such Quarter shall be taken to be the arithmetic average of the Export Crude Oil Price previously determined by each of the Parties pursuant to paragraph (b) above.

35.5 If during any Quarter no volume of Crude Oil is disposed of by Minister or Contractor in arm's length transaction on the export market, then Minister and Contractor shall meet to mutually agree upon the Export Crude Oil Price to be used for such Quarter, taking into account prevailing market prices for crude oils of similar grade, quality, quantity, sales terms and similar geographical market during that period and in accordance with the procedures stipulated in Articles 35.4 (b), (c) and (d) above. Pending such mutual agreement the price used shall be the last price determined pursuant to Article 35.4, or under this Article 35.5, whichever is the later, and appropriate adjustment shall be made thereto after mutual agreement on the Export Crude Oil Price has been reached by the Minister and Contractor.

35.6 It is understood that Contractor shall cooperate with the Minister or Minister representative, in such areas as:

(a) The follow up of the export quality;

- (b) The market studies and outlet forecast in the various market areas; and
- (c) Any other information concerning the Crude Oil market conditions.

35.7 Any quantity of Crude Oil that Government wishes to purchase from Contractor's share of Crude Oil shall be valued in accordance with the provisions of Clause 35.3, provided the said purchase is made at any points on the upstream side of the Intake Point of the Transportation System and Government bears all transportation charges thereafter for the use of the Transportation System. Quantities overlifted by Government shall be adjusted or prorated transportation loss.

In the application of this Article for the valuation of Crude Oil, the Export Crude Oil Price shall be determined before deduction of any taxes, commissions, brokerage, or discounts and with due allowance for any differences in credit terms (whether term or spot sales).

ARTICLE XXXVI MEASUREMENT, TRANSPORTATION, DELIVERY AND LIFTING OF CRUDE OIL

36.1 Crude Oil

(a) The volume and quality of Gross Production of Crude Oil shall be measured at the Production Measurement Point "PMP", also referred to as ("Intake Point"). The Contractor shall install, maintain and operate all facilities necessary for the transportation and delivery of the said Crude Oil to the Intake Point, including facilities for metering such Crude Oil at the PMP.

(b) The volume and quality of Crude Oil delivered to the Contractor and Government shall be measured at the Delivery Measurement Point "DMP".

(c) The transportation of Crude Oil from PMP to DMP shall be carried out by Transporter, under the terms of the Transportation Agreement. Transporter shall install, maintain and operate the necessary downstream facilities from PMP to DMP, including facilities for meeting the Crude Oil at the DMP.

(d) Methods and procedures for measurement of volume and quality of Crude Oil at both the PMP and DMP shall be as per the Transportation Agreement, to be signed between the Parties and Transporter.

(e) The Parties shall pay a tariff, to be agreed upon and defined in the Transportation Agreement, based on the volume of such Crude Oil metered at the DMP.

(f) The volume and quality of Crude Oil to be delivered to the Contractor and Agreement, shall be determined in accordance with the provisions of Articles VII and XXXV, and the Accounting Procedures as set forth in Annex C and such deliveries to the Contractor shall be at the export Delivery Point.

- (e) The Crude Oil deliveries to be lifted or taken by the Contractor and Government during a given Year shall be provisionally calculated during the first fortnight of the month of December preceding the year concerned on the basis of factors defined by the Parties under the terms of Articles VII. Before the end of every Quarter of the Year involve, these quantities shall be readjusted in relation to the final data supplied and approved by the Parties.

ARTICLE XXXVII NOTICE AND REQUESTS

(1) All notices, requests, reports, approvals, consents, designations or other communications (collectively referred to herein as "communications") required by, provided for, relatively to, or permitted to be given under the Agreement, shall be made in writing and in the English Language. All communications shall be made to the Minister or his authorized representative or agency of the Government as may be designated in writing by the Minister, and in the case of the Contractor to the office of the Manager in Khartoum.

A delivery of communication shall be deemed effective when delivered to the addresses shown in (3) below or any other address which either Party may otherwise duly designate to the other Party.

(2) Nothing in this Article shall be deemed to relieve Contractor from filing any report, return or other communication required by Sudan laws and regulations at the time and in the manner therein prescribed.

(3) The address of the Minister shall be:

Ministry of Energy and Mining

Nile Avenue,
P.O. Box 2087
Khartoum, Sudan
Telex 22256 MIN SUDAN
Cable PETROSUDAN
Telephone +249 11 775595/773196
Telecopy +249 11 775428

The addresses of the Parties constituting Contractor shall be:

China National Petroleum Corporation

No. 5, block 9 Street 25 New Extension,
Khartoum, Sudan
Attention: Mr Zhou Jiping
or
Liu Pukang P.O. Box 766
Beijing 100724
People's Republic of China
Telephone 8610 - 6209 - 6008
Telecopy 8610 - 6209 - 6006

Petronas Carigali Overseas Sdn Bhd

Wisma Peladang

Jalan Bukit Bintang
55100 Kuala Lumpur, Malaysia
Attention: Mr. Ahmad Said
Telephone 603 - 242 - 6022/248 9088
Telecopy 603 - 241 - 7322/241 3912

State Petroleum Corporation
Street 15, Houses 35
New Extension, Khartoum, Sudan
Attention: Mr. John G.F. McLeod,

or

500, 645 – 7th Avenue S.W.
Calgary, Alberta,
Canada T2P 4G8
Telephone 403 – 263 - 2471
Telecopy 403 – 249 -1224

SUDAPET
8th Floor (formerly GPC offices),
Tower No. 3, Sudanese Kuwaiti Centre
Nile Avenue P.O. Box 2986
Khartoum, Sudan
Attention: Mr Hassan Mohamed Ali
Telephone 249 11 777 554
Telecopy 249 11 773 663

ARTICLE XXXVIII JOINT OPERATION AGREEMENT

CNPC, PCOSB, SPC and SUDAPET, as Parties constituting Contractor, each shall be entitled to forty per cent (40%), thirty percent (30%), twenty five percent (25%) and five percent (5%) undivided Participating Interest respectively in all rights, interests and privileges of Contractors as set forth in the Agreement. Parties constituting Contractor shall be responsible jointly and severally in the duties and obligations under the Agreement.

Parties constituting Contractor acknowledge that it is a condition to the signing of the Agreement, that they shall enter into an agreement between themselves to provide for the procedures whereby they shall exercise their rights, interests and privileges and fulfill their duties and obligations as Contractor (such agreement hereinafter referred to as the "Joint Operation Agreement").

The terms of the Joint Operation Agreement shall include the following provisions:

(a) Parties constituting Contractor shall form a Joint Operation Company ("JOC") to operate for and on their behalf and to carry out the decisions of the Contractor as approved by the Government in accordance with the provisions of the Agreement.

The Parties constituting Contractor shall before June 1, 1997 agree upon and implement a transfer plan to ensure a smooth handover of operatorship from SPC as the interim operator to the JOC. SPC shall transfer to the JOC custody of all PSA assets, books of accounts and records and other documents maintained by SPC for Petroleum Operations and to agree upon a procedure to transfer existing contracts of goods and services required for on-going Petroleum Operations to the JOC. However, during such transfer Petroleum Operations shall not cease.

(b) SUDAPET's interest shall be carried by the Foreign Parties until the Start-up Date. All costs and expenditures attributed to SUDAPET'S share and to be paid by Foreign parties until the said Start-up Date (hereinafter be referred to as "Carried Costs") shall be recovered by the Foreign Parties in the following manner and priority, commencing from the Calendar Year corresponding to the Start-up Date:

(i) all recoverable costs, from the Cost Oil and Cost Gas in accordance with Article VII;

(ii) all non-recoverable costs from fifty percent (50%) of SUDAPET's share of Profit Oil and Profit Gas in the said Calendar Year.

(c) From and after the Effective Date, the financing of the project should be as specified in the "Interim Agreement".

It is hereby understood that SPC's share of Carried Costs shall be paid by CNPC and PCOSB in portion to their respective Participating Interest. Accordingly, the Parties constituting the Contractor hereby agree the said Matching Point shall occur when CNPC and PCOSB together have expended two hundred and eighty million (280,000000) U.S. Dollars in respect of all costs and expenses relating to Petroleum Operations (excluding non-recoverable costs expressly provided for in the Agreement, which shall be borne by SPC in proportion to its Participating Interest).

The Parties constituting the Contractor hereby agree that as and when costs and expenses are recovered from Cost Oil and Cost Gas in accordance with the provisions of Article VII and the Accounting Procedure, each Party's share of such accumulated costs shall be recoverable on a "First-in - First - out" basis. In consideration of the foregoing FIFO recovery priority, SPC in accordance with the provisions of the Interim Agreement.

ARTICLE XXXIX GENERAL

1) This Agreement together with the Annexes constitute the entire agreement between the Parties and supersede all prior agreements or understanding, written or otherwise except to the extent incorporated herein.

2) SPC shall continue to remain liable and shall indemnify CNODC, PCOSB, SUDAPET and the Government (collectively the "Indemnified Parties") from and against any liability, loss, costs, claims or damages arising out of or and accruing prior to the Effective Date or accruing thereafter until the handover of operatorship to the JOC relating to work performed, or goods or services provided pursuant to the Interim

Agreement and the OPSA, in each case to the extent that the same are not reimbursed to the Indemnified Parties by Insurance or caused by the Gross Negligence of the Indemnified Parties and such indemnifies shall (but not in limitation) be deemed to apply to all assignments, transfers, conveyances, novations and other documents delivered pursuant hereto.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed and executed by their legally authorized representatives in three original copies the day and year first above written.

