



COMMONWEALTH OF THE BAHAMAS
NEW PROVIDENCE

I, GEORGE P. STEWART, Under Secretary of the
Ministry of Foreign Affairs, Commonwealth of The Bahamas,
DO HEREBY CERTIFY that the signature of MARY T. SWEETNAM
affixed to the documents attached is the proper handwriting
of MARY T. SWEETNAM who on the day of the date thereof was
Permanent Secretary in the Attorney General's Office.

DATED this 21st day of Jan. A.D. 1986

George P. Stewart
UNDER SECRETARY
MINISTRY OF FOREIGN AFFAIRS

VICE-CONSULADO DO BRASIL

Reconheço verdadeira a assinatura de George P. Stewart Sub. Sec.
secretário do Ministério dos Negócios Exteriores das
Bahamas

que confere com o original a fls. ----- do Livro no -----
O presente documento, que assino e faço selar com o Selo de Armas
deste Vice-Consulado, é válido no Brasil independentemente de qual
quer autenticação ulterior.

Pagou Cr\$ 6,00 ouro
ou
US\$ 6,00 Tab. 54C

Nassau, 21 de Jan de 1986

Raul De Smandeck
Vice-Consul



THE COMMONWEALTH OF THE BAHAMAS

THE NOTARIES PUBLIC ACT, 1971
(No. 9 of 1971)

I, Mary Thelma Sweetnam, Permanent Secretary in the Attorney General's Office; being for the purposes of section 7 of The Notaries Public Act, 1971, the keeper of the roll of notaries public licensed to practise in the Commonwealth of The Bahamas DO HEREBY CERTIFY THAT EARL AUGUSTINE CASH

whose name is subscribed to the annexed instrument, was at the time of subscribing his name to the said instrument a Notary Public for the said Commonwealth of The Bahamas duly licensed and enrolled as such; that his autograph signature has been filed in my office; that as such Notary Public he has been duly authorised by law to administer oaths and affirmations, to receive and certify the acknowledgement or proof of deeds, mortgages, powers of attorney and other written instruments for lands, tenements and hereditaments to be read in evidence or recorded in the said Commonwealth of The Bahamas, to protest notes and to take and certify affidavits and depositions; and that I have compared the signature on the annexed instrument with his autograph deposited in my office and they appear to be the same.

IN WITNESS WHEREOF I have hereunto

set my hand and affixed my seal, this

20th day of January 1986

Mary T. Sweetnam

Keeper of the Roll of Notaries Public

CREDIT AGREEMENT

**APPROXIMATELY US\$15,000,000
(EQUIVALENT)**

**COMPANHIA DE DESENVOLVIMENTO DO
ESTADO DE MATO GROSSO - CODEMAT**

MEDIUM TERM LOAN

Guaranteed by

THE FEDERATIVE REPUBLIC OF BRAZIL

THE ROYAL BANK OF CANADA

**CANADIAN IMPERIAL BANK OF COMMERCE
TRUST COMPANY (BAHAMAS) LIMITED**

LIBRA BANK PLC.

**THE ROYAL BANK OF CANADA
(as Agent)**

JANUARY 1986

CONTENTS

CLAUSE

PAGE

1.	DEFINITIONS.....	1
2.	LOANS AND PURPOSE.....	8
3.	DRAWDOWN.....	9
4.	REPAYMENT AND NOTES.....	10
5.	PREPAYMENTS.....	12
6.	INTEREST.....	13
7.	PAYMENTS.....	16
8.	CURRENCY INDEMNITY.....	18
9.	INCREASED COSTS AND ILLEGALITY.....	19
10.	CONDITIONS PRECEDENT.....	22
11.	UNDERTAKINGS.....	23
12.	REPRESENTATIONS AND WARRANTIES.....	27
13.	EVENTS OF DEFAULT.....	30
14.	INDEMNITIES.....	35
15.	FEES, EXPENSES AND STAMP TAXES.....	36
16.	WAIVERS, REMEDIES CUMULATIVE.....	37
17.	CONTROL ACCOUNTS.....	37
18.	THE AGENT AND THE BANKS.....	37
19.	NOTICES.....	41
20.	ASSIGNMENTS.....	42
21.	LAW AND JURISDICTION.....	43
22.	REDISTRIBUTION OF PAYMENTS.....	44
23.	MISCELLANEOUS.....	45

SCHEDULE A - PART I - NOTICE OF BORROWING
 PART II - GUARANTOR'S CERTIFICATE
 PART III - NOTICE OF INTENDED DISBURSEMENT
 PART IV - NOTICE TO DISBURSE

SCHEDULE B - CONDITIONS PRECEDENT

SCHEDULE C - PART I - U.S. DOLLAR PROMISSORY NOTES FOR PRIME LOAN
 PART II - CANADIAN DOLLAR PROMISSORY NOTES FOR CANADIAN
 PRIME LOAN

SCHEDULE D - THE GUARANTEE

SCHEDULE E - EXCEPTION TO CLAUSE 12(J)

COMMITMENT SCHEDULE

SIGNATORIES / LENDING OFFICE / ADDRESSES

* * * * *

THIS CREDIT AGREEMENT is dated as of the 20th day of January, 1986 *pm*

BETWEEN:

- (1) COMPANHIA DE DESENVOLVIMENTO DO ESTADO DE MATO GROSSO - CODEMAT ("the Borrower");
- (2) THE ROYAL BANK OF CANADA, a Canadian chartered bank, through its Lending Office ("RBC");
- (3) CANADIAN IMPERIAL BANK OF COMMERCE TRUST COMPANY (BAHAMAS) LIMITED, a company incorporated under the laws of the Commonwealth of The Bahamas, through its Lending Office ("CIBC");
- (4) LIBRA BANK PLC, a public limited company under the laws of England, through its Lending Office ("LIBRA"); and
- (5) THE ROYAL BANK OF CANADA, acting through its Foreign Banking Centre, Nassau, Bahamas, as agent for the Banks (in this capacity the "Agent").

WHEREAS:

The Banks have agreed on the terms and conditions contained in this Agreement to make loans to the Borrower aggregating Ten Million Dollars (\$10,000,000), and the Canadian Dollar Equivalent amount of Five Million Dollars (\$5,000,000) but such latter amount not to exceed Seven Million Canadian Dollars (Cdn\$7,000,000), as per the Commitment Schedule preceding the execution pages of this Agreement, under the guarantee of The Federative Republic of Brazil.

NOW IT IS HEREBY AGREED as follows

1. Definitions

(1) In this Agreement:-

"Adjusted Canadian Deposit Rate" means on any day the aggregate of:-

- (A) the 90 day posted deposit rate for deposits in excess of Cdn\$100,000 as quoted by the Canadian Prime Reference Bank on such day;
- (B) the cost (expressed as a percentage rate per annum) as on such day as conclusively determined by the Canadian Prime Reference Bank, of reserves required to be maintained in respect of deposits having a ninety day maturity under Canadian regulations (assuming for this purpose that the said deposits all give rise to a requirement to maintain the said reserves); and

- (C) the cost as on such day (expressed as a percentage rate per annum) of insurance premiums payable in respect of such deposits.

"Avaless" means the endorsements "por aval" on the Notes by the Guarantor, referred to in Clause 4(2) of this Agreement and in Clause 3(c) of the Guarantee.

"Banco Central" means Banco Central do Brasil or any successor entity carrying on substantially the same functions and duties.

"Bank" means:-

- (A) when designated "Canadian Prime", the lender against whose name in the Commitment Schedule preceding the execution pages of this Agreement there appears an amount in the column headed "Canadian Prime Commitment", in its capacity as lender of the Canadian Prime Loan;
- (B) when designated "Prime", one of the lenders against whose name in the Commitment Schedule preceding the execution pages of this Agreement there appears an amount in the column headed "Prime Commitment", in its capacity as a lender of a participation in the Prime Loan (collectively the "Prime Banks");

and "Banks" without any such designation means the Canadian Prime Bank and the Prime Banks.

"Brazil" means The Federative Republic of Brazil and any state or political sub-division thereof and "Brazilian" shall be construed accordingly.

"Business Day" means a day on which banks and financial institutions are open for business in Toronto (Canada), Nassau (Bahamas), London (England) and New York, (N.Y. U.S.A.), and "Brasilia Business Day" means a day on which banks (including Banco Central) and financial institutions are open for business in Brasilia, Brazil.

"Canadian Dollars" and "Cdn\$" means the lawful currency for the time being of Canada.

"Canadian Dollar Equivalent" means, in relation to the Canadian Prime Commitment, the equivalent thereof in Canadian Dollars at the rate determined by Banco Central on the basis of the market rates used by it for its bulletin of exchange rates ("abertura") two (2) Brasilia Business Days prior to the Drawdown Date.

"Canadian Prime Rate" means the annual rate of interest announced by The Royal Bank of Canada ("the Canadian Prime Reference Bank") from time to time at its principal office in Toronto as its reference rate then in effect for determining interest rates on Canadian Dollar commercial loans in Canada, the Canadian Prime Rate to change when and as such reference rate changes.

"Commitment" means, in relation to CIBC, the Canadian Dollar Equivalent of the Dollar amount set opposite its name in the column headed "Canadian Prime Commitment" in the Commitment Schedule preceding the execution pages of this Agreement but such amount not to exceed Seven Million Canadian Dollars (Cdn\$7,000,000), and in relation to each of RBC and LIBRA, the Dollar amount set opposite its name in the column headed "Prime Commitment" in the Commitment Schedule preceding the execution pages of this Agreement, as the same may be reduced under this Agreement; the Canadian Prime Commitment and the Prime Commitment are collectively referred to as the "Total Commitments".

"Commitment Period" means the period from the date hereof until the Term Date (both dates inclusive).

"Cruzeiros" means the lawful currency for the time being of Brazil.

"Default" means any Event of Default and any event or circumstance which, with giving of notice, lapse of time or both or other applicable conditions, would be an Event of Default.

"Dollar Equivalent" means the amount of Dollars that could be purchased with the relevant amount of Canadian Dollars at the spot rate at which Dollars are offered by the Agent against delivery of such Canadian Dollars at or about 11:00 a.m. (New York time) on the day in question.

"Dollars" and "\$" means the lawful currency for the time being of the United States of America.

"Drawdown Date" means the date on which the Loans are drawn down being the date thereof specified by the Borrower in the Notice of Borrowing and which date must be a Business Day and a Brasilia Business Day.

"Encumbrances" includes any mortgage, pledge, lien, charge, assignment, hypothecation, security interest, title retention and any other security agreement or arrangements.

01 "Event of Default" means any of the events specified in
02 Clause 13.

03
04 "External Indebtedness" means Indebtedness which is
05 payable, or may be payable, as contractually agreed and
06 registered as such by Banco Central, in any currency
07 other than Cruzeiros.

08
09 "Guarantee" means the guarantee to be issued by the
10 Guarantor in the form of Schedule D and "Guarantor"
11 means The Federative Republic of Brazil.

12
13 "Indebtedness" means indebtedness of any person (i) in
14 respect of monies borrowed or raised or the advance or
15 extension of credit (including interest and other
16 charges on or in respect thereof) and/or (ii) under
17 guarantees, avals, indemnities and other forms of
18 assurance against financial loss and/or (iii) in
19 respect of the purchase price of property or services
20 payable on deferred terms.

21
22 "Interest Date" means 15th January, 15th April, 15th
23 July or 15th October in each year (commencing on
24 April 15, 1986) or if any such day is not a Business
25 Day, the next succeeding Business Day.

26
27 "Lending Office" in relation to a Bank means the office
28 of such Bank which appears against its name at the end
29 of this Agreement and/or any other office notified by
30 such Bank to the Agent in accordance with Clause 20(4)
31 as the office through which it will make available
32 and/or maintain its participation in the Loans.

33
34 "Loan" means:-

35
36 (A) when designated "Canadian Prime", the principal
37 amount of the borrowing by the Borrower from the
38 Canadian Prime Bank hereunder or (as the context
39 requires) the principal amount thereof from time
40 to time outstanding to the Canadian Prime Bank;

41
42 (B) when designated "Prime", the principal amount of
43 the borrowing by the Borrower from the Prime Banks
44 hereunder or (as the context requires) the
45 principal amount thereof from time to time
46 outstanding to the Prime Banks;

47
48 (C) without any such designation, the Canadian Prime
49 Loan or the Prime Loan (as the context requires),

50
51 and "Loans" without any such designation means the
52 Canadian Prime Loan and the Prime Loan.

01 "Majority Banks" means Banks to whom more than
02 sixty-six and two-thirds per cent. (66-2/3%) in
03 aggregate of the Loans are, at the relevant time, owing
04 or in the event that no Loans are then outstanding
05 hereunder, Banks whose Commitments then aggregate more
06 than sixty-six and two-thirds per cent. (66-2/3%) of
07 the Total Commitments. For the purposes of this
08 definition the principal amount of the Canadian Prime
09 Loan or (as the case may be) the Canadian Prime
10 Commitment shall during the calendar year 1986 be the
11 Canadian Dollar Equivalent of such principal amounts on
12 the date of signing hereof and after 1986 the Canadian
13 Dollar Equivalent of such principal amounts on the
14 first Business Day of the calendar year in which the
15 relevant determination is being made.

16
17 "Margin" means:-

18
19 (A) when designated "Canadian Prime" or "Prime", one
20 and three-quarters of one per cent. (1-3/4%) per
21 annum; and

22
23 (B) without any such designation, the Canadian Prime
24 Margin or the Prime Margin (as the context
25 requires).

26
27 "Market Rate" means, with respect to any day, the rate
28 (expressed as an annual rate and rounded upward, if
29 necessary to the nearest one-sixteenth of one percent
30 (1/16%)) which is obtained by adjusting the latest
31 three-week moving average of secondary market morning
32 offering rates in the United States for three-month
33 certificates of deposit of major United States Money
34 Market Banks (the "CD Rate"), as determined weekly by
35 the Prime Reference Bank on the basis of rates reported
36 by certificate of deposit dealers to and published by
37 The Federal Reserve Bank of New York or, if such
38 publication is suspended or terminated, on the basis of
39 quotations obtained by the Prime Reference Bank from
40 three New York certificate of deposit dealers of
41 recognized standing selected by the Prime Reference
42 Bank, in accordance with the following formula:

43
44
$$\text{Market Rate} = \frac{\text{CD Rate} + \text{AR}}{1.00 - \text{DRP}}$$

45
46
47 Where:

48
49 AR = the average during such three-week period of the
50 daily net annual assessment rates estimated by the
51 Prime Reference Bank for determining the current annual
52 assessment payable by an insured bank to the Federal
53 Deposit Insurance Corporation for insuring three-month
54 time deposits, and

01 DRP = the average of the daily percentages specified
02 during such three-week period by the board of governors
03 of The Federal Reserve System for determining the
04 maximum reserve requirement (including, without
05 limitation, any basic, supplemental, emergency or
06 marginal reserve requirement) for the Prime Reference
07 Bank in respect of liabilities consisting of or
08 including (among other liabilities) three-month Dollar
09 non-personal time deposits in the United States of at
10 least \$100,000 expressed as a decimal and carried to
11 four decimal places.
12

13 "New York Funds" means same day value Dollar funds
14 settled in New York (or in such other manner of payment
15 in Dollars as the Agent shall specify as being
16 customary at the time for the settlement of
17 international transactions of the type contemplated by
18 this Agreement).
19

20 "Notes" means the promissory notes of the Borrower
21 referred to in Clause 4(2).
22

23 "Notice of Borrowing" means the written request to be
24 given by the Borrower pursuant to Clause 3(2) when it
25 desires to borrow hereunder and substantially in the
26 form of Schedule A Part I.
27

28 "Notice to Disburse" means the notice to be sent by the
29 Agent to Banco Central and substantially in the form of
30 Schedule A Part IV.
31

32 "Notice of Intended Disbursement" means the notice to
33 be sent by the Agent to Banco Central and substantially
34 in the form of Schedule A Part III.
35

36 "Prime" means the prevailing stated U.S. Dollar Prime
37 Commercial Lending Rate of The Royal Bank of Canada
38 ("the Prime Reference Bank") at its principal office in
39 New York City as determined and announced by the Prime
40 Reference Bank in its sole discretion. "Prime" to
41 change when and as such U.S. Dollar Prime Commercial
42 Lending Rate changes.
43

44 "Project A Agreement" means a certain Credit and
45 Guarantee Agreement dated as of January 27, 1984
46 whereby certain banks and financial institutions, on
47 terms and conditions specified in said agreement, have
48 agreed to extend credits to Banco Central in the
49 aggregate amount of \$6,500,000,000.

"Project B Agreement" means a certain Deposit Facility Agreement dated as of January 27, 1984, whereby certain banks and financial institutions, on terms and conditions specified in said agreement, have deposited with Banco Central the amounts of some of their credits due from Brazilian borrowers which matured during the period from January 1, 1984 to December 31, 1984.

"Project I Agreement (1983)" means a certain Credit and Guarantee Agreement dated as of February 25, 1983 whereby certain banks and financial institutions, on terms and conditions specified in said agreement, have agreed to extend credits to Banco Central up to the aggregate amount of \$4,400,000,000.

"Project II Agreement (1983)" means a certain Deposit Facility Agreement dated as of February 25, 1983 whereby certain banks and financial institutions, on terms and conditions specified in said agreement, have deposited with Banco Central the amounts of some of their credits due from Brazilian borrowers which matured during the period from January 1, 1983 to December 31, 1983.

"Repayment Date" means the Interest Date next following each of the dates falling 60, 66, 72, 78, 84, 90, 96, 102, and 108 months after the Drawdown Date, or if any such day is not a Business Day the next succeeding Business Day.

"Subsidiary" means an entity of which the Borrower has for the time being direct or indirect control and "control" as used in this definition means the right (1) to receive more than fifty per cent. (50%) of any distribution of dividends or capital which may at any time be made by such entity, or (2) to cast more than fifty per cent. (50%) of all votes capable of being cast at any general meeting of holders of share capital of such entity, or (3) to determine the composition of a majority of the board of directors or other like managing board of such entity.

"Tax" includes all taxes, levies, imposts, duties, charges to tax, fees (including without limitation, recording, registration and documentary fees), deductions, withholdings and any restrictions or conditions resulting in a charge to tax and all penalty, interest and other payments on or in respect thereof and "Taxes" and "Taxation" shall be construed accordingly.

"Term Date" means February 14, 1986.

- (2) Unless the context otherwise requires, words importing the singular number shall include the plural and vice versa, persons shall include bodies corporate, governments, governmental bodies, instrumentalities and agencies and unincorporated associations, the index to this Agreement and Clause headings contained herein are for convenience only and shall not affect the construction hereof, references herein to any agreement or other instrument shall be deemed to include references to such agreement or instrument as amended, supplemented or extended from time to time, references to Clauses and Schedules are references respectively to Clauses of and Schedules to this Agreement and, subject to Clauses 18(8) and 20, references to the Borrower, the Guarantor, each Bank, the Canadian Prime Reference Bank, the Prime Reference Bank, the Agent, or the parties hereto where relevant shall be deemed to be reference to or to include, as appropriate, their respective successors and permitted assigns.

2. Loans and Purpose

- (1) Upon and subject to the terms and conditions of this Agreement, and in reliance on the representations and warranties of the Borrower set out in Clause 12, the Canadian Prime Bank and each Prime Bank agrees to lend, through its Lending Office and up to the amount of its Commitment respectively, the Canadian Prime Loan and the Prime Loan to be made to the Borrower hereunder. The Canadian Prime Loan shall be disbursed in Canadian Dollars on the basis of Banco Central's Canadian Dollar Equivalent of \$5,000,000 on the understanding that a maximum of Seven Million Canadian Dollars (Cdn\$7,000,000) will be disbursed.
- (2) The Borrower shall use the proceeds of the Loans to finance the improvement and integration of the State of Mato Grosso's road systems. Neither the Agent nor any Bank shall be bound to enquire as to the use of the proceeds of the loans nor shall any of them be responsible for, or for the consequences of, their application.
- (3) The rights and obligations of each Bank under this Agreement are several to the intent that (a) failure by a Bank to carry out its obligations hereunder shall not relieve any other Bank or the Agent of any of their respective obligations hereunder and shall not relieve the Borrower of its obligations to the Agent and to the other Banks hereunder, (b) no Bank shall be responsible for the obligations of any other Bank or the Agent hereunder, and (c) each Bank may, subject as expressly stated herein, exercise its rights and pursue its remedies hereunder independently of the Agent and the other Banks..

3. Drawdown

- (1) Subject to the terms and conditions of this Agreement and at the request of the Borrower, the Loans will be made to the Borrower during the Commitment Period by the Banks. The Borrower may only make one borrowing hereunder and in an amount equal to the Total Commitments. If the Total Commitments are not borrowed before close of business in Brazil on the Term Date, unless otherwise agreed in writing by the parties hereto the Total Commitments shall not thereafter be available for borrowing hereunder.
- (2) When the Borrower desires to borrow the Loans hereunder, it shall give to the Agent on a Business Day not less than thirteen Brasilia Business Days prior to the proposed Drawdown Date, a Notice of Borrowing specifying the Drawdown Date which shall be a Business Day and a Brasilia Business Day falling on or prior to the last day of the Commitment Period. The Notice of Borrowing shall be irrevocable and the Borrower shall be bound to borrow in accordance therewith. Promptly after receipt of the Notice of Borrowing in accordance with this Clause 3(2) the Agent shall acknowledge receipt thereof to the Borrower and shall notify each Bank of the proposed text of the Notice of Intended Disbursement. As soon as is reasonably practical after the date of receipt by the Agent of the Notice of Borrowing from the Borrower and not later than 10 Brasilia Business Days prior to the Drawdown Date, the Agent is hereby instructed and duly authorized by the Banks to deliver the Notice of Intended Disbursement (in accordance with the said proposed text as modified pursuant to the provisions of sub-clause (3) below) to Banco Central on behalf of each of the Banks.
- (3) Within 2 Brasilia Business Days after a Bank receives the proposed text of a Notice of Intended Disbursement from the Agent in accordance with sub-clause (2) above such Bank shall by notice to the Agent (with a copy to the Borrower) either confirm that the information specified in the Notice of Intended Disbursement with respect to such Bank is correct or request that such information be modified in the manner specified by such Bank in such notice. If the Agent does not receive any such notification from a Bank, the Agent may assume that the information specified in the Notice of Intended Disbursement with respect to that Bank is correct. By 10:00 a.m. (New York time) on the Drawdown Date the Agent shall cause the Notice to Disburse (appropriately completed) to be delivered to Banco Central, Attn: FIRCE, with a copy to the Borrower. Delivery of such notice so completed by the time and to the place indicated shall

constitute full performance of the obligation of each Bank to advance its participation in the Loans and the same shall be deemed to have been advanced and to have been borrowed by the Borrower as of the date of delivery to Banco Central of the Notice to Disburse by the Agent. Without limiting the foregoing, disbursement hereunder shall be subject to compliance with the applicable regulations of Banco Central at the time of disbursement but neither the Agent nor any Bank shall be liable or otherwise responsible to the Borrower for any failure or delay by Banco Central or any intermediary financial institution in making any payment to the Borrower in accordance with the Notice to Disburse.

- (4) Unless the Agent shall have received written notice from a Bank prior to the Drawdown Date that such Bank will not disburse such Bank's Commitment the Agent may assume that such Bank agrees to the Agent giving the Notice to Disburse to Banco Central on behalf of such Bank on the Drawdown Date and the Agent may, in reliance on such assumption, give the Notice to Disburse to Banco Central on behalf of each Bank on such date.

4. Repayment and Notes

- (1) The Borrower shall repay the Loans to the Agent for the account of the Banks. Each Loan shall be repaid in the currency of such Loan and in nine substantially equal instalments, one such instalment in respect of each Loan being repayable on each Repayment Date. The amount comprised in each such instalment in respect of each such Loan shall, subject to the provisions of this Agreement, be one-ninth of the amount of each such Loan outstanding at the close of business in New York City on the Term Date. On the last Repayment Date, the Borrower shall repay the aggregate principal amount then outstanding in respect of each Loan.
- (2) (a) The obligation of the Borrower to repay the Loans shall be evidenced by nine promissory notes of the Borrower in respect of each Loan in favour of each Bank participating in the relevant Loan, and to that end the Borrower shall, in accordance with Clause 10(2), deliver to the Agent nine promissory notes for each Bank, substantially in the form set out in Schedule C (Schedule C Part I in the case of RBC and LIBRA and Schedule C Part II in the case of CIBC) and each (i) duly completed and signed by or on behalf of the Borrower, (ii) dated the Drawdown Date (iii) in a principal amount equal to one-ninth of such Bank's participation in the Loans and in the relevant

currency, (iv) payable to such Bank on a Repayment Date so that each of the promissory notes issued to such Bank is payable on a different Repayment Date, and (v) duly endorsed "por aval" by or on behalf of the Guarantor. Upon receipt of such promissory notes by the Agent, the Agent shall send such promissory notes by registered post to the Banks to whom they are payable at the risk of such Banks;

- (b) in the event of a partial prepayment of the Loans pursuant to Clause 5(1) (and upon the application thereof in accordance with Clause 5(5)) after the issue of promissory notes pursuant to Clause 4(2)(a) which alters the principal amount payable on any Repayment Date, the Borrower will promptly deliver to the Agent for the Banks substitute promissory notes substantially in the form of the promissory notes originally evidencing the Banks' respective entitlements on such Repayment Date and duly endorsed "por aval" by or on behalf of the Guarantor but reflecting their entitlements in the altered principal amount payable on any Repayment Date and the Agent shall, promptly upon receipt of such promissory notes, notify the Banks thereof. Promptly upon receipt by any Bank of (i) notification from the Agent that it has received substitute promissory notes in favour of such Bank as aforesaid or (ii) a repayment, prepayment or accelerated repayment of its participation in the Loans or part thereof, such Bank shall duly cancel, in the case of (i) the original promissory notes so substituted and, in the case of (ii), the promissory notes payable to it which evidences such participation and shall send the same by registered post to the Agent which, upon receipt, shall send the same by registered post to the Borrower and, in the case of (i), shall send such Bank's substitute promissory notes by registered post to such Bank at the risk of such Bank;
- (c) in the event of a loss of any Notes such Bank shall give notice thereof to the Agent which shall give notice thereof to the Borrower and the Guarantor, whereupon the Borrower subject to the terms and conditions of applicable Brazilian law will promptly deliver to the Agent for such Bank in the same form as the lost Notes substitute Notes executed by the Borrower and duly endorsed "por aval" by or on behalf of the Guarantor, and the Agent shall send the same by registered post to such Bank at the risk of such Bank, and the lost notes shall be deemed cancelled; and

(d) the execution and delivery of the Notes shall not limit, reduce, replace or otherwise affect the obligations of the Borrower under this Agreement or the rights and claims of the Agent and the Banks hereunder, provided that payment of any part of the principal of any Note shall, to the extent that such payment, if made hereunder, would discharge the Borrower's obligations in respect of the payment of that part of the Loans evidenced by such Note, discharge such obligations and the repayment or prepayment of any part of the Loans in accordance with the terms hereof shall discharge the obligations of the Borrower under the Notes evidencing such part of the Loans to the extent of such repayment or prepayment.

5. Prepayments

- (1) On its giving not less than thirty days' prior written notice to the Agent (specifying, inter alia, the amount and the proposed date of prepayment), which shall promptly give notice thereof to the Banks, the Borrower may prepay the Loans in whole or in part (but if in part, in an amount which is a minimum of \$5,000,000 (including the amount of prepayment of the Canadian Prime Loan in Canadian Dollars as provided in sub-clause (5) below) or, if more, an integral multiple of \$1,000,000 (including the amount of prepayment of the Canadian Prime Loan in Canadian Dollars as provided in sub-clause (5) below)) on any Interest Date.
- (2) Any and each prepayment made pursuant to Clause 5(1) shall be made together with a fee of one-half of one per cent. (1/2%) flat on the amount of such prepayment in each relevant currency. Any and each prepayment made hereunder otherwise than pursuant to Clause 5(1) shall be made without any such prepayment fee.
- (3) Any notice of prepayment given by the Borrower under this Agreement shall be irrevocable, the Borrower shall be bound to prepay in accordance therewith and each amount so prepaid may not be reborrowed hereunder. The Borrower may not prepay all or any part of any Loan except in accordance with the express terms of this Agreement and may not cancel or reduce the Total Commitments in whole or in part except as expressly provided hereunder.
- (4) Any and each prepayment made under this Agreement shall be made together with interest accrued on the amount prepaid and, if any repayment or prepayment is made under this Agreement otherwise than on an Interest Date, the Borrower will also on demand from time to time by each Bank concerned (through the Agent), pay such other amounts as each such Bank may certify as necessary to compensate such Bank for any costs, penalties or expenses incurred or to be incurred by it as a result thereof (including loss of the applicable

01 Margin to the next such Interest Date and any costs,
02 penalties or expenses on account of funds acquired,
03 contracted for or utilised in order to make, fund or
04 maintain the amount repaid or prepaid), such certification
05 to include computations showing, in reasonable detail, the
06 basis for such amounts and to be conclusive in the absence
07 of manifest error.

08
09 (5) Any prepayment made under Clause 5(1) shall be in the
10 currencies of such Loans and in the ratio which the Canadian
11 Prime Loan and the Prime Loan bear to each other (at the
12 Dollar Equivalent thereof on the date of such prepayment) to
13 the intent that each such Loan will be reduced in equal (or
14 as near thereto) percentage proportions. Such prepayment
15 shall be applied against outstanding repayment instalments
16 in respect of each Loan in the inverse order of their
17 maturity. Any prepayment made to any Bank under either of
18 Clauses 7 or 9 shall be applied rateably against outstanding
19 repayment instalments.

20
21 (6) Without prejudice to the obligations of the Borrower and the
22 rights and claims of the Agent and the Banks hereunder, it
23 is understood that the purchase of foreign currency by the
24 Borrower in Brazil and the remittance thereof by the
25 Borrower from Brazil in order to satisfy any payment to be
26 made by the Borrower hereunder (other than payments of
27 principal, interest and agreed fees and expenses as and when
28 the same fall due in accordance with the provisions of
29 Clauses 4, 6 (except Clause 6(4)), 15(1) (first sentence)
30 and 15(2)) will require the prior approval of Banco Central
31 and the Borrower hereby undertakes to procure such approval
32 whenever required in connection with any such payment.

33
34 6. Interest

35
36 (1) Interest shall be paid by the Borrower on the Loans in
37 accordance with this Clause.

38
39 (2) The rate of interest applicable to the Canadian Prime Loan
40 shall be the rate determined by the Canadian Prime Reference
41 Bank from time to time to be the aggregate of (a) the
42 Canadian Prime Margin and (b) whichever is the higher of the
43 Canadian Prime Rate and the Adjusted Canadian Deposit Rate.
44 The Canadian Prime Reference Bank shall promptly give notice
45 to the Agent (who will promptly notify the Borrower) of the
46 interest rate payable on the Canadian Prime Loan (i) as of
47 the date of the initial disbursement of the Canadian Prime
48 Loan and (ii) thereafter, upon any change in the interest
49 rate payable on the Canadian Prime Loan by reason of the
50 operation of this Clause together with notice of the basis
51 for such change (including during any period in which the
52 Adjusted Canadian Deposit Rate is higher than the Canadian
53 Prime Rate, the relevant computations of the Adjusted

01 Canadian Deposit Rate). If, after the tenth calendar day
02 preceding any date on which a payment of interest is due
03 with respect to the Canadian Prime Loan, any change in the
04 Canadian Prime Rate or the Adjusted Canadian Deposit Rate
05 occurs which would result in a change in the rate of
06 interest payable hereunder, the actual amount of interest
07 payable on such date shall be calculated as if such change
08 had not occurred provided that, on the earlier of the next
09 succeeding date on which a payment of interest on the
10 Canadian Prime Loan is due or the date ten calendar days
11 after repayment in full of the Canadian Prime Loan, the
12 Borrower shall either pay to the Agent for the account of
13 the Canadian Prime Bank any increased amounts owing to the
14 Canadian Prime Bank as a result of such change or receive
15 credit for any reductions in the amounts owing to the
16 Canadian Prime Bank as a result of such change. The
17 Canadian Prime Reference Bank shall promptly give notice to
18 the Agent (who will promptly notify the Borrower) of the
19 interest rate and amounts of interest so determined in
20 respect of the Canadian Prime Loan as hereinabove provided,
21 and such notice shall be conclusive and binding on all
22 parties hereto in the absence of manifest error.
23

- 24 (3) The rate of interest applicable to the Prime Loan shall be
25 the rate determined by the Prime Reference Bank from time to
26 time to be the aggregate of (a) the Prime Margin and (b)
27 whichever is the higher of Prime and the Market Rate. The
28 Prime Reference Bank shall promptly give notice to the Agent
29 (who will promptly notify the Borrower) of the interest rate
30 payable on the Prime Loan (i) as of the date of the initial
31 disbursement of the Prime Loan and (ii) thereafter, upon any
32 change in the interest rate payable on the Prime Loan by
33 reason of the operation of this Clause together with notice
34 of the basis for such change (including during any period in
35 which the Market Rate is higher than Prime, the relevant
36 computations of the Market Rate). If, after the tenth
37 calendar day preceding any date on which a payment of
38 interest is due with respect to the Prime Loan, any change
39 in Prime or the Market Rate occurs, interest shall be
40 payable on such date as if such change had not occurred
41 provided that, on the earlier of the next succeeding date on
42 which a payment of interest on the Prime Loan is due or the
43 date ten calendar days after repayment in full of the Prime
44 Loan, the Borrower shall either pay to the Agent for the
45 account of the Prime Banks any increased amounts owing to
46 the Prime Banks as a result of such change or receive credit
47 for any reductions in the amounts owing to the Prime Banks
48 as a result of such change. The Prime Reference Bank shall
49 promptly give notice to the Agent (who will promptly notify
50 the Borrower) of the interest rate and amounts of interest
51 so determined in respect of the Prime Loan as hereinabove
52 provided, and such notice shall be conclusive and binding on
53 all parties hereto in the absence of manifest error.

4) In the event of non-payment by the Borrower on the due date of any sum due hereunder or under the Notes, the Borrower shall to the extent permitted by law, upon demand, pay to the Agent for the account of each Bank entitled to receive all or part of such payment interest on such sum from and including the date of such non-payment to the date of actual payment (as well after as before judgment):-

(a) in the case of overdue sums referable to the Canadian Prime Loan, at the rate per annum (which may fluctuate from day to day) determined by the Canadian Prime Reference Bank from time to time to be the aggregate of (1) one per cent. (1%), (2) the Canadian Prime Margin and (3) the higher of the Canadian Prime Rate and the Adjusted Canadian Deposit Rate; and

(b) in the case of overdue sums referable to the Prime Loan, at the rate per annum (which may fluctuate from day to day) determined by the Prime Reference Bank from time to time to be the aggregate of (1) one per cent. (1%), (2) the Prime Margin and (3) the higher of Prime and Market Rate.

(5) Each determination of a rate of interest by the Canadian Prime Reference Bank or the Prime Reference Bank hereunder shall, in the absence of manifest error, be conclusive and binding on the parties hereto and shall be promptly notified by the Prime Reference Bank or the Canadian Prime Reference Bank, as the case may be, to the Agent who shall thereupon notify the Borrower.

(6) All interest hereunder shall accrue from day to day and be computed on the basis of a year of 360 days for the actual number of days elapsed. Save as other dates for the payment thereof may be provided herein or in accordance herewith, accrued interest on the Loans shall be paid on each Interest Date. Interest shall be payable in the currency in which the relevant Loan is denominated. The yearly rates of interest to which the rates determined in accordance with the provisions of this Agreement are equivalent, are the rates so determined multiplied by the actual number of days in the year and divided by 360.

(7) In the event that a non-payment by the Borrower on the due date, referred to in sub-clause (6) above, is not specifically in respect of the Canadian Prime Loan or the Prime Loan, the Agent may (but shall not be obliged to) determine to which Loan such non-payment relates but in the absence of such determination by the Agent such non-payment shall be deemed to be, in rateable proportions in respect of each Loan (by reference to the Dollar Equivalent at the date of such non-payment) and the interest payable by the Borrower in accordance with the provisions of this Clause shall be for the account of each Bank on each Bank's relevant proportion of such non-payment on the due date.

01 7. Payments

02
03 (1) All payments to be made by the Borrower hereunder in
04 relation to the Prime Loan and except where otherwise
05 provided for herein all other payments to be made by the
06 Borrower hereunder shall be made to the Agent on the due
07 date and for value on such date and in Dollars in New York
08 Funds to the account of the Agent at the New York Branch of
09 The Royal Bank of Canada located at 68 William Street, New
10 York, N.Y. 10005, U.S.A. (Account No. 218-701-1, Ref:
11 CODEMAT/ - RBC-Foreign Banking Centre, Nassau, Bahamas) and
12 all payments to be made by the Borrower hereunder in
13 relation to the Canadian Prime Loan shall be made to the
14 Agent on the due date in Canadian Dollars in immediately
15 available funds to the account of the Agent at The Royal
16 Bank of Canada, Royal Bank Plaza, 200 Bay Street, Toronto,
17 Ontario, Canada - Attention: Correspondent Banking
18 Department (Account No. 241-508-1, Ref: CODEMAT/ - RBC-
19 Foreign Banking Centre, Nassau, Bahamas), or to such other
20 account at such other bank in New York City or Montreal or
21 Toronto (as the case may be) as the Agent may from time to
22 time designate by written notice to the Borrower.

23
24 (2) All payments to be made by or on behalf of the Borrower
25 hereunder or under the Notes shall be made without set-off
26 or counterclaim and free and clear of and without any
27 deduction for or on account of any present or future Taxes
28 of any nature now or hereafter imposed (i) by any
29 jurisdiction through or out of which such payments are made
30 or (ii) within Brazil or any federation or organization of
31 which Brazil may at any time be a member or by or through
32 any Taxation authority thereof or therein (hereinafter
33 together called "Brazilian Taxes") unless such payment is
34 required by law to be made subject to any Brazilian Tax.
35 All Brazilian Taxes imposed upon any such payments will be
36 paid by the Borrower on behalf of, but without recourse to,
37 the Agent and each Bank prior to the date on which penalties
38 attach thereto and the Borrower will indemnify the Agent and
39 each Bank against, and reimburse the Agent and each Bank on
40 demand for, all such Brazilian Taxes not so paid by the
41 Borrower. Should any such payment be subject to any
42 Brazilian Tax and the provisions of the last preceding
43 sentence either cannot be effected or do not result in the
44 Agent and each Bank actually receiving an amount, free and
45 clear of all Brazilian Taxes, equal to the full amount
46 provided for hereunder, the Borrower shall pay to the Agent
47 such additional amounts as may be necessary to ensure that
48 the Agent and each Bank receives a net amount, free and
49 clear of all Brazilian Taxes, equal to the full amount which
50 it would have received had payment not been made subject to
51 such Brazilian Tax. The Borrower shall (a) deliver to the
52 Agent, as soon as reasonably possible and in any event not
53 later than forty-five days after each payment hereunder upon
54

01 which any Brazilian Tax is imposed, certified copies for
02 each Bank of official Tax receipts (or, if such Tax receipts
03 are not issued by the relevant authority, other documents
04 satisfactory to the Agent) evidencing the fact that such
05 Brazilian Tax has been duly remitted to the appropriate
06 authority, or (b) if the Borrower shall have obtained an
07 exemption from the requirement that any Tax be paid on any
08 payment to be made by it hereunder, deliver to the Agent
09 evidence of such exemption within thirty days after
10 obtaining it. The obligations of the Borrower under this
11 Clause 7(2) shall survive the repayment of the Loans and the
12 payment of all other sums payable hereunder.
13

14 (3) Whenever any payment hereunder would, but for the provisions
15 of this Clause 7(3), become due on a day which is not a
16 Business Day, the due date therefor shall be extended to the
17 next Business Day and during any such extension interest
18 shall accrue accordingly.
19

20 (4) Unless the Agent shall have been notified in writing by the
21 Borrower not less than one Business Day prior to the date on
22 which any payment to be made by the Borrower hereunder is
23 due that the Borrower does not intend to remit such payment
24 in full on the due date, the Agent shall be entitled (but
25 not obliged) to assume that the Borrower has so remitted
26 such payment and the Agent may (but shall not be obliged to)
27 make available to each Bank on such payment date an amount
28 equal to such Bank's entitlement in such assumed payment in
29 reliance on such assumption. If it proves to be the case
30 that the Borrower has not in fact remitted such payment to
31 the Agent, each Bank shall forthwith on demand repay to the
32 Agent the amount of such assumed payment made available to
33 such Bank, together with interest thereon until the date of
34 repayment thereof at a rate determined by the Agent (such
35 rate to be conclusive and binding on such Bank) as
36 representing the cost to the Agent of funding such overdue
37 amount for such period and in the currency of such payment
38 due from the Borrower.
39

40 (5) Any amount received by the Agent under this Agreement or
41 under the Guarantee (including any amount received other
42 than on the due date or in the currency or currencies due)
43 shall, regardless of any appropriation of all or part of
44 that amount by the Borrower or, as the case may be the
45 Guarantor, be applied as follows:
46

47 (a) the Agent shall apply that amount (i) first in or
48 towards payment of any costs or expenses then due and
49 payable hereunder to the Agent for its own account and
50 for the account of the Banks, (ii) secondly in or
51 towards payment of any interest and fees then due and

payable hereunder, (iii) thirdly in or towards repayment of any part of the Loans then due and payable hereunder, and (iv) fourthly in or towards payment of any other sums due and payable by the Borrower or the Guarantor under this Agreement or the Guarantee;

(b) the Agent shall apply the amount so received towards each category (i) - (iv) in sub-clause (a) in turn pro rata amongst the Agent and the Banks (on the basis of the Dollar Equivalent on the date of the application of funds by the Agent of the amounts due);

(c) in order to give effect to this sub-clause (5) and so as to make payment to each Bank in the currency due to such Bank the Agent shall be entitled to convert part or of all any sums received in one currency into another currency at the Agent's spot rate of exchange at the time of such conversion and such rate shall be binding on the parties hereto;

(d) in the event that the allocation of funds under this sub-clause results in a Bank receiving less than the full amount receivable by it hereunder in the currency due, the Borrower shall pay to the Agent for the account of such Bank the shortfall and nothing herein shall be deemed to absolve the Borrower or the Guarantor from making any payments in the currency and at the place in which they are due;

(e) if the allocation of funds under this sub-clause would otherwise result in a Bank receiving more than the full amount receivable by such Bank then the Agent shall apportion such excess amount amongst the other Banks in accordance with this sub-clause (5) and subject thereto any excess shall be returned to the Borrower or as the case may be the Guarantor provided that no Default has occurred.

(6) The provisions of sub-clause (5) above shall mutatis mutandis apply to all appropriations and payments to be made under this Agreement or the Guarantee (in particular (but without limitation) Clause 22 of this Agreement and Clause 17 of the Guarantee).

8. Currency Indemnity

(1) In the event of a judgment, order or award being rendered by any court or tribunal for the payment of any amounts owing to the Agent, or any Bank under this Agreement or the Notes or for the payment of damages in respect of any breach of this Agreement or the Notes or under or in respect of a judgment, order or award of another court or tribunal for

01 the payment of such amounts or damages, such judgment, order
02 or award being expressed in a currency ("the Judgment
03 Currency") other than the currency or currencies due
04 hereunder (the "Agreed Currency"), the Borrower agrees to
05 indemnify and hold harmless the Agent, and such Bank against
06 any deficiency in terms of the Agreed Currency in the
07 amounts received by the Agent, or such Bank (as the case may
08 be), arising or resulting from any variation as between (a)
09 the rate of exchange at which the Agreed Currency is
10 converted into the Judgment Currency for the purposes of
11 such judgment, order or award, and (b) the rate of exchange
12 at which the Agent or such Bank (as the case may be) is able
13 to purchase the Agreed Currency with the amount of the
14 Judgment Currency actually received by the Agent, or such
15 Bank pursuant to such judgment, order or award on the
16 Business Day following such receipt.
17

18 (2) The above indemnity shall constitute a separate and
19 independent obligation of the Borrower from its other
20 obligations hereunder and under the Notes and shall apply
21 irrespective of any indulgence granted by the Agent or the
22 Banks and no proof or evidence of any actual loss shall be
23 required by the Borrower.
24

25 (3) The term "rate of exchange" shall include any premiums,
26 Taxes and costs of exchange payable in connection with the
27 purchase of, or conversion into, the relevant currency.
28

29 9. Increased Costs and Illegality

30
31 (1) If, after the date of this Agreement:

32 (a) any law, regulation, treaty or official directive
33 (whether or not having the force of law, provided that
34 compliance therewith would be in accordance with normal
35 banking practices) or any change therein or in the
36 interpretation or application thereof by any
37 governmental, inter-governmental, administrative,
38 judicial or other authority charged with the
39 administration thereof:-
40

41 (i) subjects any Bank or the Agent to any Tax with
42 respect to any amount payable by the Borrower to
43 or for the account of any Bank or by the Agent to
44 any Bank under this Agreement or any Note (other
45 than Tax on the overall net income of such Bank
46 imposed by the lawful Taxation authorities in the
47 country where the head office or Lending Office of
48 such Bank is situated); or
49

(ii) changes the basis of Taxation of payments by the Borrower to or for the account of any Bank or by the Agent to any Bank under this Agreement or any Note (other than a change in the rate of Tax on the overall net income of such Bank imposed by the lawful Taxation authorities in the country where the head office or Lending Office of such Bank is situated); or

(iii) imposes, modifies or deems applicable any liquidity ratios, reserve and/or special deposit requirements against, or imposes any condition with respect to, assets held by, or deposits in or for the account of, or loans by, any office of any Bank or the Agent; or

(iv) imposes on any Bank or the Agent any other condition with respect to this Agreement, any Note, any Loan or any amount payable under this Agreement or any Note; or

(b) any Bank or the Agent complies with any request, law, regulation or directive from any applicable fiscal or monetary authority (whether or not having the force of law, provided that compliance therewith would be in accordance with normal banking practices)

and as a result of any of the foregoing:-

(x) the cost to any Bank of making, funding or maintaining its participation in the Loans or of maintaining its obligation to lend its Commitment, is increased by an amount deemed by such Bank to be material; or

(y) the amount of principal, interest, fees or other amount received or receivable by any Bank or the effective return to any Bank hereunder or under any Note, is reduced (otherwise than as contemplated by Clause 7(2)) by an amount deemed by such Bank to be material; or

(z) any Bank makes any payment to any fiscal or monetary authority or forgoes any interest or other return on or calculated by reference to the gross amount of any sum received or receivable by it hereunder or under any Note in an amount deemed by such Bank to be material,

then and in each such case:

(i) such Bank shall notify the Borrower (through the Agent) in writing of such event as promptly as practicable after such Bank becomes aware thereof;

01 (ii) upon demand to the Borrower from time to time by such
02 Bank (through the Agent), the Borrower shall pay to
03 such Bank (through the Agent) such amount as shall
04 compensate such Bank for such increased cost,
05 reduction, payment or forgone interest or other
06 return. The certificate of such Bank setting out the
07 amount and, in reasonable detail, the basis for such
08 amount shall, in the absence of manifest error, be
09 conclusive;

10
11 (iii) on giving not less than five Business Days' prior
12 written notice to such Bank through the Agent
13 specifying the date for prepayment, (which notice shall
14 be given within thirty days after the notification by
15 such Bank under the foregoing paragraph (i)). the
16 Borrower may prepay the whole (but not part) of such
17 Bank's participation in the Loans, without premium or
18 penalty, together with all interest accrued thereon and
19 all other amounts payable to such Bank hereunder and
20 under the Notes, including but without limitation all
21 amounts due pursuant to this Section 9.(1), at any time
22 on or prior to the next Interest Date occurring after
23 the giving of such notice by the Borrower. On the
24 giving of such notice by the Borrower, such Bank's
25 obligations to the Borrower hereunder shall be
26 terminated; and
27

28 (iv) the Agent shall promptly notify the other Banks of any
29 such prepayment made under sub-clause (iii).
30

31 (2) Notwithstanding anything to the contrary herein contained,
32 if any law, regulation or treaty or any change therein or in
33 the interpretation or application thereof by any
34 governmental, inter-governmental, administrative, judicial
35 or other authority charged with the administration thereof
36 shall make it unlawful or impracticable for any Bank to
37 make, fund or maintain its participation in the Loans or any
38 part thereof or to give effect to its obligations to the
39 Borrower as contemplated hereby, such Bank may, by written
40 notice to the Borrower through the Agent, declare that such
41 Bank's obligations hereunder shall be terminated forthwith
42 whereupon the Borrower will prepay without premium or
43 penalty such Bank's participation in the Loans on the next
44 Interest Date falling thirty days or more after such notice
45 from such Bank (or, if earlier, on the latest date allowed
46 by applicable law), together with all interest accrued
47 thereon and all other amounts payable to such Bank hereunder
48 and under the Notes. On the giving of such notice, such
49 Bank's obligations to the Borrower hereunder shall, subject
50 to Clause 9(3), be terminated.

