

CONFORMED COPY

LOAN NUMBER 2969-0 PH

(Bacon-Manito Geothermal Power Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

PHILIPPINE NATIONAL OIL COMPANY

Dated September 1, 1988

LOAN NUMBER 2969-0 PH

PNOC LOAN AGREEMENT

AGREEMENT, dated September 1, 1988 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and PHILIPPINE NATIONAL OIL COMPANY (the Borrower).

WHEREAS (A) Republic of the Philippines (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing Part (A) of the Project;

(B) Part (A) of the Project will be carried out by PNOC Energy Development Corporation (PNOC-EDC), a subsidiary of Philippine National Oil Company (PNOC), with the Borrower's assistance and, as part of such assistance, the Borrower will make available to PNOC-EDC proceeds of the Loan as provided in this Agreement;

(C) Parts (B) and (C) of the Project will be carried out by

National Power Corporation (NPC), with the assistance of the Bank and, as part of such assistance, the Bank has agreed to make a loan (the NPC Loan) under a Loan Agreement of even date herewith between the Bank and NPC (NPC Loan Agreement) under the terms and conditions therein set forth;

(D) the Guarantor intends to contract from the Republic of Italy (Italy) a loan (the Italian Loan) in an amount equivalent to \$60,000,000 to assist in financing of Part (B) of the Project on the terms and conditions set forth in an agreement (the Italian Loan Agreement) to be entered into between the Guarantor and Italy;

(E) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the respective Borrowers in respect of the Loans and to undertake such other obligations as set forth in the Guarantee Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "PNOC-EDC Project Agreement" means the agreement between the Bank and PNOC-EDC of even date herewith, as the same may be amended from time to time, and such terms includes all schedules and agreements supplemental to the PNOC-EDC Project Agreement;

(c) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and PNOC-EDC pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such terms includes all schedules to the Subsidiary Loan Agreement;

(d) "NPC" means the National Power Corporation a state-owned company duly established and operating under the laws of the Republic of the Philippines;

(e) "PNOC" means the Philippine National Oil Company a state-owned company duly established and operating under the laws of the Republic of the Philippines;

(f) "PNOC-EDC" means PNOC Energy Development Corporation a subsidiary of PNOC; and

(g) "PIC" means the Project Implementation Committee established by an agreement among NPC and PNOC and confirmed by the Republic of the Philippines, dated May 27, 1988.

#### ARTICLE II

## The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to forty-one million dollars (\$41,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for Part A of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of Part (A) of the Project, open and maintain in dollars a special account in a bank, and on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1993 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ( $\frac{3}{4}$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Guarantor and the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on February 1 and August 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

## ARTICLE III

### Execution of Part (A) of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause PNOC-EDC to perform in accordance with the provisions of the

PNOC-EDC Project Agreement all the obligations of PNOC-EDC therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable PNOC-EDC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend the proceeds of the Loan to PNOC-EDC under a subsidiary loan agreement to be entered into between the Borrower and PNOC-EDC, under terms and conditions which shall have been approved by the Bank.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Part (A) of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the PNOC-EDC Project Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Section 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect to Part (A) of the Project shall be carried out by PNOC-EDC pursuant to Section 2.03 of the PNOC-EDC Project Agreement.

#### ARTICLE IV

##### Management and Operations of the Borrower

Section 4.01. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, engineering, financial and industry practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. The Borrower shall at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and industry practices.

Section 4.03. The Borrower shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

#### ARTICLE V

##### Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Borrower shall:

- (i) have its records corporate and consolidated accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 5.02. The Borrower shall take all measures required on its part to increase PNOC-EDC's share capital, inter-company loans and other means for raising funds to enable PNOC-EDC to carry out its obligations pursuant to Sections 4.02, 4.03 and 4.04 of the PNOC-EDC Project Agreement.

Section 5.03. The Borrower shall, or shall cause PNOC-EDC to, take all action which may be required on its part to ensure the timely conclusion of a soundly based agreement between PNOC-EDC and NPC for the supply of steam needed for the Project.

## ARTICLE VI

### Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) The Guarantor or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of PNOC, or for the suspension of all or part of the operations of PNOC.

(b) PNOC shall have been unable to pay its debts as they mature or any action or proceeding shall have been taken whereby any of its properties shall or may be distributed among its creditors.

(c) PNOC-EDC shall have failed to perform any of its obligations under the PNOC-EDC Project Agreement.

(d) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that PNOC-EDC will be able to perform its obligations under the PNOC-EDC Project Agreement.

(e) Presidential Decree No. 334 as amended shall have been amended, suspended, abrogated, repealed or waived, so as to affect materially and adversely the ability of PNOC-EDC to perform any of its obligations under the PNOC-EDC Project Agreement.

(f) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution and disestablishment of PNOC-EDC or for the suspension of its operations.

(g) The Italian Loan Agreement shall have failed to become effective by December 31, 1988, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if NPC establishes to the satisfaction of the Bank that adequate funds for Part (B) of the Project are available to NPC from other sources on terms and conditions consistent with the obligations of NPC under the NPC Loan Agreement.

(h) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Guarantor to withdraw the proceeds of any loan made to the Guarantor for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Guarantor to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (c) of Section 6.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower;

(b) any of the events specified in paragraphs (a), (b), (e) and (f) of Section 6.01 of this Agreement shall occur; and

(c) the event specified in paragraph (h) (i) (B) of Section 6.01 of this Agreement shall occur, subject to the proviso of paragraph (h) (ii) of that Section.