Signed by
for and on behalf of
**THE GOVERNMENT OF THE
REPUBLIC OF THE SUDAN**

Dr. Awah Ahmed El Jazz
Minister of Energy and Mining

) _____

Signed by
for and on behalf of
**CHINA NATIONAL
PETROLEUM CORPORATION**

Mr. Wu Yaowen
Vice President

) _____

Signed by
for and on behalf of
**PETRONAS CARIGALI
OVERSEAS SDN BHD**

Dato Mohamad Hassan Marican
Director

) _____

Signed by
for and on behalf of
**STATE PETROLEUM
CORPORATION**

Mr. Lutfur Rahman Khan
President and Chief Executive Officer

) _____

Signed by
for and on behalf of
SUDAPET LIMITED

Mr. Hassan Mohammed Ali
Director

) _____

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed and executed by their legally authorized representatives in three original copies the day and year first above written.

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Dato Mohamad Hassan Marican
Director

) _____

Signed by
for and on behalf of
**STATE PETROLEUM
CORPORATION**

Mr. Lutfur Rahman Khan
President and Chief Executive Officer

) _____

Signed by
for and on behalf of
SUDAPET LIMITED

Mr. Hassan Mohammed Ali
Director

) _____

ANNEX A DESCRIPTION OF THE EXPLORATION BLOCKS

BLOCK (1a) UNITY

AREA: 7173.26 Square Kilometers
2731.00 Square Miles

CORNER	CLARK 1880		WGS 1984	
	LONGITUDE	LATITUDE	LONGITUDE	LATITUDE
Q	29° 55' 42.0"	10° 21' 16.0"	10° 21' 19.4"	29° 55' 44.2"
R	30° 23' 35.4"	09° 59' 19.0"	09° 59' 22.5"	30° 23: 37.7"
S	29° 46' 21.8"	09° 12' 8.18"	09° 12' 11.9"	29° 46' 24.0"
T	29° 18' 20.4"	09° 34' 25.9"	09° 34' 29.6"	29° 18' 22.6"

BLOCK (2 a) HEGLIG

AREA: 8628.62 Square Kilometers
3331.52 Square Miles

CORNER	CLARK 1880		WGS 1984	
	LONGITUDE	LATITUDE	LONGITUDE	LATITUDE
P	29° 13' 13.3"	10° 55' 13.6"	29° 13' 15.5"	10° 55' 16.8"
Q	29° 55' 42.0"	10° 21' 16.0"	29° 55' 44.2"	10° 21' 19.4"
U	29° 25' 9.50"	09° 43' 5.40"	29° 25' 11.7"	09° 43' 09.0"
V	28° 42' 16.4"	10° 17' 19.0"	28° 42' 18.5"	10° 17' 22.4"

BLOCK (4) KAIKANG

AREA: 32586.08 Square Kilometers
12581.55 Square Miles

CORNER	CLARK 1880		WGS 1984	
	LONGITUDE	LATITUDE	LONGITUDE	LATITUDE
I	29° 09' 07.0"	08° 26' 01.0"	29° 09' 09.2"	08° 26' 05.0"
J	28° 34' 57.0"	08° 52' 58.0"	28° 34' 59.1"	08° 53' 01.9"

K	28° 41' 43.0"	09° 01' 28.0"	28° 41' 45.1"	09° 01' 31.8"
L	27° 50' 18.0"	09° 41' 51`.0"	27° 51' 20.1"	09°
	41' 54.6"			
M	27° 57' 04.0"	09° 50' 22.0"	27° 57' 06.1"	09° 50' 25.6"
N	27° 39' 30.0"	10° 03' 35.0"	27° 39' 32.1"	10° 03' 38.5"
O	28° 41' 08.0"	11° 20' 25.0"	28° 41' 10.1"	11° 20' 28.1"
P	29° 13' 13.3"	10° 55' 13.6"	29° 13' 15.5"	10° 55' 16.8"
V	28° 42' 16.4"	10° 17' 19.0"	28° 42' 18.5"	10° 17' 22.4"
U	29° 25' 9.50"	09° 43' 5.40"	29° 25' 11.7"	09° 43' 09.0"
T	29° 18' 20.4"	09° 34' 25.9"	29° 18' 22.6"	09° 24' 29.6"
S	29° 46' 21.8"	09° 12' 8.18"	29° 46' 24.0"	09° 12' 11.9"

ANNEX A-1
DESCRIPTION OF THE DEVELOPMENT BLOCK

UNITY (1b)

AREA : 154.88 Square Kilometers
59.80 Square Miles

CORNER	CLARK 1880		WGS 1984	
	LONGITUDE	LATITUDE	LONGITUDE	LATITUDE
A	29° 42' 02"	09° 25' 00"	29° 42' 04.2"	09° 25' 03.7"
B	29° 37' 50"	09° 25' 00"	29° 37' 52.2"	09° 25' 03.7"
C	29° 37' 50"	09° 35' 55"	29° 37' 52.2"	09° 35' 58.7"
D	29° 42' 02"	09° 35' 55"	29° 42' 04.2"	09° 35' 58.7"

HEGLIG (2 b)

AREA: 370.92 Square Kilometers
143.21 Square Miles

CORNER	CLARK 1880		WGS 1984	
	LONGITUDE	LATITUDE	LONGITUDE	LATITUDE
E	29° 30' 00"	09° 54' 00"	29° 30' 02.2"	09° 54' 03.6"
F	29° 20' 00"	09° 54' 00"	29° 20' 02.2"	09° 54' 03.6"
G	29° 20' 00"	10° 05' 55"	29° 20' 02.2"	10° 05' 03.5"
H	29° 30' 00"	10° 05' 55"	29° 30' 02.2"	09° 05' 03.5"

ANNEX C ACCOUNTING PROCEDURE

Attached to and made an integral part of the Production Sharing Agreement.

PART 1 PROVISIONS

(1.1) Definitions. The definitions contained in Article I of the Production Sharing Agreement shall apply to the Accounting Procedure and have the same meaning. Certain accounting terms herein used are defined as follows:

(One) "Agreement" means the Production Sharing Agreement of which this Annex "C" is a part.

(1.2) Precedence of Documents. In the event of any inconsistency or conflict between the provisions of this Accounting Procedure and the provisions of the Agreement treating the same subject differently, then the provisions of the Agreement Procedure shall prevail.

(1.3) Revision of Accounting Procedure. By mutual agreement between the Minister and Contractor, this Accounting Procedure may be revised from time to time.

(1.4) Statements of Activity. Contractor shall, pursuant to Article IV of the Agreement, render to the Minister within forty-five (45) days of the end of each calendar quarter a statement of Exploration operations and a statement of Development operations reflecting a" charges and credits related to the operations for that quarter summarized by appropriate classifications indicative of nature thereof.

(1.5) Audit Rights. All statements for Exploration operations and Development operations for any Calendar Year shall be presumed to be true and correct twenty-four (24) months following its submission unless within the said twenty-four (24) month period the Minister takes written exception thereto. Pending expiration of said period the Minister shall have the right to audit Contractor's accounts, records and original supporting documents for such period.

(1.6) Books and Records. Contractor's books for Petroleum Operations shall be kept in the Sudan. All such books shall be kept in United States dollars.

(1.7) Currency Exchange.

All Sudanese Dinars expenditures shall be translated to United States dollars at the official buying rate of exchange issued by the Bank of Sudan daily, and all other non-United States dollars at the actual rate of exchange applicable on the date of payment through proper international banking institutions or the buying rate of exchange for such currency as quoted by National Westminster Bank Limited, London, at 10:30 a.m. local time, on the day in which the expenditures are recorded. A record shall be kept of the exchange rates used in translating Sudanese Dinars or non-United States currency. Any exchange gain or loss shall be credited to Petroleum Costs.

(1.8) No charge for Interest. Interest on investment shall not at any time be charged as a recoverable cost under this Agreement.

PART 2 COSTS EXPENSES AND EXPENDITURES

Subject to the provisions of the Agreement, Contractor shall alone bear and directly pay the following costs and expenses, which costs and expenses shall be classified and treated in accordance with Article VII of the Agreement :

(2.1) Surface Rights. All direct costs attributed to the acquisition, renewal or relinquishment of surface rights occupied and maintained in force for the Contract Area.

(2.2) Labour.

(a) Salaries and wages of Contractor's employees directly engaged in the various activities under the Agreement including salaries and wages paid to geologists and other employees who are temporarily assigned to and employed in such activities;

(b) Cost of living, school, housing allowances, and other customary allowances applicable to salaries and wages of local and expatriate employees of similar status chargeable under sub-paragraph 2(a) and paragraph 2.9 and sub-paragraphs 2.11(a) and 2.11(c) of this Part, paid bonuses, overtime and other customary allowances applicable to salaries and wages of national employees chargeable under the same sub-paragraph 2.2(a), paragraph 2.9 and sub-paragraphs 2.11(a) and 2.11(c) of this Part 2;

(c) Cost of expenditures or contributions made pursuant to law or assessments imposed by governmental authority which are applicable to labour cost of salaries and wages as provided under sub-paragraphs 2.2(a), 2.2(b) and paragraphs 2.9, 2.11 (a) and 2.11 (c) of this Part 2.

(2.3) Employees Benefits. Cost of established plans for employees group life insurance, hospitalized, pension, retirement, stock purchase, thrift, and other benefits of a like nature which are applicable to labour cost of salaries and wages of expatriate and employees, and for the national employees, all as chargeable under sub-paragraph 2.2(a) and paragraphs 2.9, 2.11(a) and 2.11(c) of this part 2.

Severance pay will be charged at a fixed rate applied to payrolls which will equal an amount equivalent to the maximum liability for severance payments as required under the Sudan Labour Law.

(2.4) Material. Material, equipment and supplies purchased by Contractor.

(a) Purchases. Material, equipment and supplies purchased shall be at the price paid by Contractor after deduction of all discounts actually received plus any related cost.

(b) Material furnished by Contractor. Material required for Petroleum Operations shall, whenever practicable, be purchased directly after the approval of the Joint Coordination Committee for any purchase order exceeding U.S. Dollars five hundred (500, 000) and the approval of the Minister for any purchased order exceeding U.S. Dollars five million (5, 000, 000), except Contractor may furnish such material from Contractor's Affiliated Companies under the following conditions and with the approval of the Minister:

(i) New Material (Condition "A") New Material transferred from Contractor's Affiliates' warehouse or other properties shall be priced at cost provided that the cost of

material supplied is no higher than international prices for material of similar quality supplied on similar terms prevailing at the time such material was supplied.