- 01 (3) If any Bank gives notice to the Borrower pursuant to Clause
02 9(2) then, without prejudice to the obligations of the
03 Borrower under such sub-clause, such Bank will, in
04 consultation with the Borrower and the Agent, use reasonable
05 endeavours during the thirty days succeeding such notice to
06 arrange for such Bank to maintain its participation in the
07 Loans and perform its obligations hereunder through a
08 different Lending Office and/or for another bank or
09 financial institution acceptable to the parties hereto to
10 assume, on terms which do not involve any expense, cost or
11 liability to such Bank, the rights and obligations of such
12 Bank hereunder, but such Bank shall be under no liability
13 for any failure so to arrange.
14

15 10. Conditions Precedent
16

- 17 (1) The obligations of the Agent and each Bank hereunder are
18 subject to the condition precedent that on or prior to the
19 date of the Notice of Borrowing the Agent shall have
20 received all of the documents listed in Schedule B in form
21 and substance satisfactory to the Agent except for the
22 documents listed in paragraphs 2(c), 2(e), 2(f), 8, 9, 10
23 and 11 of Schedule B and that three Business Days before the
24 Drawdown Date, the Agent shall have received the documents
25 listed in paragraphs 2(c), 2(e), 2(f), 8, 9, 10 and 11 of
26 Schedule B in form and substance satisfactory to the Agent.
27
- 28 (2) The obligations of the Agent and each Bank hereunder with
29 respect to the making of the Loans are subject to the
30 further conditions precedent that:-
31
- 32 (a) both at the time of the giving of the Notice of
33 Borrowing and at the time for the making of the Loans,
34 the facts represented by the Borrower set out in Clause
35 12 shall be true and accurate on and as of such times
36 as if made at each such time and no Default shall have
37 occurred and be continuing or would result from the
38 making of the Loans;
39
- 40 (b) the Agent shall have received (i) not later than three
41 Business Days prior to the date for the borrowing of
42 the Loans, a certificate of the Guarantor to the effect
43 set forth in Schedule A Part II, and (ii) on or before
44 the Drawdown Date, the Notes provided for in Clause
45 4(2)(a); and
46
- 47 (c) Banco Central shall have made a prepayment in respect
48 of each relevant Bank of an amount equal to the
49 relevant portion of the Total Commitments pertaining to
50 Project A Agreement and Project B Agreement to be made
51 available to the Borrower by the utilisation of
52 proceeds deposited with Banco Central as instructed by
53 the Agent on behalf of such Banks pursuant to Clause
54 3(3).
55

- 01 (3) The provisions of Clauses 10(1) and 10(2) are inserted for
02 the benefit of the Banks and may be waived in whole or in
03 part only by the Agent with the consent of the Banks, with
04 or without terms and conditions.
05

06 11. Undertakings
07

08 The Borrower undertakes to the Agent and the Banks that from
09 and after the date hereof and so long as any amount payable
10 hereunder or under the Notes is outstanding or any Bank is
11 under an obligation to advance its Commitment (whether or
12 not the conditions precedent to the fulfilment of such
13 obligation have been satisfied) unless compliance therewith
14 is waived by the Banks:-
15

- 16 (1) The Borrower will furnish to the Agent, in such number
17 of copies as the Agent shall reasonably request, for
18 distribution to the Banks:-
19

20 (a) as soon as available and in any event not later
21 than one hundred and fifty days after the end of
22 each financial year of the Borrower, the audited
23 profit and loss statement of the Borrower for such
24 financial year and audited balance sheet of the
25 Borrower as at the end of such financial year
26 (each prepared on an unconsolidated basis and
27 also, if required by Brazilian law or customarily
28 so prepared, on a consolidated basis) prepared in
29 accordance with the accounting principles and
30 practices referred to in Clause 12(1)(f),
31 consistently applied, together with a report
32 thereon by a firm of independent public
33 accountants of recognized standing to the effect
34 that the aforementioned financial statements
35 fairly and accurately represent the financial
36 condition and the results and operations of the
37 Borrower for the financial year to which they
38 relate and a certificate signed by the chief
39 financial officer of the Borrower to the effect
40 that the aforementioned financial statements
41 fairly and accurately represent the financial
42 condition and the results of operations of the
43 Borrower for the financial year to which they
44 relate and that no Default occurred during such
45 financial year or, if a Default did so occur,
46 specifying the remedial steps being taken by the
47 Borrower;
48

- 49 (b) as soon as practicable, and in any event within
50 ninety days after the end of each half of each
51 financial year of the Borrower, the profit and
52 loss statement of the Borrower for such half-year
53 and balance sheet of the Borrower as at the end of
54

01 such half-year (each prepared on an unconsolidated
02 basis and also, if the Borrower's annual financial
03 statements are required by Brazilian law to be or
04 are customarily so prepared, on a consolidated
05 basis) in reasonable detail, certified by the
06 chief financial officer of the Borrower and all
07 prepared in accordance with the accounting
08 principles and practices referred to in Clause
09 12(1)(f), consistently applied together with a
10 certificate signed by the chief financial officer
11 of the Borrower to the effect that the
12 aforementioned financial statements fairly and
13 accurately represent the financial condition and
14 the results of operations of the Borrower for the
15 half financial year to which they relate and that
16 no Default occurred during such half financial
17 year or, if a Default did so occur, specifying the
18 remedial steps being taken by the Borrower;
19

20 (c) copies of all circulars and notices which contain
21 material information of a financial nature issued
22 by the Borrower from time to time to its
23 shareholders or creditors in their capacities as
24 such;
25

26 (d) such other financial or other information, data
27 and projections as the Agent or any Bank through
28 the Agent may from time to time reasonably request
29 regarding the Borrower and its business; and
30

31 (e) with reasonable promptness, details of any
32 litigation, arbitration or administrative
33 proceeding pending or, to the Borrower's
34 knowledge, threatened, which would, if adversely
35 determined, have a material adverse effect on the
36 business, financial condition or operations of the
37 Borrower or on the ability of the Borrower to
38 perform its obligations hereunder or on the
39 validity or enforceability of this Agreement or
40 the Notes.

- 41 (2) The Borrower will obtain and promptly renew from time
42 to time all such authorisations, approvals, consents,
43 licences, registrations, publications and other
44 requirements as may be required under any applicable
45 law or regulation to enable or permit it to perform its
46 obligations under this Agreement and/or the Notes, or
47 required for the validity or enforceability or
48 admissibility in evidence of this Agreement or the
49 Notes or for the borrowing of the Loans hereunder, will
50 comply with the terms of the same and will promptly
51 furnish the Agent with copies thereof. In particular,
52 but without limiting the foregoing, the Borrower will
53 (a) within forty-five days after the date hereof,

01 deliver two copies of a Portuguese translation of this
02 Agreement to the Agent (such copies to be certified as
03 true and correct by an authorised public translator in
04 Brazil), and (b) within thirty days after the borrowing
05 of the Loans, apply for registration thereof with Banco
06 Central do Brasil under Law No. 4131, as amended; of
07 Brazil on terms permitting repayment thereof and
08 payment of interest thereon and fees and expenses
09 provided for in Clauses 15(1) (first sentence) and
10 15(2) by the Borrower in accordance with this Agreement
11 and provide the Agent with a certified copy of a
12 certificate issued by Banco Central evidencing such
13 registration promptly upon receipt thereof.
14

15 (3) The Borrower will notify the Agent by telex confirmed
16 in writing of (i) any Default forthwith upon the
17 occurrence thereof and of the remedial steps being
18 taken in respect thereof, and (ii) any event or change
19 in its or any of its Subsidiaries' circumstances the
20 effect of which would render any representation or
21 warranty made by it or pursuant to this Agreement or
22 any notice, certificate, instrument or statement to be
23 untrue or incorrect in any material respect.
24

25 (4) The obligations of the Borrower hereunder and under the
26 Notes rank and will at all times rank at least pari
27 passu in right and priority of payment and in point of
28 security with all other present and future Indebtedness
29 of or incurred or assumed by the Borrower except
30 insofar as such other present or future Indebtedness
31 carries a prior or preferential right to payment over
32 amounts due or to become due hereunder and/or under the
33 Notes which arises solely from the existence of an
34 Encumbrance on the property, assets or revenues of the
35 Borrower which is permitted under Clause 11(5).
36

37 (5) The Borrower shall not, and shall procure that no
38 Subsidiary shall, create, incur, assume or suffer to
39 exist any Encumbrance upon or with respect to any of
40 its property, assets or revenues, now owned or
41 hereafter acquired, to secure any present or future
42 Indebtedness of or incurred or assumed by it or any
43 present or future Indebtedness of or incurred or
44 assumed by any other person, unless such Encumbrance
45 shall also, and shall expressly provide (in a form
46 satisfactory to the Banks) that it shall also, secure
47 the obligations of the Borrower hereunder and under the
48 Notes equally and rateably with such Indebtedness,
49 provided that this Clause 11(5) shall not apply to:-
50

51 (a) Encumbrances in the nature of liens arising
52 involuntarily by operation of law and not as the
53 result of any default or omission; or
54

- 01 (b) Encumbrances over property or assets of the
02 Borrower or the documents of title thereto
03 securing Indebtedness (other than External
04 Indebtedness) payable by the Borrower comprising
05 only the unpaid acquisition cost or outstanding
06 amount of monies borrowed or raised (including
07 interest and other charges thereon) by the
08 Borrower specifically to finance, and used only to
09 finance, the acquisition cost of such property or
10 assets; or
11
- 12 (c) Encumbrances created in the ordinary course of
13 banking transactions to secure Indebtedness (other
14 than External Indebtedness) maturing not more than
15 one year after the date on which it is originally
16 incurred.
17
- 18 (d) Encumbrances created to secure Indebtedness in
19 Cruzeiros to a Brazilian Governmental Agency
20 irrespective of the maturity date of such
21 Indebtedness (a "Brazilian Governmental Agency"
22 means an entity incorporated in Brazil in respect
23 of which the Guarantor or the Estado de Mato
24 Grosso holds more than fifty percent (50%) of the
25 shares with voting powers).
26
- 27 (6) The Borrower shall use the proceeds of the Loans as
28 provided in Clause 2(2), and the Borrower and each
29 Subsidiary shall at all times carry on its operations,
30 manage its affairs, plan the future development of its
31 business and maintain its financial position, all in
32 accordance with appropriate engineering, financial and
33 administrative practices and the Borrower and each
34 Subsidiary shall at all times take all steps necessary
35 to maintain its corporate existence.
36
- 37 (7) The Borrower and each Subsidiary shall take all such
38 action to ensure the continued operation of its
39 business in accordance with sound financial practices.
40
- 41 (8) The Borrower shall not, and shall ensure that no
42 Subsidiary shall, sell, transfer or otherwise dispose
43 of all or a substantial part of its undertaking,
44 business or assets whether by one transaction or a
45 series of transactions, related or not, otherwise than
46 in the ordinary course of business.
47
- 48 (9) The Borrower shall not merge or consolidate with or
49 into any other person unless (a) the person surviving
50 such merger or consolidation is the Borrower and (b)
51 after giving effect to such merger or consolidation no
52 Default shall have occurred or be continuing.
53

01 (10) Upon becoming aware that the same may be threatened or
02 pending and in any case immediately after the
03 commencement thereof, give to the Agent notice in
04 writing of all litigation or administrative or
05 arbitration proceedings before or of any court,
06 tribunal, arbitrator or municipal authority or any
07 dispute materially affecting its ability to duly
08 perform its obligations under this Agreement or the
09 Notes.
10

11 12. Representations and Warranties
12

13 (1) The Borrower makes the following representations and
14 warranties to and for the benefit of the Agent and the
15 Banks:-
16

17 (a) The Borrower is a mixed-capital company (sociedade de
18 economia mista) duly organized and validly existing
19 under the laws of Brazil of which the State of Mato
20 Grosso is the controlling shareholder, and the Borrower
21 has full power, authority and legal right to own its
22 property and assets to execute and deliver this
23 Agreement and the Notes and any other instruments and
24 documents contemplated hereby, to incur the
25 indebtedness and other obligations provided for herein
26 and therein, to perform and observe the terms and
27 provisions hereof and thereof and to borrow the Loans
28 hereunder.
29

30 (b) This Agreement does, and the Notes when duly executed
31 and delivered will, constitute the legal, valid and
32 binding obligations of the Borrower enforceable in
33 accordance with their respective terms and each is and
34 will be in the proper form for the enforcement and
35 admissibility in evidence thereof in the Courts of
36 Brazil without any further registration, filing,
37 consent or other formality or condition, save that a
38 Portuguese translation thereof would have to be
39 presented to such Courts in case of any suit.
40

41 (c) Each of its officers or representatives who has
42 executed or delivered this Agreement is, and each of
43 its officers or representatives who will execute or
44 deliver the Notes and any other documents to be
45 executed or delivered by it in connection with this
46 Agreement or the Notes, at the time of such execution
47 or delivery is and will be duly and properly in office
48 and fully authorized to execute or deliver this
49 Agreement, the Notes or such other document, as the
50 case may be.
51

52 (d) The execution and delivery of this Agreement and the
53 Notes and the performance by the Borrower of the terms
54 of this Agreement and the Notes and the borrowing of
55

the Loans hereunder have been duly authorised by all necessary corporate and other action of the Borrower and do not and will not (i) contravene any provision of law, decree-law, decree, rule or regulation to which the Borrower is subject or any judgment, franchise, order or permit applicable to the Borrower, or (ii) conflict with, or result in any breach of, any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of any Encumbrance upon any of the property, assets or revenues of the Borrower pursuant to the terms of any indenture, deed of trust, mortgage, agreement or other instrument to which the Borrower is a party or by which it may be bound, or to which it or any of its property, assets or revenues may be subject, or (iii) violate any provision of the Estatutos or resolutions (or other incorporation or governing documents) of the Borrower.

(e) All consents, approvals, licenses and authorisations of, and filings and registrations with, any governmental body or regulatory, supervisory or public authority required to ensure the legality, validity, enforceability or admissibility in evidence of this Agreement or the Notes or for the making and performance by the Borrower of this Agreement and the Notes or for the borrowing of the Loans hereunder, have been obtained, save for those which under Brazilian law, can only be obtained after the date hereof or after the borrowing of the Loans. The Borrower has full authority to make all payments hereunder and under the Notes in Dollars or Canadian Dollars, as the case may be, to the Agent for its own account and for the account of the Banks to the accounts provided for in Clause 7(1), save that as mentioned in Clause 5(6), certain payments will require further authorisation from Banco Central at the time for the making thereof.

(f) The latest audited balance sheets and profit and loss accounts (collectively the "Accounts") of the Borrower (which Accounts have been prepared in accordance with accounting principles and practices generally accepted by accounting firms of recognized standing operating in Brazil and consistently applied from one year to another) fairly represent the financial condition of the Borrower on the date to which the same were prepared and the results of operations for the financial year ended on such date, and as at such date the Borrower had no significant liabilities, anticipated losses or unusual or long-term commitments (in each case contingent or otherwise) which are not disclosed by or reserved against in its Accounts. There has been no material adverse change in the financial condition of the Borrower from that shown in the Accounts prepared as at and for the financial year ended 31st December, 1984.

- (g) No Default has occurred and no event has occurred which constitutes or which with the giving of notice, lapse of time or both or other applicable conditions would constitute a default under or in respect of any agreement, undertaking or instrument to which the Borrower is a party or by which it may be bound or to which it or any of its property, assets or revenues may be subject. No litigation or administrative proceedings are presently pending or, to the knowledge of the Borrower, threatened, which, if adversely determined, would have a material adverse effect on the financial condition of the Borrower or on the right or ability of the Borrower to carry on its business or perform its obligations hereunder or under the Notes, or would call into question the legality, validity or enforceability of this Agreement or the Notes.
- (h) All financial, and other information, projections and statements which relate to the Borrower and which have been heretofore supplied by the Borrower to the Agent and/or the Banks were true, current and correct at the date on which they were so supplied and there were at that date no other facts or circumstances the omission to provide knowledge of which would make any such information, projections or statements misleading.
- (i) The Borrower is subject to civil and commercial law with respect to its obligations under this Agreement and the Notes, and the execution, delivery and performance by the Borrower of this Agreement and the Notes constitute private and commercial acts rather than governmental or public acts. Neither the Borrower nor any of its property, assets or revenues enjoys any right of immunity from service of process, attachment (whether prior to the entry of or in aid of execution upon a judgment), execution or judgment or from any other legal process with respect to its obligations under this Agreement and the Notes. The waiver by the Borrower of any such right of immunity set forth in Clause 21(2) is irrevocably binding on the Borrower and the consent by the Borrower to the jurisdiction of the Courts referred to in Clause 21(3) with respect to matters arising from this Agreement and the provision as contained in Clause 21(1) that Ontario law shall govern this Agreement are also irrevocably binding on the Borrower.
- (j) The Borrower and each Subsidiary (i) has valid leases of or good and marketable title to substantially all its property and assets, real and personal, which are reflected in its Accounts (as defined in Clause 12(1)(f)), subject to no Encumbrance securing Indebtedness of or incurred or assumed by it except as permitted pursuant to Clause 11(5) and listed in

Schedule E hereto and subject to no Encumbrance securing any Indebtedness of any other person and (ii) has not sold or otherwise disposed of any of the properties or assets which are reflected in such Accounts except in the ordinary course of business or as previously disclosed in writing to the Agent.

(k) The Borrower's obligations under this Agreement and the Notes constitute direct unconditional and general obligations of the Borrower and except as permitted by Clause 11(5) rank at least pari passu with all the Borrower's other unsecured indebtedness and obligations for money borrowed and the advance of credit and obligations represented by guarantees now existing.

(1) The Borrower has filed all tax returns for all periods required, which are complete and correct in all material respects, and has paid or caused to be paid all Taxes, assessments and governmental charges which have become due and no material claims are being asserted with respect to Taxes for prior years except such as have been adequately provided for by appropriate reserves.

(2) The representations and warranties set out in Clause 12(1) shall survive the execution of this Agreement and the borrowing of the Loans hereunder and shall be deemed to be repeated at the time of the giving of the Notice of Borrowing and at the time for the making of the Loans and on each Interest Date as if made at each such time.

13. Events of Default

If for any reason (whether such event or circumstance shall occur or come about voluntarily or involuntarily, by operation of law or pursuant to or in compliance with any judgment, decree, order, directive, law or regulation of any court, tribunal or governmental authority or otherwise):-

(a) the Borrower shall (i) fail to pay when due any Note, any principal of or interest on the Loans or any amount payable pursuant to Clause 15(2), or (ii) fail to pay any other amount payable hereunder within thirty days after the due date therefor; or

(b) the Borrower shall fail to perform or observe any of the undertakings or agreements to be performed or observed by it pursuant to either of Clauses 11(4) or 11(5) or 11(8); or

(c) the Borrower shall fail to perform or observe any undertaking or agreement to be performed or observed by it hereunder (other than those referred to in sub-clauses (a) and (b) above) or the Guarantor shall fail to perform or observe any undertaking or agreement to

01 be performed or observed by it under the Guarantee and,
02 if such failure is capable of remedy, it shall not have
03 been remedied within thirty days after the occurrence
04 thereof; or
05

06 (d) any representation, warranty or statement made or
07 repeated by or in respect of the Borrower or the Guar-
08 antor in this Agreement or the Guarantee or made in any
09 certificate, statement, document or opinion delivered
10 by or on behalf of the Borrower or the Guarantor under
11 or in connection with this Agreement or the Guarantee
12 shall be incorrect in any material respect at the time
13 made or repeated or would be incorrect in any material
14 respect if made or repeated at any other time; or
15

16 (e) (i) any default shall occur and be continuing under
17 any other agreement involving External Indebtedness to
18 which the Borrower or any of its Subsidiaries is a
19 party as a borrower or obligor which gives to the
20 creditor or holder of the obligation concerned the
21 right to accelerate such External Indebtedness,
22 PROVIDED THAT in respect of External Indebtedness
23 relating to the deferred purchase price of property or
24 services, any failure to pay the same shall not
25 constitute an Event of Default if the Borrower or any
26 such Subsidiary disputes in good faith the obligation
27 to make such payment; or
28

29 (ii) the Borrower or any Subsidiary shall fail to pay
30 any Indebtedness when due under any agreement to which
31 it is a party with any private financial institution
32 doing business in Brazil (other than Brazilian federal
33 or state financial institutions) if the amount of such
34 payment, when aggregated with any amount then due but
35 not paid under all other such agreements to which it is
36 a party (except any payment with respect to which it
37 disputes in good faith the obligation to make such
38 payment) equals or exceeds the equivalent of
39 \$10,000,000, and is not paid within 30 days from the
40 due date; or
41

42 (iii) the Guarantor shall fail to pay on the due date
43 for payment thereof (whether at maturity, upon
44 acceleration or otherwise) any obligation with respect
45 to any External Indebtedness of the Guarantor, or any
46 default or other event shall occur and be continuing
47 under any other agreement involving External
48 Indebtedness of the Guarantor if the effect of such
49 default or event is to accelerate or to permit any
50 holder to accelerate (whether or not any required
51 notice has been given but giving effect to any

01 permitted grace period) the maturity of such External
02 Indebtedness provided, however, that such failure to
03 pay shall not constitute a Default if (a) in the
04 aggregate such unpaid amounts shall not exceed
05 \$10,000,000 (or its equivalent) and (b) the obligation
06 to pay such amount shall not have resulted from
07 acceleration and (c) such amount shall be paid within
08 30 days of such due date, and provided further that
09 such failure to pay shall not constitute a Default
10 where the amount unpaid either has been, or has not
11 been but is in the process of active negotiation to be,
12 rescheduled or refinanced under the Paris Club
13 Agreement (as defined in the Project B Agreement); or
14

15 (f) any authorisation, approval, consent, licence, decree,
16 registration, publication, notarisation or other
17 requirement of any governmental or public body or
18 authority necessary to enable or permit the Borrower to
19 comply with its obligations hereunder or under the
20 Notes or the Guarantor to comply with its obligations
21 under the Guarantee or the Avals or required for the
22 validity or enforceability of any such obligations
23 shall be revoked, withdrawn or withheld or shall
24 otherwise fail to remain in full force and effect and
25 such situation, if capable of remedy within 30 days,
26 shall not be remedied within 30 days after the
27 occurrence thereof or any law, decree or directive of
28 any competent authority of or in Brazil shall be
29 enacted or issued which shall impair the ability or
30 right of the Borrower or the Guarantor to perform such
31 obligations; or
32

33 (g) (i) there shall have occurred the termination of
34 existence, liquidation, winding-up, concordat or
35 bankruptcy (if applicable) of the Borrower in any
36 applicable jurisdiction or any order shall be made or
37 any resolution, law or regulation shall be passed or
38 issued for such termination, liquidation, winding-up,
39 concordat or bankruptcy (if applicable) or an
40 application for any thereof shall be made; or
41

42 (ii) there shall have occurred an arrangement with
43 creditors of the Borrower or any similar proceeding or
44 arrangement by which the assets of the Borrower are
45 submitted to the control of its creditors or an
46 application for any thereof shall be made; or
47

48 (iii) there shall be appointed a liquidator, trustee,
49 receiver or similar officer of the Borrower or for
50 all or any part of the assets of any such entity or an
51 application for any such appointment shall be made; or
52

(iv) all or any substantial part of the assets of the Borrower shall be levied or attached or distrained upon or shall become subject at any time to any final order of court or other process; or

(v) the Borrower shall become insolvent or be declared insolvent by a competent court or governmental authority or shall admit in writing its inability to pay its debts as they fall due; or

(h) the Borrower shall cease to carry on the whole or any substantial part of the business conducted by it at or at any time after the date hereof; or

(i) all or any substantial part of the property or assets of the Borrower shall be condemned, seized or otherwise appropriated or custody thereof shall be assumed by any governmental authority, court or other person purporting to act under the authority of government, or the Borrower shall be prevented from exercising normal control over all or a substantial part of its property, assets or business for a period exceeding 30 days; or

(j) The State of Mato Grosso shall cease to own beneficially directly or indirectly at least fifty-one per cent. (51%) of the capital stock of the Borrower with voting powers, or the Guarantor shall cease to be a member in good standing of the International Monetary Fund; or

(k) any or all of the obligations of the Guarantor under the Guarantee or any of the Avals shall be void or unenforceable or shall not for any reason be in full force and effect or the Borrower, the Guarantor or any court, governmental or other authority of or in Brazil shall so declare or allege; or

(l) any event shall occur, or any circumstance shall arise, which gives grounds for believing that the Borrower or the Guarantor shall not be able to perform or observe in the normal course their respective obligations under this Agreement, the Notes, the Avals or the Guarantee; or

(m) Project A Agreement, or Project B Agreement, or Project I Agreement (1983) or Project II Agreement (1983) or any of the provisions of any of them (including but not limited to Section 3.3 of the Project A Agreement and Section 3.4 of the Project I Agreement (1983) shall at any time for any reason cease to be in full force and effect, be declared to be void and illegal or shall be repudiated or the validity or enforceability thereof

01 shall at any time be contested by any party thereto
02 (the result of which might materially adversely affect
03 the implementation, validity, legality or
04 enforceability thereof) or any party thereto shall deny
05 that it has any, or any further, liability or
06 obligation thereunder, or any "event of default" (as
07 defined in Project A Agreement and the Project I
08 Agreement (1983)) or "event of termination" (as defined
09 in Project B Agreement and the Project II Agreement
10 (1983)) or any event which with the giving of notice
11 and/or the lapse of time and/or the satisfaction of any
12 other condition might become such an event of default
13 or event of termination shall occur or the basic
14 commitments of the committing banks (as such
15 expressions are defined in Project A Agreement) shall
16 be suspended or shall terminate for any reason
17 whatsoever; or
18

19 (n) a declaration is made by the Borrower or the Guarantor
20 which is effective to postpone the enforcement of
21 creditors' rights in respect of or affecting all or a
22 material part of the Borrower's External Indebtedness;
23 or
24

25 (o) any government or governmental agency in Brazil shall
26 have taken any action which has materially adversely
27 affected or will materially adversely affect the
28 Borrower's ability to repay the Loans, and such action
29 shall not have been rescinded or modified, and the
30 adverse effects thereof shall not have been eliminated
31 within thirty days after written notice of such action
32 shall have been given to the Borrower by the Agent; or
33

34 (p) any necessary consent or authorization required for any
35 transfer of money under this Agreement, the Notes, the
36 Avals or the Guarantee out of Brazil shall fail to be
37 issued or shall cease to be in full force and effect;
38 or
39

40 (q) any other event shall occur or any legislation shall be
41 enacted or decree adopted in Brazil which materially
42 and adversely affects the ability of the Borrower or
43 the Guarantor to meet their respective obligations
44 under this Agreement, the Notes, the Avals or the
45 Guarantee;
46

47 then and in any such event, and at any time thereafter if any
48 such event shall then be continuing, the Agent may and, upon
49 the instructions of the Majority Banks, shall, by written
50 notice to the Borrower:-
51

(i) declare that the obligations of the Banks to the Borrower hereunder shall be terminated forthwith and the Total Commitments reduced to nil, whereupon the same shall be so terminated and reduced forthwith; and/or

(ii) declare the Loans immediately due and payable whereupon the Loans shall become immediately due and payable together with all interest accrued thereon without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower; and/or

(iii) declare all fees and other amounts payable hereunder to be due and payable without presentment, demand, protest or other notice of any kind all of which are hereby expressly waived by the Borrower.

Notwithstanding the use of the future tense in sub-clauses(a) to (o) (both inclusive) above, any event or circumstance which occurs on, or which has occurred prior to but continues on, the date hereof shall constitute an event falling within such sub-clauses if it would have done had this Agreement been executed prior to the occurrence thereof. Neither the execution of this Agreement, nor the giving of any notices by the Agent pursuant to Clause 3, or the making of the Loans shall constitute a waiver of any event or circumstance constituting a Default hereunder (whether by reason of the immediately preceding sentence or otherwise) or prejudice any rights, remedies or powers of the Agent and/or any Bank hereunder in respect thereof.

14. Indemnities

(1) The Borrower hereby agrees to indemnify the Agent and each Bank against any costs or expenses which the Agent or such Bank shall certify as sustained or incurred by it as a consequence of (a) any default in payment on the due date of the principal of the Loans or any part thereof or interest accrued thereon or any other amount payable hereunder or under the Notes, (b) the occurrence of any Default and/or the acceleration of the Loans pursuant to Clause 13, or (c) the Loans not for any reason (other than default by the Agent or any Bank) being borrowed on the Drawdown Date including but not limited to any costs or expenses sustained or incurred on account of funds acquired, contracted for or utilised to fund or maintain the Loans or any part thereof or the amount in payment of which the Borrower is in default.

(2) Each certificate given pursuant to this Clause shall show, in reasonable detail, the basis for the costs and expenses therein claimed and shall, in the absence of manifest error, be conclusive and binding on the Borrower.

01
02 15. Fees, Expenses and Stamp Taxes
03

04 (1) The Borrower shall reimburse to the Agent on demand by the
05 Agent and subject to the presentation of a duly legalised
06 invoice accompanied by the respective corroborating
07 documents up to a maximum of \$15,000 for all out-of-pocket
08 charges and expenses incurred by the Agent and the Banks in
09 or in connection with the negotiation, preparation and
10 execution of this Agreement and the Guarantee (including,
11 but not limited to, the fees and expenses of
12 legal advisers). The Borrower shall also reimburse the
13 Agent and the Banks on demand for all charges and expenses
14 incurred by them or any of them in connection with the
15 enforcement of, or the preservation of any rights under,
16 this Agreement, the Notes, the Guarantee or the Avals
17 (including, but not limited to, the fees and expenses of
18 their respective legal advisers).
19

20 (2) (a) On the earlier of (i) five Business Days after the date
21 of the registration of the Loans with Banco Central and
22 (ii) sixty days after the Drawdown Date the Borrower
23 shall pay to the Agent a management fee equal to one
24 per cent. (1%) of the amount of the Total Commitments
25 (in the case of the Canadian Prime Commitment in
26 Canadian Dollars) for the account of the Agent and the
27 Banks, to be allocated among the Agent and the Banks as
28 they shall agree. Any sum which as of the date payment
29 is due under this sub-clause has been paid to a Bank by
30 Banco Central under Project A Agreement or Project B
31 Agreement as a facility fee or fee, respectively, shall
32 be deducted from sums which would otherwise be payable
33 to such Bank under this sub-clause (insofar as not
34 already deducted in respect of other loan agreements).
35 If any Bank claims that as of the date a payment is due
36 under this sub-clause it has not received payment from
37 Banco Central of any such fee under Project A Agreement
38 and/or Project B Agreement at least equal to the sum
39 which would otherwise be due to such Bank under this
40 sub-clause, it shall notify the Agent in writing of the
41 amount such Bank claims is owed to it under the
42 provisions of this sub-clause as of the date of such
43 notice. The Agent shall transmit such notice to the
44 Borrower with a copy to Banco Central: Attention
45 FIRCE. The Borrower and such Bank shall thereafter
46 negotiate directly on the claim of any such Bank under
47 the provisions of this sub-clause and after sending out
48 said notice, the Agent shall have no duty to take any
49 further action with respect to any such claims; and

(b) The Borrower shall pay to the Agent for its own account in advance an annual agency fee of \$2,000 with the first such payment to be payable within five Business Days after the registration of the Loans with Banco Central. Subsequent payments of such fee shall be made on each anniversary of the date of this Agreement.

- (3) The Borrower shall pay, and indemnify the Agent and the Banks against, any and all stamp, registration, transfer and similar Taxes which may be payable or determined to be payable on or in connection with the execution, delivery, performance or enforcement of any of this Agreement, the Notes, the Guarantee or the Avals. The Borrower shall pay and shall indemnify the Agent and the Banks against any and all penalties and liabilities with respect to or resulting from delay or omission to pay any such Taxes.

16. Waivers, Remedies Cumulative

No failure to exercise and no delay in exercising on the part of the Agent or any Bank, any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder or under the Notes preclude any other or further exercise thereof, or the exercise of any other right, power or privilege hereunder. The rights and remedies provided herein and in the Notes are cumulative and not exclusive of any rights or remedies provided by law.

17. Control Accounts

The Agent will maintain and keep accounts showing the aggregate amount of all sums advanced by, and from time to time outstanding from the Banks to the Borrower hereunder, the interest and other charges accrued thereon from time to time and all payments with respect thereto from time to time made to the Agent for the account of the Banks by the Borrower pursuant to this Agreement or the Notes or by the Guarantor pursuant to the Guarantee or the Avals. The accounts kept by the Agent shall constitute prima facie evidence of such sums advanced and outstanding, of such accruals and of such payments.

18. The Agent and the Banks

- (1) Each Bank hereby irrevocably appoints and authorises the Agent to act as its agent hereunder with such powers as are expressly delegated to the Agent by the terms of this Agreement, together with such other powers as are reasonably incidental thereto. The Agent shall have no duties or responsibilities except those expressly set out in this Agreement. As to any matters not expressly provided for by this Agreement, the Agent shall act hereunder or in

01 connection herewith in accordance with the instructions of
02 the Majority Banks but, in the absence of any such
03 instructions, the Agent may act or refrain from acting as it
04 shall deem to be in the best interests of the Banks, and any
05 such instructions and any action taken by the Agent in
06 accordance herewith shall be binding upon the Banks. The
07 Agent shall not, by reason of this Agreement, be deemed to
08 be a trustee for the benefit of any Bank, the Borrower or
09 any other person. Neither the Agent nor its directors,
10 officers, employees, or agents shall be responsible to the
11 Banks for any recitals, statements, representations or
12 warranties contained in this Agreement, the Guarantee or any
13 information pertaining to the Borrower or the Guarantor or
14 in any certificate or other document referred to, or
15 provided for in, or received by any of them under, this
16 Agreement or the Guarantee, for the value, validity,
17 effectiveness, genuineness, enforceability or sufficiency of
18 this Agreement, the Guarantee, the Notes, the Avals or any
19 other document referred to or provided for herein or therein
20 or any collateral provided for hereby or thereby or for any
21 failure by the Borrower to perform its obligations hereunder
22 or under the Notes or by the Guarantor to perform its
23 obligations under the Guarantee or the Avals. The Agent
24 may employ agents and attorneys-in-fact and shall not be
25 responsible to the Banks for the negligence or misconduct of
26 any such agents or attorneys-in-fact selected by it with
27 reasonable care. Neither the Agent nor any of its
28 directors, officers, employees or agents shall be
29 responsible to the Banks for any action taken or omitted to
30 be taken by it or them under this Agreement or in connection
31 herewith or with the Guarantee, the Notes or the Avals,
32 except for its or their own gross negligence or wilful
33 misconduct.
34

35 (2) The Agent shall be entitled to rely upon any certificate,
36 notice or other document (including any cable, telegram, or
37 telex) believed by it to be genuine and correct and to have
38 been signed or sent by or on behalf of the proper person or
39 persons, and upon the advice and statements of legal counsel
40 and other experts selected by the Agent. The Agent may deem
41 and treat each Bank (or assignee of any Bank of which the
42 Agent has received notice as provided in this sentence) as
43 the holder of the participation in the Loans made by such
44 Bank (or as the holder of such participation acquired by
45 such assignee) for all purposes hereof unless and until a
46 notice of the assignment or transfer thereof satisfactory to
47 the Agent signed by such Bank (or such assignee) shall have
48 been furnished to the Agent.
49

50 (3) The Agent shall not be deemed to have knowledge of the
51 occurrence of any Default unless the Agent has received
52 notice from a Bank or the Borrower or the Guarantor
53 describing such Default and stating that such notice is a
54 "Notice of Default". In the event that the Agent receives
55

such a notice of the occurrence of a Default the Agent shall give notice thereof to the Banks. The Agent shall take such action with respect to such Default as shall be reasonably directed by the Majority Banks, provided that, unless and until the Agent shall have received such directions, the Agent may act, or refrain from acting, with respect to such Default, as it shall deem in the best interest of the Banks.

(4) With respect to its Commitment and participation in the Loans (if any) the Agent shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not the Agent and the term "Bank" or "Banks" and any similar term shall, unless the context clearly otherwise indicates, include the Agent. The Agent and its associated companies may accept deposits from, lend money to and generally engage in any kind of banking, trust or other business with the Borrower or the Guarantor as if it were not the Agent or, as the case may be, an associated company thereof, and it may accept and retain any fees payable to it for its own account in connection with the transactions contemplated hereby, without having to account therefor to any Bank.

(5) The Banks agree to indemnify the Agent (to the extent not reimbursed by the Borrower hereunder or by the Guarantor under the Guarantee but without affecting the obligations of the Borrower hereunder) rateably in accordance with their respective participations in the Loans as set out in Dollars (in the case of the Canadian Prime Loan, the Dollar Equivalent thereof on the date hereof) in the Commitment Schedule preceding the execution pages of this Agreement (or, if no Loans are then outstanding hereunder, rateably in accordance with their respective Commitments), for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, stamp Taxes or disbursements of any kind and nature whatsoever which may be imposed on, incurred by, or asserted against the Agent in its capacity as such in any way relating to or arising out of this Agreement, the Guarantee, the Notes, the Avals or any other documents contemplated by or referred to herein or therein or the transactions contemplated hereby and thereby (including, without limitation, the costs and expenses which the Borrower is obligated to pay under Clause 15(1) but excluding normal administrative costs and expenses incidental to the performance of its agency duties hereunder save to the extent that the same are increased as a result of the occurrence of a Default) or the enforcement of any of the terms hereof or thereof or the preservation of any rights hereunder or thereunder, provided that no Bank shall be liable for any of the foregoing to the extent they arise from the Agent's gross negligence or wilful misconduct.

(6) Promptly after its receipt thereof, the Agent will forward to each Bank a copy of each report, notice or other document required by this Agreement or the Guarantee to be delivered to the Agent by the Borrower or the Guarantor for such Bank, provided that the Agent shall not be obliged to forward to any Bank a copy of any document received by it under Clause 10(1) unless such Bank so requests in writing.

(7) Each Bank acknowledges that it has, independently and without reliance on the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own investigation of the affairs and financial condition of the Borrower and the Guarantor and agrees that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement and the Guarantee. The Agent shall not be required to keep itself informed as to the performance or observance by the Borrower of this Agreement or the Notes or by the Guarantor of the Guarantee or the Avals or of any other document referred to or provided for herein or in connection herewith or to inspect the properties or books of the Borrower or any other person. Except (in the case of the Agent) for notices and other documents expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the affairs, financial condition or business of the Borrower, the Guarantor or any other person which may come into the possession of the Agent or any of its associated companies. Nothing in this Agreement shall oblige the Agent to disclose any information relating to the Borrower or the Guarantor or any other person if such disclosure would or might in the opinion of the Agent constitute a breach of law or duty of secrecy or confidence.

(8) The Agent may resign by giving written notice thereof to the Banks and the Borrower, and the Agent may be removed by written notice at any time with or without cause by the Majority Banks and in either event the Majority Banks shall have the right, on behalf of the Banks, to appoint a successor Agent. If, within 30 days after the retiring Agent's giving notice of resignation or 30 days after the notice of removal from the Majority Banks, as the case may be, the Majority Banks have not appointed a successor agent which shall also have accepted such appointment, the Agent shall have the right to appoint a successor agent which shall be a reputable and experienced bank agreed to by the Borrower. The resignation or removal of the Agent and the

01 appointment of any successor agent shall become effective
02 upon the successor agent's acceptance of such appointment
03 whereupon such successor agent shall succeed to and become
04 vested with all the rights, powers, privileges and duties of
05 the retiring or removed Agent hereunder and under the
06 Guarantee (the retiring or removed Agent to take such action
07 and execute such instruments as the successor agent may
08 reasonably request in order that the successor agent shall
09 succeed to, and become vested with such rights, powers,
10 privileges and duties). After the effectiveness of any
11 retiring or removed Agent's resignation or removal hereunder
12 as Agent the provisions of this Clause 18 shall continue in
13 effect for its benefit in respect of any actions taken or
14 omitted to be taken by it while it was acting as Agent.
15

16 (9) The Agent shall not have any responsibility (a) to the
17 Borrower on account of the failure of any Bank to perform
18 its obligations hereunder or (b) to any Bank on account of
19 the failure of the Borrower to perform its obligations
20 hereunder or under any Note or of the Guarantor to perform
21 its obligations under the Guarantee or under any of the
22 Avals.
23

24 (10) The Agent may at any time, on giving notice to the other
25 parties hereto, transfer some or all of its agency functions
26 hereunder to any Subsidiary of RBC ("the Alternative Agent")
27 and may thereafter at any time reassume such functions. In
28 this connection it is acknowledged and agreed by the parties
29 hereto that, on signature by the Alternative Agent of a
30 counterpart of this Agreement, the Alternative Agent shall,
31 in respect of those agency functions transferred to it by
32 the Agent, assume the same duties and functions and be
33 exculpated from liability to the same extent and permitted
34 to conduct its business and to exercise all rights,
35 protections and remedies available to it with the same
36 freedom in all respects as is provided in relation to the
37 Agent hereunder. The Agent or, as the case may be, the
38 Alternative Agent, shall be released from all liabilities in
39 respect of those agency functions held from time to time by
40 the Alternative Agent or, as the case may be, the Agent.
41

42 (11) The Agent may perform all or any of its agency functions
43 hereunder or under the Notes through any office or branch of
44 the Agent from time to time selected by it.
45

46 19. Notices

47
48 All notices, requests, demands and other communications to,
49 upon or by the respective parties hereto shall be duly given
50 or made if dispatched in writing, by telex, telegram or
51 cable to the party to which such notice, request, demand or
52 other communication is required or permitted to be given or
53

made under this Agreement, addressed to such party at its address and telex number set out by its name on the signature pages of this Agreement or at such other address as may have been notified in writing by the intended addressee to the party effecting such communication (and any notice to be given or made hereunder in writing shall be deemed to be so given or made if given or made by telex confirmed forthwith thereafter in writing, the telex version of such notice to be the effective version for the purposes hereof). All such notices, requests, demands or other communications, if duly given or made, shall be effective upon receipt, provided that if sent by telex they shall be deemed to be received if and when the addressee's answer-back shall have been received at the end of the transmission.

20. Assignments

- (1) This Agreement and the Notes shall be binding upon and inure to the benefit of the Borrower, the Agent and each Bank and their respective successors and assigns, except that the Borrower may not assign or transfer all or any part of its rights or obligations hereunder or under the Notes without the prior written consent of all the Banks.
- (2) Each Bank may at any time assign or transfer all or any part of its rights or obligations hereunder and under the Notes to any other banking or financial institution but such Bank shall give the Agent prior written notice thereof. The Borrower shall have no liability in respect of any costs or expenses incurred by such Bank or such banking or financial institution in effecting such assignment or transfer. If any such assignment or transfer is, or includes, a transfer of all or any part of the obligations of any Bank hereunder, then, provided that the assignee or transferee shall have confirmed to the Agent, the Borrower and the Guarantor prior to such assignment or transfer taking effect that it undertakes to be bound by the terms of this Agreement and accepts all the terms hereof relating to the obligations to be transferred and provided further that, any such transfer does not immediately result in an increase in the cost to the Borrower of performing its obligations under this Agreement by reason of the operation of Clauses 7(2) or 9(1), such Bank shall, upon such assignment or transfer being effected in accordance with this Clause 20(2), be relieved of its obligations hereunder to the extent of the transfer thereof.
- (3) Each Bank may disclose to a proposed assignee, transferee or sub-participant information in the possession of such Bank relating to the Borrower and the Guarantor and furnished in connection herewith.

- (4) Each Bank may at any time and from time to time change its Lending Office, but such Bank shall give the Agent prior written notice thereof.

21. Law and Jurisdiction

- (1) This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.
- (2) The Borrower agrees that this Agreement and the Notes and the transactions contemplated herein constitute a commercial activity within the meaning of the State Immunity Act of Canada and that this Agreement, the Notes and the transactions contemplated herein are subject to the chosen domestic, private and commercial law, and not international or public law, and the Borrower hereby irrevocably waives any right of immunity which it or any of its assets (irrespective of their use or intended use) has or may acquire in respect of its obligations hereunder and under the Notes and submits irrevocably to the non-exclusive jurisdiction of the courts of the Province of Ontario, Canada, of the State courts or the Federal courts in the State of New York, U.S.A., and of the courts of Brazil in relation to any suit, action or proceeding arising out of or relating to this Agreement or any Note, acknowledges their competence, irrevocably agrees to be bound by a final judgment of any such courts and irrevocably waives for itself and its assets (irrespective of their use or intended use) any immunity from jurisdiction or suit, from attachment before and after judgment, attachment in aid of execution of judgment (and in an action in rem, arrest, detention, seizure and forfeiture) or from execution of a judgment, or other legal process (including without limitation, relief by way of injunction or specific performance), to which it or any of its assets may otherwise be entitled in any jurisdiction in any suit or proceeding arising out of or relating to this Agreement or any Note, and hereby further irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.
- (3) With respect to any such action or proceeding commenced (a) in the courts of the Province of Ontario, Canada, the Borrower irrevocably designates, appoints and empowers CT Corporation System (Canada) Ltd., with offices on the date of this Agreement at 141 Laurier Avenue, West, Ottawa, Ontario, Canada K1P 5J3 as its authorized agent for service of process in any such action or proceedings with respect to this Agreement in the Province of Ontario, (b) in the State courts or the Federal courts in the State of New York, U.S.A., the Borrower irrevocably designates, appoints and

empowers CT Corporation System, 1633 Broadway, New York, New York 10019, U.S.A. as its authorized agent for service of process in any such action or proceeding with respect to this Agreement or any Note in the State of New York, in addition to any other proper method of service, service in such manner being hereby acknowledged by the Borrower to be binding upon it and its assets in every respect. The Borrower agrees that it will at all times maintain an agent to receive service of process in the Province of Ontario and in the State of New York on its behalf with respect to this Agreement and in the event that, for any reason, either of the process agents named above shall no longer serve as agent of the Borrower for service of process in the Province of Ontario or the State of New York, the Borrower shall promptly appoint a successor so to serve and advise the Banks thereof. Nothing herein shall be deemed to affect the rights of the Banks to commence action against the Borrower in any other court having jurisdiction in the circumstances.

- (4) Without prejudice to anything herein contained, in the event that any action or proceedings with respect to this Agreement or the Notes are brought in the Courts of Brazil, it is agreed that (a) in order that this Agreement shall be considered to be a valid and enforceable instrument evidencing indebtedness of the Borrower for a sum certain ("Titulo de divida liquida, certa e exigivel") as provided under Section 586 of the Code of Civil Procedure of the Federative Republic of Brazil, this Agreement shall bear the signature of two witnesses in accordance with Section 585 (II) of such Code of Civil Procedure, and (b) the Agent and the Banks shall have the right to institute legal action for the payment and collection of any sum payable under this Agreement in the manner provided in Sections 646 through 729 of the aforesaid Code of Civil Procedure, using this Agreement as the competent instrument for such purpose.