#### ARTICLE VII

##### Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and PNOC-EDC;

(b) the contract for the sale of steam specified in Section 5.03 of this Agreement has been executed in accordance with terms satisfactory to the Bank; and

(c) all conditions precedent to the effectiveness of the NPC Loan Agreement between the Bank and NPC of even date herewith (other than those related to the effectiveness of this Agreement) have been fulfilled.

Section 7.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the PNOC-EDC Project Agreement has been duly authorized or ratified by PNOC-EDC, and is legally binding upon PNOC-EDC in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and PNOC-EDC and is legally binding upon the Borrower and PNOC-EDC in accordance with its terms.

Section 7.03. The date (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VIII

##### Representative of the Borrower; Addresses

Section 8.01. The President of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

For the Borrower:

Philippine National Oil Company  
7901 Makati Avenue  
Makati, Metro Manila  
Philippines

Cable address:

PNOC  
Makati  
Manila, Philippines

Telex:

22259

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ A. Karaosmanoglu  
Regional Vice President  
Asia

PHILIPPINE NATIONAL OIL COMPANY

By /s/ Emmanuel Pelaez  
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Equipment and materials includ- ing installation	32,200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local ex- penditures for other items pro- cured locally
(2) Technical assistance	4,000,000	100%
(3) Fuel	800,000	50%
(4) Unallocated	4,000,000	
TOTAL	<u>41,000,000</u>	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$1,000,000, may be made on account of payments made for expenditures before that date but after March 31, 1988.



## SCHEDULE 2

### Description of the Project

The objectives of the Project are to:

- (a) support the delineation and assessment of geothermal resources for use in Luzon;
- (b) develop an existing geothermal steam field at Bacon-Manito I and the Associated power plant;
- (c) support measures for upgrading and expanding NPC's system facilities; and
- (d) support institution-building and financial recovery efforts of NPC and PNOC-EDC.

The Project consists of the following parts, subject to such modifications thereof as the Bank and the Borrower may agree upon from time to time, to achieve such objectives:

#### Part A: Geothermal Steam Exploitation and Distribution

- (1) Development of the Bacon-Manito I geothermal field including drilling of additional production and injection wells, and engineering, procurement, installation and commissioning of the steam-gathering system.
- (2) Delineation/appraisal of geothermal sites for power supply to the Luzon grid. This includes drilling of about 18 wells to an average depth of 2,800 meters, and studies for assessing the extent of geothermal resources and the feasibility of their development.

#### Part B: Power Plant and Associated Transmission System

- (1) Construction of the 2 X 55 MW Bacon Manito geothermal power plant including turbine generators, auxiliary equipment, steam condensing and gas extraction systems, cooling towers and the 230 kV transformers.
- (2) Construction of about 32 km of double circuit 230 kV transmission line for evacuating power from the generating station and the 230 kV terminal equipment at the generating station at the Daraga switchyard.

#### Part C: Upgrading and Expansion of NPC's System Facilities

- (1) Expansion of substations, including Bantay, Balintawak, San Jose, San Esteban, Laoag, Olongapo, Dasmariñas and Binan, construction of lines including, about 21 km of 230 kV double circuit Balintawak-San Jose and about 121 km of 115 kV single circuit San Esteban-Laoag transmission lines and rehabilitation of substation transformers and switchgear in the Luzon grid; expansions of substations including Lugait, General Santos and Davao in the Mindanao grid; and expansions of substations including Tunga, Santa Barbara, Panitan, Medellin and Bacolod substations in the Visayas grid.
- (2) Extension of communication link to Mindanao and Visayas and expanding telecommunication facilities of the Luzon grid 1 load dispatch system; installation of computer hardware and software for enhancing NPC's Management Information System

(MIS); and procurement of mobile environmental monitoring units for NPC's environmental division.

- (3) Rehabilitation of instrumentation and controls for the 50 MW coal/oil-fired unit at the Naga thermal power station.
- (4) The carrying out of consultancy studies for:
  - (i) establishing the feasibility of transmitting power from Leyte to Luzon;
  - (ii) Tongonan geothermal power plants study and development;
  - (iii) establishing the feasibility of transmission interconnections to the islands of Masbate, Mindoro, Marinduque, Romblon, Catanduanes and Basilan;
  - (iv) developing cost estimating techniques for Power System components, and a Computerised Data Base;
  - (v) developing norms for cost of power supply outages; and
  - (vi) establishing feasibility of the latest techniques in the construction of hydro-electric dams.

\* \* \*

The Project is expected to be completed by June 30, 1993.

### SCHEDULE 3

#### Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
February 1, 1994	750,000
August 1, 1994	775,000
February 1, 1995	805,000
August 1, 1995	840,000
February 1, 1996	870,000
August 1, 1996	905,000
February 1, 1997	940,000
August 1, 1997	975,000
February 1, 1998	1,015,000
August 1, 1998	1,050,000
February 1, 1999	1,095,000
August 1, 1999	1,135,000
February 1, 2000	1,180,000
August 1, 2000	1,225,000
February 1, 2001	1,270,000
August 1, 2001	1,320,000
February 1, 2002	1,370,000
August 1, 2002	1,425,000
February 1, 2003	1,480,000
August 1, 2003	1,535,000
February 1, 2004	1,595,000
August 1, 2004	1,660,000
February 1, 2005	1,720,000
August 1, 2005	1,790,000
February 1, 2006	1,855,000
August 1, 2006	1,930,000
February 1, 2007	2,005,000
August 1, 2007	2,080,000
February 1, 2008	2,160,000
August 1, 2008	2,245,000

\* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for Part A of the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to US\$2 million to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the

Special Account may be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for Part A of the Project, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to Part A of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories for Part A of the Project shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the

amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank and with the Bank's consent, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for cancellation or subsequent withdrawal as the Bank may determine.