(ii) Used Material (Condition "B" and "C").

(a) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at seventy five percent (75%) of the price of new material,

(b) Material which cannot be classified as Condition "B" but which is serviceable for its original function but substantially not suitable for reconditioning shall be classed as Condition "C" and priced at fifty percent (50%) of the price of new material.

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

(d) Tanks, buildings and other equipment involving erection costs shall be charged at the applicable percentage of knocked – down new price.

(e) Warranty of Materials Furnished by Contractor. Contractor does not warrant the materials furnished beyond the dealers' or manufacturers' guaranty; and in case of defective material, credit shall not be recorded until adjustment has been received by Contractor from manufacturers or their agents. Contractor shall obtain a manufacturer warranty whenever practicable according to international industry standard and practice.

(2.5) Transportation. Transportation of employees, equipment and supplies necessary for the conduct of activities. Employee's transportation costs to the extent covered by established policy of Contractor will include travel expenses for employee's point of origin at the time of employment, at time of separation or for annual vacation once every year, and traveling expenses for employees and their families incurred as a result to transfer from one location to another. Transportation costs for employees and their families incurred as a result of transfer from the Sudan to a location other than the point of origin shall not be charged to Sudan operations.

(2.6) Services.

(a) Outside Services. The cost of consultants, contract services and utilities procedure from third parties shall be subject to the approval of the Joint Coordination Committee for cost exceeding U.S. Dollars three hundred thousands (300,000) and the Minister's approval for cost exceeding U.S. Dollars five million (5, 000, 000).

(b) Cost of services performed by the Minister or by Contractor or Affiliated Companies in facilities inside or outside the Sudan. Regular, recurring, routine services, such as interpreting magnetic tapes and/or other analysis as evidence by timesheets, shall be performed and charged by Contractor at an agreed price,. Such price shall be agreed upon and approved by the Joint Coordination Committee. Use of Contractor's or Affiliated Companies, wholly owned equipment shall be charged at rental rate commensurate with the cost of ownership and operation, but not in excess of competitive rates currently prevailing in Sudan and subject to prior approval of the Minister. Contractor's and Affiliated Companies rates shall not include administrative overhead costs.

(2.7) Damages and Loses. All costs or expenses necessary to replace or repair damages or loses incurred by fire, flood, storm, theft, accident or any other cause

not controllable by Contractor through the exercise of reasonable diligence. Contractor shall furnish the Minister written notice for damages or loses incurred, as soon as practicable after report of the same has been received by Contractor.

(2.8) Insurance and Claims. The cost of any public liability, property damage and other insurance against liabilities of Contractor, and/or the parties or any of them to their employees and/or outsiders as may be required by the laws, rules and regulations of the Government or as the parties may agree upon. The proceeds of any such insurance or claim collected shall be credit against operations. If no insurance is carried for a particular risk, all related actual expenditures incurred and paid by Contractor in settlement of any and all losses, damages, judgments, and other expenses, including legal services.

(2.9) Indirect Expenses. Camp overhead and facilities such as shore base, warehouses, water systems, road systems, salaries and expense of field supervisory personnel, field clerks, assistants, and other general employees indirectly servicing the Contract Area.

(2.10) Legal Expenses. All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the Contract Areas, including attorney's fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the operations under the Agreement, and actual expenses incurred by any party or parties hereto in accruing evidence for the purpose of defending against any action or claim prosecuted or urged against the operations or the subject matter of the Agreements. In the event actions or claims affecting the interest hereunder shall be handled by the legal staff of one or more of the parties hereto, a charge commensurate with cost of providing and furnishing such services may be made to operations.

(2.11) Administrative Overhead and General Expense

(a) Anytime Contractor is conducting Petroleum Operations, the cost of staffing and maintaining Contractor 's head office in the Sudan, and/or other offices established in the Sudan, other than field offices which will be charged as provided in Part II, paragraph 9 above, and expect salaries of employees of Contractor who are temporarily assigned to and directly serving in the Contract Area, which will be charged as provided in paragraph 2.2 above.

(b) Contractor's administrative overhead outside the Sudan applicable to the Sudan Petroleum Operation shall be compensated by an annual charged based on a sliding scale as follows:

- i. For Exploration operations in each Block 1a, 2a, and 4 during Exploration period;
 - 1st U.S. Dollars four million (4,000,000) at two (2) percent
 - Next U.S. Dollars three million (3,000,000) at one and a half (1.5) percent
 - 1st U.S. Dollars four million (4,000,000) at two (2) percent
 - Next U.S. Dollars three million (3,000,000) at one and a half (1.5) percent
 - Over U.S. Dollars seven million (7,000,000) at one (1) percent
- ii. For Development operations : one and a half (1.5) percent

The basis for applying these percentages will be the total expenditures made during each Calendar Year. Examples of the type of costs Contractor is incurring and charging due to activities under the Agreement and covered by said percentages are:

- (i) Executive. Time of executive officers.
 - (ii) Treasury. Financial and exchange problems.
 - (iii) Purchasing. Procuring materials, equipment and supplies.
 - (iv) Exploration & Production. Directly, advising and controlling the entire project.
 - (v) Other departments such as legal, controllers and engineering which contribute time, knowledge and experience to the operation the foregoing does not precluding for direct services under sub-paragraph 2.6 (b) of this Part 2.
- (c) Anytime contractor is conducting Petroleum Operations, Contractor's personnel engaged in general clerical and office work, supervisors and officers whose time is generally spent in the main office and not in the field, and all employees generally considered as general and administrative and not charged to other types of expense, will be charged to operations. Such expenses shall be allocated each month between Exploration, Development and Production operations according to sound and practicable accounting methods.

(2.12) Taxes. All taxes, duties or levies paid in the Sudan by Contractor with respect to this Agreement other than those covered by clause 9.3 of Article IX.

(2.13) Other expenditures. Any costs, expense or expenditures, other than those which are covered and dealt with the foregoing provisions of Part 2, incurred by Contractor under work programs and budgets.

PART 3 INVENTORIES

(3.1) Periodic Inventories, Notice and Representation. At least once every year or at reasonable intervals within a year, inventories shall be taken by Contractor of the operations material, which include all such material, physical assets and construction projects. Written notice of intention to take inventory shall be given by Contractor to the Minister at least thirty (30) days before any inventory is to begin so that the Minister may be represented when any inventory is taken. Except for lack of notice, failure of the Minister to be represented at an inventory shall bind it to accept the inventory taken by Contractor who shall, in that event, furnished the Minister with a copy thereof.

(3.2) Reconciliation and Adjustment of Inventories, Reconciliation of inventory shall be made by Contractor and the Minister, and a list of coverage and shortages shall be jointly determined and the inventory adjusted by Contractor.

(3.3) Asset Register. Contractor shall maintain and keep up to date a register of its assets. Such register will be record the type of assets or assets broken down by category on a reasonable basis, quantity acquisition date and costs, depreciation, book value and serial number or other identification or markings, if applicable.

PART 4
DISPOSAL OF ASSET AND OTHER CREDITS

(4.1) Any proceeds received from sales of fixed and movable assets shall be credited to petroleum costs. If no cost for such assets remain to be recovered by Contractor then the proceeds of such sales shall be paid to the Government.

(4.2) Other proceeds received shall be credited to petroleum costs.

PART 5
COST RECOVERY

(5.1) Statement of Recovery of Crude Oil/ Gas Costs. Contractor shall, pursuant to Article 4.13 of the Agreement, render to the Minister not later than forty five (45) days after each quarter a statement for the quarter showing:

- (a) Recoverable costs carried from the previous quarter, if any.
- (b) Recoverable costs incurred during the quarter.
- (c) Total recoverable costs for the Quarter, (a) + (b).
- (d) Value of Cost Recovery Crude Oil/ gas taken and separately disposed of by Contractor for the quarter.
- (e) Amount of costs recovered for the quarter.
- (f) Amount of recoverable costs carried into succeeding quarter, if any.
- (g) Excess, if any, of the value of Cost Recovery Crude Oil/ Gas taken and separately disposed of by Contractor over cost recovered for the quarter.

PART 6
CONTROL STATEMENTS AND MAJOR ACCOUNTS

(6.1) Exploration Obligation Statement. Contractor shall annually prepare from the Statements of Expenditures prepared pursuant to paragraph 1.4 of Part I, hereof a statement showing for such year the excess or deficit in exploration expenditures compared to minimum exploration Obligations. Such statement shall be rendered to the Minister not later than ninety (90) days following the end such Year.

(6.2) Contractor shall establish a cost recovery control account and an off setting contra account to control therein the amount of cost remaining to be recovered if any, the amount of cost recovered and the value of excess Cost Oil/ Gas.

(6.3) Major Accounts. For the purpose of classifying cost, expenses and expenditures for cost recovery as well as for the purpose of establishing when the exploration obligation has been met, costs, expenses and expenditures shall be recorded in major accounts including the following:-

Exploration Expenditures

Development Expenditures other than Operating Expenses

Operating Expenses

Necessary sub-accounts shall be used

Revenue accounts shall be maintained by Contractor to the extent necessary for the control of recovery of costs and the treatment of Cost Recovery Crude Oil/Gas.

ANNEX D BANK GUARANTEE

To the Minister of Energy and Mining
The Government of the Republic of the Sudan

WHEREAS (*name of the Contractor entity signing the EPSA and full details of entity and address*) (herein referred to as the "COMPANY"); and

WHEREAS the Company has entered into an Exploration and Production Sharing Agreement (hereinafter referred to as the "AGREEMENT"), together with other companies, with the Government of the republic of the Sudan (hereinafter referred to as the "GOVERNMENT") relating to the Contract Area covering Blocks 1, 2 and 4 located onshore the Republic of the Sudan and has assumed various obligations under the AGREEMENT; and

WHEREAS the COMPANY holds (*percentage interest under the EPSA*) per cent (____%) undivided Participating Interest in the rights, privileges, duties and obligations under the AGREEMENT; and

WHEREAS the GOVERNMENT desires that the performance of the COMPANY of its obligations relating to its work commitments and minimum expenditure required for the exploration and development operations pursuant to Article IV of the AGREEMENT (hereinafter referred to as the "Aforesaid Obligations") be guaranteed by the Bank.