22. Redistribution of Payments

If any Bank at any time shall receive or recover (whether by way of voluntary or involuntary payment or by virtue of an exercise of its legal rights) the whole or any part of any amounts due from the Borrower to such Bank or to the Agent on behalf of such Bank hereunder or under the Notes or under the Guarantee otherwise than by distribution from the Agent under the terms of this Agreement, then:-

- (1) such Bank ("the Paying Bank") shall promptly (and in any event within ten Business Days) pay to the Agent the full amount so received or recovered;
- (2) as between the Borrower and the Paying Bank, the Borrower shall remain or again become indebted to such Paying Bank hereunder in the amount so paid as if it had not been received or recovered as aforesaid; and

01 (3) the Agent shall treat the amount so paid as if it were
02 a payment by the Borrower on account of amounts due
03 from the Borrower hereunder or, as the case may be, the
04 Guarantor for distribution to the Paying Bank and each
05 of the other Banks in the proportions in which the
06 Paying Bank and the other Banks would have been
07 entitled to receive such amount had it been paid by the
08 Borrower to the Agent hereunder
09

10 PROVIDED THAT

11
12 (a) a Paying Bank which shall have commenced or joined in
13 an action or proceeding in any court to recover sums
14 due to it under this Agreement or the Notes or the
15 Guarantee and pursuant to a judgment obtained therein
16 or a settlement or compromise of that action or
17 proceeding shall have received any amount, shall not be
18 required to share any proportion of that amount with
19 a Bank which has the legal right to, but does not, join
20 such action or proceeding or commence and diligently
21 prosecute a separate action or proceeding to enforce
22 its rights in the same or another court; and
23

24 (b) every payment and adjustment made pursuant to this
25 sub-clause shall be subject to the condition that if
26 such amount (or any part thereof) subsequently must be
27 repaid by the Paying Bank to the Borrower or the
28 Guarantor or any third person, as the case may be, the
29 Agent (if it holds the same) and each of the Banks who
30 has received any part thereof from the Agent shall
31 repay such amount (or the relevant part as the case may
32 be) to the Paying Bank together with such amount (if
33 any) as is necessary to reimburse the Paying Bank the
34 appropriate portion of any interest it shall have been
35 obliged to pay, when repaying such amount as aforesaid
36 and the relevant adjustments pursuant to this sub-
37 clause shall be cancelled.
38

39 Each Bank exercising any rights giving rise to a receipt or
40 receiving any payment of the type referred to in this Clause
41 or instituting legal proceedings to recover sums owing to it
42 under this Agreement or the Notes or the Guarantee shall as
43 soon as reasonably practicable thereafter (and in any event
44 within ten Business Days) give notice thereof to the Agent
45 who shall give notice to the other Banks.
46

47 23. Miscellaneous

48
49 (1) Each notice, demand or other similar communication given by
50 one party to another hereunder shall be in the English
51 language. Copies of laws and of regulations and official
52 licences, authorisations, consents and other documents
53 issued and/or attested by public authorities in Brazil,

01 shall either be in the English language or in the Portuguese
02 language accompanied by a certified true English translation
03 (and in the case of conflict between the Portuguese language
04 version and such translation, the Portuguese language
05 version shall prevail). In case of doubt as to the proper
06 interpretation of this Agreement, this original English
07 version shall be controlling over any Portuguese or other
08 translation hereof.
09

10 (2) This Agreement may be executed in any number of counterparts
11 and by the different parties on different counterparts and
12 all of such counterparts taken together shall be deemed to
13 constitute one and the same instrument.
14

15 (3) Any provision in this Agreement which is prohibited or
16 unenforceable in any jurisdiction shall, as to such
17 jurisdiction, be ineffective to the extent of such
18 prohibition or unenforceability without invalidating the
19 remaining provisions hereof or affecting the validity or
20 enforceability of such provision in any other jurisdiction.
21

22 (4) This Agreement and the other agreements referred to herein
23 constitute the entire agreement among the parties hereto
24 with respect to the subject matter hereof and supersede all
25 prior arrangements and understandings, both written and
26 oral, between such parties.
27

28 (5) The obligations of the Borrower hereunder shall remain in
29 full force and effect until the Agent and each Bank shall
30 have received all amounts due or to become due to them
31 hereunder in accordance with the terms hereof.
32

33 (6) A Bank which makes any demand under the Guarantee or
34 commences proceedings or takes any other action against the
35 Borrower or the Guarantor shall first give notice of its
36 intention so to do to the Agent and the other Banks.
37

38 IN WITNESS whereof the parties hereto have caused this Agreement
39 to be duly executed on the day first written above.
40
41
42
43
44
45
46
47
48
49
50
51

SCHEDULE A

PART I

NOTICE OF BORROWING

[], 1986

THE ROYAL BANK OF CANADA
Foreign Banking Centre
P.O. Box N-7141
Nassau, N.P., Bahamas

Attention: Loans Department

Dear Sirs,

NOTICE OF BORROWING
CREDIT AGREEMENT DATED [], 1986

We refer to the Credit Agreement (the "Agreement") dated [], 1986 and made between Companhia de Desenvolvimento do Estado de Mato Grosso - CODEMAT, as Borrower, The Royal Bank of Canada, Nassau, N.P., Bahamas, Canadian Imperial Bank of Commerce Trust Company (Bahamas) Limited and Libra Bank Plc. (the "Banks"), and yourselves as Agent for the Banks. Terms defined in the Agreement shall have the same meaning when used herein as in the Agreement.

We hereby give you irrevocable notice in accordance with Clause 3(2) of the Agreement that we desire to borrow Ten Million United States Dollars and the Canadian Dollar Equivalent of Five Million United States Dollars, but such latter amount not to exceed Seven Million Canadian Dollars (Cdn\$7,000,000), on [].

We hereby certify to you and to the Banks that the facts represented by the Borrower set out in Clause 12(1) of the Agreement are true and correct on the date hereof as if represented by the Borrower on such date, and that no Default has occurred and is continuing on the date hereof or will result from the making of this borrowing on the date requested in this Notice of Borrowing.

For and on behalf of
COMPANHIA DE DESENVOLVIMENTO
DO ESTADO DE MATO GROSSO - CODEMAT

By:

Name:

Title:

01 SCHEDULE A

02 PART II

03 GUARANTOR'S CERTIFICATE

04 [_____] , 1986

05 THE ROYAL BANK OF CANADA
06 Foreign Banking Centre
07 P.O. Box N-7141
08 Nassau, N.P., Bahamas

09 Attention: Loans Department

10 Dear Sirs,

11 GUARANTOR'S CERTIFICATE
12 CREDIT AGREEMENT DATED [_____] , 1986

13 We refer to the Credit Agreement (the "Agreement") dated [_____] , 1986 and made between Companhia de
14 Desenvolvimento do Estado de Mato Grosso - CODEMAT, as Borrower,
15 The Royal Bank of Canada, Nassau, N.P., Bahamas, Canadian
16 Imperial Bank of Commerce Trust Company (Bahamas) Limited and
17 Libra Bank Plc. (the "Banks"), and yourselves as Agent for the
18 Banks, and to the guarantee (the "Guarantee") dated [_____] , 1986 and issued by The Federative Republic of Brazil
19 (the "Guarantor") pursuant to the Agreement.

20 In accordance with Clause 10(2) of the Agreement we hereby
21 certify to you, as Agent for the Banks, and to the Banks, that
22 the facts represented by the Guarantor set out in Clause 9(a) of
23 the Guarantee are true and accurate on the date hereof as if
24 represented by the Guarantor on such date.

25 For and on behalf of
26 THE FEDERATIVE REPUBLIC OF BRAZIL

27 By:

28 Name:

29 Title:

SCHEDULE A

PART III

NOTICE OF INTENDED DISBURSEMENT

To: Banco Central do Brasil
Departamento de Fiscalizacao
e Registro de Capitais Estrangeiros
- FIRCE ("Banco Central/FIRCE/Direg/Seref")
Telex No: (061) 1831

Gentlemen:

Reference is made to (1) a certain agreement (the "Loan Agreement") dated [], 1986 between Companhia de Desenvolvimento do Estado de Mato Grosso - CODEMAT, (the "Borrower"), The Royal Bank of Canada, Nassau, N.P., Bahamas, Canadian Imperial Bank of Commerce Trust Company (Bahamas) Limited and Libra Bank Plc. (the "Banks") and The Royal Bank of Canada, Nassau, Bahamas, as agent for the Banks (the "Agent"); (2) the Credit and Guaranty Agreement (the "Project A Agreement") dated as of January 27, 1984 among Banco Central do Brasil ("Banco Central") as borrower, the Guarantor as guarantor, the banks named therein and Morgan Guaranty Trust Company of New York as agent for such banks; and (3) the Deposit Facility Agreement (the "Project B Agreement") dated as of January 27, 1984 among Banco Central as borrower, the Guarantor as guarantor, the banks named therein and Citibank, N.A. as agent for such banks. Terms used and not otherwise defined herein shall have the meanings attributed thereto in the Loan Agreement.

On behalf of each Bank specified in Annex 2 hereto, the Agent hereby gives notice to Banco Central/FIRCE, as required by Section 3.3 of the Project A Agreement and Section 2.02(a) of the Project B Agreement, that no later than 11.00 a.m. (New York time) on [], 1986, the Agent will, subject to fulfilment of the conditions set forth in Clause 10 of the Loan Agreement, execute and deliver to Banco Central/FIRCE a Notice to Disburse in the form of Annex I hereto instructing you to debit such Bank's accounts with you and simultaneously give same day credit to account No. [] of the Borrower at [], Brazil, with the amounts specified in Annex 2 hereto.

Very truly yours,

THE ROYAL BANK OF CANADA
Nassau, N.P., Bahamas, as Agent

By:

Name:

Title:

01 SCHEDULE A

02 PART IV

03 NOTICE TO DISBURSE

04 To: Banco Central do Brasil
05 Departamento de Fiscalizacao
06 e Registro de Capitais Estrangeiros
07 - FIRCE ("Banco Central/FIRCE/Direg/Seref")
08 Telex No: (061) 1831

09 Gentlemen:

10 Reference is made to (1) a certain agreement (the "Loan Agreement")
11 dated [], 1986 between Companhia de
12 Desenvolvimento do Estado de Mato Grosso - CODEMAT (the "Borrower"),
13 The Royal Bank of Canada, Nassau, N.P., Bahamas, Canadian Imperial
14 Bank of Commerce Trust Company (Bahamas) Limited and Libra Bank
15 Plc. (the "Banks") and The Royal Bank of Canada, Nassau, N.P.,
16 Bahamas as agent for the Banks (the "Agent"); (2) the Credit and
17 Guaranty Agreement (the "Project A Agreement") dated as of January
18 27, 1984 among Banco Central do Brasil ("Banco Central") as
19 borrower, the Guarantor as guarantor, the banks named therein and
20 Morgan Guaranty Trust Company of New York as agent for such banks;
21 and (3) the Deposit Facility Agreement (the "Project B Agreement")
22 dated as of January 27, 1984 among Banco Central as Borrower, the
23 Guarantor as guarantor, the banks named therein and Citibank, N.A.
24 as agent for such banks. Terms used and not otherwise defined
25 herein shall have the meanings attributed thereto in the Loan
26 Agreement.

27 The Agent hereby instructs Banco Central/FIRCE, on behalf of each
28 Bank specified in Annex I hereto at or after 11.00 a.m. (New York
29 time) on [], 1986, in accordance with Annex I
30 hereto, to debit such Bank's accounts with you and simultaneously
31 give same day credit to account No. [] of the
32 Borrower at [],
33 Brasil with the amounts specified in Annex 2 hereto.

34 Very truly yours,

35 THE ROYAL BANK OF CANADA, as Agent

36 By:.....

37 Name:.....

38 Title:.....

39 cc: Citibank, N.A.
40 as Agent under the Project B Agreement

41 Morgan Guaranty Trust Company of New York
42 as Agent under the Project A Agreement

43 Companhia de Desenvolvimento do
44 Estado de Mato Grosso - CODEMAT

01 SCHEDULE B

02 CONDITIONS PRECEDENT

- 03
- 04
- 05
- 06 1. The Guarantee, duly executed by the Guarantor.
- 07
- 08 2. Evidence that all authorisations, approvals, consents,
- 09 licences, exemptions, registrations, resolutions and other
- 10 requirements of governmental, public and other bodies and
- 11 authorities (other than the registration of the Loans with
- 12 Banco Central do Brasil in accordance with Law No. 4131 of
- 13 Brazil (as amended)) necessary for the making, performance,
- 14 validity and enforceability of this Agreement, the Notes,
- 15 the Guarantee and the Avals and for the borrowing of the
- 16 Loans have been obtained, including, without limitation,
- 17 copies of:-
- 18
- 19 (a) the authorisation of Banco Central for the Borrower to
- 20 enter into and perform the transactions contemplated by
- 21 this Agreement and the terms hereof;
- 22
- 23 (b) a statement of the Secretary for Planning of the
- 24 Government of Brazil in compliance with Article 4 of
- 25 Decree Law 1312 of February 15, 1974 (as amended);
- 26
- 27 (c) the notification by the Borrower to Banco Central of
- 28 the terms of the Loans (including, without limitation,
- 29 the payment of the fees referred to in Clause 15(2)(a)
- 30 and (b) and the expenses referred to in the first
- 31 sentence of Clause 15(1)) and of documentary evidence
- 32 that, in accordance with Resolution 125 of Banco
- 33 Central (Comunicado Firce 10, as modified by Comunicado
- 34 Firce 21), Banco Central has authorised the Loans;
- 35
- 36 (d) the approval of the Guarantee and the Avals by the
- 37 Minister of Finance of Brazil and the authorisation for
- 38 the making and performance of the Guarantee and the
- 39 endorsement and performance of the Avals by the
- 40 Minister of Finance and/or the Attorney-General for the
- 41 National Treasury of Brazil on behalf of the Guarantor
- 42 and, if said Minister or said Attorney-General himself
- 43 has not executed or will not execute the Guarantee
- 44 and/or any one or more of the Avals, said Minister's
- 45 or said Attorney-General's designation of a special
- 46 attorney-in-fact to execute the same on his behalf on
- 47 behalf of the Guarantor;
- 48
- 49 (e) evidence that a summary in Portuguese of this Agreement
- 50 has been published in the Diario Oficial da Uniao.
- 51
- 52 3. A certified copy of a resolution of the Borrower approving
- 53 the transactions contemplated by this Agreement, authorising
- 54 the making and performance of this Agreement and any other
- 55 documents or instruments contemplated hereby and the
- 56 borrowing of the Loans hereunder.

01 4. Evidence of the authority and specimen signatures of each of
02 the persons (a) who has signed this Agreement on behalf of
03 the Borrower, (b) who will sign the Notes on behalf of the
04 Borrower (c) who has signed the Guarantee on behalf of the
05 Guarantor, (d) who will endorse the Avals on the Notes on
06 behalf of the Guarantor, and (e) who will, until replaced by
07 other persons duly authorised for that purpose, act as the
08 representatives of the Borrower for the purpose of signing
09 documents and giving notices in connection with this
10 Agreement and the transactions contemplated hereby.

11
12 5. A certified copy of the Estatutos (and other relevant
13 constitutional and governing documents) of the Borrower,
14 including all amendments thereto.

15
16 6. The irrevocable acceptance by CT Corporation System (Canada)
17 Ltd., 141 Laurier Avenue, West, Ottawa, Ontario, Canada K1P
18 5J3, and by CT Corporation System, 1633 Broadway, New York,
19 New York 10019, U.S.A. of their respective appointments as
20 the Borrower's agents for service of process in the Province
21 of Ontario and the State of New York, as required by Clause
22 21(3).

23
24 7. The Banks shall not have concluded that there has occurred
25 since the date of this Agreement a material adverse change
26 in the financial condition, economic capabilities or
27 prospects of the Borrower or the Guarantor.

28
29 8. An opinion of a legal adviser to the Borrower (acceptable to
30 the Agent) dated not more than ten Business Days prior to
31 the Drawdown Date and addressed to the Agent and the Banks
32 substantially to the following effect:-

33
34 "I have acted as Legal Counsel to Companhia de
35 Desenvolvimento do Estado de Mato Grosso - Codemat (the
36 "Borrower") in connection with the credit agreement dated
37 [], 1986 (the "Agreement") between the
38 Borrower, the Banks and the Agent (all as defined therein).

39
40 Unless otherwise defined herein, capitalised terms used
41 herein which are defined in the Agreement shall have the
42 same meanings herein as therein.

43
44 Pursuant to the requirements of Clause 10(1) of the
45 Agreement and as Legal Counsel to the Borrower I have been
46 requested to give my legal opinion as to certain matters
47 with respect to the Agreement and the transactions
48 contemplated thereby. In such connection I am of the
49 opinion that:-

50
51 (i) The Borrower is a mixed-capital company (sociedade de
52 economia mista) duly organised, validly existing and in
53 good standing under the laws of Brazil of which the
54 State of Mato Grosso is the controlling shareholder and
55

01 the Borrower has full power, authority and legal right
02 to execute and deliver the Agreement and the Notes and
03 any other instruments and documents contemplated by the
04 Agreement, to incur the indebtedness and other
05 obligations provided for therein, to perform and
06 observe the terms and provisions thereof, and to borrow
07 the Loans under the Agreement. The Agreement has been
08 duly executed and delivered by the Borrower and does,
09 and the Notes when duly executed and delivered for
10 value will, constitute the legal, valid and binding
11 obligations of the Borrower enforceable in accordance
12 with their respective terms and each is and will be in
13 the proper form for the enforcement and admissibility
14 in evidence thereof in the Courts of Brazil without any
15 further registration, filing, consent or other
16 formality or condition (other than those traditionally
17 associated with the commencement of legal actions and
18 the presentation of a Portuguese translation thereof to
19 such Courts). The holder of each Note would be
20 entitled to executory action on such Note against the
21 Borrower in the Courts of Brazil in respect of the
22 non-payment of the principal thereof in accordance with
23 the terms thereof.

24
25 However, no opinion is expressed with regard to Clause
26 8, but, in this connection, the Brazilian Courts,
27 including the Supreme Court, have ruled that a debtor
28 must pay for the creditor to acquire, on the date of
29 actual payment, the amount of the foreign currency owed
30 by the debtor;
31

- 32 (ii) The execution and delivery of the Agreement and the
33 Notes and the performance by the Borrower of the terms
34 of the Agreement and the Notes and the borrowing of the
35 Loans thereunder have been duly authorised by all
36 necessary corporate and other action of the Borrower
37 and do not and will not (1) contravene any provision of
38 any existing law, decree-law, decree, rule or
39 regulation to which the Borrower is subject or any
40 existing judgment, franchise, order or permit
41 applicable to the Borrower, or (2) conflict with, or
42 result in any breach of, any of the terms, covenants,
43 conditions or provisions of, or constitute a default
44 under or result in the creation or imposition of any
45 Encumbrance upon any of the property, assets or
46 revenues of the Borrower pursuant to, the terms of any
47 indenture, deed of trust, mortgage, agreement or other
48 instrument to which the Borrower is a party or by which
49 it may be bound or to which it or any of its
50 properties, assets or revenues may be subject or (3)
51 violate any provision of the Estatutos or resolutions
52 (or other incorporation or governing documents) of the
53 Borrower;

01 (iii) Payments by the Borrower of interest under the
02 Agreement and of the fees referred to in Clause 15(2)
03 are required to be made subject to Brazilian
04 Withholding Tax unless an exemption therefrom is
05 obtained. In the absence of any such exemption, then,
06 since the Borrower has, by Clause 7(2) of the
07 Agreement, undertaken to pay such Tax directly to the
08 appropriate Taxation authorities, such Tax must be
09 deducted from such payments at the rate of 25 per
10 cent. (as currently in force) but the obligation of the
11 Borrower to pay certain additional amounts in respect
12 of such deduction in accordance with such Clause 7(2)
13 is valid and enforceable under Brazilian Law. The
14 Borrower is not required by Brazilian Law to make any
15 other deduction or withholding from any payment to be
16 made by the Borrower under the Agreement or the Notes
17 nor does Brazilian law subject any such payment to any
18 other Tax whatsoever;

19 (iv) All authorisations, approvals, consents, licences,
20 registrations, notarisations and other requirements of
21 governmental and public bodies and authorities required
22 in connection with the execution, delivery,
23 performance, validity or enforceability of the
24 Agreement and the Notes or of any other document
25 therein referred to and the borrowing of the Loans
26 under the Agreement have been obtained or effected and
27 are in full force and effect, including, without
28 limitation, those referred to in paragraphs 2(a) - (c)
29 (inclusive) and 2(f) of Schedule B, but excepting the
30 registration of the Loans with Banco Central in
31 accordance with Law No. 4131 of Brazil (as amended),
32 provided however that the purchase and remittance of
33 foreign exchange for the purpose of making all payments
34 required to be made by the Borrower under the Agreement
35 (including, without limitation, payments of principal
36 and interest prior to the scheduled payment dates
37 therefor and all indemnification payments which may be
38 required under the Agreement) other than payments of
39 interest charged under Clause 6(2) and (3) of fees and
40 expenses in accordance with Clauses 15(1) (first
41 sentence) and 15(2) and of principal on the Loans on
42 the respective scheduled payment dates therefor as
43 contemplated in the certificate of registration to be
44 issued by Banco Central in respect of the Loans, will
45 require the prior approval of Banco Central at the time
46 of each such payment. I know of no reason why the
47 Loans should not, upon the borrowing thereof but after
48 application for such registration in accordance with
49 Brazilian Law, be registered by Banco Central in
50 accordance with Law No. 4131 of Brazil;

- 01 (v) The persons executing the Agreement and the Notes have
02 the right, power and authority to execute and deliver
03 the Agreement and the Notes on behalf of the Borrower
04 and have the right to give any certificates or notices
05 to the Agent, all in accordance with the provisions of
06 the Agreement;
07
- 08 (vi) No stamp, registration or similar Brazilian Taxes are
09 payable in respect of the Agreement or the Notes or the
10 Loans. If any party to the Agreement or the Notes
11 obtained a judgment outside of Brazil based upon an
12 action arising under or pursuant to the Agreement or
13 the Notes, such judgment would be enforceable in the
14 Courts of Brazil upon the conditions specified in
15 paragraph (viii) below without the requirement that any
16 stamp, registration or other similar Taxes (other than
17 Court fees, which fees would be recoverable from the
18 debtor) be paid in Brazil in respect of the Agreement
19 or the Notes or such judgment or arbitration award;
20
- 21 (vii) It is not necessary to file, register or record the
22 Agreement or the Notes or any other instrument relating
23 thereto in any public office or elsewhere in Brazil
24 save that, as referred to in paragraph (iv) above,
25 registration of the Loans must be effected with Banco
26 Central.
27
- 28 (viii) The Borrower is subject to civil and commercial law
29 with respect to its obligations under the Agreement and
30 the Notes. Neither the Borrower nor any of its
31 property, assets or revenues enjoys, under Brazilian
32 Law, any right of immunity from service of process,
33 attachment (whether prior to the entry or in aid of
34 execution upon a judgment), execution or judgment from
35 any other legal process with respect to its obligations
36 under the Agreement and the Notes. The submission by
37 the Borrower to the jurisdiction of the Courts referred
38 to in Clause 21(3) of the Agreement with respect to
39 matters arising from the Agreement is irrevocably
40 binding on the Borrower. The provision in Clause 21(1)
41 of the Agreement that the laws of the Province of
42 Ontario, Canada and the laws of Canada applicable
43 therein, shall govern the Agreement is irrevocably
44 binding on the Borrower and would be upheld in any
45 proceedings in relation to the Agreement brought in the
46 Courts of Brazil. Any judgment obtained against the
47 Borrower in the Courts of Ontario or in the State
48 Courts of or Federal Courts in the State of New York
49 with respect to the Agreement or the Notes would
50 normally be enforceable in the Courts of Brazil if
51 previously homologated by the Federal Supreme Court of
52 Brazil, such homologation only occurring if such
53 judgment:-

- 01 (a) fulfills all formalities required for its
02 enforceability under the laws of the country
03 wherein it was issued;
04
05 (b) was issued by a competent court after service of
06 process on the Borrower;
07
08 (c) is not subject to appeal;
09
10 (d) was authenticated by a Brazilian consulate in the
11 country wherein it was issued; and
12
13 (e) is not contrary to Brazilian public policy (as
14 provided in Article 17 of the Law of Introduction
15 to the Brazilian Civil Code).
16

17 The Courts of Brazil have jurisdiction to adjudicate
18 any action relating to the Agreement or the Notes
19 brought against the Borrower in such Courts by the
20 Agent and/or any Bank;
21

22 (ix) The obligations of the Borrower in respect of
23 principal, interest and other amounts payable by the
24 Borrower under the Agreement and the Notes will rank
25 not less than pari passu in right and priority of
26 payment with all other existing Indebtedness of the
27 Borrower except to the extent that the enforceability
28 thereof may be affected by the insolvency of the
29 Borrower and proceedings occasioned thereby and except
30 to the extent that preference to other unsecured
31 Indebtedness may arise under Brazilian laws affecting
32 creditors' rights generally. There are no Brazilian
33 laws granting any preference to any class of unsecured
34 obligations by reason of date of incurrence or currency
35 or place of payment or nationality or residence of the
36 creditor. There is no presently outstanding
37 Indebtedness of the Borrower or any Subsidiary secured
38 by any Encumbrance over the property or assets of the
39 Borrower in contravention of Clause 11(5) of the
40 Agreement;
41

42 (x) To the best of my knowledge no event has occurred which
43 constitutes a Default and no litigation or
44 administrative proceedings are presently current,
45 pending or threatened which, if adversely determined,
46 would or might have a material adverse effect on the
47 property, assets or financial condition of the Borrower
48 or on the right or ability of the Borrower to perform
49 its obligations under the Agreement or under the Notes
50 or which might call into question the validity or
51 enforceability of the Agreement or the Notes; and
52

53 (xi) No opinion is expressed as to any laws other than those
54 of Brazil as at present existing and the regulations
55 made pursuant thereto."

01 9. An opinion of the Procuradoria Geral da Fazenda Nacional as
02 legal advisers to the Guarantor dated not more than ten
03 Business Days prior to the Drawdown Date and addressed to the
04 Agent and the Banks substantially to the following effect:-
05

06 "We are giving this opinion pursuant to a credit agreement
07 dated [], 1986 (the "Credit Agreement")
08 under which RBC, LIBRA and CIBC (referred to therein as the
09 "Banks"), have agreed to lend an aggregate of \$10,000,000 and
10 the Canadian Dollar Equivalent of \$5,000,000 to Companhia de
11 Desenvolvimento do Estado de Mato Grosso - Codemat (the
12 "Borrower") under the guarantee of The Federative Republic of
13 Brazil (the "Guarantor") pursuant to a Guarantee dated
14 , 1986 (the "Guarantee"). All words and
15 expressions which are defined in the Credit Agreement have
16 the same meanings in this opinion.
17

18 We are of the opinion that:
19

- 20 (i) The Guarantor has the power to enter into and perform
21 the Guarantee and the Avals to be endorsed on the
22 Notes and has taken all necessary action to authorise
23 the giving of the Guarantee and the endorsement of each
24 such Aval on the Notes. The Guarantee as executed and
25 delivered constitutes, and the Notes when endorsed with
26 the Avals by the Guarantor will constitute, the legal,
27 valid and binding obligations of the Guarantor
28 enforceable in accordance with their respective terms;
29
- 30 (ii) The execution, delivery and performance of the
31 Guarantee and of the Aval of the Guarantor to be
32 endorsed on each of the Notes will not violate in any
33 respect any provision of (1) any Brazilian law or
34 regulation or any order or decree of any Brazilian
35 governmental authority, agency or court or any order or
36 decree of any other court issued pursuant to judicial
37 proceedings to which the Guarantor is or was a party,
38 or (2) the Constitution of the Guarantor, or (3) any
39 contract or other undertaking or instrument to which
40 the Guarantor is a party or which is binding upon it;
41
- 42 (iii) No event has occurred which constitutes a default under
43 or in respect of any agreement, undertaking or
44 instrument to which the Guarantor is a party or by
45 which the Guarantor may be bound, and no event has
46 occurred which, with giving of notice, lapse of time or
47 other condition would constitute a default under or in
48 respect of any such agreement, undertaking or
49 instrument;
50
- 51 (iv) No litigation, arbitration or administrative
52 proceedings are presently current or pending or, so far
53 as we are aware, threatened, which would call into
54 question the legality, validity or enforceability of
55 the Guarantee or of the Avals to be endorsed on the
56 Notes by the Guarantor;

- (v) All payments of principal, interest and other amounts due from the Guarantor under the Guarantee and/or the Avals may be made free and clear of any and all Brazilian Taxes;
- (vi) All authorisations, approvals, consents, licences and other requirements of Brazilian governmental, public and other bodies and authorities required in connection with the execution, performance, validity, enforceability or admissibility in evidence of the Guarantee and the Avals of the Guarantor to be endorsed on each of the Notes have been obtained and are in full force and effect, except for the registration of the Loans with Banco Central;
- (vii) The person executing the Guarantee and the Avals on behalf of the Guarantor has the right, power and authority to execute and deliver the Guarantee on behalf of the Guarantor and to endorse the Avals of the Guarantor on the Notes;
- (viii) No stamp, registration or similar Taxes or charges are payable in Brazil in respect of the Guarantee or the Notes;
- (ix) It is not necessary to file, register or record the Guarantee or the Notes or any other instrument relating thereto in any public office or elsewhere in Brazil, save as mentioned in paragraph (vi) above, except for the registration of the Loans with Banco Central;
- (x) The provisions of Clause 14 of the Guarantee are irrevocably binding on the Guarantor. Any decision of the arbitral tribunal under and pursuant to the provisions of Clause 14 of the Guarantee which conforms in form with Brazilian public policy and law will be enforceable in the Federal Courts of Brazil according to the laws of Brazil. Accordingly, any arbitration award obtained (a) in the absence of an arbitrator being appointed by the Guarantor to the arbitration proceedings or (b) in the case of the Guarantor failing to appear in the arbitration proceedings, if duly homologated by a court outside Brazil, would be enforceable in Brazil provided that the Guarantor is duly notified pursuant to the terms of Clause 14(d) of the Guarantee. In my opinion, the likelihood that the form of any such decision might not conform to Brazilian public policy and law is remote;
- (xi) Notwithstanding the provisions of Clause 14(d) of the Guarantee, under the laws of Brazil legal proceedings may be instituted against the Guarantor in the Federal Courts of Brazil in respect of rights or claims of either Bank or the Agent under the Guarantee and/or the Avals. The Guarantor has no right of immunity from

any judicial proceedings or from execution of judgment in Brazil or from the enforcement therein of any arbitration award on the grounds of sovereignty or otherwise in respect of any matter arising out of or relating to its obligations under the Guarantee and/or the Avals (except for the limitation on alienation of public property referred to in Article 67 of the Civil Code of Brazil);

(xii) The choice by the parties to the Guarantee of the laws of the Province of Ontario and the laws of Canada applicable therein as governing law is legal, valid and binding under the laws of Brazil;

(xiii) The obligations of the Guarantor under the Guarantee and under the Avals rank and will rank at least pari passu in all respects with all other presently outstanding External Indebtedness of the Guarantor. Under Brazilian Law the Guarantor's property, assets and revenues cannot be subject to any Encumbrance;

(xiv) The Guarantor is a member in good standing of the International Monetary Fund; and

(xv) The Loans, when added to the total amount of loans guaranteed by the Guarantor previously contracted by the executive branch of the Guarantor under decree law No. 1312 of February 15, 1974, as amended, is within the financial limits set forth therein."

10. An opinion of Machado, Meyer, Sendacz e Opice in their capacity as Brazilian legal counsel to the Agent and the Banks dated not more than ten Business Days prior to the Drawdown Date and addressed to the Agent and the Banks substantially to the following effect:-

"We have acted as Legal Counsel to you (the "Agent") in connection with the credit agreement dated [____], 1986 (the "Agreement") between Companhia de Desenvolvimento do Estado de Mato Grosso - Codemat (the "Borrower"), the Banks (as defined therein), and the Agent, and in connection with the guarantee dated [____], 1986 (the "Guarantee") issued by The Federative Republic of Brazil (the "Guarantor") thereunder.

Unless otherwise defined herein, capitalised terms used herein which are defined in the Agreement shall have the same meaning herein as therein.

Pursuant to the requirements of Clause 10(1) of the Agreement and as Legal Counsel to the Agent we have been requested to give our legal opinion as to certain matters with respect to the Agreement and the transactions contemplated thereby. In such connection we are of the opinion that:-

01 (i) The Borrower is a mixed-capital company (sociedade de
02 economia mista), duly organized and validly existing
03 under the laws of Brazil of which the State of Mato
04 Grosso is the controlling shareholder and the Borrower
05 has full power, authority and legal right to execute
06 and deliver the Agreement and the Notes and any other
07 instruments and documents contemplated by the
08 Agreement, to incur the indebtedness and other
09 obligations provided for therein, to perform and
10 observe the terms and provisions thereof, and to borrow
11 the Loans under the Agreement. The Agreement has been
12 duly executed and delivered by the Borrower and does,
13 and the Notes when duly executed and delivered for
14 value will, constitute the legal, valid and binding
15 obligations of the Borrower enforceable in accordance
16 with their respective terms and each is and will be in
17 the proper form for the enforcement and admissibility
18 in evidence thereof in the Courts of Brazil without any
19 further registration, filing, consent or other
20 formality or condition (other than those traditionally
21 associated with the commencement of legal actions and
22 the presentation of a Portuguese translation thereof to
23 such Courts). The holder of each Note would be
24 entitled to executory action on such Note, against the
25 Borrower and the Guarantor in the Courts of Brazil in
26 respect of the non-payment of the principal thereunder
27 in accordance with the terms thereof.

28
29 However, no opinion is expressed with regard to Clause
30 8 of the Agreement, but, in this connection, the
31 Brazilian Courts, including the Supreme Court, have
32 repeatedly ruled that a debtor must pay an amount in
33 Brazilian currency sufficient for the creditor to
34 acquire, on the date of actual payment, the amount of
35 the foreign currency owed by the debtor;

36
37 (ii) The Guarantor has the power to enter into and perform
38 the Guarantee and the Avals and has taken all
39 necessary action to authorize the giving of the
40 Guarantee and the endorsement of each Aval on the
41 Notes. The Guarantee as executed and delivered
42 constitutes, and the Notes when endorsed with the
43 Avals by the Guarantor will constitute, the legal,
44 valid and binding obligations of the Guarantor
45 enforceable in accordance with their respective terms
46 and each is and will be in the proper form for the
47 enforcement and admissibility in evidence thereof in
48 the Courts of Brazil without any further registration,
49 filing, consent or other formality or condition (other
50 than those traditionally associated with the
51 commencement of legal actions and the presentation of a
52 Portuguese translation thereof to such Courts).
53 However the qualification mentioned in the second
54 paragraph of paragraph (i) above also applies in
55 relation to Clause 13 of the Guarantee;

- (iii) The execution and delivery of the Agreement and the Notes and the performance by the Borrower of the terms of the Agreement and the Notes and the borrowing of the Loans thereunder have been duly authorised by all necessary corporate and other action of the Borrower and do not and will not (1) contravene any provision of any existing law, decree-law, decree, or regulation of or in Brazil, or (2) violate any provision of the Estatutos (or other relevant incorporation or governing documents) of the Borrower;
- (iv) The execution, delivery and performance of the Guarantee and the Avals to be endorsed on the Notes will not violate in any respect any provision of (1) any existing law, decree-law, decree or regulation of or in Brazil or (2) the Constitution of the Guarantor;
- (v) Payments by the Borrower of interest under the Agreement and of the fees referred to in Clause 15(2) thereof are required to be made subject to Brazilian Withholding Tax unless an exemption therefrom is obtained. In the absence of any such exemption, then, since the Borrower has, by Clause 7(2) of the Agreement, undertaken to pay such Tax directly to the appropriate Taxation authorities, such Tax must be deducted from such payments at the rate of 25 per cent. (as currently in force) but the obligation of the Borrower to pay certain additional amounts in respect of such deduction in accordance with such Clause 7(2) is valid and enforceable under Brazilian Law. The Borrower is not required by Brazilian Law to make any other deduction or withholding from any payment to be made by the Borrower under the Agreement or the Notes nor does Brazilian law subject any such payment to any other Tax whatsoever;
- (vi) All payments of principal, interest and other amounts due from the Guarantor under the Guarantee and/or the Notes may be made free and clear of any and all Brazilian Taxes;
- (vii) All authorisations, approvals, consents, licences, registrations, notarisations and other requirements of governmental and public bodies and authorities required in connection with the execution, delivery, performance, validity or enforceability of the Agreement, the Notes or of any other document therein referred to and the borrowing of the Loans under the Agreement have been obtained or effected and are in full force and effect, including, without limitation, those referred to in paragraphs 2(a) - (c) (inclusive) and 2(f) of Schedule B, but excepting the registration of the Loans with Banco Central in accordance with Law No. 4131 of Brazil (as amended), provided however that

01 the purchase and remittance of foreign exchange for
02 the purpose of making all payments required to be made
03 by the Borrower under the Agreement (including,
04 without limitation, payments of principal and interest
05 prior to the scheduled payment dates therefor and all
06 indemnification payments which may be required under
07 the Agreement) other than payments of interest charged
08 under Clause 6(2) and (3) of fees and expenses in
09 accordance with Clauses 15(1) (first sentence) and
10 15(2) and of principal of the Loans on the respective
11 scheduled payment dates therefor as contemplated in
12 the certificate of registration to be issued by Banco
13 Central in respect of the Loans, will require the
14 prior approval of Banco Central at the time of each
15 such payment. We know of no reason why the Loans
16 should not, upon the borrowing thereof but after
17 application for such registration in accordance with
18 Brazilian Law, be registered by Banco Central in
19 accordance with Law No. 4131 of Brazil;

20
21 (viii) All authorisations, approvals, consents, licences,
22 registrations, notarisations and other requirements of
23 Brazilian governmental, public and other bodies and
24 authorities required in connection with the execution,
25 performance, validity or enforceability of the
26 Guarantee and the Avals of the Guarantor to be
27 endorsed on the Notes have been obtained or effected
28 and are in full force and effect, including, without
29 limitation, those referred to in paragraphs 2(d) and
30 (e) of Schedule B, except for the registration of the
31 Loans with Banco Central;

32
33 (ix) The persons executing the Agreement and the Notes and
34 the Guarantee and the Avals have the right, power and
35 authority to execute and deliver the Agreement and the
36 Notes on behalf of the Borrower and the Guarantee and
37 the Avals on behalf of the Guarantor;

38
39 (x) No stamp, registration or other similar Taxes are
40 payable in Brazil in respect of the Agreement, the
41 Notes, the Loans, the Guarantee or the Avals, or in
42 respect of or as a condition to proceedings for the
43 enforcement thereof or of any judgment or arbitration
44 award in connection therewith (other than court fees
45 which would be recoverable from the debtor);

46
47 (xi) It is not necessary or advisable to file, register or
48 record the Agreement, the Notes, the Guarantee, the
49 Avals or any other instrument relating thereto in any
50 public office or elsewhere in Brazil save that, as
51 referred to in paragraph (vii) above, registration of
52 the Loans must be effected with Banco Central;

(xii) The Borrower is subject to civil and commercial law with respect to its obligations under the Agreement and the Notes. Neither the Borrower nor any of its property, assets or revenues enjoys, under Brazilian law, any right of immunity from service of process, attachment (whether prior to the entry of or in aid of execution upon a judgment), set-off, execution or judgment or from any other legal process with respect to its obligations under the Agreement and the Notes (except, in the case of the Guarantor and to the extent that it is applicable, for the limitation on the alienation of public property contained in Article 67 of the Civil Code of Brazil. The submission by the Borrower to the jurisdiction of the Courts referred to in Clause 21(3) of the Agreement with respect to matters arising from the Agreement is irrevocably binding on the Borrower. The provision in Clause 21(1) of the Agreement that the laws of the Province of Ontario and the laws of Canada applicable therein, shall govern the Agreement is irrevocably binding on the Borrower and would be upheld in any proceedings in relation to the Agreement brought in the Courts of Brazil, provided that the applicable provisions of the laws of the Province of Ontario and the laws of Canada applicable therein, do not contravene Brazilian public policy (as provided in Article 17 of the Law of Introduction to the Brazilian Civil Code, a copy of which Article, together with an English translation thereof, is attached). Any judgment obtained against the Borrower in the Courts of Ontario or in the State Courts of or Federal Courts in the State of New York with respect to the Agreement or the Notes would normally be enforceable in the Courts of Brazil if previously homologated by the Federal Supreme Court of Brazil, such homologation only occurring if such judgment:-

- (a) fulfills all formalities required for its enforceability under the laws of the country wherein it was issued;
- (b) was issued by a competent court after service of process on the Borrower;
- (c) is not subject to appeal;
- (d) was authenticated by a Brazilian consulate in the country wherein it was issued; and
- (e) is not contrary to Brazilian public policy (as provided in Article 17 of the Law of Introduction to the Brazilian Civil Code).

01 The Courts of Brazil have jurisdiction to adjudicate
02 any action relating to the Agreement or the Notes
03 brought against the Borrower in such Courts by the
04 Agent and/or any Bank;
05

06 (xiii) The Guarantor can sue and be sued in its own name.
07 The Guarantor does not enjoy, under Brazilian law, any
08 right of immunity from service of process, execution
09 or judgment or from any other legal process with
10 respect to its obligations under the Guarantee or the
11 Avals (other than the limitation on the alienation of
12 public property referred to in Article 67 of the Civil
13 Code of Brazil). It should be noted that the
14 enforcement in Brazil of any judgment or arbitration
15 award against the Guarantor would be in accordance
16 with the procedures set forth in Articles 730 and 731
17 of the Code of Civil Procedure of Brazil, a copy of
18 which Articles, together with an English translation
19 thereof, is attached. The provisions in Clause 14(a)
20 of the Guarantee that the laws of the Province of
21 Ontario and the laws of Canada applicable therein,
22 shall govern the Guarantee is irrevocably binding on
23 the Guarantor and would be upheld in any proceedings
24 in relation to the Guarantee brought in the Courts of
25 Brazil, provided that the applicable provisions of the
26 laws of the Province of Ontario and the laws of Canada
27 applicable therein, did not contravene Brazilian
28 Public Policy (as provided in Article 17 of the Law of
29 Introduction to the Brazilian Civil Code).
30

31 The Federal Courts of Brazil have jurisdiction to
32 adjudicate any action relating to the Guarantee or the
33 Avals brought against the Guarantor in such Courts by
34 the Agent and/or any Bank. The provisions of Clause
35 14 of the Guarantee are irrevocably binding on the
36 Guarantor. Any decision of the arbitral tribunal
37 under and pursuant to the provisions of Clause 14 of
38 the Guarantee which conforms in form with Brazilian
39 public policy and law will be enforceable in the
40 Federal Courts of Brazil according to the laws of
41 Brazil. In our opinion, the likelihood that the form
42 of any such decision might not conform to Brazilian
43 public policy and law is remote;
44

45 (xiv) The obligations of the Borrower in respect of
46 principal, interest and other amounts payable by the
47 Borrower under the Agreement and the Notes will rank
48 not less than pari passu in right and priority of
49 payment with all other unsecured Indebtedness of the
50 Borrower, except to the extent that the enforceability
51 thereof may be affected by the insolvency of the
52 Borrower and proceedings occasioned thereby and except
53 to the extent that preference to other unsecured

Indebtedness may arise under Brazilian laws affecting creditors' rights generally. There are no Brazilian laws granting any preference to any class of unsecured obligations by reason of date of incurrence or currency or place of payment or nationality or residence of the creditor;

(xv) The obligations of the Guarantor under the Guarantee and pursuant to the Avals will rank not less than *pari passu* in all respects with all other presently outstanding External Indebtedness of the Guarantor. Under Brazilian Law the Guarantor's assets cannot be subject to any Encumbrance;

(xvi) Under Brazilian Law it is not necessary in order to enable the Agent and/or the Banks to enforce their rights under the Agreement and/or the Guarantee that any of them be licensed, registered, qualified or otherwise entitled to carry on business in Brazil. Neither the Agent nor any of the Banks is or will be deemed to be resident, domiciled or carrying on business in Brazil by reason only of the execution, performance or enforcement of the Agreement and/or the Guarantee; and

(xvii) No opinion is expressed as to any laws other than those of Brazil as at present existing and the regulations made pursuant thereto.

11. An opinion of Gowling & Henderson, Ontario legal advisers to the Agent, dated not more than ten Business Days prior to the Drawdown Date and addressed to the Agent and the Banks substantially to the following effect:

Quote

To: The Royal Bank of Canada
Foreign Banking Centre
Nassau, N.P., Bahamas
as Agent for the Banks
and to the Banks

Dear Sirs:

We have acted as Ontario counsel to the Agent and the Banks in connection with that certain loan agreement (the "Agreement") dated as of [____], 1986 and made between Companhia de Desenvolvimento do Estado de Mato Grosso - Codemat (the "Borrower"), the banks named therein (the "Banks") and The Royal Bank of Canada (in its capacity as agent for the Banks, the "Agent") providing for a loan to the Borrower of \$10,000,000 and the Canadian Dollar Equivalent of \$5,000,000, but such latter amount not to exceed Seven Million Canadian Dollars (Cdn\$7,000,000).

In connection with this opinion, we have examined an [executed/conformed] copy of the Agreement and an [executed/conformed] copy of a guarantee (the "Guarantee") dated [____], 1986

made by the Federative Republic of Brazil (the "Guarantor") in favour of the Banks and the Agent. We have assisted in the drafting of the Agreement and the Schedules thereto by reviewing drafts thereof prepared by the Agent, and note that the Agreement and the Schedules thereto were negotiated with the Borrower and the Guarantor by the Agent.

Terms defined in the Agreement and used herein shall have the respective meanings ascribed to them by the Agreement.

We have, with your permission, assumed (without independent investigation or confirmation) for purposes of this opinion, that:

- (1) the Agreement has been duly authorized, executed and delivered for on behalf of each Bank and for and on behalf of the Agent,
- (2) the Agreement has been and the Notes described in Clause 4(2) of the Agreement when issued in accordance with the provisions of the Agreement will have been, duly authorized, executed and delivered for and on behalf of the Borrower;
- (3) the Borrower has complied with all applicable laws of Brazil in connection with the execution, delivery and performance by the Borrower of the Agreement and the Notes referred to in Clause 4(2) of the Agreement and the provisions of the Agreement and the Notes referred to in Clause 4(2) of the Agreement are not invalid under the laws of Brazil;
- (4) the Guarantee has been duly authorized, executed and delivered for and on behalf of the Guarantor;
- (5) the Guarantor has complied with all applicable laws of Brazil in connection with the execution, delivery and performance of the Guarantee and the provisions of the Guarantee are not invalid under the laws of Brazil.

As we are admitted to practice law in the Province of Ontario and do not represent ourselves to be familiar with the laws of any jurisdiction other than the Province of Ontario, Canada, and the laws of Canada applicable therein, we do not pass upon and we express no opinion in respect of those matters governed by or construed in accordance with the laws of any jurisdiction other than the laws of the Province of Ontario.