NOW, THEREFORE, we, the undersigned (*full name and address of the Bank*) as the Guarantor of (*full name and details of the Company*) hereby, unconditionally and irrevocably guarantee to the Government to the limit of (*limit of amounts in words*) (*limit of amount in figures*), the performance by the COMPANY of its work commitment obligations required for the exploration and development operations and to spend a minimum of (*amount in words and figures*) during the Exploration period and the first year of the development period pursuant to the provisions of Article IV of the Agreement covering the Contract Area described in Annexes A, A-1 and B of the said Agreement.

The commission charges resulting from this Guarantee shall be charged to the COMPANY's account and be deducted therefrom beginning from the date of issuance of guarantee for the benefit of the Government till the date the Government receives the said amount.

Our obligations towards the Government will be valid for the duration of the Exploration period and the first year of the Development period as defined in the Agreement (i.e. for five years) and any extension thereto as may be granted by the Government.

We are hereby committed being the main responsible party relative to the Government, in the event the Company fails to fulfill its contractual obligations, to pay Government any amount until our obligation is completely discharged, which the Government will have to demand from us by its ordinary demand and shall be paid

without any dispute or reservation or any argument to the contrary from our side or Company's part, and without delay.

Our Guarantee will be returned to us after expiry of its validity, i.e. the date of issue of receipt of full amount by the Government but not later than five (5) years from the date of issue of this Guarantee.

Name of the Bank
Address of the Bank

ANNEX D-1 PARENT COMPANY GUARANTEE

WHEREAS, (*name of parent company*), a company validly existing under the laws of (*country of incorporation of parent company*) (hereinafter referred to as the "PARENT COMPANY"), with its registered office at (*registered office address*) and its principal business address at (*business address of parent company, if different from registered office*); and

WHEREAS, (*name of the Contractor entity signing the EPSA*), (hereinafter referred to as the "COMPANY") is wholly owned subsidiary of the PARENT COMPANY; and

WHEREAS, the COMPANY has entered into an exploration and Production Sharing Agreement (hereinafter referred to as the "AGREEMENT"), together with other companies, with the Government of the Republic of the Sudan (hereinafter referred to as the "GOVERNMENT") relating to the Contract Area covering Blocks 1, 2 and 4 located onshore the Republic of the Sudan and has assumed various obligations under the AGREEMENT in favour of the government; and

WHEREAS, the COMPANY holds (*percentage interest under the EPSA*) per cent (___%) Participating Interest in the rights, privileges, duties and obligations under the AGREEMENT; and

WHEREAS, the GOVERNMENT desires that the performance of the COMPANY of its obligations relating to its work commitments and minimum expenditure required for the exploration and development operations pursuant to Article IV of the AGREEMENT (hereinafter referred to as the "Aforesaid Obligations") be guaranteed by the PARENT COMPANY; and

WHEREAS, the PARENT COMPANY acknowledges to be fully cognizant of the extent of the Aforesaid Obligations of the COMPANY under the AGREEMENT and hereby agrees, in consideration of the participation of the COMPANY in and under the AGREEMENT, to provide this guarantee as required under the AGREEMENT.

NOW THEREFORE, it is hereby stipulated and agreed as follows: -

1. The PARENT COMPANY hereby irrevocably guarantees to the GOVERNMENT the performance of the Aforesaid Obligations, agreements, undertakings of the COMPANY as contained in the AGREEMENT and that in case of default by the COMPANY of the Aforesaid Obligations the PARENT COMPANY will provide the COMPANY with all the financial and other means which are within its disposal to enable it to fully perform the Aforesaid Obligations and undertakes to commence rectification of the said default and/or effect the due payments upon thirty (30) days written notice of the default (including reasonable details thereof) and of the amount payable in respect thereof, being communicated by the GOVERNMENT to the PARENT COMPANY.
2. This Parent Company Guarantee issued for the purposes of meeting the guarantee requirements in respect of the Participating Interest share of the COMPANY under Article II sub-clause (1) (d) and Article IV sub-clause 4.15 of the AGREEMENT shall become available and effective thirty (30) days after the AGREEMENT has been signed and continue for the duration of the AGREEMENT and shall terminate on the

date upon which the COMPANY ceases to hold a Participating Interest under the AGREEMENT and written release from the Minister of Energy and Mining of the Republic of the Sudan, whereupon this Parent Company Guarantee shall be returned to the PARENT COMPANY.

3. In the event that the COMPANY assigns its Participating Interest under the AGREEMENT to an Affiliate of the COMPANY (as the term is defined in the AGREEMENT), this Parent Company Guarantee shall continue in force and apply mutatis mutandis to the assignee Affiliate. Should the COMPANY assign all of its Participating Interest to a non-Affiliate of the COMPANY, this Parent Company Guarantee shall cease to have effect, and all of the obligations of the PARENT COMPANY hereunder shall terminate on the date of the assignment to the non-Affiliate is approved by the GOVERNMENT, which governmental approval shall require a guarantee from the assignee to the same effect. Should the COMPANY assign part but not all of its Participating Interest to a non-Affiliate, the PARENT COMPANY shall, upon the date the assignment is approved by the GOVERNMENT, be relieved of its obligations hereunder to the extent of the Participating Interest so assigned, and the liability of the PARENT COMPANY shall be reduced accordingly.

4. The failure by the GOVERNMENT at any time to require performance by the PARENT COMPANY of any provisions herein shall in no way affect the right of the GOVERNMENT thereafter to enforce the same in respect of a subsequent default by the COMPANY nor shall it affect the GOVERNMENT's right to enforce any of the other provisions of this Parent Company Guarantee.

5. Where the performance of the Aforesaid Obligations of the COMPANY is suspended as a consequence of force majeure (as the term is defined in the AGREEMENT), or as a consequence of the willful non-performance by the GOVERNMENT of its material obligations under the AGREEMENT, the obligations of the PARENT COMPANY under this Parent Company Guarantee shall likewise be suspended.

6. This Parent Company Guarantee shall be governed by and construed in accordance with the laws of the Republic of the Sudan applicable to the PARENT COMPANY and such rules of international law as may be applicable.

7. Any dispute or differences arising out of or in connection with this Parent Company Guarantee or the implementation of any of the provisions hereof which cannot be settled amicably shall be submitted for arbitration in which case the terms provided in Article XXII of the AGREEMENT shall be applied mutatis mutandis.

IN WITNESS WHEREOF this Parent Company Guarantee is signed by a duly authorised officer of the PARENT COMPANY on the *(date)* day of *(month)* 1997.

SIGNED for and on behalf of
(Parent Company name)

.....

(name)

(designation)

**Consortium Principles
Between
The Government & State Petroleum Corporation
Dated 28th August 1996**

Preamble :

The evaluation of the First Term of the Exploration period was agreed upon and signed by both Government and State (attached).

The difficulties facing the Implementation of EPSA terms were discussed by both parties with a view to over coming the same without prejudice to the rights of either party. The project is of major extent and could not be financed by State alone. State mentioned that conventional financing was not forthcoming and hence, it is agreed that the Best possible means is a joint venture in the form of a consortium of parties who will participate in the finance and have equity shares in the exploration, production and transportation (pipeline) to export terminal. The following are the accepted main principles that have been agreed between the Government & State.

1. Establishment of a joint venture (consortium).

A consortium of competent reputable companies is to be formed in order to invest in all the phazes as mentioned in the preamble.

State claim that they are in a process of gathering several interested parties to the formation of such consortium. Government will consider at that time it is truly formed, however Government will proceed in accordance with it's role hereunder.

2. Government Role:

It is agreed by the parties (Government & State) that Government will take the leading role of bringing the parties of proposed consortium together for free negotiations.

It is also understood that Government has a vested interest in the establishment of the consortium and therefore, the Minister will monitor the progress through his full time representative.

It is also understood that government shall have the final approval of the consortium.

3. Parties to the Consortium:

State will provide to the Government complete information about the parties with whom they are negotiating. Government will introduce competent, reputable Interested parties to State.

Such exchange of Information shall be done under the strict secrecy and confidentiality.

4. Share Holding of the Parties: (equity interest)

The parties will have to decide their capabilities and share holding in the proposed final consortium by Agreement. However the share of State will depend upon the quantum and value of work that State has accomplished since the effective date up to the date of formation of the consortium considering a reasonable rate of interest on the investment and any reasonable consideration accepted by the proposed consortium in the usual industry norms. State may participate over and above with any additional available financial resources.

5. Operatorship:

The appointment of the operator with in the consortium will be determined by agreement between the partners. State shall not claim to be the operator as of right or as a precondition for the parties to meet; Government shall not impose a designated operator as a precondition for the establishment of the consortium.

6. Export Pipeline:

The parties agree that the exploration, production and export of the crude oil is an integral concept, hence the parties will have to secure the finance for the pipeline as part of their funding.

Without contravening the above Government will not accept the recovering of the pipeline cost from the cost oil. Pipeline cost shall be recovered from the pipeline tariff subject to special agreement to be concluded in due time.

7. Amendments to the PSA Agreement:

The consortium shall be established on the basis of replacing State in the valid Exploration and Production Sharing Agreement dated 29th August 1993. Government will consider any reasonable amendments to the Agreement. Government will also require redressing of anomalies in a beneficial manner to all parties concerned.

8. Schedule of Establishment of the Consortium:

The attached schedule, extending over a period of three months, is accepted by both parties as a reasonable time-table to bring the consortium together for the first meeting and to reach a definitive stage where the parties firmly agree to establish the consortium. However, for the consortium to effectively take over operations, the consortium agreements, the pipeline agreement and any proposed amendments to EPSA have to be finalized in an expected further three months.