Based upon the foregoing and subject to the qualifications set forth below, we are of the opinion that the Agreement, the Notes described in Clause 4(2) of the Agreement and the Guarantee constitute legal, valid and binding obligations of the Borrower and the Guarantor, respectively, under the laws of the Province of Ontario, Canada, enforceable in accordance with their respective terms, except that we express no opinion as to:

- 01 (1) the enforceability of the fifth and seventh sentences of
02 Clause 18(1) (relating to disclaimer of responsibility by
03 the Agent) or Clause 23(3) (relating to the severability of
04 prohibited or invalid provisions) of the Agreement or Clause
05 15 of the Guarantee (relating to the severability of
06 prohibited or invalid provisions);
07
08 (2) the conclusive nature of any certificate or determination
09 which may be made by any party to the Agreement or under the
10 Guarantee pursuant to the terms thereof; and
11
12 (3) Clause 6(4) of the Agreement (relating to interest on
13 overdue amounts) which may not be enforceable if it is
14 construed by the Court as constituting a penalty.
15

16 The opinions expressed above as to enforceability of the
17 Agreement, the Notes described in Clause 4(2) of the
18 Agreement, and the Guarantee are subject to the following
19 qualifications:
20

- 21 (A) the enforceability of the rights and remedies provided for
22 in the Agreement, the Notes and the Guarantee may be limited
23 by bankruptcy, liquidation, reconstruction, insolvency,
24 moratorium or reorganization or similar laws affecting the
25 rights of creditors generally;
26
27 (B) the availability of certain equitable remedies, such as
28 injunction and specific performance, will be at the
29 discretion of the Court;
30
31 (C) at the present time, it is not possible to issue a writ in
32 the Province of Ontario claiming an amount in a currency
33 other than Canadian Dollars. As well, at the present time,
34 precedent in Ontario and the procedural rules of court do
35 not allow a judgment to be expressed in a currency other
36 than Canadian Dollars. In our opinion, however, the
37 provisions contained in Clause 8 of the Agreement and
38 Clause 13 of the Guarantee respecting currency conversion
39 are generally enforceable under the laws of Ontario.
40 Accordingly, in our opinion, it is possible to obtain
41 judgment in the Province of Ontario in such a manner as to
42 allow a claimant to receive payment in full of an obligation
43 the currency of payment and currency of account of which is,
44 as in the case of United States Dollar liability under the
45 Agreement and the Guarantee, United States Dollars;
46
47 (D) under the current laws of the Province of Ontario, the
48 Guarantor may have immunity from the jurisdiction of the
49 courts of the Province of Ontario on the grounds of
50 sovereignty; to the extent the Guarantor enjoys such
51 immunity, it may not be possible to have recourse to the
52 courts of the Province of Ontario in connection with the
53 arbitration provisions contemplated in Clause 14 of the

01 Guarantee. However, in our opinion, pursuant to the
02 provisions of Clause 14(c) of the Guarantee, the Guarantor
03 has submitted to the jurisdiction of the courts of the
04 Province of Ontario (and thereby has waived its immunity
05 pursuant to the State Immunity Act of Canada) for the
06 limited purposes of obtaining judicial acceptance of an
07 arbitration award rendered pursuant to Clause 14 of the
08 Guarantee and obtaining an order of enforcement of such
09 award by such courts. In that respect, we note that an
10 Ontario arbitration award may, by leave of a judge of the
11 Supreme Court of Ontario, be enforced in the same manner as
12 a judgment or order to the same effect.
13

14 Yours truly,
15

16 Unquote
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51

01 SCHEDULE C

02 PART I

03 U.S. DOLLAR PROMISSORY NOTES FOR PRIME LOAN

04 NOTE NO. ____ IN A SERIES OF NINE U.S. DOLLAR PROMISSORY NOTES

05 _____, 1986

06 [US\$ _____]

07 For value received, the undersigned, COMPANHIA DE DESENVOLVIMENTO
08 DO ESTADO DE MATO GROSSO - CODEMAT by this Promissory Note
09 unconditionally promises to pay to or to the order of [_____]

10 the principal sum of [\$ _____] [_____]
11 United States Dollars before 11:00 a.m. on [_____]
12 at the New York Branch of The Royal Bank of Canada located at 68
13 William Street, New York, New York, U.S.A. for the account of The
14 Royal Bank of Canada, Foreign Banking Centre, Nassau, N.P.,
15 Bahamas, Account No: 218-701-1 (Reference: CODEMAT-BRAZIL/RBC
16 Foreign Banking Centre, Nassau, Bahamas) in immediately available
17 funds through the New York Clearing House Interbank Payment
18 System, or in such other funds as shall at the time be customary
19 for the settlement in New York City of international payments in
20 United States Dollars.

21 This Promissory Note shall be paid without set-off or
22 counterclaim and without deduction for and free from any present
23 or future tax, levies, duties, fees or other charges of
24 whatsoever nature now or at any time hereafter imposed or levied.

25 The failure of the holder to exercise any of its rights hereunder
26 in any particular instance shall not constitute a waiver thereof
27 in that or any other instance.

28 Each of the undersigned hereby waives presentment, demand,
29 protest and notice of any kind in the enforcement of this
30 Promissory Note and agrees to pay all costs of collection when
31 incurred, including reasonable attorneys' fees.

32 However, if the holder of this Promissory Note wishes to protest
33 it, the protest may be made at the holder's option either at the
34 place of payment or at the domicile of the Borrower.

01 This Promissory Note shall for all purposes be governed by and
02 construed in accordance with the laws of the Province of Ontario,
03 Canada and the laws of Canada applicable therein.
04

05 This Promissory Note is one of a series of promissory notes issued
06 pursuant to a Loan Agreement dated [____], 1986 providing
07 for a loan in the amount of US\$10,000,000 (Ten Million United
08 States Dollars) and [Cdn\$____]* (____ Canadian
09 Dollars).
10
11

12 For and on behalf of
13 COMPANHIA DE DESENVOLVIMENTO DO
14 ESTADO DE MATO GROSSO - CODEMAT
15
16

17 By
18
19 Name
20
21 Title
22
23

24
25 Executed in [____], Brazil.
26
27

28 Por Aval
29 THE FEDERATIVE REPUBLIC OF BRAZIL
30
31

32 By
33
34 Name
35
36 Title
37
38

39 Executed in [____], Brazil.
40
41
42
43
44
45

46 * [amount of Canadian Dollar Equivalent to US\$5,000,000 as
47 determined two (2) Brasilia Business Days prior to the
48 Drawdown Date].
49
50
51
52
53
54
55

01 SCHEDULE C

02 PART II

03 CANADIAN DOLLAR PROMISSORY NOTES FOR CANADIAN PRIME LOAN.

04
05 NOTE NO. ____ IN A SERIES OF NINE CANADIAN DOLLAR PROMISSORY NOTES

06
07
08
09
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
[_____] , 1986

CANADIAN DOLLARS [_____]

For value received, the undersigned; COMPANHIA DE DESENVOLVIMENTO DO ESTADO DE MATO GROSSO - CODEMAT by this Promissory Note unconditionally promises to pay to or to the order of Canadian Imperial Bank of Commerce Trust Company (Bahamas) Limited, Nassau, N.P., Bahamas, the principal sum of [Cdn\$ _____] [_____ Canadian Dollars] before 11:00 a.m. on [_____] at The Royal Bank of Canada, Royal Bank Plaza, 200 Bay Street, Toronto, Ontario, Canada - Attention: Correspondent Banking Department - Account No. 241-508-1 (Reference: CODEMAT-BRAZIL/ RBC Foreign Banking Centre, Nassau, N.P., Bahamas) in immediately available funds.

This Promissory Note shall be paid without set-off or counterclaim and without deduction for and free from any present or future tax, levies, duties, fees or other charges of whatsoever nature now or at any time hereafter imposed or levied.

The failure of the holder to exercise any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any other instance.

Each of the undersigned hereby waives presentment, demand, protest and notice of any kind in the enforcement of this Promissory Note and agrees to pay all costs of collection when incurred, including reasonable attorneys' fees.

However, if the holder of this Promissory Note wishes to protest it, the protest may be made at the holder's option either at the place of payment or at the domicile of the Borrower.

01 This Promissory Note shall for all purposes be governed by and
02 construed in accordance with the laws of the Province of Ontario,
03 Canada and the laws of Canada applicable therein.
04

05 This Promissory Note is one of a series of promissory notes issued
06 pursuant to a Loan Agreement dated [____], 1986 providing
07 for a loan in the amount of US\$10,000,000 (Ten Million United
08 States Dollars) and [Cdn\$____]* (____ Canadian
09 Dollars).
10

11
12 For and on behalf of
13 COMPANHIA DE DESENVOLVIMENTO DO
14 ESTADO DE MATO GROSSO - CODEMAT
15

16
17 By
18

19 Name.....
20

21 Title
22

23
24
25 Executed in [____], Brazil.
26

27
28 Por Aval
29 THE FEDERATIVE REPUBLIC OF BRAZIL
30

31
32 By
33

34 Name
35

36 Title
37

38
39 Executed in [____], Brazil.
40

41
42
43
44
45
46 * [amount of Canadian Dollar Equivalent to US\$5,000,000 as
47 determined two (2) Brasilia Business Days prior to the
48 Drawdown Date].
49

SCHEDULE D

GUARANTEE

DATED as of the ____ day of _____, 1986

To: The Royal Bank of Canada
Foreign Banking Centre
P.O. Box N-7141
Nassau, N.P., Bahamas
as agent for the Banks defined herein
(the "Agent"), and to such Banks

WHEREAS:-

- (A) By an agreement dated January _____, 1986 (the "Credit Agreement") The Royal Bank of Canada, Libra Bank Plc. and Canadian Imperial Bank of Commerce Trust Company (Bahamas) Limited through their respective Lending Offices (each one a "Bank", and collectively the "Banks") have agreed to make to Companhia de Desenvolvimento do Estado de Mato Grosso - CODEMAT (the "Borrower") a loan of Ten Million United States Dollars and the Canadian Dollar Equivalent of Five Million United States Dollars, but such latter amount not to exceed Seven Million Canadian Dollars (Cdn\$7,000,000), upon the terms thereof and subject inter alia to the receipt of this Guarantee; and
- (B) The Federative Republic of Brazil (herein referred to as the "Guarantor") has agreed to guarantee the obligations of the Borrower under the Credit Agreement upon and subject to the terms hereof,

NOW IT IS HEREBY AGREED as follows:-

1. Definitions

Terms defined in the Credit Agreement shall, except as otherwise expressly herein provided or as the context otherwise requires, have the same meaning herein as in the Credit Agreement.

2. Guarantee

- (a) In consideration of the Agent and the Banks entering into the Credit Agreement and of the Banks agreeing to advance moneys to the Borrower, the Guarantor hereby irrevocably and unconditionally guarantees to the Agent and the Banks as primary obligor and not merely as surety the due and punctual payment in full of all sums payable now or in the future to the Agent and the Banks by the Borrower under the Credit Agreement and/or the Notes when and as the same shall become due and unconditionally undertakes with the Agent and the Banks that if and whenever the Borrower shall be in default in the payment of any sum whatsoever under the Credit Agreement and/or the Notes, the Guarantor will on demand make good the default and pay all sums which may be payable together with interest thereon at the rate per annum

01 from time to time payable by the Borrower on such sums from
02 the date when such sums become payable by the Guarantor
03 hereunder until payment of such sums in full.
04

- 05 (b) As a separate and independent stipulation the Guarantor
06 agrees that any moneys expressed to be payable under the
07 Credit Agreement and/or the Notes which may not be
08 recoverable from the Borrower by reason of any legal
09 limitation, disability or incapacity on or of the Borrower
10 or any other fact or circumstance shall nevertheless be
11 recoverable from the Guarantor as though the same had been
12 incurred by the Guarantor and the Guarantor were the sole or
13 principal debtor in respect thereof and shall be paid by the
14 Guarantor on demand.
15

16 3. Continuing Obligation and Avaes
17

- 18 (a) This Guarantee is a continuing guarantee and shall remain in
19 force so long as any Bank is under an obligation to lend its
20 Commitment (whether or not subject to any conditions
21 precedent) and until all sums which may be or become payable
22 by the Borrower under the Credit Agreement and the Notes
23 have been paid in full.
24

- 25 (b) This Guarantee shall continue to be effective or shall be
26 reinstated, as the case may be, if at any time payment of
27 any sums payable under the Credit Agreement and/or the Notes
28 must be restored by the Agent or any Bank by reason of
29 preference or for any other reason whatsoever.
30

- 31 (c) As further evidence of its obligations under this Guarantee,
32 the Guarantor shall endorse each of the Notes (including any
33 Notes issued pursuant to Clause 4(c) of the Credit
34 Agreement) "por aval" but no failure by the Agent or the
35 Banks to insist upon such endorsement shall affect the
36 existence or validity or terms of this Guarantee. Neither
37 the endorsement of the Avaes on the Notes nor the delivery
38 thereof to the Agent and/or the Banks shall limit, reduce or
39 otherwise affect the obligations of the Guarantor hereunder,
40 and the rights and claims of the Agent and the Banks in
41 respect of the Avaes shall not replace or supersede the
42 rights and claims of the Agent and/or the Banks hereunder.
43

44 4. Preservation of Guarantee
45

46 The obligations of the Guarantor hereunder shall not be
47 affected by any act, omission, matter or thing which but for
48 this provision might operate to release or otherwise
49 exonerate the Guarantor from its obligations hereunder or
50 affect such obligations, including without limitation and
51 whether or not known to the Borrower, the Guarantor, the
52 Agent or any Bank:-
53

- 54 (i) any time or indulgence granted to or composition with
55 the Borrower;

- 01 (ii) the taking, variation, compromise, renewal or release
02 of or refusal or neglect to perfect or enforce any
03 rights, remedies or security against the Borrower;
04
05 (iii) any legal limitation, disability, incapacity or other
06 circumstances relating to the Borrower or any amendment
07 or supplement to or variation of the Credit Agreement
08 or the Notes or any other document;
09
10 (iv) any incorrectness or incompleteness of any licence,
11 authorisation or other document in connection herewith,
12 with the Credit Agreement or the Notes or any
13 irregularity, unenforceability or invalidity of any
14 obligations of the Borrower under the Credit Agreement,
15 the Notes or any other document;
16
17 (v) any merger, amalgamation, insolvency, winding-up,
18 liquidation, reorganisation, dissolution or like event
19 of or occurring to the Borrower;
20
21 (vi) any failure by the Borrower to apply the proceeds of
22 the Loans in the manner specified in the Credit
23 Agreement.
24

25 to the intent that the Guarantor's obligations under this
26 Guarantee shall remain in full force and this Guarantee be
27 construed accordingly as if there were no such circumstances,
28 act, omission, matter or thing.
29

30 The Agent shall notify the Guarantor of the occurrence of any
31 of the matters referred to in paragraphs (i), (ii), (iii),
32 (iv), (v) or (vi) of this Clause upon its becoming aware of
33 the same but failure by the Agent to give or delay on the part
34 of the Agent in giving any such notification shall not affect
35 or invalidate the provisions of this Guarantee.
36

37 5. Waiver

38

39 To the extent that the Guarantor may be entitled to such
40 benefits in the Courts of Brazil, the Guarantor waives the
41 benefits of Articles 1500 and 1503 (I) and (III) of the
42 Brazilian Civil Code, of Article 262 of the Brazilian
43 Commercial Code (except, in the case of any transaction
44 constituting novation according to Brazilian law, where any
45 alteration in the identity of the Borrower results or when the
46 existing indebtedness covered by the Credit Agreement is
47 replaced by a new debt) and the benefit of order under Article
48 1491 of the Brazilian Civil Code, provided that the omission
49 of any express reference to any Article of the Brazilian
50 Commercial Code or the Brazilian Civil Code (including,
51 without limitation, item (II) of Article 1503 of the Brazilian
52 Civil Code) shall not prejudice the effectiveness, operation,
53 or legal, valid, binding and enforceable nature of any of the
54 provisions of this Guarantee. In addition the Guarantor
55 waives any right it may have of first requiring the Banks to
56 proceed against or enforce any guarantee or security of or
57 claim payment from the Borrower or any other person.

01 6. Non-Competition

02
03 The Guarantor shall be subrogated to the rights of the Banks
04 against the Borrower under the Credit Agreement in respect of
05 any amounts not paid by the Borrower thereunder but paid by
06 the Guarantor hereunder or under the Notes. However, except
07 to the extent required by applicable law, the Guarantor shall
08 not be entitled to enforce any such right of subrogation or
09 any other right it may have to be indemnified by the Borrower
10 in respect of amounts paid out by the Guarantor hereunder or
11 under the Notes or to receive any payment in respect of any
12 such right as aforesaid until all amounts then due to the
13 Agent and/or the Banks under the Credit Agreement and the
14 Notes have been paid by the Borrower or the Guarantor.
15

16 7. Payments

17
18 (a) All payments to be made by the Guarantor hereunder shall be
19 made in the currency and funds and in the manner and at the
20 place as provided in the Credit Agreement free and clear of
21 all Taxes and other deductions whatsoever. If the Guarantor
22 is compelled by law to make any deductions from any payment it
23 will pay such additional amounts as are necessary to ensure
24 that the Agent and each Bank receives the full amount which it
25 would have received if there had been no such deductions. The
26 Guarantor shall on demand provide certificates of tax deducted
27 in respect of payments made hereunder.
28

29 (b) The provisions of Clause 7(5) and 7(6) of the Credit Agreement
30 shall be deemed to be repeated herein but substituting for
31 references therein to "this Agreement" and "sub-clause" or
32 "sub-clause (5)" references to "the Credit Agreement" and to
33 this Clause respectively.
34

35 8. Evidence

36
37 A certificate of a Bank delivered to the Guarantor through the
38 Agent and setting forth the amount due to such Bank from the
39 Borrower (such certificate to include computations showing the
40 basis for such amount) shall, in the absence of manifest
41 error, be conclusive evidence of such amount.
42

43 9. Representations and Warranties

44
45 (a) The Guarantor makes the following representations and
46 warranties for the benefit of the Agent and each Bank:-
47

48 (i) It has the power to enter into and perform this Guarantee
49 and the Avals and has taken all necessary action to
50 authorise the making and performance of this Guarantee in
51 accordance with the terms hereof and the endorsement of
52 the Avals on the Notes.
53

54 (ii) The Guarantee constitutes legally binding obligations of
55 the Guarantor enforceable in accordance with its terms as
56 will the Avals when endorsed on the Notes.

- 01 (iii) The execution, delivery and performance of this
02 Guarantee and the endorsement of the Avals on the
03 Notes will not violate or conflict in any respect with
04 any provision of (1) any law or regulation or any
05 order or decree of any court or governmental authority
06 or agency, or (2) any contract or other undertaking or
07 instrument to which the Guarantor is a party or which
08 is binding upon it, or (3) the Constitution of the
09 Guarantor.
- 11 (iv) No event has occurred which constitutes or which with
12 the giving of notice, lapse of time or other
13 applicable conditions would constitute a default under
14 or in respect of any agreement, undertaking or
15 instrument to which the Guarantor is a party or by
16 which it may be bound or to which it may be subject.
- 18 (v) All consents, licences, approvals, publications,
19 registrations, and authorisations and other
20 requirements of any governmental authority, bureau or
21 agency required in connection with the execution,
22 delivery, performance, validity or enforceability of
23 this Guarantee and of the Avals to be endorsed on the
24 Notes have been obtained and are in full force and
25 effect and true copies thereof have been delivered to
26 the Agent through the Borrower.
- 28 (vi) The Guarantor's obligations hereunder and under the
29 Notes rank and will rank at least pari passu in all
30 respects with all other present and future External
31 Indebtedness of the Guarantor. Under Brazilian Law no
32 Encumbrance may exist over any of the property, assets
33 or revenues of the Guarantor. The Guarantor has no
34 immunity from proceedings in the Federal Courts of
35 Brazil.
- 37 (vii) The Guarantor is a member in good standing of the
38 International Monetary Fund.
- 40 (viii) The Loans, when added to the total amount of loans
41 guaranteed by the Guarantor previously contracted by
42 the executive branch of the Guarantor under decree law
43 No. 1312 of February 15, 1974, as amended, is within
44 the financial limits set forth therein.
- 46 (ix) There are no actions, proceedings or claims pending
47 or, to the best of the Guarantor's knowledge,
48 threatened against it, which might have a materially
49 adverse effect on its condition or impair its ability
50 to perform its obligations under this Guarantee or the
51 Notes or prevent the consummation of the transactions
52 contemplated in the Credit Agreement, and there are
53 no material actions or proceedings pending against it
54 relating to External Indebtedness of Brazil,

01
02 (x) There is no tax, levy, impost, deduction, charge or
03 withholding imposed by Brazil or any political
04 subdivision or taxing authority thereof or therein
05 either (i) on or by virtue of the execution or delivery
06 of this Guarantee or any other document to be furnished
07 hereunder or (ii) on any payment to be made by the
08 Guarantor pursuant to this Guarantee.

09
10 (xi) To ensure the enforceability or admissibility in
11 evidence of this Guarantee in Brazil, it is not
12 necessary that this Guarantee or any other document be
13 filed or recorded with any court or other authority in
14 Brazil or that any stamp or similar tax be paid to or
15 in respect of this Guarantee.

16
17 (b) The representations and warranties set out in the foregoing
18 sub-clause shall survive the execution of this Guarantee and
19 the endorsement of the Avals by the Guarantor on the Notes
20 and shall be deemed to be repeated on each Interest Date as
21 if made at each such time.

22
23 10. Covenants

24
25 The Guarantor covenants that during the term of this
26 Guarantee:

27
28 (a) It will do and cause to be done all things necessary to
29 ensure the obtaining and continuance of all
30 governmental approvals which may at any time be
31 required with respect to this Guarantee, the Notes and
32 any amendment or waiver thereof.

33
34 (b) It will furnish to the Agent as soon as possible and in
35 any event within five calendar days after the
36 occurrence of any event which, with lapse of time or
37 the giving of notice or both, would become an Event of
38 Default, a statement setting forth in reasonable detail
39 the nature and scope of such Default.

40
41 (c) It will furnish to the Agent such financial,
42 statistical and general information about itself as any
43 Bank through the Agent may from time to time reasonably
44 request, provided that such information is public.

45
46 (d) It will undertake all action necessary to the end that
47 its obligations under this Guarantee and the Notes rank
48 and will continue to rank at least pari passu in
49 respect of priority of payment, security and otherwise
50 (including any preferred arrangement to provide for the
51 payment of indebtedness) with the highest ranking
52 External Indebtedness or future External Indebtedness
53 of it and that no present or future External

01 Indebtedness of it shall rank in respect of priority of
02 payment, security or otherwise (including any preferred
03 arrangements to provide for the payment of its External
04 Indebtedness) in priority to its obligations under this
05 Guarantee and the Notes.
06

- 07 (e) It will take no action, except to the extent required
08 by applicable law, against the Borrower or any of its
09 property or assets for or on account of any payments
10 made by it under or this Guarantee or the Notes until
11 the payment in full of all amounts due under the Credit
12 Agreement and the Notes.
13

14 11. Notices
15

16 Any demands or other communications by the Agent
17 and/or the Banks to the Guarantor shall be deemed duly
18 served if sent in writing or by telex, telegram or cable
19 addressed to the address following (or such other address as
20 the Guarantor may notify to the Agent in writing):
21

22 Ministro da Fazenda,
23 Edifício do Ministério da Fazenda - 5º andar,
24 Esplanada dos Ministérios,
25 70048 Brasília (DF), Brazil.
26

27 Telex: 611506 MFAZ BR
28

29 12. Assigns
30

31 This Guarantee shall enure to the benefit of the Agent's and
32 the Banks' successors and assigns as shall the Avals of the
33 Guarantor to be endorsed on the Notes.
34

35 13. Currency Indemnity
36

- 37 (a) In the event of a judgment, order or award being rendered by
38 any court or tribunal for the payment of any amounts owing
39 to the Agent or any Bank under this Guarantee, the Credit
40 Agreement, the Notes or the Avals or for the payment of
41 damages in respect of any breach of this Guarantee, the
42 Credit Agreement, the Notes or the Avals or under or in
43 respect of a judgment, order or award of another court or
44 tribunal for the payment of such amounts or damages, such
45 judgment, order or award being expressed in a currency ("the
46 Judgment Currency") other than the currency due hereunder
47 (the "Agreed Currency"), the Guarantor agrees to indemnify
48 and hold harmless the Agent and such Bank against any
49 deficiency in terms of the Agreed Currency in the amounts
50 received by the Agent or such Bank (as the case may be),
51 arising or resulting from any variation as between (a) the
52 rate of exchange at which the Agreed Currency is converted

01 into the Judgment Currency for the purposes of such
02 judgment, order or award, and (b) the rate of exchange at
03 which the Agent or such Bank (as the case may be) is able to
04 purchase the Agreed Currency with the amount of the Judgment
05 Currency actually received by the Agent or such Bank
06 pursuant to such judgment, order or award on the Business
07 Day following such receipt.

08
09 (b) The above indemnity shall constitute a separate and
10 independent obligation of the Guarantor from its other
11 obligations hereunder and under the Avals and shall apply
12 irrespective of any indulgence granted by the Agent or the
13 Banks and no proof or evidence of any actual loss shall be
14 required by the Guarantor.
15

16 (c) The term "rate of exchange" shall include any premiums,
17 Taxes and costs of exchange payable in connection with the
18 purchase of, or conversion into, the relevant currency.
19

20 14. Law and Jurisdiction
21

22 (a) This Guarantee shall be governed by and construed in
23 accordance with the laws of the Province of Ontario, Canada,
24 and the laws of Canada applicable therein.
25

26 (b) If any dispute, difference or question relating to the
27 performance, interpretation or construction of this
28 Guarantee shall arise between, on the one hand, any of the
29 Banks and/or the Agent which has/have made a claim or demand
30 for payment by the Guarantor under this Guarantee and, on
31 the other hand, the Guarantor, with respect to such claim or
32 demand, it shall finally be settled in accordance with the
33 procedure laid down in sub-clause (d) below, provided
34 however that nothing herein set forth shall abridge the
35 right of any Bank or the Agent to enforce or protect any of
36 its respective rights in a court of law of competent
37 jurisdiction, and provided further that nothing contained in
38 this sub-clause (b) shall be construed as an agreement by
39 the parties hereto on the jurisdiction of any court of law
40 other than the Federal Courts of Brazil.
41

42 (c) The Guarantor hereby represents that it has no rights of
43 immunity from any judicial proceedings or from execution of
44 judgment in Brazil or from the enforcement of any
45 arbitration award on the grounds of sovereignty or otherwise
46 in respect of any matter arising out of or relating to its
47 obligations under this guarantee (except for the limitation
48 on alienation of public property referred to in Article 67
49 of the Civil Code of Brazil). To the extent that the
50 Guarantor is or becomes entitled to any immunity from suit,
51 judgment or execution or other legal process or from the

01 enforcement of any arbitration award, the Guarantor hereby
02 irrevocably and unconditionally agrees not to claim or take
03 the benefit of such immunity with respect to its obligations
04 or any other matter arising under or in connection with this
05 Guarantee (except for the limitation on the alienation of
06 public property referred to in Article 67 of the Civil Code
07 of Brazil). Judgment upon any such arbitration award may be
08 entered in any court lawfully entitled to render such
09 judgment, and application may be made for judicial
10 acceptance of the award and an order of enforcement
11 ("homologacao judicial") to any court lawfully entitled to
12 accept such award and issue such order, for which purpose
13 the Guarantor hereby irrevocably waives all defences of
14 immunity (whether on the basis of sovereignty or otherwise)
15 and for such purposes only the Guarantor irrevocably submits
16 to the jurisdiction of the courts of Ontario and consents
17 generally in connection with such proceedings to the giving
18 of any relief or the issue of any process in connection with
19 such proceedings. Without limiting the foregoing, for the
20 purpose of receiving service of process in connection with
21 obtaining judicial acceptance of any arbitration award and a
22 corresponding order of enforcement ("homologacao judicial")
23 in the courts of Ontario, the Guarantor agrees that any such
24 process may be served on it by delivery to the Attorney
25 General of the Federative Republic of Brazil (Procurador
26 Geral da Republica) pursuant to Article 42 of Law No. 1341
27 of 30th January, 1951, as amended, of letters rogatory or by
28 any of the means permissible under the laws of Ontario
29 provided that such means are not contrary to Brazilian law
30 and public policy.
31

- 32 (d) Subject to sub-clause (b) above, if any dispute, difference
33 or question relating to the performance, interpretation or
34 construction of this Guarantee shall arise between, on the
35 one hand, any of the Banks and/or the Agent which has/have
36 made a claim or demand for payment by the Guarantor under
37 this Guarantee (the person or persons having made such claim
38 or demand being herein collectively called the "Payee") and,
39 on the other hand, the Guarantor, with respect to such claim
40 or demand, either the Payee or the Guarantor (the "Referring
41 Party") may, by written notice (the "Referral Notice") to
42 the other (the "Other Party"), refer such dispute,
43 difference or question to arbitration, and the Other Party,
44 upon receipt of the Referral Notice, shall be obliged to
45 refer such dispute, difference or question to arbitration
46 proceedings as set forth herein. The Referral Notice shall
47 describe the nature of such dispute, difference or question
48 and request the formation of an arbitral tribunal for the
49 purposes of such arbitration. Such arbitral tribunal shall
50 consist of three arbitrators (each of whom shall be fluent
51 in English), one appointed by the Referring Party and one by
52 the Other Party (the party appointing each such arbitrator
53 to notify the other of the name of such arbitrator within

ten days of the date of the Referral Notice). The arbitrators so selected shall within twenty days of the date of the Referral Notice agree on a third arbitrator, who may be (but need not be) of the same nationality as either of the parties to the arbitration but who shall be a practicing member of the Bar of Province of Ontario who is experienced in such matters. If any of the arbitrators shall not be appointed within the time limits specified above, such arbitrator shall be appointed by the Secretary General of the International Centre for the Settlement of Investment Disputes (Washington, D.C.); PROVIDED HOWEVER, that if the Secretary General of the International Centre for the Settlement of Investment Disputes shall decline or fail, within twenty days, to make such an appointment, then such arbitrator shall be appointed by the American Arbitration Association, presently located at 140 West 51st Street, New York, N.Y. 10020, U.S.A. Unless otherwise agreed by the parties to the arbitration, all hearings shall be held and all submissions shall be made by the parties within thirty days of the date of the selection of the third arbitrator and the decisions of the arbitrators shall be made within ten days of the later of the date of the closing of the hearings or the date of the final submissions by the parties. Except as otherwise provided herein, arbitration proceedings hereunder shall be governed by Articles 41-45, 47-48 and 60-61 of the Convention of the Settlement of Investment Disputes between States and Nationals of Other States. Such arbitration proceedings, including the rendering of the arbitral decision, shall take place in Toronto, Canada and the language of such proceedings (including written submissions by the parties) shall be English. Any arbitral tribunal established hereunder shall state the reasons for its decisions in writing and shall make such decisions entirely on the basis of the substantive law specified in sub-clause (a) above and not on the basis of the principle of ex aequo et bono or otherwise. The decision of any such arbitral tribunal shall be final to the fullest extent permitted by law. The Guarantor agrees that in any such arbitration it will not raise any defence which it could not raise but for the fact that it is a sovereign state. No arbitration proceedings hereunder shall be binding upon or in any way affect the rights or interests of any party other than the Referring Party and the Other Party with respect to such arbitration.

- (e) Without prejudice to anything herein contained, in the event that any action or proceedings with respect to this Guarantee or the Avals are brought in the Federal Courts of Brazil, it is agreed that (i) in order that this Guarantee shall be considered to be a valid and enforceable instrument evidencing indebtedness of the Guarantor for a sum certain ("Titulo de divida liquida, certa e exigivel") as provided under Section 586 of the Code of Civil Procedure of Brazil, this Guarantee shall bear the signature of two witnesses in

01 accordance with Section 585(II) of such Code of Civil
02 Procedure, and (ii) the Agent and the Banks shall have the
03 right to institute legal action for the payment and
04 collection of any sum payable under this Guarantee in the
05 manner provided in Sections 730 and 731 of the aforesaid
06 Code of Civil Procedure, using this Guarantee as the
07 competent instrument for such purpose.

08
09 15. Severability
10

11 Any provision in this Guarantee which is prohibited or
12 unenforceable in any jurisdiction shall, as to such
13 jurisdiction, be ineffective to the extent of such
14 prohibition or enforceability without invalidating the
15 remaining provisions hereof or affecting the validity or
16 enforceability of such provision in any other jurisdiction.

17
18 16. Bank's Rights
19

20 Nothing herein shall limit the right of each Bank to protect
21 and enforce its rights arising out of this Guarantee and it
22 shall not be necessary for any Bank or the Agent to be
23 joined as an additional party in any proceedings for this
24 purpose.
25

26 17. Redistribution of Payments
27

28 If any Bank at any time shall receive or recover (whether by
29 way of voluntary or involuntary payment or by virtue of an
30 exercise of its legal rights) the whole or any part of any
31 amounts due from the Guarantor to such Bank or to the Agent
32 on behalf of such Bank hereunder otherwise than by
33 distribution from the Agent under the terms of this
34 Guarantee or the Credit Agreement, then:-
35

- 36 (1) such Bank ("the Paying Bank") shall promptly (and in
37 any event within ten Business Days) pay to the Agent
38 the full amount so received or recovered;
39
40 (2) as between the Guarantor and the Paying Bank, the
41 Guarantor shall remain or again become indebted to such
42 Paying Bank hereunder in the amount so paid as if it
43 had not been received or recovered as aforesaid; and
44
45 (3) the Agent shall treat the amount so paid as if it were
46 a payment by the Guarantor on account of amounts due
47 from the Guarantor for distribution to the Paying Bank
48 and each of the other Banks in the proportions in which
49 the Paying Bank and the other Banks would have been
50 entitled to receive such amount had it been paid by the
51 Guarantor to the Agent hereunder

01 PROVIDED THAT

02
03 (a) a Paying Bank which shall have commenced or joined in an
04 action or proceeding in any court to recover sums due to it
05 under the Credit Agreement or the Notes or this Guarantee
06 and pursuant to a judgment obtained therein or a settlement
07 or compromise of that action or proceeding shall have
08 received any amount, shall not be required to share any
09 proportion of that amount with a Bank which has the legal
10 right to, but does not, join such action or proceeding or
11 commence and diligently prosecute a separate action or
12 proceeding to enforce its rights in the same or another
13 court; and

14
15 (b) every payment and adjustment made pursuant to this
16 sub-clause shall be subject to the condition that if such
17 amount (or any part thereof) subsequently must be repaid by
18 the Paying Bank to the Guarantor or any third person, as the
19 case may be, the Agent (if it holds the same) and each of
20 the Banks who has received any part thereof from the Agent
21 shall repay such amount (or the relevant part as the case
22 may be) to the Paying Bank together with such amount (if
23 any) as is necessary to reimburse the Paying Bank the
24 appropriate portion of any interest it shall have been
25 obliged to pay, when repaying such amount as aforesaid and
26 the relevant adjustments pursuant to this sub-clause shall
27 be cancelled.

28
29 Each Bank exercising any rights giving rise to a receipt or
30 receiving any payment of the type referred to in this Clause or
31 instituting legal proceedings to recover sums owing to it under
32 this Guarantee shall as soon as reasonably practicable (and in
33 any event within 10 Business Days) thereafter give notice thereof
34 to the Agent who shall give notice to the other Banks.

35
36 IN WITNESS whereof this Guarantee has been entered into by the
37 Guarantor as of the date first above written.

38
39 THE FEDERATIVE REPUBLIC OF BRAZIL

40
41
42 By: _____

43
44 Name: _____

45
46 Title: _____

47
48
49 As Witnesses to the execution of this Guarantee:

50
51 (1) By: _____ (2) By: _____

52
53 Name: _____

54 Name: _____

55
56 Address: _____

57 Address: _____

SCHEDULE E

EXCEPTION TO CLAUSE 12(J)

TWO (2) FINAME'S LOAN AGREEMENTS

AGENT: BANCO DO ESTADO DE MATO GROSSO S/A
CUIABA BRANCH - MATO GROSSO

DATED: 1. 13/11/84
2. 28/11/84

MATURITY: 09/06/88

AMOUNT: CR 4.970.824.785

GUARANTEE: PLEDGE OF MACHINES AND TRUCKS.

GUARANTOR: STATE OF MATO GROSSO

PURPOSE OF
THE LOANS: PURCHASE OF MACHINES AND TRUCKS TO FINANCE THE
PROGRAM OF THE MUNICIPALITIES OF THE STATE OF MATO
GROSSO

INTEREST: TEN PER CENT. (10%) PER ANNUM.

MONETARY
CORRECTION: ONE HUNDRED PER CENT. (100%) OF THE ORTN
(NATIONAL TREASURY BONDS)

FEE: 0.1 PER CENT. (1%)

PAYMENTS: (IN ORTN'S)

1986	100.433,36
1987	91.154,76
1988	42.097,66

COMMITMENT SCHEDULE

<u>BANK</u>	<u>PRIME COMMITMENT</u>	<u>CANADIAN PRIME COMMITMENT</u>
THE ROYAL BANK OF CANADA	US\$4,056,726.18	
CANADIAN IMPERIAL BANK OF COMMERCE TRUST COMPANY (BAHAMAS) LIMITED		Canadian Dollar Equivalent of US\$5,000,000, but such amount not to exceed Cdn\$7,000,000
LIBRA BANK PLC.	US\$5,943,273.82	

SIGNATORIES / LENDING OFFICE / ADDRESSES

Executed by the Borrower in Brasilia, Brazil the 29th day of JANUARY, 1986.

THE BORROWER

COMPANHIA DE DESENVOLVIMENTO DO
ESTADO DE MATO GROSSO - CODEMAT
Centro Político Administrativo
CPA, Bloco GPC
78,000 - Cuiaba, Mato Grosso
Attention: Financial Director

TELEX NO. (065) 2302 CDMT BR

By: [Signature]
Name: GUSTAVO ARRUDA
Title: DIRECTOR PRESIDENT

By: [Signature]
Name: M^{rs} AMÉLIA PACHECO DE ALBUQUERQUE
Title: FINANCIAL AND COMMERCIAL DIRECTOR

As witness to the execution of this Agreement by the Borrower:

(1) By: ESTER LOPES RIBEIRO DE OLIVEIRA (2) By: LUIS CARLOS ARMANDO
Name: ESTER LOPES RIBEIRO DE OLIVEIRA Name: LUIS CARLOS ARMANDO
Address: Ministério da Fazenda, sala 819- 8º andar Address: CENTRO POLITICO ADMINISTRATIVO
70048- Brasília - DF CUIABÁ - MT.

Executed by the Banks and the Agent in Nassau, Bahamas on the 20th day of January, 1986.

THE BANKS

THE ROYAL BANK OF CANADA
Foreign Banking Centre
P.O. Box N7141
Nassau, N.P., Bahamas

TELEX NO. 20574 ROYALFBC

By: [Signature]
Name: R. VANDERPOOL - WALLACE
Title: MANAGER

CANADIAN IMPERIAL BANK OF COMMERCE
TRUST COMPANY (BAHAMAS) LIMITED
P.O. Box N8329
Nassau, N.P., Bahamas

TELEX NO. NS169 CANBANK

By: [Signature]
Name: T. H. FORDE C.F. Richmond
Title: DIRECTOR MANAGING DIRECTOR

THE BANKS / CONTINUED

LIBRA BANK PLC
Bastion House
140 London Wall
London, EC2Y 5DN
England

TELEX NO. 885869 LIBRA G

By: P. Vanderpool-Wallace

Name: P. VANDERPOOL-WALLACE

Title: ATTORNEY-IN-FACT

THE AGENT

THE ROYAL BANK OF CANADA
Foreign Banking Centre, as Agent
P.O. Box N7141
Nassau, N.P., Bahamas

TELEX NO. 20574 ROYALFBC

By: P. Vanderpool-Wallace

Name: P. VANDERPOOL-WALLACE

Title: MANAGER

As witness to the execution of this Agreement by the Banks and the Agent:

(1) By: M. L. Mortimer

Name: M. L. MORTIMER

Address: P.O. Box N7141

NASSAU BAHAMAS

(2) By: D. E. Thompson

Name: D. E. THOMPSON

Address: P.O. Box N. 7141

NASSAU BAHAMAS

Subscribed before me,

Saul A. Carl
Notary Public

- (iii) The execution and delivery of the Agreement and the Notes and the performance by the Borrower of the terms of the Agreement and the Notes and the borrowing of the Loans thereunder have been duly authorised by all necessary corporate and other action of the Borrower and do not and will not (1) contravene any provision of any existing law, decree-law, decree, or regulation of or in Brazil, or (2) violate any provision of the Estatutos (or other relevant incorporation or governing documents) of the Borrower;
- (iv) The execution, delivery and performance of the Guarantee and the Avals to be endorsed on the Notes will not violate in any respect any provision of (1) any existing law, decree-law, decree or regulation of or in Brazil or (2) the Constitution of the Guarantor;
- (v) Payments by the Borrower of interest under the Agreement and of the fees referred to in Clause 15(2) thereof are required to be made subject to Brazilian Withholding Tax unless an exemption therefrom is obtained. In the absence of any such exemption, then, since the Borrower has, by Clause 7(2) of the Agreement, undertaken to pay such Tax directly to the appropriate Taxation authorities, such Tax must be deducted from such payments at the rate of 25 per cent. (as currently in force) but the obligation of the Borrower to pay certain additional amounts in respect of such deduction in accordance with such Clause 7(2) is valid and enforceable under Brazilian Law. The Borrower is not required by Brazilian Law to make any other deduction or withholding from any payment to be made by the Borrower under the Agreement or the Notes nor does Brazilian law subject any such payment to any other Tax whatsoever;
- (vi) All payments of principal, interest and other amounts due from the Guarantor under the Guarantee and/or the Notes may be made free and clear of any and all Brazilian Taxes;
- (vii) All authorisations, approvals, consents, licences, registrations, notarisations and other requirements of governmental and public bodies and authorities required in connection with the execution, delivery, performance, validity or enforceability of the Agreement, the Notes or of any other document therein referred to and the borrowing of the Loans under the Agreement have been obtained or effected and are in full force and effect, including, without limitation, those referred to in paragraphs 2(a) - (c) (inclusive) and 2(f) of Schedule B, but excepting the registration of the Loans with Banco Central in accordance with Law No. 4131 of Brazil (as amended), provided however that

the purchase and remittance of foreign exchange for the purpose of making all payments required to be made by the Borrower under the Agreement (including, without limitation, payments of principal and interest prior to the scheduled payment dates therefor and all indemnification payments which may be required under the Agreement) other than payments of interest charged under Clause 6(2) and (3) of fees and expenses in accordance with Clauses 15(1) (first sentence) and 15(2) and of principal of the Loans on the respective scheduled payment dates therefor as contemplated in the certificate of registration to be issued by Banco Central in respect of the Loans, will require the prior approval of Banco Central at the time of each such payment. We know of no reason why the Loans should not, upon the borrowing thereof but after application for such registration in accordance with Brazilian Law, be registered by Banco Central in accordance with Law No. 4131 of Brazil;

- (viii) All authorisations, approvals, consents, licences, registrations, notarisations and other requirements of Brazilian governmental, public and other bodies and authorities required in connection with the execution, performance, validity or enforceability of the Guarantee and the Avals of the Guarantor to be endorsed on the Notes have been obtained or effected and are in full force and effect, including, without limitation, those referred to in paragraphs 2(d) and (e) of Schedule B, except for the registration of the Loans with Banco Central;
- (ix) The persons executing the Agreement and the Notes and the Guarantee and the Avals have the right, power and authority to execute and deliver the Agreement and the Notes on behalf of the Borrower and the Guarantee and the Avals on behalf of the Guarantor;
- (x) No stamp, registration or other similar Taxes are payable in Brazil in respect of the Agreement, the Notes, the Loans, the Guarantee or the Avals, or in respect of or as a condition to proceedings for the enforcement thereof or of any judgment or arbitration award in connection therewith (other than court fees which would be recoverable from the debtor);
- (xi) It is not necessary or advisable to file, register or record the Agreement, the Notes, the Guarantee, the Avals or any other instrument relating thereto in any public office or elsewhere in Brazil save that, as referred to in paragraph (vii) above, registration of the Loans must be effected with Banco Central;

(xii) The Borrower is subject to civil and commercial law with respect to its obligations under the Agreement and the Notes. Neither the Borrower nor any of its property, assets or revenues enjoys, under Brazilian law, any right of immunity from service of process, attachment (whether prior to the entry of or in aid of execution upon a judgment), set-off, execution or judgment or from any other legal process with respect to its obligations under the Agreement and the Notes (except, in the case of the Guarantor and to the extent that it is applicable, for the limitation on the alienation of public property contained in Article 67 of the Civil Code of Brazil. The submission by the Borrower to the jurisdiction of the Courts referred to in Clause 21(3) of the Agreement with respect to matters arising from the Agreement is irrevocably binding on the Borrower. The provision in Clause 21(1) of the Agreement that the laws of the Province of Ontario and the laws of Canada applicable therein, shall govern the Agreement is irrevocably binding on the Borrower and would be upheld in any proceedings in relation to the Agreement brought in the Courts of Brazil, provided that the applicable provisions of the laws of the Province of Ontario and the laws of Canada applicable therein, do not contravene Brazilian public policy (as provided in Article 17 of the Law of Introduction to the Brazilian Civil Code, a copy of which Article, together with an English translation thereof, is attached). Any judgment obtained against the Borrower in the Courts of Ontario or in the State Courts of or Federal Courts in the State of New York with respect to the Agreement or the Notes would normally be enforceable in the Courts of Brazil if previously homologated by the Federal Supreme Court of Brazil, such homologation only occurring if such judgment:-

- (a) fulfills all formalities required for its enforceability under the laws of the country wherein it was issued;
- (b) was issued by a competent court after service of process on the Borrower;
- (c) is not subject to appeal;
- (d) was authenticated by a Brazilian consulate in the country wherein it was issued; and
- (e) is not contrary to Brazilian public policy (as provided in Article 17 of the Law of Introduction to the Brazilian Civil Code)..

The Courts of Brazil have jurisdiction to adjudicate any action relating to the Agreement or the Notes brought against the Borrower in such Courts by the Agent and/or any Bank;

- (xiii) The Guarantor can sue and be sued in its own name. The Guarantor does not enjoy, under Brazilian law, any right of immunity from service of process, execution or judgment or from any other legal process with respect to its obligations under the Guarantee or the Avals (other than the limitation on the alienation of public property referred to in Article 67 of the Civil Code of Brazil). It should be noted that the enforcement in Brazil of any judgment or arbitration award against the Guarantor would be in accordance with the procedures set forth in Articles 730 and 731 of the Code of Civil Procedure of Brazil, a copy of which Articles, together with an English translation thereof, is attached. The provisions in Clause 14(a) of the Guarantee that the laws of the Province of Ontario and the laws of Canada applicable therein, shall govern the Guarantee is irrevocably binding on the Guarantor and would be upheld in any proceedings in relation to the Guarantee brought in the Courts of Brazil, provided that the applicable provisions of the laws of the Province of Ontario and the laws of Canada applicable therein, did not contravene Brazilian Public Policy (as provided in Article 17 of the Law of Introduction to the Brazilian Civil Code).

The Federal Courts of Brazil have jurisdiction to adjudicate any action relating to the Guarantee or the Avals brought against the Guarantor in such Courts by the Agent and/or any Bank. The provisions of Clause 14 of the Guarantee are irrevocably binding on the Guarantor. Any decision of the arbitral tribunal under and pursuant to the provisions of Clause 14 of the Guarantee which conforms in form with Brazilian public policy and law will be enforceable in the Federal Courts of Brazil according to the laws of Brasil. In our opinion, the likelihood that the form of any such decision might not conform to Brazilian public policy and law is remote;

- (xiv) The obligations of the Borrower in respect of principal, interest and other amounts payable by the Borrower under the Agreement and the Notes will rank not less than *pari passu* in right and priority of payment with all other unsecured Indebtedness of the Borrower, except to the extent that the enforceability thereof may be affected by the insolvency of the Borrower and proceedings occasioned thereby and except to the extent that preference to other unsecured

Indebtedness may arise under Brazilian laws affecting creditors' rights generally. There are no Brazilian laws granting any preference to any class of unsecured obligations by reason of date of incurrence or currency or place of payment or nationality or residence of the creditor;

(xv) The obligations of the Guarantor under the Guarantee and pursuant to the Avals will rank not less than *pari passu* in all respects with all other presently outstanding External Indebtedness of the Guarantor. Under Brazilian Law the Guarantor's assets cannot be subject to any Encumbrance;

(xvi) Under Brazilian Law it is not necessary in order to enable the Agent and/or the Banks to enforce their rights under the Agreement and/or the Guarantee that any of them be licensed, registered, qualified or otherwise entitled to carry on business in Brazil. Neither the Agent nor any of the Banks is or will be deemed to be resident, domiciled or carrying on business in Brazil by reason only of the execution, performance or enforcement of the Agreement and/or the Guarantee; and.