Both Government and State recognize that it is Imperative that the consortium be established in as shorter a period as possible (Three months) and both undertake to work diligently towards this objective.

9. Continuation of Work:

Both parties accept that it is in the Interest of both parties that work shall not cease, thus without prejudice to the rights of either party, and until the formation of the consortium and its eventual take over of operations, State shall continue to work diligently in accordance with the commitments of the Initial Exploration Period within the period/periods specified in (8) above whichever date occurring earlier.

Signed By:

Dr. Awad A. El Jazz
Minister
Ministry of Energy & Mining

Signed By:

Mr. Lutfur Rahman Khan
President & Chief Executive
State Petroleum Corporation

TOP CONFIDENTIAL

Date: 19th Sep. 1996

Dear Sir,

SUBJECT; "INVITATION FOR PROPOSED CONSORTIUM" MEETING

On behalf of the Government of the Sudan, I have the honour to inform you that your respectful Company has been selected amongst few others to consider jointly – as a consortium – an investment opportunity in oil exploration and production in a proven area of great potential and coupled with the construction of an export pipe line.

It is my great pleasure to invite and welcome you in Sudan to attend a meeting to be held on Wed. the 16th of October 1996.

We are very keen in your participation and we request your confirmation of acceptance.

You shall find here below some more information on subject matter and even more during your visit.

Yours Faithfully

Dr. Awad Ahmed El Jazz
Minister of Energy & Mining
The Republic of The Sudan

A) PURPOSE OF MEETING

The Oil Fields of Heglig, Unity and Kaikang in the interior of Sudan, related to blocks 1, 2 and 4 located in attached map, are presently concessioned to State Petroleum Corporation in accordance to an Exploration, Production Sharing Agreement, with the Government of the Sudan. It is realized by both the Government and State, that the potential and scope of this project including the export pipe line requires substantial finance on equity share basis.

To this effect the two parties have agreed to call for the formation of a consortium of companies under specific principles as follows: -

1. Invite competent reputable companies to join in all phases of the project.
2. The Government shall take a leading role in bringing the parties together and monitor the meetings and progress towards an agreement and have the final approval of the consortium.
3. Negotiations shall be free between the interested parties to decide their share holding.
4. State Petroleum Corporation share shall be based on the quantum and value of work accomplished since the effective date of the EPSA up to the date of formation of the consortium. State, may participate over and above with any additional financial resources.
5. The appointment of an operator shall be determined by an agreement between the consortium parties.
6. The export pipeline shall be part of the project commitments, however the cost shall be recovered from the pipe line tariff and not from cost oil.
7. The consortium shall replace State as a signatory to the current Exploration and Production Sharing agreement.
8. The Government expects that the parties shall advise their firm interest during the visit and shall reach final firm agreements within a maximum of three months from the date of first meeting.

B) SCHEDULE OF MEETING:

1. The opening meeting shall be held on 16th of Oct. 1996 at 09.00 Hrs
2. Follow up Meetings shall be decided upon depending on progress and mutual agreement.

C) Agenda of The Opening Meeting:

1. Opening address: Minister of Energy & Mining.
2. Technical presentations by The Government on oil fields under question.
3. Technical presentation on the export pipeline project.

4. Highlights of the current Exploration Production Sharing agreement.

D) Visa, Accommodation and Visit Arrangement

1. On confirmation of acceptance, the Ministry of Energy & Mining shall arrange entry visa. For that purpose each delegate is requested to send passport details to contact address specified below.

2. The Government shall provide free accommodation and meals in Khartoum Hilton for the duration of the business for a maximum of two delegates from each company. All other expenses shall be born by visitors.

3. Flight details for meeting delegates at Airport should be advised to contact address specified below.

4. All matters pertaining to this subject including invitations and dialogue shall be kept top confidential.

5. Contact address:

Ministry of Energy & Mining
P.O. Box: 2087 Khartoum, Sudan
Fax: 249-11-777940 OR FAX: 249-11-773663
TEL: 249-11-777940 OR TEL: 249-11-773663

Yours Faithfully

Dr. Awad Ahmed El Jazz
Minister of Energy & Mining
The Republic of The Sudan

Time Schedule

SR. No.	Activity	Est. Date of Completion
1.	Finalizing the Consortium Principles between the Government & State.	2/8/96
2.	Government & State introduce and agree on the interested parties of the Consortium.	2/8/96
3.	Government invites the potential parties of the Consortium week of to initiate the following: -	2 nd September
	* start negotiations of the formation of the Consortium.	
	* determine and confirm equity shares of the interested parties.	
	* select operator.	
	* firm agreement on the formation of the Consortium	28/11/96
4.	Sign relevant agreements and Consortium ready to effectively take over operations.	28/2/1997

* Government shall grant further extension of three months depending on the progress of the consortium.

** Detailed schedule to be submitted by consortium to the Government for execution of Activities.

ANNEX "F"

INTERIM AGREEMENT

This Agreement made and entered into as of the 2nd day of December, 1996, by and between:

- the GOVERNMENT OF THE REPUBLIC OF SUDAN represented by the Minister of Energy and Mining (hereinafter referred to as "Government"), and
- The CHINA NATIONAL PETROLEUM CORPORATION the national petroleum company of the Peoples Republic of China (hereinafter referred to as "CNPC"); and
- PETRONAS CARIGALI OVERSEAS SDN BHD, a company incorporated under the laws of Malaysia and having its office at Wisman Peladang, Jalan Bukjt Bintang, 50776 Kuala Lumpur, Malaysia (hereinafter referred to as "PETRONAS"); AND
- STATE PETROLEUM CORPORATION, a body corporate incorporated under the laws of the Province of British Columbia Canada with its head office located at 320 540 5th Avenue S.W. Calgary Alberta, Canada (hereinafter referred to as "STATE"); and
- A Company to be incorporated on an existing company to be designated by the Government to hold its interest in the Consortium as described in this Agreement (hereinafter referred to as "SUDAPET")

WHEREAS, STATE is the holder of a Concession upon Blocks 1,2 & 4 in the Republic of Sudan (the "Area") pursuant to the Exploration and Development Production Sharing Agreement with the Government dated August 29, 1993 (the "PSA"); and

WHEREAS, the Government and STATE agreed, in accordance with "Consortium Principles Between The Government & State Petroleum Corporation Dated 28th August 1996", (the "Consortium Principles") to establish a consortium to conduct the Sudan Petroleum Project and whereas the Government, in accordance with Consortium Principles, invited interested parties to participate in free negotiations in Khartoum toward establishing a Consortium including State which will replace STATE in the valid PSA and to finance, construct, own and operate an export pipeline from the Area to the Red Sea Coast, and

WHEREAS STATE has incurred all of the expenses of exploration and development of the Area between the effective date of the PSA (August 29, 1993) and the Effective Date (as hereinafter defined) and has created additional value to the Concession as recognized by the terms of the Consortium Principles; and

WHEREAS, the Government has proposed that hydrocarbons be produced under the PSA, as amended pursuant to an agreement to be reached and entered into between the Government and such consortium, and transported by a pipeline company, also to be established (such company hereinafter referred to as "Pipeline Company") which shall be entitled to receive a tariff payable by companies which are parties to the PSA and by third parties if applicable subject to the CNPC Proposal; and

WHEREAS, the Government has notified STATE and the Parties that it has decided to establish a consortium (hereinafter referred to as "Consortium") comprising, SUDAPET, CNPC, PETRONAS and STATE with the terms of a proposal provided

directly to the Government by CNPC (such proposal and its subsequent further clarifications being hereinafter referred to as the "Proposal"); and

WHEREAS, pending the finalization of the Government Contracts as hereinafter defined and the Joint Operating Agreement(s) and other related documents establishing the legal rights of the consortium and the members of the Consortium vis a vis each other, the Parties desire to establish the terms and conditions under which petroleum operations will continue to be conducted in the Area during the Interim Period.

NOW THEREFORE the Parties agree as follows:

ARTICLE 1-DEFINITIONS

"Affiliate" in relation to any Party shall mean any entity which controls, is controlled by, or is under common control with such Party. For the purpose of this definition. "Control" shall mean the power to dictate and conduct the policy of any such Party or, when such Party is a company, the power to dictate and conduct the policy of such company through the direct or indirect control of more than fifty percent (50%) of the share of voting rights in such company

"Agreement" shall mean this document, the PSA, together with the following Annexes:

- Annex 1 - Description of Areas covered and affected by this Agreement. Annex A-1 of the PSA
- Annex 2 - Map of the Area covered by this Agreement. Annex B of the PSA
- Annex 3 - Consortium Principles Between the Government & State Petroleum Corporation dated 28th August, 1996
- Annex 4 - Invitation to the Meeting
- Annex 5 - The Confidentiality Agreement
- Annex 6 - The Proposal
- Annex 7 - Work Program
- Annex 8 - Cash Call procedure
- Annex 9 - Proposed Schedule to Finalize Documents

"Consortium Member" means any one of CNPC, PETRONAS, STATE and SUDAPET.

"Effective Date" means November 29th 1996.

"Cut off Date" means the Signing Date of the Amended PSA.

"Foreign Parties" means CNPC, PETRONAS, and STATE, and "Foreign Party" means any of them.

"Government Contracts" means the binding legal instruments including the amended PSA. Pipeline Agreement and Surface Lease Agreement which will give the consortium the legal right to the Area and the construction and ownership of the Pipeline.

"Interim Period" means the period between Effective Date and Cut-off Date.

"Participating Interest" means the undivided interest of each Party in the rights, benefits and obligations pursuant to this Agreement.

"Parties" means all the signatories to this Agreement and their respective successors and assigns and

"Party" means any one of the Parties.

ARTICLE 2 - PARTICIPATING INTERESTS

The Government has notified the Parties that their Participating Interest in the Consortium are as follows:

CNPC	40%
PETRONAS:	30%
STATE:	25%
SUDAPET:	5% (Carried Interest)

ARTICLE 3 - PETROLEUM OPERATIONS DURING INTERIM PERIOD

3.1 Conduct

During the Interim Period uninterrupted petroleum operations shall be conducted by STATE as Operator under the PSA pending execution of the Government Contracts with the input and assistance of the Task Force(s) as hereinafter described, and, in particular, STATE shall perform the Work Program hereto attached as Annex 7, and herein referred to as the "WORK".

3.2 Financing

From and after the Effective Date, the Foreign Parties, excluding STATE, shall finance the WORK pro rata to their respective Participating Interests. The Parties, excluding STATE, will carry STATE pro rata in respect to all upstream and pipeline expenses of State incurred in the Sudan Petroleum Project up to the amount of the Investment Amount (including interest) plus the Value Amount provided that the first \$100 million (US) of the sum of the Investment Amount and the Value Amount shall be applied to the carry in respect to the exploration and production operations in the Area and the balance, if any, shall be applied to the carry in respect to the Pipeline. A cash call procedure as per attached Annex 8 shall apply. The parties shall carry SUDAPET up to oil at Terminal and SUDAPET shall pay from its share of profit Oil. A signature bonus of \$5 million (US) shall be part paid by the Foreign Parties within ten days of the signature of this Agreement. The remainder of the bonuses shall be paid on signing of the amended PSA.

3.3 Access to data and reports

STATE shall provide to the other Parties as soon as they are obtained or compiled from the WORK:

- daily progress reports
- copies of all well logs
- copies of all drill stem tests and core analysis reports
- copies of the plugging reports
- engineering studies
- copies of all technical data and reports relating to the WORK.

STATE shall give the other Parties access at all reasonable times to all data acquired in the conduct of the WORK. Such Parties may make copies of such data at their sole expense.

3.4 Task Force(s)

(A) Promptly after signature of this Agreement, there will be established a Task Force comprising a maximum of three (3) representatives of each of CNPC, PETRONAS, STATE and SUDAPET for the upstream operations. Such Task Force shall be based at STATE's premises in Calgary and shall have the following roles:

- facilitate the implementation of the WORK by STATE
- prepare the technical aspects of the conduct of petroleum operations as operator to be carried under the Amended PSA by a Joint Operating Company to be established by the Parties in accordance with a recognized international form of operating agreement.

(B) Promptly after signature of this Agreement, there will also be established a Task Force comprising a maximum of three (3) representative of each of CNPC, PETRONAS, STATE,

and SUDAPET for the pipeline operations. Such Task Force shall be based at STATE's premises in Calgary or at any other place agreed upon by the parties and shall have the following roles:

- facilitate pipeline design and front end engineering
- prepare in conjunction with Government a logistics plan for the construction of the Pipeline.

3.5 Liabilities

As Operator under the PSA for the remaining Parties, STATE shall remain solely liable to Government and third parties for the performance of petroleum operations during the Interim Period as provided in the Agreement. Except as set out in Article 3.2, the other Parties shall incur no liability whatsoever for such petroleum operations and to this end STATE shall at all times indemnify and hold the other parties harmless from all claims and liabilities for death or injury to persons or damage to property arising out of petroleum operations during the Interim Period. STATE represents and warrants that it shall procure and maintain all the insurances in the types and amounts required by the PSA, applicable laws and regulations and the usages and practice of the international petroleum industry subject to the requirement of the other Parties to reimburse STATE for the costs of any such insurance.

3.6 Contract Continuation

All contracts entered into by STATE for the supply of goods or services on or before the Effective Date shall continue during the Interim Period and according to the PSA.

ARTICLE 4 – RECOVERY AND REIMBURSEMENT OF COSTS AND EXPENSES

4.1 Recovery

The costs and expenses paid by the Foreign Parties for the performance of the WORK as provided in Article 3.2 shall be considered as recoverable costs under the Amended PSA in conformity with the Accounting Procedure or as capital expenditure of the Pipeline Company to be established, as audited.

4.2 Reimbursement

In case there shall be a change to any Foreign Party's participating interest share in the Consortium during the Interim Period, the Foreign Parties shall with the approval of the Government make a pro rata adjustment of the amount of the contributions made during the Interim Period for the costs and expenses of the Consortium incurred in the performance of the Work.

ARTICLE 5 – CNPC PROPOSAL

The Proposal was tendered to, and accepted by, the Government as the basis of the formation of the Consortium. The Parties have accepted the terms of the Proposal as the basis for the Consortium and the Proposal shall constitute an integral part of this Agreement subject to normal industry practice and further subject to:

(A) the requirement that CNPC solely undertake obligations to the Government in respect to the proposed refinery;

(B) agreement as to the implementation of the Proposal under the terms of the Joint Operating Agreement(s) governing the Upstream and the Downstream portions of the Sudan Project; and

(C) subject to any other terms of this Agreement

ARTICLE 6 – STATE'S CONTRIBUTION

Based upon the Consortium Principles, the contribution by STATE to the Consortium to date for the purpose of determining STATE's requirement to invest additional funds includes:

(A) The amount of investment by STATE for the purpose of the Sudan Petroleum Project (the "Investment Amount") since the effective date of the PSA (August 29, 1993) up to the Effective Date to be determined by an internationally recognized firm of chartered accountants. These figures are determined without prejudice to the right of the Government to conduct an independent audit of any expenses incurred for cost recovery purposes. Interest shall be calculated on the Investment Amount at the

Royal Bank of Canada prime rate plus 2%, determined quarterly since the dates that investments were incurred up to the Effective Date. Such interest shall not be recoverable under the PSA.

(B) The additions to value of the Sudan Petroleum Project (the "Value Amount") since the effective date of the PSA up to the Effective Date to be determined by an internationally recognized firm of chartered accountants binding to the Foreign Parties.

The audit and the valuation contemplated above shall be undertaken as soon as reasonably possible following execution of this Agreement for the joint account of the Consortium. Notwithstanding the foregoing, should the Parties agree on the quantum of the Investment Amount or the Value Amount there shall be no requirement of proceeding with the audit or the valuation, as the case may be.

ARTICLE 7 – OPERATORSHIP

Upon completion of the Interim Period, the Parties intend that there be an organized transfer of operatorship of the Concession and the Pipeline to a joint operating company(s) to be governed by an agreed standard form of international operating procedure and in which all of the parties will have representation and Foreign will contribute resources in accordance with their ability and the needs and desires of the Consortium.

ARTICLE 8 – SCHEDULE OF IMPLEMENTATION

The parties agree to use their reasonable best efforts to comply with the Schedule of Implementation for formal contracts set out in Annex 9.

ARTICLE 9 – ASSIGNMENTS

No party may assign any of its rights or obligations hereunder within the interim Period, unless the new participant and its Participating Interest shall have been approved by all the Parties. It shall be a condition of any such assignment that the new participant shall ratify this Agreement in writing and accept to be bound by all prior decisions of the Parties. An assignment Bonus of \$2 million (US) shall be paid to the Government on the date of assignment to a third party. The Bonus shall not be recoverable from cost oil.

ARTICLE 10 – TERMINATION

10.1 This Agreement shall terminate on the earlier of:

- signature of the amended PSA by some or all of the Parties (which is expected to be on or before March 1st 1997).
- Ninety (90) days after the Effective Date.

unless the Parties shall otherwise agree.

10.2 Existing Rights & Obligations

Termination of this Agreement shall be without prejudice to the rights and obligations of the Parties existing as at the date of termination. In the event of the termination of the Agreement, the Parties shall have recourse to the Consortium Principles to determine the principles governing the further actions of the Parties in forming the Consortium.

10.3 Continuing Obligations

Notwithstanding termination of this Agreement, each Party shall remain bound by the provisions of Article 11.

ARTICLE 11 – GOVERNING LAW AND ARBITRATION

This Agreement shall be governed by, construed, interpreted and enforced in accordance with the substantive laws of the Republic of Sudan, to the exclusion of any conflicts of law rules which would refer the matter to the laws of another jurisdiction.

All disputes arising in connection with this Agreement shall be finally settled by arbitration under the Rules of Arbitration of the International Chamber of Commerce.

All arbitration proceedings will be held in London, Paris, Geneva or elsewhere as may be agreed by the Parties.

ARTICLE 12 – NOTICES

Except as otherwise specifically proved, herein, all notices and communications under this Agreement shall be deemed to have been properly given when received if sent to the Parties by telex, telefax, or acknowledge hand delivery as follows:

The Government of Sudan, Ministry of Energy and Mining:

Mail
Ministry of Energy and Mining
Nile Avenue
Khartoum, Sudan
Telex 22256 MIN Sudan
Cable PETROSUDAN

The China National Petroleum Corporation

Khartoum No. 5, Block 9th Street 25
Almmarat Area, Khartoum, Sudan

Mail
Attention: Zhou Jiping
Liu Pukang
P.O. Box 766

Beijing 100724 Peoples Republic of China
Telephone 8610-6209-6008

Telecopy 249-11-465823

Petronas Carigali Overseas SDN BHD

Mail

Attention: Ahmad Said
Wisma Peladang,
Jalan Bukit Bintang:
50776 Kuala Lumpur
Malaysia

Telecopy 603 241 7322
Telex M A 32856

State Petroleum Corporation

Khartoum Street 15, House 35,
New Extension Khartoum, SUDAN
Telecopy 871 1562616
249-11-471781

Calgary
Attention Charles Selby, Corporate Secretary
320, 540 -5th Ave. S.W.
Calgary, Alberta
T2P 0M2
Canada
Telecopy 403-294-1224
Telex 03821034

SUDAPET

Hassan Mohamed Ali
8th Floor (formerly GPC offices)
Tower No. 3
Kuwaiti Trade Centre,
Nile Avenue,
P O Box 2986, Khartoum Sudan

Telecopy 249-11-773663
Telephone 249-11-777554

ARTICLE 13 – UTILIZATION OF LOCAL LABOUR AND MATERIALS

Local Contractors and labour shall be employed and local equipment and materials shall be utilized whenever practicable in petroleum operations and the pipeline operations.