(xvii) No opinion is expressed as to any laws other than those of Brazil as at present existing and the regulations made pursuant thereto.

11. An opinion of Gowling & Henderson, Ontario legal advisers to the Agent, dated not more than ten Business Days prior to the Drawdown Date and addressed to the Agent and the Banks substantially to the following effect:

Quote

To: The Royal Bank of Canada
Foreign Banking Centre
Nassau, N.P., Bahamas
as Agent for the Banks
and to the Banks

Dear Sirs:

We have acted as Ontario counsel to the Agent and the Banks in connection with that certain loan agreement (the "Agreement") dated as of [____], 1986 and made between Companhia de Desenvolvimento do Estado de Mato Grosso - Codemat (the "Borrower"), the banks named therein (the "Banks") and The Royal Bank of Canada (in its capacity as agent for the Banks, the "Agent") providing for a loan to the Borrower of \$10,000,000 and the Canadian Dollar Equivalent of \$5,000,000, but such latter amount not to exceed Seven Million Canadian Dollars (Cdn\$7,000,000).

In connection with this opinion, we have examined an [executed/conformed] copy of the Agreement and an [executed/conformed] copy of a guarantee (the "Guarantee") dated [____], 1986

made by the Federative Republic of Brazil (the "Guarantor") in favour of the Banks and the Agent. We have assisted in the drafting of the Agreement and the Schedules thereto by reviewing drafts thereof prepared by the Agent, and note that the Agreement and the Schedules thereto were negotiated with the Borrower and the Guarantor by the Agent.

Terms defined in the Agreement and used herein shall have the respective meanings ascribed to them by the Agreement.

We have, with your permission, assumed (without independent investigation or confirmation) for purposes of this opinion, that:

- (1) the Agreement has been duly authorized, executed and delivered for on behalf of each Bank and for and on behalf of the Agent,
- (2) the Agreement has been and the Notes described in Clause 4(2) of the Agreement when issued in accordance with the provisions of the Agreement will have been, duly authorized, executed and delivered for and on behalf of the Borrower;
- (3) the Borrower has complied with all applicable laws of Brazil in connection with the execution, delivery and performance by the Borrower of the Agreement and the Notes referred to in Clause 4(2) of the Agreement and the provisions of the Agreement and the Notes referred to in Clause 4(2) of the Agreement are not invalid under the laws of Brazil;
- (4) the Guarantee has been duly authorized, executed and delivered for and on behalf of the Guarantor;
- (5) the Guarantor has complied with all applicable laws of Brazil in connection with the execution, delivery and performance of the Guarantee and the provisions of the Guarantee are not invalid under the laws of Brazil.

As we are admitted to practice law in the Province of Ontario and do not represent ourselves to be familiar with the laws of any jurisdiction other than the Province of Ontario, Canada, and the laws of Canada applicable therein, we do not pass upon and we express no opinion in respect of those matters governed by or construed in accordance with the laws of any jurisdiction other than the laws of the Province of Ontario.

Based upon the foregoing and subject to the qualifications set forth below, we are of the opinion that the Agreement, the Notes described in Clause 4(2) of the Agreement and the Guarantee constitute legal, valid and binding obligations of the Borrower and the Guarantor, respectively, under the laws of the Province of Ontario, Canada, enforceable in accordance with their respective terms, except that we express no opinion as to:

- (1) the enforceability of the fifth and seventh sentences of Clause 18(1) (relating to disclaimer of responsibility by the Agent) or Clause 23(3) (relating to the severability of prohibited or invalid provisions) of the Agreement or Clause 15 of the Guarantee (relating to the severability of prohibited or invalid provisions);
- (2) the conclusive nature of any certificate or determination which may be made by any party to the Agreement or under the Guarantee pursuant to the terms thereof; and
- (3) Clause 6(4) of the Agreement (relating to interest on overdue amounts) which may not be enforceable if it is construed by the Court as constituting a penalty.

The opinions expressed above as to enforceability of the Agreement, the Notes described in Clause 4(2) of the Agreement, and the Guarantee are subject to the following qualifications:

- (A) the enforceability of the rights and remedies provided for in the Agreement, the Notes and the Guarantee may be limited by bankruptcy, liquidation, reconstruction, insolvency, moratorium or reorganization or similar laws affecting the rights of creditors generally;
- (B) the availability of certain equitable remedies, such as injunction and specific performance, will be at the discretion of the Court;
- (C) at the present time, it is not possible to issue a writ in the Province of Ontario claiming an amount in a currency other than Canadian Dollars. As well, at the present time, precedent in Ontario and the procedural rules of court do not allow a judgment to be expressed in a currency other than Canadian Dollars. In our opinion, however, the provisions contained in Clause 8 of the Agreement and Clause 13 of the Guarantee respecting currency conversion are generally enforceable under the laws of Ontario. Accordingly, in our opinion, it is possible to obtain judgment in the Province of Ontario in such a manner as to allow a claimant to receive payment in full of an obligation the currency of payment and currency of account of which is, as in the case of United States Dollar liability under the Agreement and the Guarantee, United States Dollars;
- (D) under the current laws of the Province of Ontario, the Guarantor may have immunity from the jurisdiction of the courts of the Province of Ontario on the grounds of sovereignty; to the extent the Guarantor enjoys such immunity, it may not be possible to have recourse to the courts of the Province of Ontario in connection with the arbitration provisions contemplated in Clause 14 of the

Guarantee. However, in our opinion, pursuant to the provisions of Clause 14(c) of the Guarantee, the Guarantor has submitted to the jurisdiction of the courts of the Province of Ontario (and thereby has waived its immunity pursuant to the State Immunity Act of Canada) for the limited purposes of obtaining judicial acceptance of an arbitration award rendered pursuant to Clause 14 of the Guarantee and obtaining an order of enforcement of such award by such courts. In that respect, we note that an Ontario arbitration award may, by leave of a judge of the Supreme Court of Ontario, be enforced in the same manner as a judgment or order to the same effect.

Yours truly,

Unquote.

SCHEDULE C

PART I

U.S. DOLLAR PROMISSORY NOTES FOR PRIME LOAN

NOTE NO. ____ IN A SERIES OF NINE U.S. DOLLAR PROMISSORY NOTES

[____], 1986

[US\$ ____]

For value received, the undersigned, COMPANHIA DE DESENVOLVIMENTO DO ESTADO DE MATO GROSSO - CODEMAT by this Promissory Note unconditionally promises to pay to or to the order of [_____]

the principal sum of [\$ _____] United States Dollars before 11:00 a.m. on [_____] at the New York Branch of The Royal Bank of Canada located at 68 William Street, New York, New York, U.S.A. for the account of The Royal Bank of Canada, Foreign Banking Centre, Nassau, N.P., Bahamas, Account No: 218-701-1 (Reference: CODEMAT-BRAZIL/RBC Foreign Banking Centre, Nassau, Bahamas) in immediately available funds through the New York Clearing House Interbank Payment System, or in such other funds as shall at the time be customary for the settlement in New York City of international payments in United States Dollars.

This Promissory Note shall be paid without set-off or counterclaim and without deduction for and free from any present or future tax, levies, duties, fees or other charges of whatsoever nature now or at any time hereafter imposed or levied.

The failure of the holder to exercise any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any other instance.

Each of the undersigned hereby waives presentment, demand, protest and notice of any kind in the enforcement of this Promissory Note and agrees to pay all costs of collection when incurred, including reasonable attorneys' fees.

However, if the holder of this Promissory Note wishes to protest it, the protest may be made at the holder's option either at the place of payment or at the domicile of the Borrower.

This Promissory Note shall for all purposes be governed by and construed in accordance with the laws of the Province of Ontario, Canada and the laws of Canada applicable therein.

This Promissory Note is one of a series of promissory notes issued pursuant to a Loan Agreement dated [____], 1986 providing for a loan in the amount of US\$10,000,000 (Ten Million United States Dollars) and [Cdn\$____]*([____] Canadian Dollars).

For and on behalf of
COMPANHIA DE DESENVOLVIMENTO DO
ESTADO DE MATO GROSSO - CODEMAT

By

Name

Title

Executed in [____], Brazil.

Por Aval
THE FEDERATIVE REPUBLIC OF BRAZIL

By

Name

Title

Executed in [____], Brazil.

* [amount of Canadian Dollar Equivalent to US\$5,000,000 as determined two (2) Brasília Business Days prior to the Drawdown Date].

SCHEDULE C

PART II

CANADIAN DOLLAR PROMISSORY NOTES FOR CANADIAN PRIME LOAN

NOTE NO. ____ IN A SERIES OF NINE CANADIAN DOLLAR PROMISSORY NOTES

[____], 1986

CANADIAN DOLLARS [_____]

For value received, the undersigned, COMPANHIA DE DESENVOLVIMENTO DO ESTADO DE MATO GROSSO - CODEMAT by this Promissory Note unconditionally promises to pay to or to the order of Canadian Imperial Bank of Commerce Trust Company (Bahamas) Limited, Nassau, N.P., Bahamas, the principal sum of [Cdn\$ _____] [_____ Canadian Dollars] before 11:00 a.m. on [_____] at The Royal Bank of Canada, Royal Bank Plaza, 200 Bay Street, Toronto, Ontario, Canada - Attention: Correspondent Banking Department - Account No. 241-508-1 (Reference: CODEMAT-BRAZIL/ RBC Foreign Banking Centre, Nassau, N.P., Bahamas) in immediately available funds.

This Promissory Note shall be paid without set-off or counterclaim and without deduction for and free from any present or future tax, levies, duties, fees or other charges of whatsoever nature now or at any time hereafter imposed or levied.

The failure of the holder to exercise any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any other instance.

Each of the undersigned hereby waives presentment, demand, protest and notice of any kind in the enforcement of this Promissory Note and agrees to pay all costs of collection when incurred, including reasonable attorneys' fees.

However, if the holder of this Promissory Note wishes to protest it, the protest may be made at the holder's option either at the place of payment or at the domicile of the Borrower.

This Promissory Note shall for all purposes be governed by and construed in accordance with the laws of the Province of Ontario, Canada and the laws of Canada applicable therein.

This Promissory Note is one of a series of promissory notes issued pursuant to a Loan Agreement dated [____], 1986 providing for a loan in the amount of US\$10,000,000 (Ten Million United States Dollars) and [Cdn\$____]*([____] Canadian Dollars).

For and on behalf of
COMPANHIA DE DESENVOLVIMENTO DO
ESTADO DE MATO GROSSO - CODEMAT

By

Name

Title

Executed in [____], Brazil.

Por Aval
THE FEDERATIVE REPUBLIC OF BRAZIL

By

Name

Title

Executed in [____], Brazil.

* [amount of Canadian Dollar Equivalent to US\$5,000,000 as determined two (2) Brasilia Business Days prior to the Drawdown Date].

SCHEDULE D

GUARANTEE

DATED as of the ____ day of _____, 1986

To: The Royal Bank of Canada
Foreign Banking Centre
P.O. Box N-7141
Nassau, N.P., Bahamas
as agent for the Banks defined herein
(the "Agent"), and to such Banks

WHEREAS:-

- (A) By an agreement dated January _____, 1986 (the "Credit Agreement") The Royal Bank of Canada, Libra Bank Plc. and Canadian Imperial Bank of Commerce Trust Company (Bahamas) Limited through their respective Lending Offices (each one a "Bank", and collectively the "Banks") have agreed to make to Companhia de Desenvolvimento do Estado de Mato Grosso - CODEMAT (the "Borrower") a loan of Ten Million United States Dollars and the Canadian Dollar Equivalent of Five Million United States Dollars, but such latter amount not to exceed Seven Million Canadian Dollars (Cdn\$7,000,000), upon the terms thereof and subject inter alia to the receipt of this Guarantee; and.
- (B) The Federative Republic of Brazil (herein referred to as the "Guarantor") has agreed to guarantee the obligations of the Borrower under the Credit Agreement upon and subject to the terms hereof,

NOW IT IS HEREBY AGREED as follows:-

1. Definitions

Terms defined in the Credit Agreement shall, except as otherwise expressly herein provided or as the context otherwise requires, have the same meaning herein as in the Credit Agreement.

2. Guarantee

- (a) In consideration of the Agent and the Banks entering into the Credit Agreement and of the Banks agreeing to advance moneys to the Borrower, the Guarantor hereby irrevocably and unconditionally guarantees to the Agent and the Banks as primary obligor and not merely as surety the due and punctual payment in full of all sums payable now or in the future to the Agent and the Banks by the Borrower under the Credit Agreement and/or the Notes when and as the same shall become due and unconditionally undertakes with the Agent and the Banks that if and whenever the Borrower shall be in default in the payment of any sum whatsoever under the Credit Agreement and/or the Notes, the Guarantor will on demand make good the default and pay all sums which may be payable together with interest thereon at the rate per annum

from time to time payable by the Borrower on such sums from the date when such sums become payable by the Guarantor hereunder until payment of such sums in full.

- (b) As a separate and independent stipulation the Guarantor agrees that any moneys expressed to be payable under the Credit Agreement and/or the Notes which may not be recoverable from the Borrower by reason of any legal limitation, disability or incapacity on or of the Borrower or any other fact or circumstance shall nevertheless be recoverable from the Guarantor as though the same had been incurred by the Guarantor and the Guarantor were the sole or principal debtor in respect thereof and shall be paid by the Guarantor on demand.

3. Continuing Obligation and Avaes

- (a) This Guarantee is a continuing guarantee and shall remain in force so long as any Bank is under an obligation to lend its Commitment (whether or not subject to any conditions precedent) and until all sums which may be or become payable by the Borrower under the Credit Agreement and the Notes have been paid in full.
- (b) This Guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment of any sums payable under the Credit Agreement and/or the Notes must be restored by the Agent or any Bank by reason of preference or for any other reason whatsoever.
- (c) As further evidence of its obligations under this Guarantee, the Guarantor shall endorse each of the Notes (including any Notes issued pursuant to Clause 4(c) of the Credit Agreement) "por aval" but no failure by the Agent or the Banks to insist upon such endorsement shall affect the existence or validity or terms of this Guarantee. Neither the endorsement of the Avaes on the Notes nor the delivery thereof to the Agent and/or the Banks shall limit, reduce or otherwise affect the obligations of the Guarantor hereunder, and the rights and claims of the Agent and the Banks in respect of the Avaes shall not replace or supersede the rights and claims of the Agent and/or the Banks hereunder.

4. Preservation of Guarantee

The obligations of the Guarantor hereunder shall not be affected by any act, omission, matter or thing which but for this provision might operate to release or otherwise exonerate the Guarantor from its obligations hereunder or affect such obligations, including without limitation and whether or not known to the Borrower, the Guarantor, the Agent or any Bank:-

- (i) any time or indulgence granted to or composition with the Borrower;

- (ii) the taking, variation, compromise, renewal or release of or refusal or neglect to perfect or enforce any rights, remedies or security against the Borrower;
- (iii) any legal limitation, disability, incapacity or other circumstances relating to the Borrower or any amendment or supplement to or variation of the Credit Agreement or the Notes or any other document;
- (iv) any incorrectness or incompleteness of any licence, authorisation or other document in connection herewith, with the Credit Agreement or the Notes or any irregularity, unenforceability or invalidity of any obligations of the Borrower under the Credit Agreement, the Notes or any other document;
- (v) any merger, amalgamation, insolvency, winding-up, liquidation, reorganisation, dissolution or like event of or occurring to the Borrower;
- (vi) any failure by the Borrower to apply the proceeds of the Loans in the manner specified in the Credit Agreement.

to the intent that the Guarantor's obligations under this Guarantee shall remain in full force and this Guarantee be construed accordingly as if there were no such circumstances, act, omission, matter or thing.

The Agent shall notify the Guarantor of the occurrence of any of the matters referred to in paragraphs (i), (ii), (iii), (iv), (v) or (vi) of this Clause upon its becoming aware of the same but failure by the Agent to give or delay on the part of the Agent in giving any such notification shall not affect or invalidate the provisions of this Guarantee.

5. Waiver

To the extent that the Guarantor may be entitled to such benefits in the Courts of Brazil, the Guarantor waives the benefits of Articles 1500 and 1503 (I) and (III) of the Brazilian Civil Code, of Article 262 of the Brazilian Commercial Code (except, in the case of any transaction constituting novation according to Brazilian law, where any alteration in the identity of the Borrower results or when the existing indebtedness covered by the Credit Agreement is replaced by a new debt) and the benefit of order under Article 1491 of the Brazilian Civil Code, provided that the omission of any express reference to any Article of the Brazilian Commercial Code or the Brazilian Civil Code (including, without limitation, item (II) of Article 1503 of the Brazilian Civil Code) shall not prejudice the effectiveness, operation, or legal, valid, binding and enforceable nature of any of the provisions of this Guarantee. In addition the Guarantor waives any right it may have of first requiring the Banks to proceed against or enforce any guarantee or security of or claim payment from the Borrower or any other person.

6. Non-Competition

The Guarantor shall be subrogated to the rights of the Banks against the Borrower under the Credit Agreement in respect of any amounts not paid by the Borrower thereunder but paid by the Guarantor hereunder or under the Notes. However, except to the extent required by applicable law, the Guarantor shall not be entitled to enforce any such right of subrogation or any other right it may have to be indemnified by the Borrower in respect of amounts paid out by the Guarantor hereunder or under the Notes or to receive any payment in respect of any such right as aforesaid until all amounts then due to the Agent and/or the Banks under the Credit Agreement and the Notes have been paid by the Borrower or the Guarantor.

7. Payments

- (a) All payments to be made by the Guarantor hereunder shall be made in the currency and funds and in the manner and at the place as provided in the Credit Agreement free and clear of all Taxes and other deductions whatsoever. If the Guarantor is compelled by law to make any deductions from any payment it will pay such additional amounts as are necessary to ensure that the Agent and each Bank receives the full amount which it would have received if there had been no such deductions. The Guarantor shall on demand provide certificates of tax deducted in respect of payments made hereunder.
- (b) The provisions of Clause 7(5) and 7(6) of the Credit Agreement shall be deemed to be repeated herein but substituting for references therein to "this Agreement" and "sub-clause" or "sub-clause (5)" references to "the Credit Agreement" and to this Clause respectively.

8. Evidence

A certificate of a Bank delivered to the Guarantor through the Agent and setting forth the amount due to such Bank from the Borrower (such certificate to include computations showing the basis for such amount) shall, in the absence of manifest error, be conclusive evidence of such amount.

9. Representations and Warranties

- (a) The Guarantor makes the following representations and warranties for the benefit of the Agent and each Bank:-
 - (i) It has the power to enter into and perform this Guarantee and the Avals and has taken all necessary action to authorise the making and performance of this Guarantee in accordance with the terms hereof and the endorsement of the Avals on the Notes.
 - (ii) The Guarantee constitutes legally binding obligations of the Guarantor enforceable in accordance with its terms as will the Avals when endorsed on the Notes.

- (iii) The execution, delivery and performance of this Guarantee and the endorsement of the Avals on the Notes will not violate or conflict in any respect with any provision of (1) any law or regulation or any order or decree of any court or governmental authority or agency, or (2) any contract or other undertaking or instrument to which the Guarantor is a party or which is binding upon it, or (3) the Constitution of the Guarantor.
- (iv) No event has occurred which constitutes or which with the giving of notice, lapse of time or other applicable conditions would constitute a default under or in respect of any agreement, undertaking or instrument to which the Guarantor is a party or by which it may be bound or to which it may be subject.
- (v) All consents, licences, approvals, publications, registrations, and authorisations and other requirements of any governmental authority, bureau or agency required in connection with the execution, delivery, performance, validity or enforceability of this Guarantee and of the Avals to be endorsed on the Notes have been obtained and are in full force and effect and true copies thereof have been delivered to the Agent through the Borrower.
- (vi) The Guarantor's obligations hereunder and under the Notes rank and will rank at least pari passu in all respects with all other present and future External Indebtedness of the Guarantor. Under Brazilian Law no Encumbrance may exist over any of the property, assets or revenues of the Guarantor. The Guarantor has no immunity from proceedings in the Federal Courts of Brazil.
- (vii) The Guarantor is a member in good standing of the International Monetary Fund.
- (viii) The Loans, when added to the total amount of loans guaranteed by the Guarantor previously contracted by the executive branch of the Guarantor under decree law No. 1312 of February 15, 1974, as amended, is within the financial limits set forth therein.
- (ix) There are no actions, proceedings or claims pending or, to the best of the Guarantor's knowledge, threatened against it, which might have a materially adverse effect on its condition or impair its ability to perform its obligations under this Guarantee or the Notes or prevent the consummation of the transactions contemplated in the Credit Agreement, and there are no material actions or proceedings pending against it relating to External Indebtedness of Brazil.

(x) There is no tax, levy, impost, deduction, charge or withholding imposed by Brazil or any political subdivision or taxing authority thereof or therein either (i) on or by virtue of the execution or delivery of this Guarantee or any other document to be furnished hereunder or (ii) on any payment to be made by the Guarantor pursuant to this Guarantee.

(xi) To ensure the enforceability or admissibility in evidence of this Guarantee in Brazil, it is not necessary that this Guarantee or any other document be filed or recorded with any court or other authority in Brazil or that any stamp or similar tax be paid to or in respect of this Guarantee.

(b) The representations and warranties set out in the foregoing sub-clause shall survive the execution of this Guarantee and the endorsement of the Avals by the Guarantor on the Notes and shall be deemed to be repeated on each Interest Date as if made at each such time.

10. Covenants

The Guarantor covenants that during the term of this Guarantee:

(a) It will do and cause to be done all things necessary to ensure the obtaining and continuance of all governmental approvals which may at any time be required with respect to this Guarantee, the Notes and any amendment or waiver thereof.

(b) It will furnish to the Agent as soon as possible and in any event within five calendar days after the occurrence of any event which, with lapse of time or the giving of notice or both, would become an Event of Default, a statement setting forth in reasonable detail the nature and scope of such Default.

(c) It will furnish to the Agent such financial, statistical and general information about itself as any Bank through the Agent may from time to time reasonably request, provided that such information is public.

(d) It will undertake all action necessary to the end that its obligations under this Guarantee and the Notes rank and will continue to rank at least pari passu in respect of priority of payment, security and otherwise (including any preferred arrangement to provide for the payment of indebtedness) with the highest ranking External Indebtedness or future External Indebtedness of it and that no present or future External

Indebtedness of it shall rank in respect of priority of payment, security or otherwise (including any preferred arrangements to provide for the payment of its External Indebtedness) in priority to its obligations under this Guarantee and the Notes.

- (e) It will take no action, except to the extent required by applicable law, against the Borrower or any of its property or assets for or on account of any payments made by it under or this Guarantee or the Notes until the payment in full of all amounts due under the Credit Agreement and the Notes.

11. Notices

Any demands or other communications by the Agent and/or the Banks to the Guarantor shall be deemed duly served if sent in writing or by telex, telegram or cable addressed to the address following (or such other address as the Guarantor may notify to the Agent in writing):

Ministro da Fazenda,
Edificio do Ministerio da Fazenda - 5° andar,
Esplanada dos Ministerios,
70048 Brasilia (DF), Brazil.

Telex: 611506 MFAZ BR

12. Assigns

This Guarantee shall enure to the benefit of the Agent's and the Banks' successors and assigns as shall the Avals of the Guarantor to be endorsed on the Notes.

13. Currency Indemnity

- (a) In the event of a judgment, order or award being rendered by any court or tribunal for the payment of any amounts owing to the Agent or any Bank under this Guarantee, the Credit Agreement, the Notes or the Avals or for the payment of damages in respect of any breach of this Guarantee, the Credit Agreement, the Notes or the Avals or under or in respect of a judgment, order or award of another court or tribunal for the payment of such amounts or damages, such judgment, order or award being expressed in a currency ("the Judgment Currency") other than the currency due hereunder (the "Agreed Currency"), the Guarantor agrees to indemnify and hold harmless the Agent and such Bank against any deficiency in terms of the Agreed Currency in the amounts received by the Agent or such Bank (as the case may be), arising or resulting from any variation as between (a) the rate of exchange at which the Agreed Currency is converted

into the Judgment Currency for the purposes of such judgment, order or award, and (b) the rate of exchange at which the Agent or such Bank (as the case may be) is able to purchase the Agreed Currency with the amount of the Judgment Currency actually received by the Agent or such Bank pursuant to such judgment, order or award on the Business Day following such receipt.

- (b) The above indemnity shall constitute a separate and independent obligation of the Guarantor from its other obligations hereunder and under the Avals and shall apply irrespective of any indulgence granted by the Agent or the Banks and no proof or evidence of any actual loss shall be required by the Guarantor.
- (c) The term "rate of exchange" shall include any premiums, Taxes and costs of exchange payable in connection with the purchase of, or conversion into, the relevant currency.

14. Law and Jurisdiction

- (a) This Guarantee shall be governed by and construed in accordance with the laws of the Province of Ontario, Canada, and the laws of Canada applicable therein.
- (b) If any dispute, difference or question relating to the performance, interpretation or construction of this Guarantee shall arise between, on the one hand, any of the Banks and/or the Agent which has/have made a claim or demand for payment by the Guarantor under this Guarantee and, on the other hand, the Guarantor, with respect to such claim or demand, it shall finally be settled in accordance with the procedure laid down in sub-clause (d) below, provided however that nothing herein set forth shall abridge the right of any Bank or the Agent to enforce or protect any of its respective rights in a court of law of competent jurisdiction, and provided further that nothing contained in this sub-clause (b) shall be construed as an agreement by the parties hereto on the jurisdiction of any court of law other than the Federal Courts of Brazil.
- (c) The Guarantor hereby represents that it has no rights of immunity from any judicial proceedings or from execution of judgment in Brazil or from the enforcement of any arbitration award on the grounds of sovereignty or otherwise in respect of any matter arising out of or relating to its obligations under this guarantee (except for the limitation on alienation of public property referred to in Article 67 of the Civil Code of Brazil). To the extent that the Guarantor is or becomes entitled to any immunity from suit, judgment or execution or other legal process or from the

enforcement of any arbitration award, the Guarantor hereby irrevocably and unconditionally agrees not to claim or take the benefit of such immunity with respect to its obligations or any other matter arising under or in connection with this Guarantee (except for the limitation on the alienation of public property referred to in Article 67 of the Civil Code of Brazil). Judgment upon any such arbitration award may be entered in any court lawfully entitled to render such judgment, and application may be made for judicial acceptance of the award and an order of enforcement ("homologacao judicial") to any court lawfully entitled to accept such award and issue such order, for which purpose the Guarantor hereby irrevocably waives all defences of immunity (whether on the basis of sovereignty or otherwise) and for such purposes only the Guarantor irrevocably submits to the jurisdiction of the courts of Ontario and consents generally in connection with such proceedings to the giving of any relief or the issue of any process in connection with such proceedings. Without limiting the foregoing, for the purpose of receiving service of process in connection with obtaining judicial acceptance of any arbitration award and a corresponding order of enforcement ("homologacao judicial") in the courts of Ontario, the Guarantor agrees that any such process may be served on it by delivery to the Attorney General of the Federative Republic of Brazil (Procurador Geral da Republica) pursuant to Article 42 of Law No. 1341 of 30th January, 1951, as amended, of letters rogatory or by any of the means permissible under the laws of Ontario provided that such means are not contrary to Brazilian law and public policy.

- (d) Subject to sub-clause (b) above, if any dispute, difference or question relating to the performance, interpretation or construction of this Guarantee shall arise between, on the one hand, any of the Banks and/or the Agent which has/have made a claim or demand for payment by the Guarantor under this Guarantee (the person or persons having made such claim or demand being herein collectively called the "Payee") and, on the other hand, the Guarantor, with respect to such claim or demand, either the Payee or the Guarantor (the "Referring Party") may, by written notice (the "Referral Notice") to the other (the "Other Party"), refer such dispute, difference or question to arbitration, and the Other Party, upon receipt of the Referral Notice, shall be obliged to refer such dispute, difference or question to arbitration proceedings as set forth herein. The Referral Notice shall describe the nature of such dispute, difference or question and request the formation of an arbitral tribunal for the purposes of such arbitration. Such arbitral tribunal shall consist of three arbitrators (each of whom shall be fluent in English), one appointed by the Referring Party and one by the Other Party (the party appointing each such arbitrator to notify the other of the name of such arbitrator within

ten days of the date of the Referral Notice). The arbitrators so selected shall within twenty days of the date of the Referral Notice agree on a third arbitrator, who may be (but need not be) of the same nationality as either of the parties to the arbitration but who shall be a practicing member of the Bar of Province of Ontario who is experienced in such matters. If any of the arbitrators shall not be appointed within the time limits specified above, such arbitrator shall be appointed by the Secretary General of the International Centre for the Settlement of Investment Disputes (Washington, D.C.); PROVIDED HOWEVER, that if the Secretary General of the International Centre for the Settlement of Investment Disputes shall decline or fail, within twenty days, to make such an appointment, then such arbitrator shall be appointed by the American Arbitration Association, presently located at 140 West 51st Street, New York, N.Y. 10020, U.S.A. Unless otherwise agreed by the parties to the arbitration, all hearings shall be held and all submissions shall be made by the parties within thirty days of the date of the selection of the third arbitrator and the decisions of the arbitrators shall be made within ten days of the later of the date of the closing of the hearings or the date of the final submissions by the parties. Except as otherwise provided herein, arbitration proceedings hereunder shall be governed by Articles 41-45, 47-48 and 60-61 of the Convention of the Settlement of Investment Disputes between States and Nationals of Other States. Such arbitration proceedings, including the rendering of the arbitral decision, shall take place in Toronto, Canada and the language of such proceedings (including written submissions by the parties) shall be English. Any arbitral tribunal established hereunder shall state the reasons for its decisions in writing and shall make such decisions entirely on the basis of the substantive law specified in sub-clause (a) above and not on the basis of the principle of ex aequo et bono or otherwise. The decision of any such arbitral tribunal shall be final to the fullest extent permitted by law. The Guarantor agrees that in any such arbitration it will not raise any defence which it could not raise but for the fact that it is a sovereign state. No arbitration proceedings hereunder shall be binding upon or in any way affect the rights or interests of any party other than the Referring Party and the Other Party with respect to such arbitration.

- (e) Without prejudice to anything herein contained, in the event that any action or proceedings with respect to this Guarantee or the Avals are brought in the Federal Courts of Brazil, it is agreed that (i) in order that this Guarantee shall be considered to be a valid and enforceable instrument evidencing indebtedness of the Guarantor for a sum certain ("Titulo de divida liquida, certa e exigivel") as provided under Section 586 of the Code of Civil Procedure of Brazil, this Guarantee shall bear the signature of two witnesses in

accordance with Section 585(II) of such Code of Civil Procedure, and (ii) the Agent and the Banks shall have the right to institute legal action for the payment and collection of any sum payable under this Guarantee in the manner provided in Sections 730 and 731 of the aforesaid Code of Civil Procedure, using this Guarantee as the competent instrument for such purpose.

15. Severability

Any provision in this Guarantee which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or enforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

16. Bank's Rights

Nothing herein shall limit the right of each Bank to protect and enforce its rights arising out of this Guarantee and it shall not be necessary for any Bank or the Agent to be joined as an additional party in any proceedings for this purpose.

17. Redistribution of Payments

If any Bank at any time shall receive or recover (whether by way of voluntary or involuntary payment or by virtue of an exercise of its legal rights) the whole or any part of any amounts due from the Guarantor to such Bank or to the Agent on behalf of such Bank hereunder otherwise than by distribution from the Agent under the terms of this Guarantee or the Credit Agreement, then:-

- (1) such Bank ("the Paying Bank") shall promptly (and in any event within ten Business Days) pay to the Agent the full amount so received or recovered;
- (2) as between the Guarantor and the Paying Bank, the Guarantor shall remain or again become indebted to such Paying Bank hereunder in the amount so paid as if it had not been received or recovered as aforesaid; and
- (3) the Agent shall treat the amount so paid as if it were a payment by the Guarantor on account of amounts due from the Guarantor for distribution to the Paying Bank and each of the other Banks in the proportions in which the Paying Bank and the other Banks would have been entitled to receive such amount had it been paid by the Guarantor to the Agent hereunder

PROVIDED THAT

- (a) a Paying Bank which shall have commenced or joined in an action or proceeding in any court to recover sums due to it under the Credit Agreement or the Notes or this Guarantee and pursuant to a judgment obtained therein or a settlement or compromise of that action or proceeding shall have received any amount, shall not be required to share any proportion of that amount with a Bank which has the legal right to, but does not, join such action or proceeding or commence and diligently prosecute a separate action or proceeding to enforce its rights in the same or another court; and
- (b) every payment and adjustment made pursuant to this sub-clause shall be subject to the condition that if such amount (or any part thereof) subsequently must be repaid by the Paying Bank to the Guarantor or any third person, as the case may be, the Agent (if it holds the same) and each of the Banks who has received any part thereof from the Agent shall repay such amount (or the relevant part as the case may be) to the Paying Bank together with such amount (if any) as is necessary to reimburse the Paying Bank the appropriate portion of any interest it shall have been obliged to pay, when repaying such amount as aforesaid and the relevant adjustments pursuant to this sub-clause shall be cancelled.

Each Bank exercising any rights giving rise to a receipt or receiving any payment of the type referred to in this Clause or instituting legal proceedings to recover sums owing to it under this Guarantee shall as soon as reasonably practicable (and in any event within 10 Business Days) thereafter give notice thereof to the Agent who shall give notice to the other Banks.

IN WITNESS whereof this Guarantee has been entered into by the Guarantor as of the date first above written.

THE FEDERATIVE REPUBLIC OF BRAZIL

By: _____

Name: _____

Title: _____

As Witnesses to the execution of this Guarantee:

(1) By: _____ (2) By: _____

Name: _____

Name: _____

Address: _____

Address: _____

SCHEDULE E

EXCEPTION TO CLAUSE 12(J)

TWO (2) FINAME'S LOAN AGREEMENTS

AGENT: BANCO DO ESTADO DE MATO GROSSO S/A
CUIABA BRANCH - MATO GROSSO

DATED: 1. 13/11/84
2. 28/11/84

MATURITY: 09/06/88

AMOUNT: CR 4.970.824.785

GUARANTEE: PLEDGE OF MACHINES AND TRUCKS

GUARANTOR: STATE OF MATO GROSSO

PURPOSE OF THE LOANS: PURCHASE OF MACHINES AND TRUCKS TO FINANCE THE PROGRAM OF THE MUNICIPALITIES OF THE STATE OF MATO GROSSO

INTEREST: TEN PER CENT. (10%) PER ANNUM.

MONETARY CORRECTION: ONE HUNDRED PER CENT. (100%) OF THE ORTN (NATIONAL TREASURY BONDS).

FEE: 0.1 PER CENT. (1%)

PAYMENTS: (IN ORTN'S)

1986	100.433,36
1987	91.154,76
1988	42.097,66

COMMITMENT SCHEDULE

<u>BANK</u>	<u>PRIME COMMITMENT</u>	<u>CANADIAN PRIME COMMITMENT</u>
THE ROYAL BANK OF CANADA	US\$4,056,726.18	
CANADIAN IMPERIAL BANK OF COMMERCE TRUST COMPANY (BAHAMAS) LIMITED		Canadian Dollar Equivalent of US\$5,000,000, but such amount not to exceed Cdn\$7,000,000
LIBRA BANK PLC.	US\$5,943,273.82	

SIGNATORIES / LENDING OFFICE / ADDRESSES

Executed by the Borrower in BRASILIA, BRAZIL the 29th day of JANUARY, 1986.

THE BORROWER

COMPANHIA DE DESENVOLVIMENTO DO
ESTADO DE MATO GROSSO - CODEMAT
Centro Político Administrativo
CPA, Bloco GPC
78,000 - Cuiaba, Mato Grosso
Attention: Financial Director

TELEX NO. (065) 2302 CDMT BR

By: [Signature]
Name: GUSTAVO ALMEIDA
Title: DIRECTOR PRESIDENT

By: [Signature]
Name: M^{rs} AMÉLIA PACHECO DE
ALBUQUERQUE
Title: FINANCIAL AND COMMERCIAL
DIRECTOR

As witness to the execution of this Agreement by the Borrower:

(1) By: [Signature] (2) By: [Signature]
Name: ESTER LOPES RIBEIRO DE OLIVEIRA Name: LUIS CARLOS ARMANO
Address: Ministério da Fazenda, Address: CENTRO POLITICO
Sala 819- 8o andar ADMINISTRATIVO
70048. Brasília - DF CUABA - MT

Executed by the Banks and the Agent in Nassau, Bahamas on the 20th day of January, 1986.

THE BANKS

THE ROYAL BANK OF CANADA
Foreign Banking Centre
P.O. Box N7141
Nassau, N.P., Bahamas

TELEX NO. 20574 ROYALFBC

By: [Signature]
Name: R. VANDERPOOL - WALLACE
Title: DIRECTOR

CANADIAN IMPERIAL BANK OF COMMERCE
TRUST COMPANY (BAHAMAS) LIMITED
P.O. Box N8329
Nassau, N.P., Bahamas

TELEX NO. NS169 CANBANK

By: [Signature]
Name: T. H. FORDE C. F. Richmond
Title: DIRECTOR MANAGING DIRECTOR

THE BANKS / CONTINUED

LIBRA BANK PLC
Bastion House
140 London Wall
London, EC2Y 5DN
England

TELEX NO. 885869 LIBRA G

By: P. Vanderpool-Wallace

Name: P. VANDERPOOL-WALLACE

Title: ATTORNEY-IN-FACT

THE AGENT

THE ROYAL BANK OF CANADA
Foreign Banking Centre, as Agent
P.O. Box N7141
Nassau, N.P., Bahamas

TELEX NO. 20574 ROYALFBC

By: P. Vanderpool-Wallace

Name: P. VANDERPOOL-WALLACE

Title: MANAGER

As witness to the execution of this Agreement by the Banks and the Agent:

(1) By: M. L. Mortimer

Name: M. L. MORTIMER

Address: P.O. Box N7141
NASSAU BAHAMAS

(2) By: D. E. Thompson

Name: D. E. THOMPSON

Address: P.O. Box N7141
NASSAU BAHAMAS

Subscribed before me,

Sail M. Card
Notary Public 2 -

- (i) declare that the obligations of the Banks to the Borrower hereunder shall be terminated forthwith and the Total Commitments reduced to nil, whereupon the same shall be so terminated and reduced forthwith; and/or
- (ii) declare the Loans immediately due and payable whereupon the Loans shall become immediately due and payable together with all interest accrued thereon without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower; and/or
- (iii) declare all fees and other amounts payable hereunder to be due and payable without presentment, demand, protest or other notice of any kind all of which are hereby expressly waived by the Borrower.

Notwithstanding the use of the future tense in sub-clauses (a) to (c) (both inclusive) above, any event or circumstance which occurs on, or which has occurred prior to but continues on, the date hereof shall constitute an event falling within such sub-clauses if it would have done had this Agreement been executed prior to the occurrence thereof. Neither the execution of this Agreement, nor the giving of any notices by the Agent pursuant to Clause 3, or the making of the Loans shall constitute a waiver of any event or circumstance constituting a Default hereunder (whether by reason of the immediately preceding sentence or otherwise) or prejudice any rights, remedies or powers of the Agent and/or any Bank hereunder in respect thereof.

14. Indemnities

- (1) The Borrower hereby agrees to indemnify the Agent and each Bank against any costs or expenses which the Agent or such Bank shall certify as sustained or incurred by it as a consequence of (a) any default in payment on the due date of the principal of the Loans or any part thereof or interest accrued thereon or any other amount payable hereunder or under the Notes, (b) the occurrence of any Default and/or the acceleration of the Loans pursuant to Clause 13, or (c) the Loans not for any reason (other than default by the Agent or any Bank) being borrowed on the Drawdown Date including but not limited to any costs or expenses sustained or incurred on account of funds acquired, contracted for or utilised to fund or maintain the Loans or any part thereof or the amount in payment of which the Borrower is in default.
- (2) Each certificate given pursuant to this Clause shall show, in reasonable detail, the basis for the costs and expenses therein claimed and shall, in the absence of manifest error, be conclusive and binding on the Borrower.

15. Fees, Expenses and Stamp Taxes

- (1) The Borrower shall reimburse to the Agent on demand by the Agent and subject to the presentation of a duly legalised invoice accompanied by the respective corroborating documents up to a maximum of \$15,000 for all out-of-pocket charges and expenses incurred by the Agent and the Banks in or in connection with the negotiation, preparation and execution of this Agreement and the Guarantee (including, but not limited to, the fees and expenses of legal advisers). The Borrower shall also reimburse the Agent and the Banks on demand for all charges and expenses incurred by them or any of them in connection with the enforcement of, or the preservation of any rights under, this Agreement, the Notes, the Guarantee or the Avals (including, but not limited to, the fees and expenses of their respective legal advisers).
- (2) (a) On the earlier of (i) five Business Days after the date of the registration of the Loans with Banco Central and (ii) sixty days after the Drawdown Date the Borrower shall pay to the Agent a management fee equal to one per cent. (1%) of the amount of the Total Commitments (in the case of the Canadian Prime Commitment in Canadian Dollars) for the account of the Agent and the Banks, to be allocated among the Agent and the Banks as they shall agree. Any sum which as of the date payment is due under this sub-clause has been paid to a Bank by Banco Central under Project A Agreement or Project B Agreement as a facility fee or fee, respectively, shall be deducted from sums which would otherwise be payable to such Bank under this sub-clause (insofar as not already deducted in respect of other loan agreements). If any Bank claims that as of the date a payment is due under this sub-clause it has not received payment from Banco Central of any such fee under Project A Agreement and/or Project B Agreement at least equal to the sum which would otherwise be due to such Bank under this sub-clause, it shall notify the Agent in writing of the amount such Bank claims is owed to it under the provisions of this sub-clause as of the date of such notice. The Agent shall transmit such notice to the Borrower with a copy to Banco Central: Attention FIRCE. The Borrower and such Bank shall thereafter negotiate directly on the claim of any such Bank under the provisions of this sub-clause and after sending out said notice, the Agent shall have no duty to take any further action with respect to any such claims; and

(b) The Borrower shall pay to the Agent for its own account in advance an annual agency fee of \$2,000 with the first such payment to be payable within five Business Days after the registration of the Loans with Banco Central. Subsequent payments of such fee shall be made on each anniversary of the date of this Agreement.

(3) The Borrower shall pay, and indemnify the Agent and the Banks against, any and all stamp, registration, transfer and similar Taxes which may be payable or determined to be payable on or in connection with the execution, delivery, performance or enforcement of any of this Agreement, the Notes, the Guarantee or the Avals. The Borrower shall pay and shall indemnify the Agent and the Banks against any and all penalties and liabilities with respect to or resulting from delay or omission to pay any such Taxes.

16. Waivers, Remedies Cumulative

No failure to exercise and no delay in exercising on the part of the Agent or any Bank, any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder or under the Notes preclude any other or further exercise thereof, or the exercise of any other right, power or privilege hereunder. The rights and remedies provided herein and in the Notes are cumulative and not exclusive of any rights or remedies provided by law.

17. Control Accounts

The Agent will maintain and keep accounts showing the aggregate amount of all sums advanced by, and from time to time outstanding from the Banks to the Borrower hereunder, the interest and other charges accrued thereon from time to time and all payments with respect thereto from time to time made to the Agent for the account of the Banks by the Borrower pursuant to this Agreement or the Notes or by the Guarantor pursuant to the Guarantee or the Avals. The accounts kept by the Agent shall constitute prima facie evidence of such sums advanced and outstanding, of such accruals and of such payments.

18. The Agent and the Banks

(1) Each Bank hereby irrevocably appoints and authorises the Agent to act as its agent hereunder with such powers as are expressly delegated to the Agent by the terms of this Agreement, together with such other powers as are reasonably incidental thereto. The Agent shall have no duties or responsibilities except those expressly set out in this Agreement. As to any matters not expressly provided for by this Agreement, the Agent shall act hereunder or in

connection herewith in accordance with the instructions of the Majority Banks but, in the absence of any such instructions, the Agent may act or refrain from acting as it shall deem to be in the best interests of the Banks, and any such instructions and any action taken by the Agent in accordance herewith shall be binding upon the Banks. The Agent shall not, by reason of this Agreement, be deemed to be a trustee for the benefit of any Bank, the Borrower or any other person. Neither the Agent nor its directors, officers, employees, or agents shall be responsible to the Banks for any recitals, statements, representations or warranties contained in this Agreement, the Guarantee or any information pertaining to the Borrower or the Guarantor or in any certificate or other document referred to, or provided for in, or received by any of them under, this Agreement or the Guarantee, for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, the Guarantee, the Notes, the Avals or any other document referred to or provided for herein or therein or any collateral provided for hereby or thereby or for any failure by the Borrower to perform its obligations hereunder or under the Notes or by the Guarantor to perform its obligations under the Guarantee or the Avals. The Agent may employ agents and attorneys-in-fact and shall not be responsible to the Banks for the negligence or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. Neither the Agent nor any of its directors, officers, employees or agents shall be responsible to the Banks for any action taken or omitted to be taken by it or them under this Agreement or in connection herewith or with the Guarantee, the Notes or the Avals, except for its or their own gross negligence or wilful misconduct.

- (2) The Agent shall be entitled to rely upon any certificate, notice or other document (including any cable, telegram, or telex) believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper person or persons, and upon the advice and statements of legal counsel and other experts selected by the Agent. The Agent may deem and treat each Bank (or assignee of any Bank of which the Agent has received notice as provided in this sentence) as the holder of the participation in the Loans made by such Bank (or as the holder of such participation acquired by such assignee) for all purposes hereof unless and until a notice of the assignment or transfer thereof satisfactory to the Agent signed by such Bank (or such assignee) shall have been furnished to the Agent.
- (3) The Agent shall not be deemed to have knowledge of the occurrence of any Default unless the Agent has received notice from a Bank or the Borrower or the Guarantor describing such Default and stating that such notice is a "Notice of Default". In the event that the Agent receives

such a notice of the occurrence of a Default the Agent shall give notice thereof to the Banks. The Agent shall take such action with respect to such Default as shall be reasonably directed by the Majority Banks, provided that, unless and until the Agent shall have received such directions, the Agent may act, or refrain from acting, with respect to such Default, as it shall deem in the best interest of the Banks.

- (4) With respect to its Commitment and participation in the Loans (if any) the Agent shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not the Agent and the term "Bank" or "Banks" and any similar term shall, unless the context clearly otherwise indicates, include the Agent. The Agent and its associated companies may accept deposits from, lend money to and generally engage in any kind of banking, trust or other business with the Borrower or the Guarantor as if it were not the Agent or, as the case may be, an associated company thereof, and it may accept and retain any fees payable to it for its own account in connection with the transactions contemplated hereby, without having to account therefor to any Bank.
- (5) The Banks agree to indemnify the Agent (to the extent not reimbursed by the Borrower hereunder or by the Guarantor under the Guarantee but without affecting the obligations of the Borrower hereunder) rateably in accordance with their respective participations in the Loans as set out in Dollars (in the case of the Canadian Prime Loan, the Dollar Equivalent thereof on the date hereof) in the Commitment Schedule preceding the execution pages of this Agreement (or, if no Loans are then outstanding hereunder, rateably in accordance with their respective Commitments), for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, stamp Taxes or disbursements of any kind and nature whatsoever which may be imposed on, incurred by, or asserted against the Agent in its capacity as such in any way relating to or arising out of this Agreement, the Guarantee, the Notes, the Avalos or any other documents contemplated by or referred to herein or therein or the transactions contemplated hereby and thereby (including, without limitation, the costs and expenses which the Borrower is obligated to pay under Clause 15(1) but excluding normal administrative costs and expenses incidental to the performance of its agency duties hereunder save to the extent that the same are increased as a result of the occurrence of a Default) or the enforcement of any of the terms hereof or thereof or the preservation of any rights hereunder or thereunder, provided that no Bank shall be liable for any of the foregoing to the extent they arise from the Agent's gross negligence or wilful misconduct.