ARTICLE 14 – MISCELLANEOUS

14.1 No Waiver

Any party's failure to require performance by any other Party of any provision of this Agreement shall not be construed as waiving any subsequent breach of such provision. No Party, including the Government waives any of its rights under any contract or understanding arising prior to the Effective Date by entering into this Agreement.

14.2 Counterparts

This Agreement may be executed in five originals counterparts and each such counterpart shall be deemed an original Agreement for all purposes.

14.3 No Partnership

It is not the intention of the Parties to create, nor shall this Agreement be deemed or construed to create a partnership, joint venture, association, trust, or fiduciary relationship, or to authorize any Party to act as an agent, servant, or employee for any other Party.

14.4 Conflict

In the event of any conflict between the provisions of Articles 1 through 14 hereof and the provisions of any Annex hereto, the provisions of Articles 1 to 14 shall prevail.

14.5 Amendments

This Agreement shall not be altered, modified or amended except by mutual agreement of the Parties which shall be signed by their duly authorized representatives.

14.6 Confidentiality

Except in accordance with applicable law, this Agreement and any procedures connected hereto shall be confidential and shall not be disclosed by any party.

14.7 Joint and Several Liability

The Foreign Parties will be jointly and severally liable to the Government under this Agreement.

LEFT BLANK INTENTIONALLY

IN WITNESS WHEREOF The Parties have caused their duly authorized representatives to sign this Agreement the day and year above first written:

The Government of the Republic of Sudan

By: _____
Dr. Awad Ahmed El Jazz
Minister of Energy and Mining

China National Petroleum Corporation

By: _____
Wu Yao Wen
Assistant President

Petronas Carigali Overseas SDN BHD

By: _____
Dato Mohamad Idris Mansor
Director

State Petroleum Corporation

By: _____
Lutfur Rahman Khan
President and Chief Executive Officer

Sudapet a Government owned Company
represented by

By: _____
Hassan Mohamed Ali
Chairman Designate

CONFIDENTIALITY AGREEMENT

RE: PROPOSED CONSORTIUM TO PERFORM EXPLORATION, PRODUCTION, CRUDE TRANSPORTATION AND EXPORT ACTIVITIES IN BLOCKS 1, 2 & 4.

1. It is hereby understood and agreed by the parties attending the first CONSORTIUM meeting organized by the Ministry of Energy and Mining. The Republic of the Sudan, held in Khartoum from October 16, and 17, 1996, that any party (including its employees and affiliates) shall not disclose to any third party, without the written approval of the Government and the parties, any information related to:-

- i) The names of the participating companies at the above mentioned meeting and subsequent meetings.
- ii) Any statements made or positions expressed by any party related to the possible participation in the above proposed CONSORTIUM during the meeting and subsequent discussions or meetings on the above subject.

2. Unless earlier terminated, this undertaking shall terminate one (1) year after the date shown below.

This undertaking shall be governed by and interpreted in accordance with the laws of the Sudan.

Any dispute arising out of or relating to this undertaking, including any question of its existence, validity or termination, which cannot be amicably resolved by the parties, shall be settled before three arbitrators, one to be appointed by each party and the two so appointed shall appoint the third arbitrator, in accordance with the Arbitration Rules of International Commerce in Geneva, and judgment, upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. A dispute shall be deemed to have arisen when either Party notifies the other Party in writing to that effect. The place of Arbitration shall be Geneva, Switzerland. The ruling language shall be the English language.

Signed on October 16, 1996 by:

	NAME OF PARTY	AUTHORISED REPRESENTATIVE	SIGNATURE
1	ADVANCED SYNERGY	Name: Sirat Othman Position: Oil & Gas Advisor	
2	China National Petroleum Company	Name: Zhou Jiping Position: Director Overseas Department:	
3	IPC	Name: Ian Lundin Position: President	
4	Jamjoom Group For Commerce	Name. NASIM CHAUCHE Position: Vice President	
5	ONGC	Name: B.C. Bora Position: Chairman & Managing Director:	
6	Occidental International Exploration & Production Co.	Name: Nathan Eric Fagre Position: Senior Vice-President & General Counsel	
7	PETRONAS Carigali	Name: Ahmad Said Position: General Manager Exploration	
8	STATE	Name: Lutfur Rahma Khan Position: President	
9	TOTAL	Name: G. Romeu Position: Deputy Vice-President New Ventures	
10	ZANGAS	Name: Kopychevski Vladimir Position: President	

Witnessed and approved by:-

Dr. A.R.O. Abdel Rahman
Government Representative
& Chairman Consortium Meetings

CNPC'S PROPOSAL

China National Petroleum Corporation (CNPC) signed Production Sharing Agreement for Block VI in Muglad Basin with Sudan Government on Sep. 29, 1995. This Agreement has been put into effect in January 1996. Since then, CNPC and Sudan Government have carried out very good cooperation so that the operation in Block VI went on smoothly. According to the Agreement, CNPC has finished 120 km 3D seismic, which is much more than the seismic working program for the first exploration phase stipulated in PSA. The Chinese drilling rig and all the required materials have been mobilized from China to well site under the strong support of Sudan Government. The drilling of the first well will be spud in very soon. At the same, time, CNPC is working on the regional geological evaluations for the Block VI and the more detailed exploration program of Block VI will be worked out to guide the future exploration work. We believe with strong confidence that the Block VI has a great potential to find more hydrocarbon resources. From the preliminary seismic interpretation, we realized that a large structure maybe exist at the deep portion seismic covered area. A detailed interpretation is under way.

On the training and technology transfer, CNPC has arranged Sudanese geophysicists to take the on-job training in China, Which is not required by the Agreement. The nearly one year's excellent performance verified that CNPC is a good and reliable partner, and CNPC also accumulated great deal of operating experience in Sudan.

Both China and Sudan are developing Countries, and have very good relationship in the long history. The goal of CNPC's investment in Sudan emphasizes on the mutual benefits and development. Sudan has rich petroleum resources. Due to many reasons, however, Sudan still relay on the import oil currently. This situation laid a barrier for the economic development of Sudan. Both China and Sudan are catalogued in the third world country and have similar history. That means we should help and support each other. CNPC as more than 40 years experience in oil industry, our production has been increased from 2000 bbl/d in 1950's to 3 million bbl/d in 1990's. This historic achievement as obtained completely by ourselves. We are willing to share our valuable experience in developing oil industry with Sudan. We do believe that through mutual cooperation in petroleum sector, Sudan will set up its own petroleum industry system. Based on the concept as mentioned above, our cooperation should not be limited to upstream but also in oil transportation and downstream. We believe that through our joint efforts, the petroleum production in Sudan will not only meet our domestic requirements by also be exported, and the petroleum industry will play very important role in the Sudan's national economic development.

On the basis of a preliminary evaluation of Block 1,2,4 and the relative pipeline project, our proposal responding to your fax dated on Oct 22, 1996 is as follows:

1. Total fund required

According to our evaluation on the limited data available, the investment for the whole project will require 1-1.3 billion US Dollars. The production capacity can be reached up to 150,000 bbl/d. The economic evaluation shows that the critical issue to the success of the project is cost control. The most important thing is how to keep the investment to a reasonable level. CNPC is very competitive in maintaining the low operation cost. Comparing to the western companies, we keep much lower cost

level in personnel, services and materials which will reduce the whole costs of the project tremendously.

CNPC has annual sales income of 16 billion US Dollars and has net profit of 2 billion US Dollars. It suggests that CNPC has enough financial capability to undertake the whole investment of the project.

The geological conditions in Block 1,2,4 is much similar to the most oil fields which we have developed in eastern China. CNPC is one of the major oil company that has plenty of experiences in exploiting such kind of continental facies oilfields, and CNPC also has mastered the world class technology in exploring and developing such fault-blocking oilfields, which include but not limited to as follows:

^a Seismic Technology

- 3D. seismic data acquisition, processing, and interpretation technique;
- High resolution seismic exploration technique;
- Vertical seismic profile (VSP) technique;
- Lateral stratigraphic prediction technique;
- Wireline logging technology
 - Formation dipmeter logging technique, used not only in structural research but also in sedimentology research;
 - Repeat Formation Test technique;
 - CSU computerized logging technique;
 - Under balance perforation technique.

^a Well testing technology

- Formation testing technique (MFE):
- Large scale acidizing, fracturing technique.

^a Drilling technology

- Directional well, cluster well drilling technique,
- Sidetracking drilling technique;
- Drilling mud processing technique for high pressure formation;
- Cementing technique for high pressure zone.

^a Production Technology

- High pressure water injection technique;

- Gas lifting technique;
- Swabbing technique;
- Water locating and plugging technique.

On the pipeline construction, CNPC has built up totally 150,000km pipeline in China. The longest one is 1300km. The pipeline system in which the SCADA technology has been used is distributed over the most part of China. The crude oil transported by those pipelines have the similar characteristic with the oil found in Muglad basin. We have accumulated tremendous amount of experiences in pipeline construction and management.

2. Level and commitment of participation

CNPC has enough technical and financial abilities to take 100% share of working interest of the project. We realized, however, that, the State company had already invested in this project, so CNPC may take 50-90% share. The reasonable share of CNPC will be determined by Sudan government. We do believe it is very important for CNPC involving in this project as an operator or playing a leading role in the consortium. Only in this way, the whole cost of the project can be controlled to a lowest level.

CNPC accepts that the consortium consists of several companies. But according to the international practice, if the consortium includes too many companies, the effectiveness of the operation will undoubtedly be adversely affected. Notwithstanding, CNPC believes it is necessary that Sudan National Petroleum Company involve in this project. That will assist to build up Sudanese petroleum industry. Most importantly, many Sudanese will be trained through working side by side with CNPC experts during the operation.

3. The time schedule for the implementation of the whole project (oil at the export terminal).

According to our study we believe that the most economic way is to divide the project into the following phases.

1). We will build about 400 km pipeline from Heglig to Al Obayyid within 1-1.5 years. When the pipeline completion the produced crude will be transported by the pipeline from the fields to Al Obayyid refinery. This will greatly increase the beneficial result of the refinery and will meet the basic requirement for the petroleum products in southern part of Sudan.