- (6) Promptly after its receipt thereof, the Agent will forward to each Bank a copy of each report, notice or other document required by this Agreement or the Guarantee to be delivered to the Agent by the Borrower or the Guarantor for such Bank, provided that the Agent shall not be obliged to forward to any Bank a copy of any document received by it under Clause 10(1) unless such Bank so requests in writing.
- (7) Each Bank acknowledges that it has, independently and without reliance on the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own investigation of the affairs and financial condition of the Borrower and the Guarantor and agrees that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement and the Guarantee. The Agent shall not be required to keep itself informed as to the performance or observance by the Borrower of this Agreement or the Notes or by the Guarantor of the Guarantee or the Avals or of any other document referred to or provided for herein or in connection herewith or to inspect the properties or books of the Borrower or any other person. Except (in the case of the Agent) for notices and other documents expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the affairs, financial condition or business of the Borrower, the Guarantor or any other person which may come into the possession of the Agent or any of its associated companies. Nothing in this Agreement shall oblige the Agent to disclose any information relating to the Borrower or the Guarantor or any other person if such disclosure would or might in the opinion of the Agent constitute a breach of law or duty of secrecy or confidence.
- (8) The Agent may resign by giving written notice thereof to the Banks and the Borrower, and the Agent may be removed by written notice at any time with or without cause by the Majority Banks and in either event the Majority Banks shall have the right, on behalf of the Banks, to appoint a successor Agent. If, within 30 days after the retiring Agent's giving notice of resignation or 30 days after the notice of removal from the Majority Banks, as the case may be, the Majority Banks have not appointed a successor agent which shall also have accepted such appointment, the Agent shall have the right to appoint a successor agent which shall be a reputable and experienced bank agreed to by the Borrower. The resignation or removal of the Agent and the

appointment of any successor agent shall become effective upon the successor agent's acceptance of such appointment whereupon such successor agent shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring or removed Agent hereunder and under the Guarantee (the retiring or removed Agent to take such action and execute such instruments as the successor agent may reasonably request in order that the successor agent shall succeed to and become vested with such rights, powers, privileges and duties). After the effectiveness of any retiring or removed Agent's resignation or removal hereunder as Agent the provisions of this Clause 18 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent.

- (9) The Agent shall not have any responsibility (a) to the Borrower on account of the failure of any Bank to perform its obligations hereunder or (b) to any Bank on account of the failure of the Borrower to perform its obligations hereunder or under any Note or of the Guarantor to perform its obligations under the Guarantee or under any of the Avals.
- (10) The Agent may at any time, on giving notice to the other parties hereto, transfer some or all of its agency functions hereunder to any Subsidiary of RBC ("the Alternative Agent") and may thereafter at any time reassume such functions. In this connection it is acknowledged and agreed by the parties hereto that, on signature by the Alternative Agent of a counterpart of this Agreement, the Alternative Agent shall, in respect of those agency functions transferred to it by the Agent, assume the same duties and functions and be exculpated from liability to the same extent and permitted to conduct its business and to exercise all rights, protections and remedies available to it with the same freedom in all respects as is provided in relation to the Agent hereunder. The Agent or, as the case may be, the Alternative Agent, shall be released from all liabilities in respect of those agency functions held from time to time by the Alternative Agent or, as the case may be, the Agent.
- (11) The Agent may perform all or any of its agency functions hereunder or under the Notes through any office or branch of the Agent from time to time selected by it.

19. Notices

All notices, requests, demands and other communications to, upon or by the respective parties hereto shall be duly given or made if dispatched in writing, by telex, telegram or cable to the party to which such notice, request, demand or other communication is required or permitted to be given or

made under this Agreement, addressed to such party at its address and telex number set out by its name on the signature pages of this Agreement or at such other address as may have been notified in writing by the intended addressee to the party effecting such communication (and any notice to be given or made hereunder in writing shall be deemed to be so given or made if given or made by telex confirmed forthwith thereafter in writing, the telex version of such notice to be the effective version for the purposes hereof). All such notices, requests, demands or other communications, if duly given or made, shall be effective upon receipt, provided that if sent by telex they shall be deemed to be received if and when the addressee's answer-back shall have been received at the end of the transmission.

20. Assignments

- (1) This Agreement and the Notes shall be binding upon and inure to the benefit of the Borrower, the Agent and each Bank and their respective successors and assigns, except that the Borrower may not assign or transfer all or any part of its rights or obligations hereunder or under the Notes without the prior written consent of all the Banks.
- (2) Each Bank may at any time assign or transfer all or any part of its rights or obligations hereunder and under the Notes to any other banking or financial institution but such Bank shall give the Agent prior written notice thereof. The Borrower shall have no liability in respect of any costs or expenses incurred by such Bank or such banking or financial institution in effecting such assignment or transfer. If any such assignment or transfer is, or includes, a transfer of all or any part of the obligations of any Bank hereunder, then, provided that the assignee or transferee shall have confirmed to the Agent, the Borrower and the Guarantor prior to such assignment or transfer taking effect that it undertakes to be bound by the terms of this Agreement and accepts all the terms hereof relating to the obligations to be transferred and provided further that, any such transfer does not immediately result in an increase in the cost to the Borrower of performing its obligations under this Agreement by reason of the operation of Clauses 7(2) or 9(1), such Bank shall, upon such assignment or transfer being effected in accordance with this Clause 20(2), be relieved of its obligations hereunder to the extent of the transfer thereof.
- (3) Each Bank may disclose to a proposed assignee, transferee or sub-participant information in the possession of such Bank relating to the Borrower and the Guarantor and furnished in connection herewith.

- (4) Each Bank may at any time and from time to time change its Lending Office, but such Bank shall give the Agent prior written notice thereof.

2) Law and Jurisdiction 21

- (1) This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.
- (2) The Borrower agrees that this Agreement and the Notes and the transactions contemplated herein constitute a commercial activity within the meaning of the State Immunity Act of Canada and that this Agreement, the Notes and the transactions contemplated herein are subject to the chosen domestic, private and commercial law, and not international or public law, and the Borrower hereby irrevocably waives any right of immunity which it or any of its assets (irrespective of their use or intended use) has or may acquire in respect of its obligations hereunder and under the Notes and submits irrevocably to the non-exclusive jurisdiction of the courts of the Province of Ontario, Canada, of the State courts or the Federal courts in the State of New York, U.S.A., and of the courts of Brazil in relation to any suit, action or proceeding arising out of or relating to this Agreement or any Note, acknowledges their competence, irrevocably agrees to be bound by a final judgment of any such courts and irrevocably waives for itself and its assets (irrespective of their use or intended use) any immunity from jurisdiction or suit, from attachment before and after judgment, attachment in aid of execution of judgment (and in an action in rem, arrest, detention, seizure and forfeiture) or from execution of a judgment, or other legal process (including without limitation, relief by way of injunction or specific performance), to which it or any of its assets may otherwise be entitled in any jurisdiction in any suit or proceeding arising out of or relating to this Agreement or any Note, and hereby further irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.
- 3) With respect to any such action or proceeding commenced (a) in the courts of the Province of Ontario, Canada, the Borrower irrevocably designates, appoints and empowers CT Corporation System (Canada) Ltd., with offices on the date of this Agreement at 141 Laurier Avenue, West, Ottawa, Ontario, Canada K1P 5J3 as its authorized agent for service of process in any such action or proceedings with respect to this Agreement in the Province of Ontario, (b) in the State courts or the Federal courts in the State of New York, U.S.A., the Borrower irrevocably designates, appoints and

empowers CT Corporation System, 1633 Broadway, New York, New York 10019, U.S.A. as its authorized agent for service of process in any such action or proceeding with respect to this Agreement or any Note in the State of New York, in addition to any other proper method of service, service in such manner being hereby acknowledged by the Borrower to be binding upon it and its assets in every respect. The Borrower agrees that it will at all times maintain an agent to receive service of process in the Province of Ontario and in the State of New York on its behalf with respect to this Agreement and in the event that, for any reason, either of the process agents named above shall no longer serve as agent of the Borrower for service of process in the Province of Ontario or the State of New York, the Borrower shall promptly appoint a successor so to serve and advise the Banks thereof. Nothing herein shall be deemed to affect the rights of the Banks to commence action against the Borrower in any other court having jurisdiction in the circumstances.

- (1) Without prejudice to anything herein contained, in the event that any action or proceedings with respect to this Agreement or the Notes are brought in the Courts of Brazil, it is agreed that (a) in order that this Agreement shall be considered to be a valid and enforceable instrument evidencing indebtedness of the Borrower for a sum certain ("Titulo de divida liquida, certa e exigivel") as provided under Section 586. of the Code of Civil Procedure of the Federative Republic of Brazil, this Agreement shall bear the signature of two witnesses in accordance with Section 585 (II) of such Code of Civil Procedure, and (b) the Agent and the Banks shall have the right to institute legal action for the payment and collection of any sum payable under this Agreement in the manner provided in Sections 646 through 729 of the aforesaid Code of Civil Procedure, using this Agreement as the competent instrument for such purpose.

2. Redistribution of Payments 25

If any Bank at any time shall receive or recover (whether by way of voluntary or involuntary payment or by virtue of an exercise of its legal rights) the whole or any part of any amounts due from the Borrower to such Bank or to the Agent on behalf of such Bank hereunder or under the Notes or under the Guarantee otherwise than by distribution from the Agent under the terms of this Agreement, then:-

- (1) such Bank ("the Paying Bank") shall promptly (and in any event within ten Business Days) pay to the Agent the full amount so received or recovered;
- (2) as between the Borrower and the Paying Bank, the Borrower shall remain or again become indebted to such Paying Bank hereunder in the amount so paid as if it had not been received or recovered as aforesaid; and

- (3) the Agent shall treat the amount so paid as if it were a payment by the Borrower on account of amounts due from the Borrower hereunder or, as the case may be, the Guarantor for distribution to the Paying Bank and each of the other Banks in the proportions in which the Paying Bank and the other Banks would have been entitled to receive such amount had it been paid by the Borrower to the Agent hereunder

PROVIDED THAT

- (a) a Paying Bank which shall have commenced or joined in an action or proceeding in any court to recover sums due to it under this Agreement or the Notes or the Guarantee and pursuant to a judgment obtained therein or a settlement or compromise of that action or proceeding shall have received any amount, shall not be required to share any proportion of that amount with a Bank which has the legal right to, but does not, join such action or proceeding or commence and diligently prosecute a separate action or proceeding to enforce its rights in the same or another court; and
- (b) every payment and adjustment made pursuant to this sub-clause shall be subject to the condition that if such amount (or any part thereof) subsequently must be repaid by the Paying Bank to the Borrower or the Guarantor or any third person, as the case may be, the Agent (if it holds the same) and each of the Banks who has received any part thereof from the Agent shall repay such amount (or the relevant part as the case may be) to the Paying Bank together with such amount (if any) as is necessary to reimburse the Paying Bank the appropriate portion of any interest it shall have been obliged to pay, when repaying such amount as aforesaid and the relevant adjustments pursuant to this sub-clause shall be cancelled.

Each Bank exercising any rights giving rise to a receipt or receiving any payment of the type referred to in this Clause or instituting legal proceedings to recover sums owing to it under this Agreement or the Notes or the Guarantee shall as soon as reasonably practicable thereafter (and in any event within ten Business Days) give notice thereof to the Agent who shall give notice to the other Banks.

23. Miscellaneous 25

- (1) Each notice, demand or other similar communication given by one party to another hereunder shall be in the English language. Copies of laws and of regulations and official licences, authorisations, consents and other documents issued and/or attested by public authorities in Brazil,

shall either be in the English language or in the Portuguese language accompanied by a certified true English translation (and in the case of conflict between the Portuguese language version and such translation, the Portuguese language version shall prevail). In case of doubt as to the proper interpretation of this Agreement, this original English version shall be controlling over any Portuguese or other translation hereof.

- (2) This Agreement may be executed in any number of counterparts and by the different parties on different counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.
- (3) Any provision in this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.
- (4) This Agreement and the other agreements referred to herein constitute the entire agreement among the parties hereto with respect to the subject matter hereof and supersede all prior arrangements and understandings, both written and oral, between such parties.
- (5) The obligations of the Borrower hereunder shall remain in full force and effect until the Agent and each Bank shall have received all amounts due or to become due to them hereunder in accordance with the terms hereof.
- (6) A Bank which makes any demand under the Guarantee or commences proceedings or takes any other action against the Borrower or the Guarantor shall first give notice of its intention so to do to the Agent and the other Banks.

IN WITNESS whereof the parties hereto have caused this Agreement to be duly executed on the day first written above.

SCHEDULE A

PART I

NOTICE OF BORROWING

[], 1986

THE ROYAL BANK OF CANADA
Foreign Banking Centre
P.O. Box N-7141
Nassau, N.P., Bahamas

Attention: Loans Department

Dear Sirs,

NOTICE OF BORROWING
CREDIT AGREEMENT DATED [], 1986

We refer to the Credit Agreement (the "Agreement") dated [], 1986 and made between Companhia de Desenvolvimento do Estado de Mato Grosso - CODEMAT, as Borrower, The Royal Bank of Canada, Nassau, N.P., Bahamas, Canadian Imperial Bank of Commerce Trust Company (Bahamas) Limited and Libra Bank Plc. (the "Banks"), and yourselves as Agent for the Banks. Terms defined in the Agreement shall have the same meaning when used herein as in the Agreement.

We hereby give you irrevocable notice in accordance with Clause 3(2) of the Agreement that we desire to borrow Ten Million United States Dollars and the Canadian Dollar Equivalent of Five Million United States Dollars, but such latter amount not to exceed Seven Million Canadian Dollars (Cdn\$7,000,000), on [].

We hereby certify to you and to the Banks that the facts represented by the Borrower set out in Clause 12(1) of the Agreement are true and correct on the date hereof as if represented by the Borrower on such date, and that no Default has occurred and is continuing on the date hereof or will result from the making of this borrowing on the date requested in this Notice of Borrowing.

For and on behalf of
COMPANHIA DE DESENVOLVIMENTO
DO ESTADO DE MATO GROSSO - CODEMAT

By:

Name:

Title:

SCHEDULE A

PART II

GUARANTOR'S CERTIFICATE

[_____] , 1986

THE ROYAL BANK OF CANADA
Foreign Banking Centre
P.O. Box N-7141
Nassau, N.P., Bahamas

Attention: Loans Department

Dear Sirs;

GUARANTOR'S CERTIFICATE
CREDIT AGREEMENT DATED [_____] , 1986

We refer to the Credit Agreement (the "Agreement") dated [_____] , 1986 and made between Companhia de Desenvolvimento do Estado de Mato Grosso - CODEMAT, as Borrower, the Royal Bank of Canada, Nassau, N.P., Bahamas, Canadian Imperial Bank of Commerce Trust Company (Bahamas) Limited and Fibra Bank Plc. (the "Banks"), and yourselves as Agent for the Banks, and to the guarantee (the "Guarantee") dated [_____] , 1986 and issued by The Federative Republic of Brazil (the "Guarantor") pursuant to the Agreement.

In accordance with Clause 10(2) of the Agreement we hereby certify to you, as Agent for the Banks, and to the Banks, that the facts represented by the Guarantor set out in Clause 9(a) of the Guarantee are true and accurate on the date hereof as if represented by the Guarantor on such date.

For and on behalf of
THE FEDERATIVE REPUBLIC OF BRAZIL

By:

Name:

Title:

SCHEDULE A

PART III

NOTICE OF INTENDED DISBURSEMENT

To: Banco Central do Brasil
Departamento de Fiscalizacao
e Registro de Capitais Estrangeiros
- FIRCE ("Banco Central/FIRCE/Direg/Seref")
Telex No: (061) 1831

Gentlemen:

Reference is made to (1) a certain agreement (the "Loan Agreement") dated [], 1986 between Companhia de Desenvolvimento do Estado de Mato Grosso - CODEMAT, (the "Borrower"), The Royal Bank of Canada, Nassau, N.P., Bahamas, Canadian Imperial Bank of Commerce Trust Company (Bahamas) Limited and Libra Bank Plc. (the "Banks") and The Royal Bank of Canada, Nassau, Bahamas, as agent for the Banks (the "Agent"); (2) the Credit and Guaranty Agreement (the "Project A Agreement") dated as of January 27, 1984 among Banco Central do Brasil ("Banco Central") as borrower, the Guarantor as guarantor, the banks named therein and Morgan Guaranty Trust Company of New York as agent for such banks; and (3) the Deposit Facility Agreement (the "Project B Agreement") dated as of January 27, 1984 among Banco Central as borrower, the Guarantor as guarantor, the banks named therein and Citibank, N.A. as agent for such banks. Terms used and not otherwise defined herein shall have the meanings attributed thereto in the Loan Agreement.

On behalf of each Bank specified in Annex 2 hereto, the Agent hereby gives notice to Banco Central/FIRCE, as required by Section 3.3 of the Project A Agreement and Section 2.02(a) of the Project B Agreement, that no later than 11.00 a.m. (New York time) on [], 1986, the Agent will, subject to fulfilment of the conditions set forth in Clause 10 of the Loan Agreement, execute and deliver to Banco Central/FIRCE a Notice to Disburse in the form of Annex I hereto instructing you to debit such Bank's accounts with you and simultaneously give same day credit to account No. [] of the Borrower at [], Brazil, with the amounts specified in Annex 2 hereto.

Very truly yours,

THE ROYAL BANK OF CANADA
Nassau, N.P., Bahamas, as Agent

By:

Name:

Title:

SCHEDULE A

PART IV

NOTICE TO DISBURSE

To: Banco Central do Brasil
Departamento de Fiscalizacao
e Registro de Capitais Estrangeiros
- FIRCE ("Banco Central/FIRCE/Direg/Seref")
Telex No: (061) 1831

Gentlemen:

Reference is made to (1) a certain agreement (the "Loan Agreement") dated [], 1986 between Companhia de Desenvolvimento do Estado de Mato Grosso - CODEMAT (the "Borrower"), The Royal Bank of Canada, Nassau, N.P., Bahamas, Canadian Imperial Bank of Commerce Trust Company (Bahamas) Limited and Libra Bank Plc. (the "Banks") and The Royal Bank of Canada, Nassau, N.P., Bahamas as agent for the Banks (the "Agent"); (2) the Credit and Guaranty Agreement (the "Project A Agreement") dated as of January 27, 1984 among Banco Central do Brasil ("Banco Central") as borrower, the Guarantor as guarantor, the banks named therein and Morgan Guaranty Trust Company of New York as agent for such banks; and (3) the Deposit Facility Agreement (the "Project B Agreement") dated as of January 27, 1984 among Banco Central as Borrower, the Guarantor as guarantor, the banks named therein and Citibank, N.A. as agent for such banks. Terms used and not otherwise defined herein shall have the meanings attributed thereto in the Loan Agreement.

The Agent hereby instructs Banco Central/FIRCE, on behalf of each Bank specified in Annex I hereto at or after 11.00 a.m. (New York time) on [], 1986, in accordance with Annex I hereto, to debit such Bank's accounts with you and simultaneously give same day credit to account No. [] of the Borrower at [], Brasil with the amounts specified in Annex 2 hereto.

Very truly yours,

THE ROYAL BANK OF CANADA, as Agent

By:.....

Name:.....

Title:.....

cc: Citibank, N.A.
as Agent under the Project B Agreement

Morgan Guaranty Trust Company of New York
as Agent under the Project A Agreement

Companhia de Desenvolvimento do
Estado de Mato Grosso - CODEMAT

SCHEDULE B

CONDITIONS PRECEDENT

1. The Guarantee, duly executed by the Guarantor.
2. Evidence that all authorisations, approvals, consents, licences, exemptions, registrations, resolutions and other requirements of governmental, public and other bodies and authorities (other than the registration of the Loans with Banco Central do Brasil in accordance with Law No. 4131 of Brazil (as amended)) necessary for the making, performance, validity and enforceability of this Agreement, the Notes, the Guarantee and the Avals and for the borrowing of the Loans have been obtained, including, without limitation, copies of:-
 - (a) the authorisation of Banco Central for the Borrower to enter into and perform the transactions contemplated by this Agreement and the terms hereof;
 - (b) a statement of the Secretary for Planning of the Government of Brazil in compliance with Article 4 of Decree Law 1312 of February 15, 1974 (as amended);
 - (c) the notification by the Borrower to Banco Central of the terms of the Loans (including, without limitation, the payment of the fees referred to in Clause 15(2)(a) and (b) and the expenses referred to in the first sentence of Clause 15(1)) and of documentary evidence that, in accordance with Resolution 125 of Banco Central (Comunicado Firce 10, as modified by Comunicado Firce 21), Banco Central has authorised the Loans;
 - (d) the approval of the Guarantee and the Avals by the Minister of Finance of Brazil and the authorisation for the making and performance of the Guarantee and the endorsement and performance of the Avals by the Minister of Finance and/or the Attorney-General for the National Treasury of Brazil on behalf of the Guarantor and, if said Minister or said Attorney-General himself has not executed or will not execute the Guarantee and/or any one or more of the Avals, said Minister's or said Attorney-General's designation of a special attorney-in-fact to execute the same on his behalf on behalf of the Guarantor;
 - (e) evidence that a summary in Portuguese of this Agreement has been published in the Diario Oficial da Uniao.
3. A certified copy of a resolution of the Borrower approving the transactions contemplated by this Agreement, authorising the making and performance of this Agreement and any other documents or instruments contemplated hereby and the borrowing of the Loans hereunder.

4. Evidence of the authority and specimen signatures of each of the persons (a) who has signed this Agreement on behalf of the Borrower, (b) who will sign the Notes on behalf of the Borrower (c) who has signed the Guarantee on behalf of the Guarantor, (d) who will endorse the Avals on the Notes on behalf of the Guarantor, and (e) who will, until replaced by other persons duly authorised for that purpose, act as the representatives of the Borrower for the purpose of signing documents and giving notices in connection with this Agreement and the transactions contemplated hereby.
5. A certified copy of the Estatutos (and other relevant constitutional and governing documents) of the Borrower, including all amendments thereto.
6. The irrevocable acceptance by CT Corporation System (Canada) Ltd., 141 Laurier Avenue, West, Ottawa, Ontario, Canada K1P 5J3, and by CT Corporation System, 1633 Broadway, New York, New York 10019, U.S.A. of their respective appointments as the Borrower's agents for service of process in the Province of Ontario and the State of New York, as required by Clause 21(3).
7. The Banks shall not have concluded that there has occurred since the date of this Agreement a material adverse change in the financial condition, economic capabilities or prospects of the Borrower or the Guarantor.
8. An opinion of a legal adviser to the Borrower (acceptable to the Agent) dated not more than ten Business Days prior to the Drawdown Date and addressed to the Agent and the Banks substantially to the following effect:-

"I have acted as Legal Counsel to Companhia de Desenvolvimento do Estado de Mato Grosso - Codemat (the "Borrower") in connection with the credit agreement dated [____], 1986 (the "Agreement") between the Borrower, the Banks and the Agent (all as defined therein).

Unless otherwise defined herein, capitalised terms used herein which are defined in the Agreement shall have the same meanings herein as therein.

Pursuant to the requirements of Clause 10(1) of the Agreement and as Legal Counsel to the Borrower I have been requested to give my legal opinion as to certain matters with respect to the Agreement and the transactions contemplated thereby. In such connection I am of the opinion that:-

- (i) The Borrower is a mixed-capital company (sociedade de economia mista) duly organised, validly existing and in good standing under the laws of Brazil of which the State of Mato Grosso is the controlling shareholder and

the Borrower has full power, authority and legal right to execute and deliver the Agreement and the Notes and any other instruments and documents contemplated by the Agreement, to incur the indebtedness and other obligations provided for therein, to perform and observe the terms and provisions thereof, and to borrow the Loans under the Agreement. The Agreement has been duly executed and delivered by the Borrower and does, and the Notes when duly executed and delivered for value will, constitute the legal, valid and binding obligations of the Borrower enforceable in accordance with their respective terms and each is and will be in the proper form for the enforcement and admissibility in evidence thereof in the Courts of Brazil without any further registration, filing, consent or other formality or condition (other than those traditionally associated with the commencement of legal actions and the presentation of a Portuguese translation thereof to such Courts). The holder of each Note would be entitled to executory action on such Note against the Borrower in the Courts of Brazil in respect of the non-payment of the principal thereof in accordance with the terms thereof.

However, no opinion is expressed with regard to Clause 8, but, in this connection, the Brazilian Courts, including the Supreme Court, have ruled that a debtor must pay for the creditor to acquire, on the date of actual payment, the amount of the foreign currency owed by the debtor;

- (ii) The execution and delivery of the Agreement and the Notes and the performance by the Borrower of the terms of the Agreement and the Notes and the borrowing of the Loans thereunder have been duly authorized by all necessary corporate and other action of the Borrower and do not and will not (1) contravene any provision of any existing law, decree-law, decree, rule or regulation to which the Borrower is subject or any existing judgment, franchise, order or permit applicable to the Borrower; or (2) conflict with, or result in any breach of, any of the terms, covenants, conditions or provisions of, or constitute a default under or result in the creation or imposition of any Encumbrance upon any of the property, assets or revenues of the Borrower pursuant to, the terms of any indenture, deed of trust, mortgage, agreement or other instrument to which the Borrower is a party or by which it may be bound or to which it or any of its properties, assets or revenues may be subject or (3) violate any provision of the Estatutos or resolutions (or other incorporation or governing documents) of the Borrower;

(iii) Payments by the Borrower of interest under the Agreement and of the fees referred to in Clause 15(2) are required to be made subject to Brazilian Withholding Tax unless an exemption therefrom is obtained. In the absence of any such exemption, then, since the Borrower has, by Clause 7(2) of the Agreement, undertaken to pay such Tax directly to the appropriate Taxation authorities, such Tax must be deducted from such payments at the rate of 25 per cent. (as currently in force) but the obligation of the Borrower to pay certain additional amounts in respect of such deduction in accordance with such Clause 7(2) is valid and enforceable under Brazilian Law. The Borrower is not required by Brazilian Law to make any other deduction or withholding from any payment to be made by the Borrower under the Agreement or the Notes nor does Brazilian law subject any such payment to any other Tax whatsoever;

(iv) All authorisations, approvals, consents, licences, registrations, notarisations and other requirements of governmental and public bodies and authorities required in connection with the execution, delivery, performance, validity or enforceability of the Agreement and the Notes or of any other document therein referred to and the borrowing of the Loans under the Agreement have been obtained or effected and are in full force and effect, including, without limitation, those referred to in paragraphs 2(a) - (c) (inclusive) and 2(f) of Schedule B, but excepting the registration of the Loans with Banco Central in accordance with Law No. 4131 of Brazil (as amended), provided however that the purchase and remittance of foreign exchange for the purpose of making all payments required to be made by the Borrower under the Agreement (including, without limitation, payments of principal and interest prior to the scheduled payment dates therefor and all indemnification payments which may be required under the Agreement) other than payments of interest charged under Clause 6(2) and (3) of fees and expenses in accordance with Clauses 15(1) (first sentence) and 15(2) and of principal on the Loans on the respective scheduled payment dates therefor as contemplated in the certificate of registration to be issued by Banco Central in respect of the Loans, will require the prior approval of Banco Central at the time of each such payment. I know of no reason why the Loans should not, upon the borrowing thereof but after application for such registration in accordance with Brazilian Law, be registered by Banco Central in accordance with Law No. 4131 of Brazil;

- (v) The persons executing the Agreement and the Notes have the right, power and authority to execute and deliver the Agreement and the Notes on behalf of the Borrower and have the right to give any certificates or notices to the Agent, all in accordance with the provisions of the Agreement;
- (vi) No stamp, registration or similar Brazilian Taxes are payable in respect of the Agreement or the Notes or the Loans. If any party to the Agreement or the Notes obtained a judgment outside of Brazil based upon an action arising under or pursuant to the Agreement or the Notes, such judgment would be enforceable in the Courts of Brazil upon the conditions specified in paragraph (viii) below without the requirement that any stamp, registration or other similar Taxes (other than Court fees, which fees would be recoverable from the debtor) be paid in Brazil in respect of the Agreement or the Notes or such judgment or arbitration award;
- (vii) It is not necessary to file, register or record the Agreement or the Notes or any other instrument relating thereto in any public office or elsewhere in Brazil save that, as referred to in paragraph (iv) above, registration of the Loans must be effected with Banco Central.
- (viii) The Borrower is subject to civil and commercial law with respect to its obligations under the Agreement and the Notes. Neither the Borrower nor any of its property, assets or revenues enjoys, under Brazilian Law, any right of immunity from service of process, attachment (whether prior to the entry or in aid of execution upon a judgment), execution or judgment from any other legal process with respect to its obligations under the Agreement and the Notes. The submission by the Borrower to the jurisdiction of the Courts referred to in Clause 21(3) of the Agreement with respect to matters arising from the Agreement is irrevocably binding on the Borrower. The provision in Clause 21(1) of the Agreement that the laws of the Province of Ontario, Canada and the laws of Canada applicable therein, shall govern the Agreement is irrevocably binding on the Borrower and would be upheld in any proceedings in relation to the Agreement brought in the Courts of Brazil. Any judgment obtained against the Borrower in the Courts of Ontario or in the State Courts of or Federal Courts in the State of New York with respect to the Agreement or the Notes would normally be enforceable in the Courts of Brazil if previously homologated by the Federal Supreme Court of Brazil, such homologation only occurring if such judgment:-

- (a) fulfills all formalities required for its enforceability under the laws of the country wherein it was issued;
- (b) was issued by a competent court after service of process on the Borrower;
- (c) is not subject to appeal;
- (d) was authenticated by a Brazilian consulate in the country wherein it was issued; and
- (e) is not contrary to Brazilian public policy (as provided in Article 17 of the Law of Introduction to the Brazilian Civil Code).

The Courts of Brazil have jurisdiction to adjudicate any action relating to the Agreement or the Notes brought against the Borrower in such Courts by the Agent and/or any Bank;

- (ix) The obligations of the Borrower in respect of principal, interest and other amounts payable by the Borrower under the Agreement and the Notes will rank not less than *pari passu* in right and priority of payment with all other existing Indebtedness of the Borrower except to the extent that the enforceability thereof may be affected by the insolvency of the Borrower and proceedings occasioned thereby and except to the extent that preference to other unsecured Indebtedness may arise under Brazilian laws affecting creditors' rights generally. There are no Brazilian laws granting any preference to any class of unsecured obligations by reason of date of incurrence or currency or place of payment or nationality or residence of the creditor. There is no presently outstanding Indebtedness of the Borrower or any Subsidiary secured by any Encumbrance over the property or assets of the Borrower in contravention of Clause 11(5) of the Agreement;
- (x) To the best of my knowledge no event has occurred which constitutes a Default and no litigation or administrative proceedings are presently current, pending or threatened which, if adversely determined, would or might have a material adverse effect on the property, assets or financial condition of the Borrower or on the right or ability of the Borrower to perform its obligations under the Agreement or under the Notes or which might call into question the validity or enforceability of the Agreement or the Notes; and
- (xi) No opinion is expressed as to any laws other than those of Brazil as at present existing and the regulations made pursuant thereto."

9. An opinion of the Procuradoria Geral da Fazenda Nacional as legal advisers to the Guarantor dated not more than ten Business Days prior to the Drawdown Date and addressed to the Agent and the Banks substantially to the following effect:-

"We are giving this opinion pursuant to a credit agreement dated [], 1986 (the "Credit Agreement") under which RBC, LIBRA and CIBC (referred to therein as the "Banks"), have agreed to lend an aggregate of \$10,000,000 and the Canadian Dollar Equivalent of \$5,000,000 to Companhia de Desenvolvimento do Estado de Mato Grosso - Codemat (the "Borrower") under the guarantee of The Federative Republic of Brazil (the "Guarantor") pursuant to a Guarantee dated , 1986 (the "Guarantee"). All words and expressions which are defined in the Credit Agreement have the same meanings in this opinion.

We are of the opinion that:

- (i) The Guarantor has the power to enter into and perform the Guarantee and the Avals to be endorsed on the Notes and has taken all necessary action to authorise the giving of the Guarantee and the endorsement of each such Aval on the Notes. The Guarantee as executed and delivered constitutes, and the Notes when endorsed with the Avals by the Guarantor will constitute, the legal, valid and binding obligations of the Guarantor enforceable in accordance with their respective terms;
- (ii) The execution, delivery and performance of the Guarantee and of the Aval of the Guarantor to be endorsed on each of the Notes will not violate in any respect any provision of (1) any Brazilian law or regulation or any order or decree of any Brazilian governmental authority, agency or court or any order or decree of any other court issued pursuant to judicial proceedings to which the Guarantor is or was a party, or (2) the Constitution of the Guarantor, or (3) any contract or other undertaking or instrument to which the Guarantor is a party or which is binding upon it;
- (iii) No event has occurred which constitutes a default under or in respect of any agreement, undertaking or instrument to which the Guarantor is a party or by which the Guarantor may be bound, and no event has occurred which, with giving of notice, lapse of time or other condition would constitute a default under or in respect of any such agreement, undertaking or instrument;
- (iv) No litigation, arbitration or administrative proceedings are presently current or pending or, so far as we are aware, threatened, which would call into question the legality, validity or enforceability of the Guarantee or of the Avals to be endorsed on the Notes by the Guarantor;

- (v) All payments of principal, interest and other amounts due from the Guarantor under the Guarantee and/or the Avals may be made free and clear of any and all Brazilian Taxes;
- (vi) All authorisations, approvals, consents, licences and other requirements of Brazilian governmental, public and other bodies and authorities required in connection with the execution, performance, validity, enforceability or admissibility in evidence of the Guarantee and the Avals of the Guarantor to be endorsed on each of the Notes have been obtained and are in full force and effect, except for the registration of the Loans with Banco Central;
- (vii) The person executing the Guarantee and the Avals on behalf of the Guarantor has the right, power and authority to execute and deliver the Guarantee on behalf of the Guarantor and to endorse the Avals of the Guarantor on the Notes;
- (viii) No stamp, registration or similar Taxes or charges are payable in Brazil in respect of the Guarantee or the Notes;
- (ix) It is not necessary to file, register or record the Guarantee or the Notes or any other instrument relating thereto in any public office or elsewhere in Brazil, save as mentioned in paragraph (vi) above, except for the registration of the Loans with Banco Central;
- (x) The provisions of Clause 14 of the Guarantee are irrevocably binding on the Guarantor. Any decision of the arbitral tribunal under and pursuant to the provisions of Clause 14 of the Guarantee which conforms in form with Brazilian public policy and law will be enforceable in the Federal Courts of Brazil according to the laws of Brazil. Accordingly, any arbitration award obtained (a) in the absence of an arbitrator being appointed by the Guarantor to the arbitration proceedings or (b) in the case of the Guarantor failing to appear in the arbitration proceedings, if duly homologated by a court outside Brazil, would be enforceable in Brazil provided that the Guarantor is duly notified pursuant to the terms of Clause 14(d) of the Guarantee. In my opinion, the likelihood that the form of any such decision might not conform to Brazilian public policy and law is remote;
- (xi) Notwithstanding the provisions of Clause 14(d) of the Guarantee, under the laws of Brazil legal proceedings may be instituted against the Guarantor in the Federal Courts of Brazil in respect of rights or claims of either Bank or the Agent under the Guarantee and/or the Avals. The Guarantor has no right of immunity from

any judicial proceedings or from execution of judgment in Brazil or from the enforcement therein of any arbitration award on the grounds of sovereignty or otherwise in respect of any matter arising out of or relating to its obligations under the Guarantee and/or the Avals (except for the limitation on alienation of public property referred to in Article 67 of the Civil Code of Brazil);

- (xii) The choice by the parties to the Guarantee of the laws of the Province of Ontario and the laws of Canada applicable therein as governing law is legal, valid and binding under the laws of Brazil;
- (xiii) The obligations of the Guarantor under the Guarantee and under the Avals rank and will rank at least pari passu in all respects with all other presently outstanding External Indebtedness of the Guarantor. Under Brazilian Law the Guarantor's property, assets and revenues cannot be subject to any Encumbrance;
- (xiv) The Guarantor is a member in good standing of the International Monetary Fund; and
- (xv) The Loans, when added to the total amount of loans guaranteed by the Guarantor previously contracted by the executive branch of the Guarantor under decree law No. 1312 of February 15, 1974, as amended, is within the financial limits set forth therein."

10. An opinion of Machado, Meyer, Sendacz & Opice in their capacity as Brazilian legal counsel to the Agent and the Banks dated not more than ten Business Days prior to the Drawdown Date and addressed to the Agent and the Banks substantially to the following effect:-

"We have acted as Legal Counsel to you (the "Agent") in connection with the credit agreement dated [____], 1986 (the "Agreement") between Companhia de Desenvolvimento do Estado de Mato Grosso - Codemat (the "Borrower"), the Banks (as defined therein), and the Agent, and in connection with the guarantee dated [____], 1986 (the "Guarantee") issued by The Federative Republic of Brazil (the "Guarantor") thereunder.

Unless otherwise defined herein, capitalised terms used herein which are defined in the Agreement shall have the same meaning herein as therein.

Pursuant to the requirements of Clause 10(1) of the Agreement and as Legal Counsel to the Agent we have been requested to give our legal opinion as to certain matters with respect to the Agreement and the transactions contemplated thereby. In such connection we are of the opinion that:-

- (i) The Borrower is a mixed-capital company (sociedade de economia mista), duly organized and validly existing under the laws of Brazil of which the State of Mato Grosso is the controlling shareholder and the Borrower has full power, authority and legal right to execute and deliver the Agreement and the Notes and any other instruments and documents contemplated by the Agreement, to incur the indebtedness and other obligations provided for therein, to perform and observe the terms and provisions thereof, and to borrow the Loans under the Agreement. The Agreement has been duly executed and delivered by the Borrower and does, and the Notes when duly executed and delivered for value will, constitute the legal, valid and binding obligations of the Borrower enforceable in accordance with their respective terms and each is and will be in the proper form for the enforcement and admissibility in evidence thereof in the Courts of Brazil without any further registration, filing, consent or other formality or condition (other than those traditionally associated with the commencement of legal actions and the presentation of a Portuguese translation thereof to such Courts). The holder of each Note would be entitled to executory action on such Note, against the Borrower and the Guarantor in the Courts of Brazil in respect of the non-payment of the principal thereunder in accordance with the terms thereof.

However, no opinion is expressed with regard to Clause 8 of the Agreement, but, in this connection, the Brazilian Courts, including the Supreme Court, have repeatedly ruled that a debtor must pay an amount in Brazilian currency sufficient for the creditor to acquire, on the date of actual payment, the amount of the foreign currency owed by the debtor;

- (ii) The Guarantor has the power to enter into and perform the Guarantee and the Avals and has taken all necessary action to authorize the giving of the Guarantee and the endorsement of each Aval on the Notes. The Guarantee as executed and delivered constitutes, and the Notes when endorsed with the Avals by the Guarantor will constitute, the legal, valid and binding obligations of the Guarantor enforceable in accordance with their respective terms and each is and will be in the proper form for the enforcement and admissibility in evidence thereof in the Courts of Brazil without any further registration, filing, consent or other formality or condition (other than those traditionally associated with the commencement of legal actions and the presentation of a Portuguese translation thereof to such Courts). However the qualification mentioned in the second paragraph of paragraph (i) above also applies in relation to Clause 13 of the Guarantee;

which any Brazilian Tax is imposed, certified copies for each Bank of official Tax receipts (or, if such Tax receipts are not issued by the relevant authority, other documents satisfactory to the Agent) evidencing the fact that such Brazilian Tax has been duly remitted to the appropriate authority, or (b) if the Borrower shall have obtained an exemption from the requirement that any Tax be paid on any payment to be made by it hereunder, deliver to the Agent evidence of such exemption within thirty days after obtaining it. The obligations of the Borrower under this Clause 7(2) shall survive the repayment of the Loans and the payment of all other sums payable hereunder.

(3) Whenever any payment hereunder would, but for the provisions of this Clause 7(3), become due on a day which is not a Business Day, the due date therefor shall be extended to the next Business Day and during any such extension interest shall accrue accordingly.

(4) Unless the Agent shall have been notified in writing by the Borrower not less than one Business Day prior to the date on which any payment to be made by the Borrower hereunder is due that the Borrower does not intend to remit such payment in full on the due date, the Agent shall be entitled (but not obliged) to assume that the Borrower has so remitted such payment and the Agent may (but shall not be obliged to) make available to each Bank on such payment date an amount equal to such Bank's entitlement in such assumed payment in reliance on such assumption. If it proves to be the case that the Borrower has not in fact remitted such payment to the Agent, each Bank shall forthwith on demand repay to the Agent the amount of such assumed payment made available to such Bank, together with interest thereon until the date of repayment thereof at a rate determined by the Agent (such rate to be conclusive and binding on such Bank) as representing the cost to the Agent of funding such overdue amount for such period and in the currency of such payment due from the Borrower.

(5) Any amount received by the Agent under this Agreement or under the Guarantee (including any amount received other than on the due date or in the currency or currencies due) shall, regardless of any appropriation of all or part of that amount by the Borrower or, as the case may be the Guarantor, be applied as follows:

(a) the Agent shall apply that amount (i) first in or towards payment of any costs or expenses then due and payable hereunder to the Agent for its own account and for the account of the Banks, (ii) secondly in or towards payment of any interest and fees then due and

payable hereunder, (iii) thirdly in or towards repayment of any part of the Loans then due and payable hereunder, and (iv) fourthly in or towards payment of any other sums due and payable by the Borrower or the Guarantor under this Agreement or the Guarantee;

(b) the Agent shall apply the amount so received towards each category (i) - (iv) in sub-clause (a) in turn pro rata amongst the Agent and the Banks (on the basis of the Dollar Equivalent on the date of the application of funds by the Agent of the amounts due);

(c) in order to give effect to this sub-clause (5) and so as to make payment to each Bank in the currency due to such Bank the Agent shall be entitled to convert part or of all any sums received in one currency into another currency at the Agent's spot rate of exchange at the time of such conversion and such rate shall be binding on the parties hereto;

(d) in the event that the allocation of funds under this sub-clause results in a Bank receiving less than the full amount receivable by it hereunder in the currency due, the Borrower shall pay to the Agent for the account of such Bank the shortfall and nothing herein shall be deemed to absolve the Borrower or the Guarantor from making any payments in the currency and at the place in which they are due;

(e) if the allocation of funds under this sub-clause would otherwise result in a Bank receiving more than the full amount receivable by such Bank then the Agent shall apportion such excess amount amongst the other Banks in accordance with this sub-clause (5) and subject thereto any excess shall be returned to the Borrower or as the case may be the Guarantor provided that no Default has occurred.

(5) The provisions of sub-clause (5) above shall mutatis mutandis apply to all appropriations and payments to be made under this Agreement or the Guarantee (in particular (but without limitation) Clause 22 of this Agreement and Clause 17 of the Guarantee).

8. Currency Indemnity

(1) In the event of a judgment, order or award being rendered by any court or tribunal for the payment of any amounts owing to the Agent, or any Bank under this Agreement or the Notes or for the payment of damages in respect of any breach of this Agreement or the Notes or under or in respect of a judgment, order or award of another court or tribunal for

the payment of such amounts or damages, such judgment, order or award being expressed in a currency ("the Judgment Currency") other than the currency or currencies due hereunder (the "Agreed Currency"), the Borrower agrees to indemnify and hold harmless the Agent, and such Bank against any deficiency in terms of the Agreed Currency in the amounts received by the Agent, or such Bank (as the case may be), arising or resulting from any variation as between (a) the rate of exchange at which the Agreed Currency is converted into the Judgment Currency for the purposes of such judgment, order or award, and (b) the rate of exchange at which the Agent or such Bank (as the case may be) is able to purchase the Agreed Currency with the amount of the Judgment Currency actually received by the Agent, or such Bank pursuant to such judgment, order or award on the Business Day following such receipt.

- (2) The above indemnity shall constitute a separate and independent obligation of the Borrower from its other obligations hereunder and under the Notes and shall apply irrespective of any indulgence granted by the Agent or the Banks and no proof or evidence of any actual loss shall be required by the Borrower.
- (3) The term "rate of exchange" shall include any premiums, Taxes and costs of exchange payable in connection with the purchase of, or conversion into, the relevant currency.

9. Increased Costs and Illegality

(1) If, after the date of this Agreement:

(a) any law, regulation, treaty or official directive (whether or not having the force of law, provided that compliance therewith would be in accordance with normal banking practices) or any change therein or in the interpretation or application thereof by any governmental, inter-governmental, administrative, judicial or other authority charged with the administration thereof:-

- (i) subjects any Bank or the Agent to any Tax with respect to any amount payable by the Borrower to or for the account of any Bank or by the Agent to any Bank under this Agreement or any Note (other than Tax on the overall net income of such Bank imposed by the lawful Taxation authorities in the country where the head office or Lending Office of such Bank is situated); or

- (ii) changes the basis of Taxation of payments by the Borrower to or for the account of any Bank or by the Agent to any Bank under this Agreement or any Note (other than a change in the rate of Tax on the overall net income of such Bank imposed by the lawful Taxation authorities in the country where the head office or Lending Office of such Bank is situated); or
- (iii) imposes, modifies or deems applicable any liquidity ratios, reserve and/or special deposit requirements against, or imposes any condition with respect to, assets held by, or deposits in or for the account of, or loans by, any office of any Bank or the Agent; or
- (iv) imposes on any Bank or the Agent any other condition with respect to this Agreement, any Note, any Loan or any amount payable under this Agreement or any Note; or
- (b) any Bank or the Agent complies with any request, law, regulation or directive from any applicable fiscal or monetary authority (whether or not having the force of law, provided that compliance therewith would be in accordance with normal banking practices)

and as a result of any of the foregoing:-

- (x) the cost to any Bank of making, funding or maintaining its participation in the Loans or of maintaining its obligation to lend its Commitment, is increased by an amount deemed by such Bank to be material; or
- (y) the amount of principal, interest, fees or other amount received or receivable by any Bank or the effective return to any Bank hereunder or under any Note, is reduced (otherwise than as contemplated by Clause 7(2)) by an amount deemed by such Bank to be material; or
- (z) any Bank makes any payment to any fiscal or monetary authority or forgoes any interest or other return on or calculated by reference to the gross amount of any sum received or receivable by it hereunder or under any Note in an amount deemed by such Bank to be material,

then and in each such case:

- (i) such Bank shall notify the Borrower (through the Agent) in writing of such event as promptly as practicable after such Bank becomes aware thereof;

(ii) upon demand to the Borrower from time to time by such Bank (through the Agent), the Borrower shall pay to such Bank (through the Agent) such amount as shall compensate such Bank for such increased cost, reduction, payment or forgone interest or other return. The certificate of such Bank setting out the amount and, in reasonable detail, the basis for such amount shall, in the absence of manifest error, be conclusive;

(iii) on giving not less than five Business Days' prior written notice to such Bank through the Agent specifying the date for prepayment, (which notice shall be given within thirty days after the notification by such Bank under the foregoing paragraph (i)) the Borrower may prepay the whole (but not part) of such Bank's participation in the Loans, without premium or penalty, together with all interest accrued thereon and all other amounts payable to such Bank hereunder and under the Notes, including but without limitation all amounts due pursuant to this Section 9.(1), at any time on or prior to the next Interest Date occurring after the giving of such notice by the Borrower. On the giving of such notice by the Borrower, such Bank's obligations to the Borrower hereunder shall be terminated; and

(iv) the Agent shall promptly notify the other Banks of any such prepayment made under sub-clause (iii).

(2) Notwithstanding anything to the contrary herein contained, if any law, regulation or treaty or any change therein or in the interpretation or application thereof by any governmental, inter-governmental, administrative, judicial or other authority charged with the administration thereof shall make it unlawful or impracticable for any Bank to make, fund or maintain its participation in the Loans or any part thereof or to give effect to its obligations to the Borrower as contemplated hereby, such Bank may, by written notice to the Borrower through the Agent, declare that such Bank's obligations hereunder shall be terminated forthwith whereupon the Borrower will prepay without premium or penalty such Bank's participation in the Loans on the next Interest Date falling thirty days or more after such notice from such Bank (or, if earlier, on the latest date allowed by applicable law), together with all interest accrued thereon and all other amounts payable to such Bank hereunder and under the Notes. On the giving of such notice, such Bank's obligations to the Borrower hereunder shall, subject to Clause 9(3), be terminated.