2). We will build the pipeline from Al Obayyid to Khartoum which will take 1.5-2 years. Our intention is that when the pipeline is completed the refinery in Khartoum will be put into production. That means a refinery with the capacity of 2.5 million tons per year will be built in Khartoum from 1997. If that is successful it will meet the needs of domestic market for petroleum products. Therefore, it is unnecessary for the Sudan government to spend a great amount of money each year to import crude oil. Meanwhile, it will bring along the development of relative industries in Sudan. In order to do so, CNPC also desire to cooperate with Sudan in refinery construction in Khartoum.

3). We will build the pipeline from Khartoum to Port Sudan as well as the terminal facilities in 2 years. That will be able to export 3-4 million tons of crude oil per year. Before the pipeline having been completed, part of crude oil can be transported to Port Sudan by train for exporting. On the other hand, China can provide the market for the exported crude oil.

4). At the same time, more exploration and development can be carried out in Muglad Basin to discover and exploit more petroleum resources. Taking this measure, it assure that the crude oil exported will be increased continually. Sudan will become an important oil producing country in the Africa.

4. Amendments of the PSA

CNPC accepts the basic provisions of the PSA signed between the Sudan Government and State company. If CNPC is allowed to act as operator, we also accept more favorable terms for the Government. For instance, we shall pay more signature bonus and to undertake more minimum obligation works for the first phase.

C N P C

A) PROPOSAL

A-1 SCOPE	Exp. Dev. Pipeline Refinery
A-2 COST TOTAL	1000-1300 MMUSD ⁽¹⁾
A-3 COST: Pipeline	700-800 MMUSD
A-1 COST: Exploration	50 MMUSD
A-5 COST: Dev.	250-450 MMUSD
A-6 COST: Others (Refinery)	500 MMUSD
A-7 Sched.: OAT	Mar., 2000
A-8 BEGIN PIPELINE	3 Months After New PSA Signed
A-9 OTHERS	

B) PARTICIPATION

B-1 BASIC SHARING	50%
B-2 ALT. SHARING	85%
B-3 GOVERNMENT PART	5% (Carried interest)
B-4 PARTIES ACCEPT	See Attach. 2

C) PSA

C-1 WORK PROG.	
C-2 TERM EXPLORATION	16 Wells – 4000km(2D) ⁽³⁾
C-3 TERM DEVELOPMENT	30 Wells – 150km (3D)
C-4 RELINQUISHMENT	As Original PSA
C-5 SHARING DEVELOPMENT	
* COST OIL	As Original PSA
*EXCESS COST OIL	As Original PSA
*PROFIT OIL	As Original PSA
C-6 SHARING EXPLORATION	
*COST OIL	As Original PSA
*EXCESS COST OIL	As Original PSA

*PROFIT OIL	As Original PSA
C-7 AMORTIZATION	
*OPERATION	As Original PSA 100%/year
*EXPLORATION	As Original PSA 25%/year
*DEVELOPMENT	As Original PSA 25%/year
D) BONUSES	
D-1 SIGN	Original PSA Plus 5MMUSD
D-2 PROD	5MM USD (Commercial Prad.), 10 MM USD (> 50,000b/d), 10 MM USD (> 75,000b/d)
D-3 OPERATOR	As Original PSA
D-4 OTHERS	As Original PSA
E-) OTHER PSA CHANGES	
E-1 TECHNICAL COMMITTEE	Yes
E-2 LEGAL CHANGES	Consortium Replace State Petro. Co.
E-3 STATE PSA	Basis
F) PIPELINE	
F-1 SIZE/CAPACITY	20"-24" / 150,000 b/d
F-2 OWNERSHIP	Consortium, Government
F-3 DURATION	15 Years ⁽⁴⁾
F-4 AMORTIZATION	8 Years
F-5 IRR	15%
F-6 TAK HOLIDAY	10 Years
F-7 TARIFF	3.36-5\$ /b ⁽⁵⁾
F-8 GOV. OIL TARIFF	Pay by Consortium
G) INTRIM PERIOD	
G-1 WORK CONT.	Yes
G-2 EXPENDITURE	Consortium
G-3 SCHEDULE	
* MOU	Immediately
*ASSUME FINANCE	Dec. 1996
*SIGN AGREEMENT	Feb. 1997
*MAINTAIN COMMIT	Yes
*FINAL TAKEOVER	Mar. 1 st , 1997
H) STATE DUES	
H-1 EXPENT. AUDITED	Yes
H-2 EXPENT. (UNAUDITED)	Government with Consortium
H-3 EXP. NOT RECOVER	Consortium
H-4 COMPENSATION	To be discussed with State Petro. Co.

GRAPH

Attach. 1

CNPC OPERATION PROGRAM

Exploration

Seismic

Filling

Development

Seismic

Filling

Pipeline

Obeyyid

Khartoum OAT By Railway Mar., 1999

Port Sudan OAT By Pipeline Mar., 2000

Refinery

Notes:

(1). If CNPC is the operator, the total investment will be 1.0-1.1 billion USD. If consortium is the operator, the total investment will be 1.2-1.3 billion USD.

(2). When exported crude oil less than 40,000 b/d the oil will be transported to Port Sudan by railway.

(3). The first exploration phase should be extended to another two (2) years based on original PSA.

(4). If the IRR to consortium is not reached to 15% within 15 years, the duration will be extended to the time when the IRR reach to 15%.

(5). Tariff will be depend on the quantity of crude oil transported through the pipeline.

ANNEX 7 WORK PROGRAM FOR THE INTERIM PERIOD

During the interim period, the Parties agree to conduct the following Work Program:

1. Establish Technical Committees as contemplated in this agreement to work with State Petroleum in State's Calgary office to:
 - a. Plan and coordinate the details of the upstream work program, including the exploration, delineation and development drilling programs, and
 - b. Coordinate the exchange of information between the Parties to reach agreement on the final design of the pipeline and associated facilities for the Pipeline Company.
2. Continue State Petroleum's plans to conduct a Gravity Acquisition Program to complement the Seismic acquisition program.
3. Conduct an aggressive seismic acquisition program with 2 to 3 seismic crews to meet the requirements of the PSA and to acquire data in support of the ongoing and planned drilling program.
4. Continue with the Well Service rig for completion work and testing to support the drilling program, and to gather information to support the pipeline final design efforts and the development programs to be planned for the coming wet season. The service rig will also be used to support the production operation through the Early Production System for delivery of oil to the Government.
5. Continue drilling in accordance with Proposal with four oil well drilling rigs to maximize the number of exploration and delineation wells that can be drilled during the coming dry season. The Parties will agree on the locations to be drilled and their order. The drilling program will include delineation of two discoveries.
6. Continue to produce oil from the Heglig oil field through the Early Production System and deliver to the Government as they have the capacity to accept.
7. Continue to transport and install the Fuel Oil refinery required to guarantee a continuous supply of diesel oil to the field operations to avoid delays due to diesel fuel transport problems.
8. Continue with the planning required to allow operations to continue uninterrupted and efficiently after the Interim period, including replenishment of supplies and material inventories. This will include the construction effort required to support planned development and delineation activities during the coming wet season.
9. Continue to maintain the offices, communication systems, and all other services and facilities normally required to properly maintain and support this Work Program.
10. Continue and maintain the normal contracts for supplies and services entered into by State to support the ongoing Work Program during the Interim Period and in accordance with the PSA.

11. The Parties agreed in principle to mobilize CNPC's rig, now at Muglad, to the Contract Area. The mobilization shall start within two weeks of the Effective Date subject to normal inspection and successful contract negotiations.

12. A detailed work program during the Interim Period shall be submitted to the Government for approval within four weeks of the Effective Date.

ANNEX 8 CASH CALL PROCEDURE

If STATE so requests, the other Foreign Parties shall advance their share of estimated cash requirements for the operating month concerned. Not later than the 5th of the operating month concerned, STATE shall make a written request to the other Foreign Parties and will also give a tentative estimate for the next month cash requirements.

The due date for such cash calls shall be set by STATE, but shall be at least twenty (20) days after receipt of such cash calls. The request shall set out the funds in US Dollars.

Cash calls submitted by STATE shall be so detailed or contain such explanations as to permit reference of each item therein to the appropriate item in the WORK.

If an other Foreign Party's advance exceeds its share of cash expenditures the next succeeding cash call, after such determination shall be adjusted accordingly. If after such adjustment, an other Foreign Party's share proves to be less than its cash advance, STATE shall refund such excess funds within fifteen (15) days upon other Foreign Party's request and at the other Party's cost provided that the amount is in excess of one hundred thousand US Dollars (US \$100,000). If STATE does not request cash advances from an other Foreign Party or if an other Foreign Party's advance is less than its share of cash expenditures, the deficiency shall at STATE's option be added to subsequent cash advance requirements or be paid by the other Foreign Party within fifteen (15) days following the receipt of STATE's statement to the other Foreign Party for such deficiency.

All payments by other Foreign Parties shall be made a place designated by STATE and STATE shall provide the names and addresses of such banking institutions where funds are to be credited to STATE's account as well as STATE's account number.

ANNEX 9
PROPOSED SCHEDULE TO FINALIZE DOCUMENTS:

Date	Time	Action
Monday 2/12/96	21:30	Sign Interim Agreement
Monday 9/12/96		Circulation Of (1) Amended PSA (2) Pipeline Agreement (3) Right Of Way Agreement (4) Transportation Agreement (5) Joint Operating Agreement (6) Joint Pipeline Co. Agreement
20/12/96		Interaction /comments.
10/01/97		First counter-interactions/replies.
15/01/97		First Meeting to discuss business issues. Location to be agreed upon between the parties.
22/01/97		Second counter-interaction / replies.
29/01/97		Meet in Khartoum for Discussions leading to signature.
17/02/97		SIGN
22/02/97		(1) Amended PSA (2) Pipeline Agreement (3) Right Of Way Agreement (4) Transportation Agreement (5) Joint Operating Agreement (6) Joint Pipeline Co. Agreement