(1) If any Bank gives notice to the Borrower pursuant to Clause 9(2) then, without prejudice to the obligations of the Borrower under such sub-clause, such Bank will, in consultation with the Borrower and the Agent, use reasonable endeavours during the thirty days succeeding such notice to arrange for such Bank to maintain its participation in the Loans and perform its obligations hereunder through a different Lending Office and/or for another bank or financial institution acceptable to the parties hereto to assume, on terms which do not involve any expense, cost or liability to such Bank, the rights and obligations of such Bank hereunder, but such Bank shall be under no liability for any failure so to arrange.

10. Conditions Precedent 10

(1) The obligations of the Agent and each Bank hereunder are subject to the condition precedent that on or prior to the date of the Notice of Borrowing the Agent shall have received all of the documents listed in Schedule B in form and substance satisfactory to the Agent except for the documents listed in paragraphs 2(c), 2(e), 2(f), 8, 9, 10 and 11 of Schedule B and that three Business Days before the Drawdown Date, the Agent shall have received the documents listed in paragraphs 2(c), 2(e), 2(f), 8, 9, 10 and 11 of Schedule B in form and substance satisfactory to the Agent.

(2) The obligations of the Agent and each Bank hereunder with respect to the making of the Loans are subject to the further conditions precedent that:-

- (a) both at the time of the giving of the Notice of Borrowing and at the time for the making of the Loans, the facts represented by the Borrower set out in Clause 12 shall be true and accurate on and as of such times as if made at each such time and no Default shall have occurred and be continuing or would result from the making of the Loans;
- (b) the Agent shall have received (i) not later than three Business Days prior to the date for the borrowing of the Loans, a certificate of the Guarantor to the effect set forth in Schedule A Part II, and (ii) on or before the Drawdown Date, the Notes provided for in Clause 4(2)(a); and
- (c) Banco Central shall have made a prepayment in respect of each relevant Bank of an amount equal to the relevant portion of the Total Commitments pertaining to Project A Agreement and Project B Agreement to be made available to the Borrower by the utilisation of proceeds deposited with Banco Central as instructed by the Agent on behalf of such Banks pursuant to Clause 3(3).

The provisions of Clauses 10(1) and 10(2) are inserted for the benefit of the Banks and may be waived in whole or in part only by the Agent with the consent of the Banks, with or without terms and conditions.

11. Undertakings //

The Borrower undertakes to the Agent and the Banks that from and after the date hereof and so long as any amount payable hereunder or under the Notes is outstanding or any Bank is under an obligation to advance its Commitment (whether or not the conditions precedent to the fulfilment of such obligation have been satisfied) unless compliance therewith is waived by the Banks:-

(1) The Borrower will furnish to the Agent, in such number of copies as the Agent shall reasonably request, for distribution to the Banks:-

(a) as soon as available and in any event not later than one hundred and fifty days after the end of each financial year of the Borrower, the audited profit and loss statement of the Borrower for such financial year and audited balance sheet of the Borrower as at the end of such financial year (each prepared on an unconsolidated basis and also, if required by Brazilian law or customarily so prepared, on a consolidated basis) prepared in accordance with the accounting principles and practices referred to in Clause 12(1)(f), consistently applied, together with a report thereon by a firm of independent public accountants of recognized standing to the effect that the aforementioned financial statements fairly and accurately represent the financial condition and the results and operations of the Borrower for the financial year to which they relate and a certificate signed by the chief financial officer of the Borrower to the effect that the aforementioned financial statements fairly and accurately represent the financial condition and the results of operations of the Borrower for the financial year to which they relate and that no Default occurred during such financial year or, if a Default did so occur, specifying the remedial steps being taken by the Borrower;

(b) as soon as practicable, and in any event within ninety days after the end of each half of each financial year of the Borrower, the profit and loss statement of the Borrower for such half-year and balance sheet of the Borrower as at the end of

such half-year (each prepared on an unconsolidated basis and also, if the Borrower's annual financial statements are required by Brazilian law to be or are customarily so prepared, on a consolidated basis) in reasonable detail, certified by the chief financial officer of the Borrower and all prepared in accordance with the accounting principles and practices referred to in Clause 12(1)(f), consistently applied together with a certificate signed by the chief financial officer of the Borrower to the effect that the aforementioned financial statements fairly and accurately represent the financial condition and the results of operations of the Borrower for the half financial year to which they relate and that no Default occurred during such half financial year or, if a Default did so occur, specifying the remedial steps being taken by the Borrower;

- (c) copies of all circulars and notices which contain material information of a financial nature issued by the Borrower from time to time to its shareholders or creditors in their capacities as such;
- (d) such other financial or other information, data and projections as the Agent or any Bank through the Agent may from time to time reasonably request regarding the Borrower and its business; and
- (e) with reasonable promptness, details of any litigation, arbitration or administrative proceeding pending or, to the Borrower's knowledge, threatened, which would, if adversely determined, have a material adverse effect on the business, financial condition or operations of the Borrower or on the ability of the Borrower to perform its obligations hereunder or on the validity or enforceability of this Agreement or the Notes.

- (2) The Borrower will obtain and promptly renew from time to time all such authorisations, approvals, consents, licences, registrations, publications and other requirements as may be required under any applicable law or regulation to enable or permit it to perform its obligations under this Agreement and/or the Notes, or required for the validity or enforceability or admissibility in evidence of this Agreement or the Notes or for the borrowing of the Loans hereunder, will comply with the terms of the same and will promptly furnish the Agent with copies thereof. In particular, but without limiting the foregoing, the Borrower will
 - (a) within forty-five days after the date hereof,

deliver two copies of a Portuguese translation of this Agreement to the Agent (such copies to be certified as true and correct by an authorised public translator in Brazil), and (b) within thirty days after the borrowing of the Loans, apply for registration thereof with Banco Central do Brasil under Law No. 4131, as amended, of Brazil on terms permitting repayment thereof and payment of interest thereon and fees and expenses provided for in Clauses 15(1) (first sentence) and 15(2) by the Borrower in accordance with this Agreement and provide the Agent with a certified copy of a certificate issued by Banco Central evidencing such registration promptly upon receipt thereof.

- (3) The Borrower will notify the Agent by telex confirmed in writing of (i) any Default forthwith upon the occurrence thereof and of the remedial steps being taken in respect thereof, and (ii) any event or change in its or any of its Subsidiaries' circumstances the effect of which would render any representation or warranty made by it or pursuant to this Agreement or any notice, certificate, instrument or statement to be untrue or incorrect in any material respect.
- (4) The obligations of the Borrower hereunder and under the Notes rank and will at all times rank at least pari passu in right and priority of payment and in point of security with all other present and future Indebtedness of or incurred or assumed by the Borrower except insofar as such other present or future Indebtedness carries a prior or preferential right to payment over amounts due or to become due hereunder and/or under the Notes which arises solely from the existence of an Encumbrance on the property, assets or revenues of the Borrower which is permitted under Clause 11(5).
- (5) The Borrower shall not, and shall procure that no Subsidiary shall, create, incur, assume or suffer to exist any Encumbrance upon or with respect to any of its property, assets or revenues, now owned or hereafter acquired, to secure any present or future Indebtedness of or incurred or assumed by it or any present or future Indebtedness of or incurred or assumed by any other person, unless such Encumbrance shall also, and shall expressly provide (in a form satisfactory to the Banks) that it shall also, secure the obligations of the Borrower hereunder and under the Notes equally and rateably with such Indebtedness, provided that this Clause 11(5) shall not apply to:-
 - (a) Encumbrances in the nature of liens arising involuntarily by operation of law and not as the result of any default or omission; or

- (b) Encumbrances over property or assets of the Borrower or the documents of title thereto securing Indebtedness (other than External Indebtedness) payable by the Borrower comprising only the unpaid acquisition cost or outstanding amount of monies borrowed or raised (including interest and other charges thereon) by the Borrower specifically to finance, and used only to finance, the acquisition cost of such property or assets; or
- (c) Encumbrances created in the ordinary course of banking transactions to secure Indebtedness (other than External Indebtedness) maturing not more than one year after the date on which it is originally incurred.
- (d) Encumbrances created to secure Indebtedness in Cruzeiros to a Brazilian Governmental Agency irrespective of the maturity date of such Indebtedness (a "Brazilian Governmental Agency" means an entity incorporated in Brazil in respect of which the Guarantor or the Estado de Mato Grosso holds more than fifty percent (50%) of the shares with voting powers).
- (6) The Borrower shall use the proceeds of the Loans as provided in Clause 2(2), and the Borrower and each Subsidiary shall at all times carry on its operations, manage its affairs, plan the future development of its business and maintain its financial position, all in accordance with appropriate engineering, financial and administrative practices and the Borrower and each Subsidiary shall at all times take all steps necessary to maintain its corporate existence.
- (7) The Borrower and each Subsidiary shall take all such action to ensure the continued operation of its business in accordance with sound financial practices.
- (8) The Borrower shall not, and shall ensure that no Subsidiary shall, sell, transfer or otherwise dispose of all or a substantial part of its undertaking, business or assets whether by one transaction or a series of transactions, related or not, otherwise than in the ordinary course of business.
- (9) The Borrower shall not merge or consolidate with or into any other person unless (a) the person surviving such merger or consolidation is the Borrower and (b) after giving effect to such merger or consolidation no Default shall have occurred or be continuing.

- (10) Upon becoming aware that the same may be threatened or pending and in any case immediately after the commencement thereof, give to the Agent notice in writing of all litigation or administrative or arbitration proceedings before or of any court, tribunal, arbitrator or municipal authority or any dispute materially affecting its ability to duly perform its obligations under this Agreement or the Notes.

Representations and Warranties 12

The Borrower makes the following representations and warranties to and for the benefit of the Agent and the Banks:-

- (a) The Borrower is a mixed-capital company (sociedade de economia mista) duly organized and validly existing under the laws of Brazil of which the State of Mato Grosso is the controlling shareholder, and the Borrower has full power, authority and legal right to own its property and assets to execute and deliver this Agreement and the Notes and any other instruments and documents contemplated hereby, to incur the indebtedness and other obligations provided for herein and therein, to perform and observe the terms and provisions hereof and thereof and to borrow the Loans hereunder.
- (b) This Agreement does, and the Notes when duly executed and delivered will, constitute the legal, valid and binding obligations of the Borrower enforceable in accordance with their respective terms and each is and will be in the proper form for the enforcement and admissibility in evidence thereof in the Courts of Brazil without any further registration, filing, consent or other formality or condition, save that a Portuguese translation thereof would have to be presented to such Courts in case of any suit.
- (c) Each of its officers or representatives who has executed or delivered this Agreement is, and each of its officers or representatives who will execute or deliver the Notes and any other documents to be executed or delivered by it in connection with this Agreement or the Notes, at the time of such execution or delivery is and will be duly and properly in office and fully authorized to execute or deliver this Agreement, the Notes or such other document, as the case may be.
- (d) The execution and delivery of this Agreement and the Notes and the performance by the Borrower of the terms of this Agreement and the Notes and the borrowing of

the Loans hereunder have been duly authorised by all necessary corporate and other action of the Borrower— and do not and will not (i) contravene any provision of law, decree-law, decree, rule or regulation to which the Borrower is subject or any judgment, franchise, order or permit applicable to the Borrower, or (ii) conflict with, or result in any breach of, any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of any Encumbrance upon any of the property, assets or revenues of the Borrower pursuant to the terms of any indenture, deed of trust, mortgage, agreement or other instrument to which the Borrower is a party or by which it may be bound, or to which it or any of its property, assets or revenues may be subject, or (iii) violate any provision of the Estatutos or resolutions (or other incorporation or governing documents) of the Borrower.

- (e) All consents, approvals, licenses and authorisations of, and filings and registrations with, any governmental body or regulatory, supervisory or public authority required to ensure the legality, validity, enforceability or admissibility in evidence of this Agreement or the Notes or for the making and performance by the Borrower of this Agreement and the Notes or for the borrowing of the Loans hereunder, have been obtained, save for those which under Brazilian law, can only be obtained after the date hereof or after the borrowing of the Loans. The Borrower has full authority to make all payments hereunder and under the Notes in Dollars or Canadian Dollars, as the case may be, to the Agent for its own account and for the account of the Banks to the accounts provided for in Clause 7(1), save that as mentioned in Clause 5(6), certain payments will require further authorisation from Banco Central at the time for the making thereof.
- (f) The latest audited balance sheets and profit and loss accounts (collectively the "Accounts") of the Borrower (which Accounts have been prepared in accordance with accounting principles and practices generally accepted by accounting firms of recognized standing operating in Brazil and consistently applied from one year to another) fairly represent the financial condition of the Borrower on the date to which the same were prepared and the results of operations for the financial year ended on such date, and as at such date the Borrower had no significant liabilities, anticipated losses or unusual or long-term commitments (in each case contingent or otherwise) which are not disclosed by or reserved against in its Accounts. There has been no material adverse change in the financial condition of the Borrower from that shown in the Accounts prepared as at and for the financial year ended 31st December, 1984.

- (g) No Default has occurred and no event has occurred which constitutes or which with the giving of notice, lapse of time or both or other applicable conditions would constitute a default under or in respect of any agreement, undertaking or instrument to which the Borrower is a party or by which it may be bound or to which it or any of its property, assets or revenues may be subject. No litigation or administrative proceedings are presently pending or, to the knowledge of the Borrower, threatened, which, if adversely determined, would have a material adverse effect on the financial condition of the Borrower or on the right or ability of the Borrower to carry on its business or perform its obligations hereunder or under the Notes, or would call into question the legality, validity or enforceability of this Agreement or the Notes.
- (h) All financial, and other information, projections and statements which relate to the Borrower and which have been heretofore supplied by the Borrower to the Agent and/or the Banks were true, current and correct at the date on which they were so supplied and there were at that date no other facts or circumstances the omission to provide knowledge of which would make any such information, projections or statements misleading.
- (i) The Borrower is subject to civil and commercial law with respect to its obligations under this Agreement and the Notes, and the execution, delivery and performance by the Borrower of this Agreement and the Notes constitute private and commercial acts rather than governmental or public acts. Neither the Borrower nor any of its property, assets or revenues enjoys any right of immunity from service of process, attachment (whether prior to the entry of or in aid of execution upon a judgment), execution or judgment or from any other legal process with respect to its obligations under this Agreement and the Notes. The waiver by the Borrower of any such right of immunity set forth in Clause 21(2) is irrevocably binding on the Borrower and the consent by the Borrower to the jurisdiction of the Courts referred to in Clause 21(3) with respect to matters arising from this Agreement and the provision as contained in Clause 21(1) that Ontario law shall govern this Agreement are also irrevocably binding on the Borrower.
- (j) The Borrower and each Subsidiary (i) has valid leases of or good and marketable title to substantially all its property and assets, real and personal, which are reflected in its Accounts (as defined in Clause 12(1)(f)), subject to no Encumbrance securing Indebtedness of or incurred or assumed by it except as permitted pursuant to Clause 11(5) and listed in

Schedule E hereto and subject to no Encumbrance securing any Indebtedness of any other person and (ii) has not sold or otherwise disposed of any of the properties or assets which are reflected in such Accounts except in the ordinary course of business or as previously disclosed in writing to the Agent.

(k) The Borrower's obligations under this Agreement and the Notes constitute direct unconditional and general obligations of the Borrower and except as permitted by Clause 11(5) rank at least pari passu with all the Borrower's other unsecured indebtedness and obligations for money borrowed and the advance of credit and obligations represented by guarantees now existing.

(1) The Borrower has filed all tax returns for all periods required, which are complete and correct in all material respects, and has paid or caused to be paid all Taxes, assessments and governmental charges which have become due and no material claims are being asserted with respect to Taxes for prior years except such as have been adequately provided for by appropriate reserves.

(2) The representations and warranties set out in Clause 12(1) shall survive the execution of this Agreement and the borrowing of the Loans hereunder and shall be deemed to be repeated at the time of the giving of the Notice of Borrowing and at the time for the making of the Loans and on each Interest Date as if made at each such time.

13. Events of Default

If for any reason (whether such event or circumstance shall occur or come about voluntarily or involuntarily, by operation of law or pursuant to or in compliance with any judgment, decree, order, directive, law or regulation of any court, tribunal or governmental authority or otherwise):-

(a) the Borrower shall (i) fail to pay when due any Note, any principal of or interest on the Loans or any amount payable pursuant to Clause 15(2), or (ii) fail to pay any other amount payable hereunder within thirty days after the due date therefor; or

(b) the Borrower shall fail to perform or observe any of the undertakings or agreements to be performed or observed by it pursuant to either of Clauses 11(4) or 11(5) or 11(8); or

(c) the Borrower shall fail to perform or observe any undertaking or agreement to be performed or observed by it hereunder (other than those referred to in sub-clauses (a) and (b) above) or the Guarantor shall fail to perform or observe any undertaking or agreement to

be performed or observed by it under the Guarantee and, if such failure is capable of remedy, it shall not have been remedied within thirty days after the occurrence thereof; or

- (d) any representation, warranty or statement made or repeated by or in respect of the Borrower or the Guarantor in this Agreement or the Guarantee or made in any certificate, statement, document or opinion delivered by or on behalf of the Borrower or the Guarantor under or in connection with this Agreement or the Guarantee shall be incorrect in any material respect at the time made or repeated or would be incorrect in any material respect if made or repeated at any other time; or
- (e) (i) any default shall occur and be continuing under any other agreement involving External Indebtedness to which the Borrower or any of its Subsidiaries is a party as a borrower or obligor which gives to the creditor or holder of the obligation concerned the right to accelerate such External Indebtedness, PROVIDED THAT in respect of External Indebtedness relating to the deferred purchase price of property or services, any failure to pay the same shall not constitute an Event of Default if the Borrower or any such Subsidiary disputes in good faith the obligation to make such payment; or
- (ii) the Borrower or any Subsidiary shall fail to pay any Indebtedness when due under any agreement to which it is a party with any private financial institution doing business in Brazil (other than Brazilian federal or state financial institutions) if the amount of such payment, when aggregated with any amount then due but not paid under all other such agreements to which it is a party (except any payment with respect to which it disputes in good faith the obligation to make such payment) equals or exceeds the equivalent of \$10,000,000, and is not paid within 30 days from the due date; or
- (iii) the Guarantor shall fail to pay on the due date for payment thereof (whether at maturity, upon acceleration or otherwise) any obligation with respect to any External Indebtedness of the Guarantor, or any default or other event shall occur and be continuing under any other agreement involving External Indebtedness of the Guarantor if the effect of such default or event is to accelerate or to permit any holder to accelerate (whether or not any required notice has been given but giving effect to any

permitted grace period) the maturity of such External Indebtedness provided, however, that such failure to pay shall not constitute a Default if (a) in the aggregate such unpaid amounts shall not exceed \$10,000,000 (or its equivalent) and (b) the obligation to pay such amount shall not have resulted from acceleration and (c) such amount shall be paid within 30 days of such due date, and provided further that such failure to pay shall not constitute a Default where the amount unpaid either has been, or has not been but is in the process of active negotiation to be, rescheduled or refinanced under the Paris Club Agreement (as defined in the Project B Agreement); or

(f) any authorisation, approval, consent, licence, decree, registration, publication, notarisation or other requirement of any governmental or public body or authority necessary to enable or permit the Borrower to comply with its obligations hereunder or under the Notes or the Guarantor to comply with its obligations under the Guarantee or the Avals or required for the validity or enforceability of any such obligations shall be revoked, withdrawn or withheld or shall otherwise fail to remain in full force and effect and such situation, if capable of remedy within 30 days, shall not be remedied within 30 days after the occurrence thereof or any law, decree or directive of any competent authority of or in Brazil shall be enacted or issued which shall impair the ability or right of the Borrower or the Guarantor to perform such obligations; or

(g) (i) there shall have occurred the termination of existence, liquidation, winding-up, concordat or bankruptcy (if applicable) of the Borrower in any applicable jurisdiction or any order shall be made or any resolution, law or regulation shall be passed or issued for such termination, liquidation, winding-up, concordat or bankruptcy (if applicable) or an application for any thereof shall be made; or

(ii) there shall have occurred an arrangement with creditors of the Borrower or any similar proceeding or arrangement by which the assets of the Borrower are submitted to the control of its creditors or an application for any thereof shall be made; or

(iii) there shall be appointed a liquidator, trustee, receiver or similar officer of the Borrower or for all or any part of the assets of any such entity or an application for any such appointment shall be made; or

(iv) all or any substantial part of the assets of the Borrower shall be levied or attached or distrained upon or shall become subject at any time to any final order of court or other process; or

(v) the Borrower shall become insolvent or be declared insolvent by a competent court or governmental authority or shall admit in writing its inability to pay its debts as they fall due; or

(h) the Borrower shall cease to carry on the whole or any substantial part of the business conducted by it at or at any time after the date hereof; or

(i) all or any substantial part of the property or assets of the Borrower shall be condemned, seized or otherwise appropriated or custody thereof shall be assumed by any governmental authority, court or other person purporting to act under the authority of government, or the Borrower shall be prevented from exercising normal control over all or a substantial part of its property, assets or business for a period exceeding 30 days; or

(j) The State of Mato Grosso shall cease to own beneficially directly or indirectly at least fifty-one per cent. (51%) of the capital stock of the Borrower with voting powers, or the Guarantor shall cease to be a member in good standing of the International Monetary Fund; or

(k) any or all of the obligations of the Guarantor under the Guarantee or any of the Avals shall be void or unenforceable or shall not for any reason be in full force and effect or the Borrower, the Guarantor or any court, governmental or other authority of or in Brazil shall so declare or allege; or

(l) any event shall occur, or any circumstance shall arise, which gives grounds for believing that the Borrower or the Guarantor shall not be able to perform or observe in the normal course their respective obligations under this Agreement, the Notes, the Avals or the Guarantee; or

(m) Project A Agreement, or Project B Agreement, or Project I Agreement (1983) or Project II Agreement (1983) or any of the provisions of any of them (including but not limited to Section 3.3 of the Project A Agreement and Section 3.4 of the Project I Agreement (1983) shall at any time for any reason cease to be in full force and effect, be declared to be void and illegal or shall be repudiated or the validity or enforceability thereof

shall at any time be contested by any party thereto (the result of which might materially adversely affect the implementation, validity, legality or enforceability thereof) or any party thereto shall deny that it has any, or any further, liability or obligation thereunder, or any "event of default" (as defined in Project A Agreement and the Project I Agreement (1983)) or "event of termination" (as defined in Project B Agreement and the Project II Agreement (1983)) or any event which with the giving of notice and/or the lapse of time and/or the satisfaction of any other condition might become such an event of default or event of termination shall occur or the basic commitments of the committing banks (as such expressions are defined in Project A Agreement) shall be suspended or shall terminate for any reason whatsoever; or

- (n) a declaration is made by the Borrower or the Guarantor which is effective to postpone the enforcement of creditors' rights in respect of or affecting all or a material part of the Borrower's External Indebtedness; or
- (o) any government or governmental agency in Brazil shall have taken any action which has materially adversely affected or will materially adversely affect the Borrower's ability to repay the Loans, and such action shall not have been rescinded or modified, and the adverse effects thereof shall not have been eliminated within thirty days after written notice of such action shall have been given to the Borrower by the Agent; or
- (p) any necessary consent or authorization required for any transfer of money under this Agreement, the Notes, the Avals or the Guarantee out of Brazil shall fail to be issued or shall cease to be in full force and effect; or
- (q) any other event shall occur or any legislation shall be enacted or decree adopted in Brazil which materially and adversely affects the ability of the Borrower or the Guarantor to meet their respective obligations under this Agreement, the Notes, the Avals or the Guarantee;

then and in any such event, and at any time thereafter if any such event shall then be continuing, the Agent may and, upon the instructions of the Majority Banks, shall, by written notice to the Borrower:-

Unless the context otherwise requires, words importing the singular number shall include the plural and vice versa, persons shall include bodies corporate, governments, governmental bodies, instrumentalities and agencies and unincorporated associations, the index to this Agreement and Clause headings contained herein are for convenience only and shall not affect the construction hereof, references herein to any agreement or other instrument shall be deemed to include references to such agreement or instrument as amended, supplemented or extended from time to time, references to Clauses and Schedules are references respectively to Clauses of and Schedules to this Agreement and, subject to Clauses 18(8) and 20, references to the Borrower, the Guarantor, each Bank, the Canadian Prime Reference Bank, the Prime Reference Bank, the Agent, or the parties hereto where relevant shall be deemed to be reference to or to include, as appropriate, their respective successors and permitted assigns.

2. Loans and Purpose

- (1) Upon and subject to the terms and conditions of this Agreement and in reliance on the representations and warranties of the Borrower set out in Clause 12, the Canadian Prime Bank and each Prime Bank agrees to lend, through its Lending Office and up to the amount of its Commitment respectively, the Canadian Prime Loan and the Prime Loan to be made to the Borrower hereunder. The Canadian Prime Loan shall be disbursed in Canadian Dollars on the basis of Banco Central's Canadian Dollar Equivalent of \$5,000,000 on the understanding that a maximum of Seven Million Canadian Dollars (Cdn\$7,000,000) will be disbursed.
- (2) The Borrower shall use the proceeds of the Loans to finance the improvement and integration of the State of Mato Grosso's road systems. Neither the Agent nor any Bank shall be bound to enquire as to the use of the proceeds of the loans nor shall any of them be responsible for, or for the consequences of, their application.
- (3) The rights and obligations of each Bank under this Agreement are several to the intent that (a) failure by a Bank to carry out its obligations hereunder shall not relieve any other Bank or the Agent of any of their respective obligations hereunder and shall not relieve the Borrower of its obligations to the Agent and to the other Banks hereunder, (b) no Bank shall be responsible for the obligations of any other Bank or the Agent hereunder, and (c) each Bank may, subject as expressly stated herein, exercise its rights and pursue its remedies hereunder independently of the Agent and the other Banks.

Drawdown

- (1) Subject to the terms and conditions of this Agreement and at the request of the Borrower, the Loans will be made to the Borrower during the Commitment Period by the Banks. The Borrower may only make one borrowing hereunder and in an amount equal to the Total Commitments. If the Total Commitments are not borrowed before close of business in Brazil on the Term Date, unless otherwise agreed in writing by the parties hereto the Total Commitments shall not thereafter be available for borrowing hereunder.
- (2) When the Borrower desires to borrow the Loans hereunder, it shall give to the Agent on a Business Day not less than thirteen Brasilia Business Days prior to the proposed Drawdown Date, a Notice of Borrowing specifying the Drawdown Date which shall be a Business Day and a Brasilia Business Day falling on or prior to the last day of the Commitment Period. The Notice of Borrowing shall be irrevocable and the Borrower shall be bound to borrow in accordance therewith. Promptly after receipt of the Notice of Borrowing in accordance with this Clause 3(2) the Agent shall acknowledge receipt thereof to the Borrower and shall notify each Bank of the proposed text of the Notice of Intended Disbursement. As soon as is reasonably practical after the date of receipt by the Agent of the Notice of Borrowing from the Borrower and not later than 10 Brasilia Business Days prior to the Drawdown Date, the Agent is hereby instructed and duly authorized by the Banks to deliver the Notice of Intended Disbursement (in accordance with the said proposed text as modified pursuant to the provisions of sub-clause (3) below) to Banco Central on behalf of each of the Banks.
- (3) Within 2 Brasilia Business Days after a Bank receives the proposed text of a Notice of Intended Disbursement from the Agent in accordance with sub-clause (2) above such Bank shall by notice to the Agent (with a copy to the Borrower) either confirm that the information specified in the Notice of Intended Disbursement with respect to such Bank is correct or request that such information be modified in the manner specified by such Bank in such notice. If the Agent does not receive any such notification from a Bank, the Agent may assume that the information specified in the Notice of Intended Disbursement with respect to that Bank is correct. By 10:00 a.m. (New York time) on the Drawdown Date the Agent shall cause the Notice to Disburse (appropriately completed) to be delivered to Banco Central, Attn: FIRCE, with a copy to the Borrower. Delivery of such notice so completed by the time and to the place indicated shall

constitute full performance of the obligation of each Bank to advance its participation in the Loans and the same shall be deemed to have been advanced and to have been borrowed by the Borrower as of the date of delivery to Banco Central of the Notice to Disburse by the Agent. Without limiting the foregoing, disbursement hereunder shall be subject to compliance with the applicable regulations of Banco Central at the time of disbursement but neither the Agent nor any Bank shall be liable or otherwise responsible to the Borrower for any failure or delay by Banco Central or any intermediary financial institution in making any payment to the Borrower in accordance with the Notice to Disburse.

Unless the Agent shall have received written notice from a Bank prior to the Drawdown Date that such Bank will not disburse such Bank's Commitment the Agent may assume that such Bank agrees to the Agent giving the Notice to Disburse to Banco Central on behalf of such Bank on the Drawdown Date and the Agent may, in reliance on such assumption, give the Notice to Disburse to Banco Central on behalf of each Bank on such date.

Repayment and Notes

(1) The Borrower shall repay the Loans to the Agent for the account of the Banks. Each Loan shall be repaid in the currency of such Loan and in nine substantially equal instalments, one such instalment in respect of each Loan being repayable on each Repayment Date. The amount comprised in each such instalment in respect of each such Loan shall, subject to the provisions of this Agreement, be one-ninth of the amount of each such Loan outstanding at the close of business in New York City on the Term Date. On the last Repayment Date, the Borrower shall repay the aggregate principal amount then outstanding in respect of each Loan.

(a) The obligation of the Borrower to repay the Loans shall be evidenced by nine promissory notes of the Borrower in respect of each Loan in favour of each Bank participating in the relevant Loan, and to that end the Borrower shall, in accordance with Clause 10(2), deliver to the Agent nine promissory notes for each Bank, substantially in the form set out in Schedule C (Schedule C Part I in the case of RBC and LIBRA and Schedule C Part II in the case of CIBC) and each (i) duly completed and signed by or on behalf of the Borrower, (ii) dated the Drawdown Date (iii) in a principal amount equal to one-ninth of such Bank's participation in the Loans and in the relevant

currency, (iv) payable to such Bank on a Repayment Date so that each of the promissory notes issued to such Bank is payable on a different Repayment Date, and (v) duly endorsed "por aval" by or on behalf of the Guarantor. Upon receipt of such promissory notes by the Agent, the Agent shall send such promissory notes by registered post to the Banks to whom they are payable at the risk of such Banks;

- (b) in the event of a partial prepayment of the Loans pursuant to Clause 5(1) (and upon the application thereof in accordance with Clause 5(5)) after the issue of promissory notes pursuant to Clause 4(2)(a) which alters the principal amount payable on any Repayment Date, the Borrower will promptly deliver to the Agent for the Banks substitute promissory notes substantially in the form of the promissory notes originally evidencing the Banks' respective entitlements on such Repayment Date and duly endorsed "por aval" by or on behalf of the Guarantor but reflecting their entitlements in the altered principal amount payable on any Repayment Date and the Agent shall, promptly upon receipt of such promissory notes, notify the Banks thereof. Promptly upon receipt by any Bank of (i) notification from the Agent that it has received substitute promissory notes in favour of such Bank as aforesaid or (ii) a repayment, prepayment or accelerated repayment of its participation in the Loans or part thereof, such Bank shall duly cancel, in the case of (i) the original promissory notes so substituted and, in the case of (ii), the promissory notes payable to it which evidences such participation and shall send the same by registered post to the Agent which, upon receipt, shall send the same by registered post to the Borrower and, in the case of (i), shall send such Bank's substitute promissory notes by registered post to such Bank at the risk of such Bank;
- (c) in the event of a loss of any Notes such Bank shall give notice thereof to the Agent which shall give notice thereof to the Borrower and the Guarantor, whereupon the Borrower subject to the terms and conditions of applicable Brazilian law will promptly deliver to the Agent for such Bank in the same form as the lost Notes substitute Notes executed by the Borrower and duly endorsed "por aval" by or on behalf of the Guarantor, and the Agent shall send the same by registered post to such Bank at the risk of such Bank, and the lost notes shall be deemed cancelled; and

- (d) the execution and delivery of the Notes shall not limit, reduce, replace or otherwise affect the obligations of the Borrower under this Agreement or the rights and claims of the Agent and the Banks hereunder, provided that payment of any part of the principal of any Note shall, to the extent that such payment, if made hereunder, would discharge the Borrower's obligations in respect of the payment of that part of the Loans evidenced by such Note, discharge such obligations and the repayment or prepayment of any part of the Loans in accordance with the terms hereof shall discharge the obligations of the Borrower under the Notes evidencing such part of the Loans to the extent of such repayment or prepayment.

Prepayments

On its giving not less than thirty days' prior written notice to the Agent (specifying, inter alia, the amount and the proposed date of prepayment), which shall promptly give notice thereof to the Banks, the Borrower may prepay the Loans in whole or in part (but if in part, in an amount which is a minimum of \$5,000,000 (including the amount of prepayment of the Canadian Prime Loan in Canadian Dollars as provided in sub-clause (5) below) or, if more, an integral multiple of \$1,000,000 (including the amount of prepayment of the Canadian Prime Loan in Canadian Dollars as provided in sub-clause (5) below)) on any Interest Date.

- (2) Any and each prepayment made pursuant to Clause 5(1) shall be made together with a fee of one-half of one per cent. (1/2%) flat on the amount of such prepayment in each relevant currency. Any and each prepayment made hereunder otherwise than pursuant to Clause 5(1) shall be made without any such prepayment fee.

- (3) Any notice of prepayment given by the Borrower under this Agreement shall be irrevocable, the Borrower shall be bound to prepay in accordance therewith and each amount so prepaid may not be reborrowed hereunder. The Borrower may not prepay all or any part of any Loan except in accordance with the express terms of this Agreement and may not cancel or reduce the Total Commitments in whole or in part except as expressly provided hereunder.

- (4) Any and each prepayment made under this Agreement shall be made together with interest accrued on the amount prepaid and, if any repayment or prepayment is made under this Agreement otherwise than on an Interest Date, the Borrower will also on demand from time to time by each Bank concerned (through the Agent), pay such other amounts as each such Bank may certify as necessary to compensate such Bank for any costs, penalties or expenses incurred or to be incurred by it as a result thereof (including loss of the applicable

Margin to the next such Interest Date and any costs, penalties or expenses on account of funds acquired, contracted for or utilised in order to make, fund or maintain the amount repaid or prepaid), such certification to include computations showing, in reasonable detail, the basis for such amounts and to be conclusive in the absence of manifest error.

(5) Any prepayment made under Clause 5(1) shall be in the currencies of such Loans and in the ratio which the Canadian Prime Loan and the Prime Loan bear to each other (at the Dollar Equivalent thereof on the date of such prepayment) to the intent that each such Loan will be reduced in equal (or as near thereto) percentage proportions. Such prepayment shall be applied against outstanding repayment instalments in respect of each Loan in the inverse order of their maturity. Any prepayment made to any Bank under either of Clauses 7 or 9 shall be applied rateably against outstanding repayment instalments.

(6) Without prejudice to the obligations of the Borrower and the rights and claims of the Agent and the Banks hereunder, it is understood that the purchase of foreign currency by the Borrower in Brazil and the remittance thereof by the Borrower from Brazil in order to satisfy any payment to be made by the Borrower hereunder (other than payments of principal, interest and agreed fees and expenses as and when the same fall due in accordance with the provisions of Clauses 4, 6 (except Clause 6(4)), 15(1) (first sentence) and 15(2)) will require the prior approval of Banco Central and the Borrower hereby undertakes to procure such approval whenever required in connection with any such payment.

Interest

(1) Interest shall be paid by the Borrower on the Loans in accordance with this Clause.

(2) The rate of interest applicable to the Canadian Prime Loan shall be the rate determined by the Canadian Prime Reference Bank from time to time to be the aggregate of (a) the Canadian Prime Margin and (b) whichever is the higher of the Canadian Prime Rate and the Adjusted Canadian Deposit Rate. The Canadian Prime Reference Bank shall promptly give notice to the Agent (who will promptly notify the Borrower) of the interest rate payable on the Canadian Prime Loan (i) as of the date of the initial disbursement of the Canadian Prime Loan and (ii) thereafter, upon any change in the interest rate payable on the Canadian Prime Loan by reason of the operation of this Clause together with notice of the basis for such change (including during any period in which the Adjusted Canadian Deposit Rate is higher than the Canadian Prime Rate, the relevant computations of the Adjusted

Canadian Deposit Rate). If, after the tenth calendar day preceding any date on which a payment of interest is due with respect to the Canadian Prime Loan, any change in the Canadian Prime Rate or the Adjusted Canadian Deposit Rate occurs which would result in a change in the rate of interest payable hereunder, the actual amount of interest payable on such date shall be calculated as if such change had not occurred provided that, on the earlier of the next succeeding date on which a payment of interest on the Canadian Prime Loan is due or the date ten calendar days after repayment in full of the Canadian Prime Loan, the Borrower shall either pay to the Agent for the account of the Canadian Prime Bank any increased amounts owing to the Canadian Prime Bank as a result of such change or receive credit for any reductions in the amounts owing to the Canadian Prime Bank as a result of such change. The Canadian Prime Reference Bank shall promptly give notice to the Agent (who will promptly notify the Borrower) of the interest rate and amounts of interest so determined in respect of the Canadian Prime Loan as hereinabove provided, and such notice shall be conclusive and binding on all parties hereto in the absence of manifest error.

- (3) The rate of interest applicable to the Prime Loan shall be the rate determined by the Prime Reference Bank from time to time to be the aggregate of (a) the Prime Margin and (b) whichever is the higher of Prime and the Market Rate. The Prime Reference Bank shall promptly give notice to the Agent (who will promptly notify the Borrower) of the interest rate payable on the Prime Loan (i) as of the date of the initial disbursement of the Prime Loan and (ii) thereafter, upon any change in the interest rate payable on the Prime Loan by reason of the operation of this Clause together with notice of the basis for such change (including during any period in which the Market Rate is higher than Prime, the relevant computations of the Market Rate). If, after the tenth calendar day preceding any date on which a payment of interest is due with respect to the Prime Loan, any change in Prime or the Market Rate occurs, interest shall be payable on such date as if such change had not occurred provided that, on the earlier of the next succeeding date on which a payment of interest on the Prime Loan is due or the date ten calendar days after repayment in full of the Prime Loan, the Borrower shall either pay to the Agent for the account of the Prime Banks any increased amounts owing to the Prime Banks as a result of such change or receive credit for any reductions in the amounts owing to the Prime Banks as a result of such change. The Prime Reference Bank shall promptly give notice to the Agent (who will promptly notify the Borrower) of the interest rate and amounts of interest so determined in respect of the Prime Loan as hereinabove provided, and such notice shall be conclusive and binding on all parties hereto in the absence of manifest error.

- (4) In the event of non-payment by the Borrower on the due date of any sum due hereunder or under the Notes, the Borrower shall to the extent permitted by law, upon demand, pay to the Agent for the account of each Bank entitled to receive all or part of such payment interest on such sum from and including the date of such non-payment to the date of actual payment (as well after as before judgment):-
- (a) in the case of overdue sums referable to the Canadian Prime Loan, at the rate per annum (which may fluctuate from day to day) determined by the Canadian Prime Reference Bank from time to time to be the aggregate of (1) one per cent. (1%), (2) the Canadian Prime Margin and (3) the higher of the Canadian Prime Rate and the Adjusted Canadian Deposit Rate; and
 - (b) in the case of overdue sums referable to the Prime Loan, at the rate per annum (which may fluctuate from day to day) determined by the Prime Reference Bank from time to time to be the aggregate of (1) one per cent. (1%), (2) the Prime Margin and (3) the higher of Prime and Market Rate.
- (5) Each determination of a rate of interest by the Canadian Prime Reference Bank or the Prime Reference Bank hereunder shall, in the absence of manifest error, be conclusive and binding on the parties hereto and shall be promptly notified by the Prime Reference Bank or the Canadian Prime Reference Bank, as the case may be, to the Agent who shall thereupon notify the Borrower.
- (6) All interest hereunder shall accrue from day to day and be computed on the basis of a year of 360 days for the actual number of days elapsed. Save as other dates for the payment thereof may be provided herein or in accordance herewith, accrued interest on the Loans shall be paid on each Interest Date. Interest shall be payable in the currency in which the relevant Loan is denominated. The yearly rates of interest to which the rates determined in accordance with the provisions of this Agreement are equivalent, are the rates so determined multiplied by the actual number of days in the year and divided by 360.
- (7) In the event that a non-payment by the Borrower on the due date, referred to in sub-clause (6) above, is not specifically in respect of the Canadian Prime Loan or the Prime Loan, the Agent may (but shall not be obliged to) determine to which Loan such non-payment relates but in the absence of such determination by the Agent such non-payment shall be deemed to be in rateable proportions in respect of each Loan (by reference to the Dollar Equivalent at the date of such non-payment) and the interest payable by the Borrower in accordance with the provisions of this Clause shall be for the account of each Bank on each Bank's relevant proportion of such non-payment on the due date.

1

Payments

All payments to be made by the Borrower hereunder in relation to the Prime Loan and except where otherwise provided for herein all other payments to be made by the Borrower hereunder shall be made to the Agent on the due date and for value on such date and in Dollars in New York Funds to the account of the Agent at the New York Branch of The Royal Bank of Canada located at 68 William Street, New York, N.Y. 10005, U.S.A. (Account No. 218-701-1, Ref: CODEMAT/ - RBC-Foreign Banking Centre, Nassau, Bahamas) and all payments to be made by the Borrower hereunder in relation to the Canadian Prime Loan shall be made to the Agent on the due date in Canadian Dollars in immediately available funds to the account of the Agent at The Royal Bank of Canada, Royal Bank Plaza, 200 Bay Street, Toronto, Ontario, Canada - Attention: Correspondent. Banking Department (Account No. 241-508-1, Ref: CODEMAT/ - RBC-Foreign Banking Centre, Nassau, Bahamas), or to such other account at such other bank in New York City or Montreal or Toronto (as the case may be) as the Agent may from time to time designate by written notice to the Borrower.

2) All payments to be made by or on behalf of the Borrower hereunder or under the Notes shall be made without set-off or counterclaim and free and clear of and without any deduction for or on account of any present or future Taxes of any nature now or hereafter imposed (i) by any jurisdiction through or out of which such payments are made or (ii) within Brazil or any federation or organization of which Brazil may at any time be a member or by or through any Taxation authority thereof or therein (hereinafter together called "Brazilian Taxes") unless such payment is required by law to be made subject to any Brazilian Tax. All Brazilian Taxes imposed upon any such payments will be paid by the Borrower on behalf of, but without recourse to, the Agent and each Bank prior to the date on which penalties attach thereto and the Borrower will indemnify the Agent and each Bank against, and reimburse the Agent and each Bank on demand for, all such Brazilian Taxes not so paid by the Borrower. Should any such payment be subject to any Brazilian Tax and the provisions of the last preceding sentence either cannot be effected or do not result in the Agent and each Bank actually receiving an amount, free and clear of all Brazilian Taxes, equal to the full amount provided for hereunder, the Borrower shall pay to the Agent such additional amounts as may be necessary to ensure that the Agent and each Bank receives a net amount, free and clear of all Brazilian Taxes, equal to the full amount which it would have received had payment not been made subject to such Brazilian Tax. The Borrower shall (a) deliver to the Agent, as soon as reasonably possible and in any event not later than forty-five days after each payment hereunder upon

GUARANTEE

DATED as of the 29th day of JANUARY, 1986

TO: THE ROYAL BANK OF CANADA
Foreign Banking Centre
P.O. Box N-7141
Nassau, N.P., Bahamas
as agent for the Banks defined herein
(the "Agent"), and to such Banks

WHEREAS:-

- (A) By an agreement dated January 20, 1986 (the "Credit Agreement") The Royal Bank of Canada, Libra Bank PLC and Canadian Imperial Bank of Commerce Trust Company (Bahamas) Limited through their respective Lending Offices (each one a "Bank", and collectively the "Banks") have agreed to make to Companhia de Desenvolvimento do Estado de Mato Grosso - CODEMAT (the "Borrower") a loan of Ten Million United States Dollars and the Canadian Dollar Equivalent of Five Million United States Dollars, but such latter amount not to exceed Seven Million Canadian Dollars (Cdn\$7,000,000), upon the terms thereof and subject inter alia to the receipt of this Guarantee; and
- (B) The Federative Republic of Brazil (herein referred to as the "Guarantor") has agreed to guarantee the obligations of the Borrower under the Credit Agreement upon and subject to the terms hereof,

NOW IT IS HEREBY AGREED as follows:-

1. Definitions

Terms defined in the Credit Agreement shall, except as otherwise expressly herein provided or as the context otherwise requires, have the same meaning herein as in the Credit Agreement.

2. Guarantee

- (a) In consideration of the Agent and the Banks entering into the Credit Agreement and of the Banks agreeing to advance moneys to the Borrower, the Guarantor hereby irrevocably and unconditionally guarantees to the Agent and the Banks as primary obligor and not merely as surety the due and punctual payment in full of all sums payable now or in the future to the Agent and the Banks by the Borrower under the Credit Agreement and/or the Notes when and as the same shall become due and unconditionally undertakes with the Agent and the Banks that if and whenever the Borrower shall be in default in the payment of any sum whatsoever under the Credit Agreement and/or the Notes, the Guarantor will on demand make good the default and pay all sums which may be payable together with interest thereon at the rate per annum

from time to time payable by the Borrower on such sums from the date when such sums become payable by the Guarantor hereunder until payment of such sums in full.

- (b) As a separate and independent stipulation the Guarantor agrees that any moneys expressed to be payable under the Credit Agreement and/or the Notes which may not be recoverable from the Borrower by reason of any legal limitation, disability or incapacity on or of the Borrower or any other fact or circumstance shall nevertheless be recoverable from the Guarantor as though the same had been incurred by the Guarantor and the Guarantor were the sole or principal debtor in respect thereof and shall be paid by the Guarantor on demand.

3. Continuing Obligation and Avaes

- (a) This Guarantee is a continuing guarantee and shall remain in force so long as any Bank is under an obligation to lend its Commitment (whether or not subject to any conditions precedent) and until all sums which may be or become payable by the Borrower under the Credit Agreement and the Notes have been paid in full.
- (b) This Guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment of any sums payable under the Credit Agreement and/or the Notes must be restored by the Agent or any Bank by reason of preference or for any other reason whatsoever.
- (c) As further evidence of its obligations under this Guarantee, the Guarantor shall endorse each of the Notes (including any Notes issued pursuant to Clause 4(c) of the Credit Agreement) "por aval" but no failure by the Agent or the Banks to insist upon such endorsement shall affect the existence or validity or terms of this Guarantee. Neither the endorsement of the Avaes on the Notes nor the delivery thereof to the Agent and/or the Banks shall limit, reduce or otherwise affect the obligations of the Guarantor hereunder, and the rights and claims of the Agent and the Banks in respect of the Avaes shall not replace or supersede the rights and claims of the Agent and/or the Banks hereunder.

4. Preservation of Guarantee

The obligations of the Guarantor hereunder shall not be affected by any act, omission, matter or thing which but for this provision might operate to release or otherwise exonerate the Guarantor from its obligations hereunder or affect such obligations, including without limitation and whether or not known to the Borrower, the Guarantor, the Agent or any Bank:-

- (i) any time or indulgence granted to or composition with the Borrower;

- (ii) the taking, variation, compromise, renewal or release of or refusal or neglect to perfect or enforce any rights, remedies or security against the Borrower;
- (iii) any legal limitation, disability, incapacity or other circumstances relating to the Borrower or any amendment or supplement to or variation of the Credit Agreement or the Notes or any other document;
- (iv) any incorrectness or incompleteness of any licence, authorisation or other document in connection herewith, with the Credit Agreement or the Notes or any irregularity, unenforceability or invalidity of any obligations of the Borrower under the Credit Agreement, the Notes or any other document;
- (v) any merger, amalgamation, insolvency, winding-up, liquidation, reorganisation, dissolution or like event of or occurring to the Borrower;
- (vi) any failure by the Borrower to apply the proceeds of the Loans in the manner specified in the Credit Agreement.

to the intent that the Guarantor's obligations under this Guarantee shall remain in full force and this Guarantee be construed accordingly as if there were no such circumstances, act, omission, matter or thing.

The Agent shall notify the Guarantor of the occurrence of any of the matters referred to in paragraphs (i), (ii), (iii), (iv), (v) or (vi) of this Clause upon its becoming aware of the same but failure by the Agent to give or delay on the part of the Agent in giving any such notification shall not affect or invalidate the provisions of this Guarantee.

5. Waiver

To the extent that the Guarantor may be entitled to such benefits in the Courts of Brazil, the Guarantor waives the benefits of Articles 1500 and 1503 (I) and (III) of the Brazilian Civil Code, of Article 262 of the Brazilian Commercial Code (except, in the case of any transaction constituting novation according to Brazilian law, where any alteration in the identity of the Borrower results or when the existing indebtedness covered by the Credit Agreement is replaced by a new debt) and the benefit of order under Article 1491 of the Brazilian Civil Code, provided that the omission of any express reference to any Article of the Brazilian Commercial Code or the Brazilian Civil Code (including, without limitation, item (II) of Article 1503 of the Brazilian Civil Code) shall not prejudice the effectiveness, operation, or legal, valid, binding and enforceable nature of any of the provisions of this Guarantee. In addition the Guarantor waives any right it may have of first requiring the Banks to proceed against or enforce any guarantee or security of or claim payment from the Borrower or any other person.

Non-Competition

The Guarantor shall be subrogated to the rights of the Banks against the Borrower under the Credit Agreement in respect of any amounts not paid by the Borrower thereunder but paid by the Guarantor hereunder or under the Notes. However, except to the extent required by applicable law, the Guarantor shall not be entitled to enforce any such right of subrogation or any other right it may have to be indemnified by the Borrower in respect of amounts paid out by the Guarantor hereunder or under the Notes or to receive any payment in respect of any such right as aforesaid until all amounts then due to the Agent and/or the Banks under the Credit Agreement and the Notes have been paid by the Borrower or the Guarantor.

7. Payments

- (a) All payments to be made by the Guarantor hereunder shall be made in the currency and funds and in the manner and at the place as provided in the Credit Agreement free and clear of all Taxes and other deductions whatsoever. If the Guarantor is compelled by law to make any deductions from any payment it will pay such additional amounts as are necessary to ensure that the Agent and each Bank receives the full amount which it would have received if there had been no such deductions. The Guarantor shall on demand provide certificates of tax deducted in respect of payments made hereunder.
- (b) The provisions of Clause 7(5) and 7(6) of the Credit Agreement shall be deemed to be repeated herein but substituting for references therein to "this Agreement" and "sub-clause" or "sub-clause (5)" references to "the Credit Agreement" and to this Clause respectively.

8. Evidence

A certificate of a Bank delivered to the Guarantor through the Agent and setting forth the amount due to such Bank from the Borrower (such certificate to include computations showing the basis for such amount) shall, in the absence of manifest error, be conclusive evidence of such amount.

9. Representations and Warranties

- (a) The Guarantor makes the following representations and warranties for the benefit of the Agent and each Bank:-
 - (i) It has the power to enter into and perform this Guarantee and the Avals and has taken all necessary action to authorise the making and performance of this Guarantee in accordance with the terms hereof and the endorsement of the Avals on the Notes.
 - (ii) The Guarantee constitutes legally binding obligations of the Guarantor enforceable in accordance with its terms as will the Avals when endorsed on the Notes.

- (iii) The execution, delivery and performance of this Guarantee and the endorsement of the Avals on the Notes will not violate or conflict in any respect with any provision of (1) any law or regulation or any order or decree of any court or governmental authority or agency, or (2) any contract or other undertaking or instrument to which the Guarantor is a party or which is binding upon it, or (3) the Constitution of the Guarantor.
- (iv) No event has occurred which constitutes or which with the giving of notice, lapse of time or other applicable conditions would constitute a default under or in respect of any agreement, undertaking or instrument to which the Guarantor is a party or by which it may be bound or to which it may be subject.
- (v) All consents, licences, approvals, publications, registrations, and authorisations and other requirements of any governmental authority, bureau or agency required in connection with the execution, delivery, performance, validity or enforceability of this Guarantee and of the Avals to be endorsed on the Notes have been obtained and are in full force and effect and true copies thereof have been delivered to the Agent through the Borrower.
- (vi) The Guarantor's obligations hereunder and under the Notes rank and will rank at least pari passu in all respects with all other present and future External Indebtedness of the Guarantor. Under Brazilian Law no Encumbrance may exist over any of the property, assets or revenues of the Guarantor. The Guarantor has no immunity from proceedings in the Federal Courts of Brazil.
- (vii) The Guarantor is a member in good standing of the International Monetary Fund.
- (viii) The Loans, when added to the total amount of loans guaranteed by the Guarantor previously contracted by the executive branch of the Guarantor under decree law No. 1312 of February 15, 1974, as amended, is within the financial limits set forth therein.
- (ix) There are no actions, proceedings or claims pending or, to the best of the Guarantor's knowledge, threatened against it, which might have a materially adverse effect on its condition or impair its ability to perform its obligations under this Guarantee or the Notes or prevent the consummation of the transactions contemplated in the Credit Agreement, and there are no material actions or proceedings pending against it relating to External Indebtedness of Brazil.

- (x) There is no tax, levy, impost, deduction, charge or withholding imposed by Brazil or any political subdivision or taxing authority thereof or therein either (i) on or by virtue of the execution or delivery of this Guarantee or any other document to be furnished hereunder or (ii) on any payment to be made by the Guarantor pursuant to this Guarantee.
- (xi) To ensure the enforceability or admissibility in evidence of this Guarantee in Brazil, it is not necessary that this Guarantee or any other document be filed or recorded with any court or other authority in Brazil or that any stamp or similar tax be paid to or in respect of this Guarantee.
- (b) The representations and warranties set out in the foregoing sub-clause shall survive the execution of this Guarantee and the endorsement of the Avals by the Guarantor on the Notes and shall be deemed to be repeated on each Interest Date as if made at each such time.

10. Covenants

The Guarantor covenants that during the term of this Guarantee:

- (a) It will do and cause to be done all things necessary to ensure the obtaining and continuance of all governmental approvals which may at any time be required with respect to this Guarantee, the Notes and any amendment or waiver thereof.
- (b) It will furnish to the Agent as soon as possible and in any event within five calendar days after the occurrence of any event which, with lapse of time or the giving of notice or both, would become an Event of Default, a statement setting forth in reasonable detail the nature and scope of such Default.
- (c) It will furnish to the Agent such financial, statistical and general information about itself as any Bank through the Agent may from time to time reasonably request, provided that such information is public.
- (d) It will undertake all action necessary to the end that its obligations under this Guarantee and the Notes rank and will continue to rank at least pari passu in respect of priority of payment, security and otherwise (including any preferred arrangement to provide for the payment of indebtedness) with the highest ranking External Indebtedness or future External Indebtedness of it and that no present or future External

Indebtedness of it shall rank in respect of priority of payment, security or otherwise (including any preferred arrangements to provide for the payment of its External Indebtedness) in priority to its obligations under this Guarantee and the Notes.

- (e) It will take no action, except to the extent required by applicable law, against the Borrower or any of its property or assets for or on account of any payments made by it under or this Guarantee or the Notes until the payment in full of all amounts due under the Credit Agreement and the Notes.

11. Notices

Any demands or other communications by the Agent and/or the Banks to the Guarantor shall be deemed duly served if sent in writing or by telex, telegram or cable addressed to the address following (or such other address as the Guarantor may notify to the Agent in writing):

Ministro da Fazenda,
Edificio do Ministerio da Fazenda - 5° andar,
Esplanada dos Ministerios,
70048 Brasilia (DF), Brazil.

Telex: 611506 MFAZ BR

12. Assigns

This Guarantee shall enure to the benefit of the Agent's and the Banks' successors and assigns as shall the Avals of the Guarantor to be endorsed on the Notes.

13. Currency Indemnity

- (a) In the event of a judgment, order or award being rendered by any court or tribunal for the payment of any amounts owing to the Agent or any Bank under this Guarantee, the Credit Agreement, the Notes or the Avals or for the payment of damages in respect of any breach of this Guarantee, the Credit Agreement, the Notes or the Avals or under or in respect of a judgment, order or award of another court or tribunal for the payment of such amounts or damages, such judgment, order or award being expressed in a currency ("the Judgment Currency") other than the currency due hereunder (the "Agreed Currency"), the Guarantor agrees to indemnify and hold harmless the Agent and such Bank against any deficiency in terms of the Agreed Currency in the amounts received by the Agent or such Bank (as the case may be), arising or resulting from any variation as between (a) the rate of exchange at which the Agreed Currency is converted

into the Judgment Currency for the purposes of such judgment, order or award, and (b) the rate of exchange at which the Agent or such Bank, (as the case may be) is able to purchase the Agreed Currency with the amount of the Judgment Currency actually received by the Agent or such Bank pursuant to such judgment, order or award on the Business Day following such receipt.

- (b) The above indemnity shall constitute a separate and independent obligation of the Guarantor from its other obligations hereunder and under the Avals and shall apply irrespective of any indulgence granted by the Agent or the Banks and no proof or evidence of any actual loss shall be required by the Guarantor.
- (c) The term "rate of exchange" shall include any premiums, Taxes and costs of exchange payable in connection with the purchase of, or conversion into, the relevant currency.

14. Law and Jurisdiction

- (a) This Guarantee shall be governed by and construed in accordance with the laws of the Province of Ontario, Canada, and the laws of Canada applicable therein.
- (b) If any dispute, difference or question relating to the performance, interpretation or construction of this Guarantee shall arise between, on the one hand, any of the Banks and/or the Agent which has/have made a claim or demand for payment by the Guarantor under this Guarantee and, on the other hand, the Guarantor, with respect to such claim or demand, it shall finally be settled in accordance with the procedure laid down in sub-clause (d) below, provided however that nothing herein set forth shall abridge the right of any Bank or the Agent to enforce or protect any of its respective rights in a court of law of competent jurisdiction, and provided further that nothing contained in this sub-clause (b) shall be construed as an agreement by the parties hereto on the jurisdiction of any court of law other than the Federal Courts of Brazil.
- (c) The Guarantor hereby represents that it has no rights of immunity from any judicial proceedings or from execution of judgment in Brazil or from the enforcement of any arbitration award on the grounds of sovereignty or otherwise in respect of any matter arising out of or relating to its obligations under this guarantee (except for the limitation on alienation of public property referred to in Article 67 of the Civil Code of Brazil). To the extent that the Guarantor is or becomes entitled to any immunity from suit, judgment or execution or other legal process or from the

enforcement of any arbitration award, the Guarantor hereby irrevocably and unconditionally agrees not to claim or take the benefit of such immunity with respect to its obligations or any other matter arising under or in connection with this Guarantee (except for the limitation on the alienation of public property referred to in Article 67 of the Civil Code of Brazil). Judgment upon any such arbitration award may be entered in any court lawfully entitled to render such judgment, and application may be made for judicial acceptance of the award and an order of enforcement ("homologacao judicial") to any court lawfully entitled to accept such award and issue such order, for which purpose the Guarantor hereby irrevocably waives all defences of immunity (whether on the basis of sovereignty or otherwise) and for such purposes only the Guarantor irrevocably submits to the jurisdiction of the courts of Ontario and consents generally in connection with such proceedings to the giving of any relief or the issue of any process in connection with such proceedings. Without limiting the foregoing, for the purpose of receiving service of process in connection with obtaining judicial acceptance of any arbitration award and a corresponding order of enforcement ("homologacao judicial") in the courts of Ontario, the Guarantor agrees that any such process may be served on it by delivery to the Attorney General of the Federative Republic of Brazil (Procurador Geral da Republica) pursuant to Article 42 of Law No. 1341 of 30th January, 1951, as amended, of letters rogatory or by any of the means permissible under the laws of Ontario provided that such means are not contrary to Brazilian law and public policy.

- (d) Subject to sub-clause (b) above, if any dispute, difference or question relating to the performance, interpretation or construction of this Guarantee shall arise between, on the one hand, any of the Banks and/or the Agent which has/have made a claim or demand for payment by the Guarantor under this Guarantee (the person or persons having made such claim or demand being herein collectively called the "Payee") and, on the other hand, the Guarantor, with respect to such claim or demand, either the Payee or the Guarantor (the "Referring Party") may, by written notice (the "Referral Notice") to the other (the "Other Party"), refer such dispute, difference or question to arbitration, and the Other Party, upon receipt of the Referral Notice, shall be obliged to refer such dispute, difference or question to arbitration proceedings as set forth herein. The Referral Notice shall describe the nature of such dispute, difference or question and request the formation of an arbitral tribunal for the purposes of such arbitration. Such arbitral tribunal shall consist of three arbitrators (each of whom shall be fluent in English), one appointed by the Referring Party and one by the Other Party (the party appointing each such arbitrator to notify the other of the name of such arbitrator within

ten days of the date of the Referral Notice). The arbitrators so selected shall within twenty days of the date of the Referral Notice agree on a third arbitrator, who may be (but need not be) of the same nationality as either of the parties to the arbitration but who shall be a practicing member of the Bar of Province of Ontario who is experienced in such matters. If any of the arbitrators shall not be appointed within the time limits specified above, such arbitrator shall be appointed by the Secretary General of the International Centre for the Settlement of Investment Disputes (Washington, D.C.); PROVIDED HOWEVER, that if the Secretary General of the International Centre for the Settlement of Investment Disputes shall decline or fail, within twenty days, to make such an appointment, then such arbitrator shall be appointed by the American Arbitration Association, presently located at 140 West 51st Street, New York, N.Y. 10020, U.S.A. Unless otherwise agreed by the parties to the arbitration, all hearings shall be held and all submissions shall be made by the parties within thirty days of the date of the selection of the third arbitrator and the decisions of the arbitrators shall be made within ten days of the later of the date of the closing of the hearings or the date of the final submissions by the parties. Except as otherwise provided herein, arbitration proceedings hereunder shall be governed by Articles 41-45, 47-48 and 60-61 of the Convention of the Settlement of Investment Disputes between States and Nationals of Other States. Such arbitration proceedings, including the rendering of the arbitral decision, shall take place in Toronto, Canada and the language of such proceedings (including written submissions by the parties) shall be English. Any arbitral tribunal established hereunder shall state the reasons for its decisions in writing and shall make such decisions entirely on the basis of the substantive law specified in sub-clause (a) above and not on the basis of the principle of ex aequo et bono or otherwise. The decision of any such arbitral tribunal shall be final to the fullest extent permitted by law. The Guarantor agrees that in any such arbitration it will not raise any defence which it could not raise but for the fact that it is a sovereign state. No arbitration proceedings hereunder shall be binding upon or in any way affect the rights or interests of any party other than the Referring Party and the Other Party with respect to such arbitration.

- (e) Without prejudice to anything herein contained, in the event that any action or proceedings with respect to this Guarantee or the Avals are brought in the Federal Courts of Brazil, it is agreed that (i) in order that this Guarantee shall be considered to be a valid and enforceable instrument evidencing indebtedness of the Guarantor for a sum certain ("Titulo de divida liquida, certa e exigivel") as provided under Section 586 of the Code of Civil Procedure of Brazil, this Guarantee shall bear the signature of two witnesses in

accordance with Section 585(II) of such Code of Civil Procedure, and (ii) the Agent and the Banks shall have the right to institute legal action for the payment and collection of any sum payable under this Guarantee in the manner provided in Sections 730 and 731 of the aforesaid Code of Civil Procedure, using this Guarantee as the competent instrument for such purpose.

15. Severability

Any provision in this Guarantee which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or enforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

16. Bank's Rights

Nothing herein shall limit the right of each Bank to protect and enforce its rights arising out of this Guarantee and it shall not be necessary for any Bank or the Agent to be joined as an additional party in any proceedings for this purpose.

17. Redistribution of Payments

If any Bank at any time shall receive or recover (whether by way of voluntary or involuntary payment or by virtue of an exercise of its legal rights) the whole or any part of any amounts due from the Guarantor to such Bank or to the Agent on behalf of such Bank hereunder otherwise than by distribution from the Agent under the terms of this Guarantee or the Credit Agreement, then:-

- (1) such Bank ("the Paying Bank") shall promptly (and in any event within ten Business Days) pay to the Agent the full amount so received or recovered;
- (2) as between the Guarantor and the Paying Bank, the Guarantor shall remain or again become indebted to such Paying Bank hereunder in the amount so paid as if it had not been received or recovered as aforesaid; and
- (3) the Agent shall treat the amount so paid as if it were a payment by the Guarantor on account of amounts due from the Guarantor for distribution to the Paying Bank and each of the other Banks in the proportions in which the Paying Bank and the other Banks would have been entitled to receive such amount had it been paid by the Guarantor to the Agent hereunder

PROVIDED THAT

- (a) a Paying Bank which shall have commenced or joined in an action or proceeding in any court to recover sums due to it under the Credit Agreement or the Notes or this Guarantee and pursuant to a judgment obtained therein or a settlement or compromise of that action or proceeding shall have received any amount, shall not be required to share any proportion of that amount with a Bank which has the legal right to, but does not, join such action or proceeding or commence and diligently prosecute a separate action or proceeding to enforce its rights in the same or another court; and
- (b) every payment and adjustment made pursuant to this sub-clause shall be subject to the condition that if such amount (or any part thereof) subsequently must be repaid by the Paying Bank to the Guarantor or any third person, as the case may be, the Agent (if it holds the same) and each of the Banks who has received any part thereof from the Agent shall repay such amount (or the relevant part as the case may be) to the Paying Bank together with such amount (if any) as is necessary to reimburse the Paying Bank the appropriate portion of any interest it shall have been obliged to pay, when repaying such amount as aforesaid and the relevant adjustments pursuant to this sub-clause shall be cancelled.

Each Bank exercising any rights giving rise to a receipt or receiving any payment of the type referred to in this Clause or instituting legal proceedings to recover sums owing to it under this Guarantee shall as soon as reasonably practicable (and in any event within 10 Business Days) thereafter give notice thereof to the Agent who shall give notice to the other Banks.

IN WITNESS whereof this Guarantee has been entered into by the Guarantor as of the date first above written.

THE FEDERATIVE REPUBLIC OF BRAZIL

By: *M. Grinberg*

Name: MAURO GRINBERG

Title: ATTORNEY FOR THE NATIONAL TREASURY

As Witnesses to the execution of this Guarantee:

(1) By: *Adrienne Batista*

Name: ADRIENNE NEQUEIRA BATISTA

Address: MINISTERIO DA FAZENDA

SALA 819 - 8º ANDAR

BRASILIA - DF.

(2) By: *Luiz Carlos Armani*

Name: LUIS CARLOS ARMANI

Address: CENTRO POLITICO

ADMINISTRATIVO

CUIABA - MATO GROSSO



COMMONWEALTH OF THE BAHAMAS
NEW PROVIDENCE

I, GEORGE P. STEWART, Under Secretary of the
Ministry of Foreign Affairs, Commonwealth of The Bahamas,
DO HEREBY CERTIFY that the signature of MARY T. SWEETNAM
affixed to the documents attached is the proper handwriting
of MARY T. SWEETNAM who on the day of the date thereof was
Permanent Secretary in the Attorney General's Office.

DATED this 21st day of Jan. A.D. 1986

George P. Stewart

UNDER SECRETARY
MINISTRY OF FOREIGN AFFAIRS

VICE-CONSULADO DO BRASIL

Reconheço verdadeira a assinatura de George P. Stewart Sub.
secretário do Ministério dos Negócios Exteriores das
Bahamas

que confira com o original a fls. ----- do livro no -----
O presente documento, que assino e faço selar com o Selo de Armas
desto Vice-Consulado, é valido no Brasil independentemente de qual
quer autenticação ulterior.

Pagou Cr\$ 6,00 ouro
ou
US\$ 6,00 Tab. 54 C

Nassau, 21 de Jan de 1986

Raul De Smandeck
Vice-Consul



THE COMMONWEALTH OF THE BAHAMAS

THE NOTARIES PUBLIC ACT, 1971
(No. 9 of 1971)

I, Mary Thelma Sweetnam, Permanent Secretary in the Attorney General's Office, being for the purposes of section 7 of The Notaries Public Act, 1971, the keeper of the roll of notaries public licensed to practise in the Commonwealth of The Bahamas DO HEREBY CERTIFY THAT EARL AUGUSTINE CASH whose name is subscribed to the annexed instrument, was at the time of subscribing his name to the said instrument a Notary Public for the said Commonwealth of The Bahamas duly licensed and enrolled as such; that his autograph signature has been filed in my office; that as such Notary Public he has been duly authorised by law to administer oaths and affirmations, to receive and certify the acknowledgement or proof of deeds, mortgages, powers of attorney and other written instruments for lands, tenements and hereditaments to be read in evidence or recorded in the said Commonwealth of The Bahamas, to protest notes and to take and certify affidavits and depositions; and that I have compared the signature on the annexed instrument with his autograph deposited in my office and they appear to be the same.

IN WITNESS WHEREOF I have hereunto
set my hand and affixed my seal this

20th day of January 1986

Mary T. Sweetnam

Keeper of the Roll of Notaries Public

CREDIT AGREEMENT

**APPROXIMATELY US\$15,000,000
(EQUIVALENT)**

**COMPANHIA DE DESENVOLVIMENTO DO
ESTADO DE MATO GROSSO - CODEMAT**

MEDIUM TERM LOAN

Guaranteed by

THE FEDERATIVE REPUBLIC OF BRAZIL

THE ROYAL BANK OF CANADA

**CANADIAN IMPERIAL BANK OF COMMERCE
TRUST COMPANY (BAHAMAS) LIMITED**

LIBRA BANK PLC.

**THE ROYAL BANK OF CANADA
(as Agent)**

**ONLY USED AS LEADING OFFICE
JANUARY 1986**

CONTENTS

PAGE

USE

DEFINITIONS.....	1
LOANS AND PURPOSE.....	8
DRAWDOWN.....	9
REPAYMENT AND NOTES.....	10
PREPAYMENTS.....	12
INTEREST.....	13
PAYMENTS.....	16
CURRENCY INDEMNITY.....	18
INCREASED COSTS AND ILLEGALITY.....	19
CONDITIONS PRECEDENT.....	22
UNDERTAKINGS.....	23
REPRESENTATIONS AND WARRANTIES.....	27
EVENTS OF DEFAULT.....	30
INDEMNITIES.....	35
FEES, EXPENSES AND STAMP TAXES.....	36
WAIVERS, REMEDIES CUMULATIVE.....	37
CONTROL ACCOUNTS.....	37
THE AGENT AND THE BANKS.....	37
NOTICES.....	41
ASSIGNMENTS.....	42
LAW AND JURISDICTION.....	43
REDISTRIBUTION OF PAYMENTS.....	44
MISCELLANEOUS.....	45

SCHEDULE A - PART I - NOTICE OF BORROWING
PART II - GUARANTOR'S CERTIFICATE
PART III - NOTICE OF INTENDED DISBURSEMENT
PART IV - NOTICE TO DISBURSE

SCHEDULE B - CONDITIONS PRECEDENT

SCHEDULE C - PART I - U.S. DOLLAR PROMISSORY NOTES FOR PRIME LOAN
PART II - CANADIAN DOLLAR PROMISSORY NOTES FOR CANADIAN
PRIME LOAN

SCHEDULE D - THE GUARANTEE

SCHEDULE E - EXCEPTION TO CLAUSE 12(J)

COMMITMENT SCHEDULE

SIGNATORIES / LENDING OFFICE / ADDRESSES

* * * * *

THIS CREDIT AGREEMENT is dated as of the 20th day of January, 1986 *9*

BETWEEN:

- (1) COMPANHIA DE DESENVOLVIMENTO DO ESTADO DE MATO GROSSO - CODEMAT ("the Borrower");
- (2) THE ROYAL BANK OF CANADA, a Canadian chartered bank, through its Lending Office ("RBC");
- (3) CANADIAN IMPERIAL BANK OF COMMERCE TRUST COMPANY (BAHAMAS) LIMITED, a company incorporated under the laws of the Commonwealth of The Bahamas, through its Lending Office ("CIBC");
- (4) LIBRA BANK PLC, a public limited company under the laws of England, through its Lending Office ("LIBRA"); and
- (5) THE ROYAL BANK OF CANADA, acting through its Foreign Banking Centre, Nassau, Bahamas, as agent for the Banks (in this capacity the "Agent").

WHEREAS:

The Banks have agreed on the terms and conditions contained in this Agreement to make loans to the Borrower aggregating Ten Million Dollars (\$10,000,000), and the Canadian Dollar Equivalent amount of Five Million Dollars (\$5,000,000) but such latter amount not to exceed Seven Million Canadian Dollars (Cdn\$7,000,000), as per the Commitment Schedule preceding the execution pages of this Agreement, under the guarantee of The Federative Republic of Brazil.

NOW IT IS HEREBY AGREED as follows

1. Definitions

(1) In this Agreement:-

"Adjusted Canadian Deposit Rate" means on any day the aggregate of:-

- (A) the 90 day posted deposit rate for deposits in excess of Cdn\$100,000 as quoted by the Canadian Prime Reference Bank on such day;
- (B) the cost (expressed as a percentage rate per annum) as on such day as conclusively determined by the Canadian Prime Reference Bank, of reserves required to be maintained in respect of deposits having a ninety day maturity under Canadian regulations (assuming for this purpose that the said deposits all give rise to a requirement to maintain the said reserves); and

- (C) the cost as on such day (expressed as a percentage rate per annum) of insurance premiums payable in respect of such deposits.

"Avaes" means the endorsements "por aval" on the Notes by the Guarantor, referred to in Clause 4(2) of this Agreement and in Clause 3(c) of the Guarantee.

"Banco Central" means Banco Central do Brasil or any successor entity carrying on substantially the same functions and duties.

"Bank" means:-

(A) when designated "Canadian Prime", the lender against whose name in the Commitment Schedule preceding the execution pages of this Agreement there appears an amount in the column headed "Canadian Prime Commitment", in its capacity as lender of the Canadian Prime Loan;

(B) when designated "Prime", one of the lenders against whose name in the Commitment Schedule preceding the execution pages of this Agreement there appears an amount in the column headed "Prime Commitment", in its capacity as a lender of a participation in the Prime Loan (collectively the "Prime Banks");

and "Banks" without any such designation means the Canadian Prime Bank and the Prime Banks.

"Brazil" means The Federative Republic of Brazil and any state or political sub-division thereof and "Brazilian" shall be construed accordingly.

"Business Day" means a day on which banks and financial institutions are open for business in Toronto (Canada), Nassau (Bahamas), London (England) and New York, (N.Y. U.S.A.), and "Brasilia Business Day" means a day on which banks (including Banco Central) and financial institutions are open for business in Brasilia, Brazil.

"Canadian Dollars" and "Cdn\$" means the lawful currency for the time being of Canada.

"Canadian Dollar Equivalent" means, in relation to the Canadian Prime Commitment, the equivalent thereof in Canadian Dollars at the rate determined by Banco Central on the basis of the market rates used by it for its bulletin of exchange rates ("abertura") two (2) Brasilia Business Days prior to the Drawdown Date.

"Canadian Prime Rate" means the annual rate of interest announced by The Royal Bank of Canada ("the Canadian Prime Reference Bank") from time to time at its principal office in Toronto as its reference rate then in effect for determining interest rates on Canadian Dollar commercial loans in Canada, the Canadian Prime Rate to change when and as such reference rate changes.

"Commitment" means, in relation to CIBC, the Canadian Dollar Equivalent of the Dollar amount set opposite its name in the column headed "Canadian Prime Commitment" in the Commitment Schedule preceding the execution pages of this Agreement but such amount not to exceed Seven Million Canadian Dollars (Cdn\$7,000,000), and in relation to each of RBC and LIBRA, the Dollar amount set opposite its name in the column headed "Prime Commitment" in the Commitment Schedule preceding the execution pages of this Agreement, as the same may be reduced under this Agreement; the Canadian Prime Commitment and the Prime Commitment are collectively referred to as the "Total Commitments".

"Commitment Period" means the period from the date hereof until the Term Date (both dates inclusive).

"Cruzeiros" means the lawful currency for the time being of Brazil.

"Default" means any Event of Default and any event or circumstance which, with giving of notice, lapse of time or both or other applicable conditions, would be an Event of Default.

"Dollar Equivalent" means the amount of Dollars that could be purchased with the relevant amount of Canadian Dollars at the spot rate at which Dollars are offered by the Agent against delivery of such Canadian Dollars at or about 11:00 a.m. (New York time) on the day in question.

"Dollars" and "\$" means the lawful currency for the time being of the United States of America.

"Drawdown Date" means the date on which the Loans are drawn down being the date thereof specified by the Borrower in the Notice of Borrowing and which date must be a Business Day and a Brasilia Business Day.

"Encumbrances" includes any mortgage, pledge, lien, charge, assignment, hypothecation, security interest, title retention and any other security agreement or arrangements.

"Event of Default" means any of the events specified in Clause 13.

"External Indebtedness" means Indebtedness which is payable, or may be payable, as contractually agreed and registered as such by Banco Central, in any currency other than Cruzeiros.

"Guarantee" means the guarantee to be issued by the Guarantor in the form of Schedule D and "Guarantor" means The Federative Republic of Brazil.

"Indebtedness" means indebtedness of any person (i) in respect of monies borrowed or raised or the advance or extension of credit (including interest and other charges on or in respect thereof) and/or (ii) under guarantees, avals, indemnities and other forms of assurance against financial loss and/or (iii) in respect of the purchase price of property or services payable on deferred terms.

"Interest Date" means 15th January, 15th April, 15th July or 15th October in each year (commencing on April 15, 1986) or if any such day is not a Business Day, the next succeeding Business Day.

"Lending Office" in relation to a Bank means the office of such Bank which appears against its name at the end of this Agreement and/or any other office notified by such Bank to the Agent in accordance with Clause 20(4) as the office through which it will make available and/or maintain its participation in the Loans.

"Loan" means:-

- (A) when designated "Canadian Prime", the principal amount of the borrowing by the Borrower from the Canadian Prime Bank hereunder or (as the context requires) the principal amount thereof from time to time outstanding to the Canadian Prime Bank;
- (B) when designated "Prime", the principal amount of the borrowing by the Borrower from the Prime Banks hereunder or (as the context requires) the principal amount thereof from time to time outstanding to the Prime Banks;
- (C) without any such designation, the Canadian Prime Loan or the Prime Loan (as the context requires),

and "Loans" without any such designation means the Canadian Prime Loan and the Prime Loan.

"Majority Banks" means Banks to whom more than sixty-six and two-thirds per cent. (66-2/3%) in aggregate of the Loans are, at the relevant time, owing or in the event that no Loans are then outstanding hereunder, Banks whose Commitments then aggregate more than sixty-six and two-thirds per cent. (66-2/3%) of the Total Commitments. For the purposes of this definition the principal amount of the Canadian Prime Loan or (as the case may be) the Canadian Prime Commitment shall during the calendar year 1986 be the Canadian Dollar Equivalent of such principal amounts on the date of signing hereof and after 1986 the Canadian Dollar Equivalent of such principal amounts on the first Business Day of the calendar year in which the relevant determination is being made.

"Margin" means:-

- (A) when designated "Canadian Prime" or "Prime", one and three-quarters of one per cent. (1-3/4%) per annum; and
- (B) without any such designation, the Canadian Prime Margin or the Prime Margin (as the context requires).

"Market Rate" means, with respect to any day, the rate (expressed as an annual rate and rounded upward, if necessary to the nearest one-sixteenth of one percent (1/16%)) which is obtained by adjusting the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States Money Market Banks (the "CD Rate"), as determined weekly by the Prime Reference Bank on the basis of rates reported by certificate of deposit dealers to and published by The Federal Reserve Bank of New York or, if such publication is suspended or terminated, on the basis of quotations obtained by the Prime Reference Bank from three New York certificate of deposit dealers of recognized standing selected by the Prime Reference Bank, in accordance with the following formula:

$$\text{Market Rate} = \frac{\text{CD Rate} + \text{AR}}{1.00 - \text{DRP}}$$

Where:

AR = the average during such three-week period of the daily net annual assessment rates estimated by the Prime Reference Bank for determining the current annual assessment payable by an insured bank to the Federal Deposit Insurance Corporation for insuring three-month time deposits, and

DRP = the average of the daily percentages specified during such three-week period by the board of governors of The Federal Reserve System for determining the maximum reserve requirement (including, without limitation, any basic, supplemental, emergency or marginal reserve requirement) for the Prime Reference Bank in respect of liabilities consisting of or including (among other liabilities) three-month Dollar non-personal time deposits in the United States of at least \$100,000 expressed as a decimal and carried to four decimal places.

"New York Funds" means same day value Dollar funds settled in New York (or in such other manner of payment in Dollars as the Agent shall specify as being customary at the time for the settlement of international transactions of the type contemplated by this Agreement).

"Notes" means the promissory notes of the Borrower referred to in Clause 4(2).

"Notice of Borrowing" means the written request to be given by the Borrower pursuant to Clause 3(2) when it desires to borrow hereunder and substantially in the form of Schedule A Part I.

"Notice to Disburse" means the notice to be sent by the Agent to Banco Central and substantially in the form of Schedule A Part IV.

"Notice of Intended Disbursement" means the notice to be sent by the Agent to Banco Central and substantially in the form of Schedule A Part III.

"Prime" means the prevailing stated U.S. Dollar Prime Commercial Lending Rate of The Royal Bank of Canada ("the Prime Reference Bank") at its principal office in New York City as determined and announced by the Prime Reference Bank in its sole discretion. "Prime" to change when and as such U.S. Dollar Prime Commercial Lending Rate changes.

"Project A Agreement" means a certain Credit and Guarantee Agreement dated as of January 27, 1984 whereby certain banks and financial institutions, on terms and conditions specified in said agreement, have agreed to extend credits to Banco Central in the aggregate amount of \$6,500,000,000.

"Project B Agreement" means a certain Deposit Facility Agreement dated as of January 27, 1984, whereby certain banks and financial institutions, on terms and conditions specified in said agreement, have deposited with Banco Central the amounts of some of their credits due from Brazilian borrowers which matured during the period from January 1, 1984 to December 31, 1984.

"Project I Agreement (1983)" means a certain Credit and Guarantee Agreement dated as of February 25, 1983 whereby certain banks and financial institutions, on terms and conditions specified in said agreement, have agreed to extend credits to Banco Central up to the aggregate amount of \$4,400,000,000.

"Project II Agreement (1983)" means a certain Deposit Facility Agreement dated as of February 25, 1983 whereby certain banks and financial institutions, on terms and conditions specified in said agreement, have deposited with Banco Central the amounts of some of their credits due from Brazilian borrowers which matured during the period from January 1, 1983 to December 31, 1983.

"Repayment Date" means the Interest Date next following each of the dates falling 60, 66, 72, 78, 84, 90, 96, 102, and 108 months after the Drawdown Date, or if any such day is not a Business Day the next succeeding Business Day.

"Subsidiary" means an entity of which the Borrower has for the time being direct or indirect control and "control" as used in this definition means the right (1) to receive more than fifty per cent. (50%) of any distribution of dividends or capital which may at any time be made by such entity, or (2) to cast more than fifty per cent. (50%) of all votes capable of being cast at any general meeting of holders of share capital of such entity, or (3) to determine the composition of a majority of the board of directors or other like managing board of such entity.

"Tax" includes all taxes, levies, imposts, duties, charges to tax, fees (including without limitation, recording, registration and documentary fees), deductions, withholdings and any restrictions or conditions resulting in a charge to tax and all penalty, interest and other payments on or in respect thereof and "Taxes" and "Taxation" shall be construed accordingly.

"Term Date" means February 14, 1986.

GUARANTEE

DATED as of the 29th day of JANUARY, 1986

To: THE ROYAL BANK OF CANADA
Foreign Banking Centre
P.O. Box N-7141
Nassau, N.P., Bahamas
as agent for the Banks defined herein
(the "Agent"), and to such Banks

WHEREAS:-

- (A) By an agreement dated January 20, 1986 (the "Credit Agreement") The Royal Bank of Canada, Libra Bank PLC and Canadian Imperial Bank of Commerce Trust Company (Bahamas) Limited through their respective Lending Offices (each one a "Bank", and collectively the "Banks") have agreed to make to Companhia de Desenvolvimento do Estado de Mato Grosso - CODEMAT (the "Borrower") a loan of Ten Million United States Dollars and the Canadian Dollar Equivalent of Five Million United States Dollars, but such latter amount not to exceed Seven Million Canadian Dollars (Cdn\$7,000,000), upon the terms thereof and subject inter alia to the receipt of this Guarantee; and
- (B) The Federative Republic of Brazil (herein referred to as the "Guarantor") has agreed to guarantee the obligations of the Borrower under the Credit Agreement upon and subject to the terms hereof,

NOW IT IS HEREBY AGREED as follows:-

1. Definitions

Terms defined in the Credit Agreement shall, except as otherwise expressly herein provided or as the context otherwise requires, have the same meaning herein as in the Credit Agreement.

2. Guarantee

- (a) In consideration of the Agent and the Banks entering into the Credit Agreement and of the Banks agreeing to advance moneys to the Borrower, the Guarantor hereby irrevocably and unconditionally guarantees to the Agent and the Banks as primary obligor and not merely as surety the due and punctual payment in full of all sums payable now or in the future to the Agent and the Banks by the Borrower under the Credit Agreement and/or the Notes when and as the same shall become due and unconditionally undertakes with the Agent and the Banks that if and whenever the Borrower shall be in default in the payment of any sum whatsoever under the Credit Agreement and/or the Notes, the Guarantor will on demand make good the default and pay all sums which may be payable together with interest thereon at the rate per annum

from time to time payable by the Borrower on such sums from the date when such sums become payable by the Guarantor hereunder until payment of such sums in full.

- (b) As a separate and independent stipulation the Guarantor agrees that any moneys expressed to be payable under the Credit Agreement and/or the Notes which may not be recoverable from the Borrower by reason of any legal limitation, disability or incapacity on or of the Borrower or any other fact or circumstance shall nevertheless be recoverable from the Guarantor as though the same had been incurred by the Guarantor and the Guarantor were the sole or principal debtor in respect thereof and shall be paid by the Guarantor on demand.

3. Continuing Obligation and Avaes

- (a) This Guarantee is a continuing guarantee and shall remain in force so long as any Bank is under an obligation to lend its Commitment (whether or not subject to any conditions precedent) and until all sums which may be or become payable by the Borrower under the Credit Agreement and the Notes have been paid in full.
- (b) This Guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time payment of any sums payable under the Credit Agreement and/or the Notes must be restored by the Agent or any Bank by reason of preference or for any other reason whatsoever.
- (c) As further evidence of its obligations under this Guarantee, the Guarantor shall endorse each of the Notes (including any Notes issued pursuant to Clause 4(c) of the Credit Agreement) "por aval" but no failure by the Agent or the Banks to insist upon such endorsement shall affect the existence or validity or terms of this Guarantee. Neither the endorsement of the Avaes on the Notes nor the delivery thereof to the Agent and/or the Banks shall limit, reduce or otherwise affect the obligations of the Guarantor hereunder, and the rights and claims of the Agent and the Banks in respect of the Avaes shall not replace or supersede the rights and claims of the Agent and/or the Banks hereunder.

4. Preservation of Guarantee

The obligations of the Guarantor hereunder shall not be affected by any act, omission, matter or thing which but for this provision might operate to release or otherwise exonerate the Guarantor from its obligations hereunder or affect such obligations, including without limitation and whether or not known to the Borrower, the Guarantor, the Agent or any Bank:-

- (i) any time or indulgence granted to or composition with the Borrower;

- (ii) the taking, variation, compromise, renewal or release of or refusal or neglect to perfect or enforce any rights, remedies or security against the Borrower;
- (iii) any legal limitation, disability, incapacity or other circumstances relating to the Borrower or any amendment or supplement to or variation of the Credit Agreement or the Notes or any other document;
- (iv) any incorrectness or incompleteness of any licence, authorisation or other document in connection herewith, with the Credit Agreement or the Notes or any irregularity, unenforceability or invalidity of any obligations of the Borrower under the Credit Agreement, the Notes or any other document;
- (v) any merger, amalgamation, insolvency, winding-up, liquidation, reorganisation, dissolution or like event of or occurring to the Borrower;
- (vi) any failure by the Borrower to apply the proceeds of the Loans in the manner specified in the Credit Agreement.

to the intent that the Guarantor's obligations under this Guarantee shall remain in full force and this Guarantee be construed accordingly as if there were no such circumstances, act, omission, matter or thing.

The Agent shall notify the Guarantor of the occurrence of any of the matters referred to in paragraphs (i), (ii), (iii), (iv), (v) or (vi) of this Clause upon its becoming aware of the same but failure by the Agent to give or delay on the part of the Agent in giving any such notification shall not affect or invalidate the provisions of this Guarantee.

5. Waiver

To the extent that the Guarantor may be entitled to such benefits in the Courts of Brazil, the Guarantor waives the benefits of Articles 1500 and 1503 (I) and (III) of the Brazilian Civil Code, of Article 262 of the Brazilian Commercial Code (except, in the case of any transaction constituting novation according to Brazilian law, where any alteration in the identity of the Borrower results or when the existing indebtedness covered by the Credit Agreement is replaced by a new debt) and the benefit of order under Article 1491 of the Brazilian Civil Code, provided that the omission of any express reference to any Article of the Brazilian Commercial Code or the Brazilian Civil Code (including, without limitation, item (II) of Article 1503 of the Brazilian Civil Code) shall not prejudice the effectiveness, operation, or legal, valid, binding and enforceable nature of any of the provisions of this Guarantee. In addition the Guarantor waives any right it may have of first requiring the Banks to proceed against or enforce any guarantee or security of or claim payment from the Borrower or any other person.

Non-Competition

The Guarantor shall be subrogated to the rights of the Banks against the Borrower under the Credit Agreement in respect of any amounts not paid by the Borrower thereunder but paid by the Guarantor hereunder or under the Notes. However, except to the extent required by applicable law, the Guarantor shall not be entitled to enforce any such right of subrogation or any other right it may have to be indemnified by the Borrower in respect of amounts paid out by the Guarantor hereunder or under the Notes or to receive any payment in respect of any such right as, aforesaid until all amounts then due to the Agent and/or the Banks under the Credit Agreement and the Notes have been paid by the Borrower or the Guarantor.

7. Payments

- (a) All payments to be made by the Guarantor hereunder shall be made in the currency and funds and in the manner and at the place as provided in the Credit Agreement free and clear of all Taxes and other deductions whatsoever. If the Guarantor is compelled by law to make any deductions from any payment it will pay such additional amounts as are necessary to ensure that the Agent and each Bank receives the full amount which it would have received if there had been no such deductions. The Guarantor shall on demand provide certificates of tax deducted in respect of payments made hereunder.
- (b) The provisions of Clause 7(5) and 7(6) of the Credit Agreement shall be deemed to be repeated herein but substituting for references therein to "this Agreement" and "sub-clause" or "sub-clause (5)" references to "the Credit Agreement" and to this Clause respectively.

8. Evidence

A certificate of a Bank delivered to the Guarantor through the Agent and setting forth the amount due to such Bank from the Borrower (such certificate to include computations showing the basis for such amount) shall, in the absence of manifest error, be conclusive evidence of such amount.

9. Representations and Warranties

- (a) The Guarantor makes the following representations and warranties for the benefit of the Agent and each Bank:-
 - (i) It has the power to enter into and perform this Guarantee and the Avals and has taken all necessary action to authorise the making and performance of this Guarantee in accordance with the terms hereof and the endorsement of the Avals on the Notes.
 - (ii) The Guarantee constitutes legally binding obligations of the Guarantor enforceable in accordance with its terms as will the Avals when endorsed on the Notes.

- (iii) The execution, delivery and performance of this Guarantee and the endorsement of the Avals on the Notes will not violate or conflict in any respect with any provision of (1) any law or regulation or any order or decree of any court or governmental authority or agency, or (2) any contract or other undertaking or instrument to which the Guarantor is a party or which is binding upon it, or (3) the Constitution of the Guarantor.
- (iv) No event has occurred which constitutes or which with the giving of notice, lapse of time or other applicable conditions would constitute a default under or in respect of any agreement, undertaking or instrument to which the Guarantor is a party or by which it may be bound or to which it may be subject.
- (v) All consents, licences, approvals, publications, registrations, and authorisations and other requirements of any governmental authority, bureau or agency required in connection with the execution, delivery, performance, validity or enforceability of this Guarantee and of the Avals to be endorsed on the Notes have been obtained and are in full force and effect and true copies thereof have been delivered to the Agent through the Borrower.
- (vi) The Guarantor's obligations hereunder and under the Notes rank and will rank at least *pari passu* in all respects with all other present and future External Indebtedness of the Guarantor. Under Brazilian Law no Encumbrance may exist over any of the property, assets or revenues of the Guarantor. The Guarantor has no immunity from proceedings in the Federal Courts of Brazil.
- (vii) The Guarantor is a member in good standing of the International Monetary Fund.
- (viii) The Loans, when added to the total amount of loans guaranteed by the Guarantor previously contracted by the executive branch of the Guarantor under decree law No. 1312 of February 15, 1974, as amended, is within the financial limits set forth therein.
- (ix) There are no actions, proceedings or claims pending or, to the best of the Guarantor's knowledge, threatened against it, which might have a materially adverse effect on its condition or impair its ability to perform its obligations under this Guarantee or the Notes or prevent the consummation of the transactions contemplated in the Credit Agreement, and there are no material actions or proceedings pending against it relating to External Indebtedness of Brazil.

- (x) There is no tax, levy, impost, deduction, charge or withholding imposed by Brazil or any political subdivision or taxing authority thereof or therein either (i) on or by virtue of the execution or delivery of this Guarantee or any other document to be furnished hereunder or (ii) on any payment to be made by the Guarantor pursuant to this Guarantee.
- (xi) To ensure the enforceability or admissibility in evidence of this Guarantee in Brazil, it is not necessary that this Guarantee or any other document be filed or recorded with any court or other authority in Brazil or that any stamp or similar tax be paid to or in respect of this Guarantee.
- (b) The representations and warranties set out in the foregoing sub-clause shall survive the execution of this Guarantee and the endorsement of the Avals by the Guarantor on the Notes and shall be deemed to be repeated on each Interest Date as if made at each such time.

10. Covenants

The Guarantor covenants that during the term of this Guarantee:

- (a) It will do and cause to be done all things necessary to ensure the obtaining and continuance of all governmental approvals which may at any time be required with respect to this Guarantee, the Notes and any amendment or waiver thereof.
- (b) It will furnish to the Agent as soon as possible and in any event within five calendar days after the occurrence of any event which, with lapse of time or the giving of notice or both, would become an Event of Default, a statement setting forth in reasonable detail the nature and scope of such Default.
- (c) It will furnish to the Agent such financial, statistical and general information about itself as any Bank through the Agent may from time to time reasonably request, provided that such information is public.
- (d) It will undertake all action necessary to the end that its obligations under this Guarantee and the Notes rank and will continue to rank at least pari passu in respect of priority of payment, security and otherwise (including any preferred arrangement to provide for the payment of indebtedness) with the highest ranking External Indebtedness or future External Indebtedness of it and that no present or future External

Indebtedness of it shall rank in respect of priority of payment, security or otherwise (including any preferred arrangements to provide for the payment of its External Indebtedness) in priority to its obligations under this Guarantee and the Notes.

- (e) It will take no action, except to the extent required by applicable law, against the Borrower or any of its property or assets for or on account of any payments made by it under or this Guarantee or the Notes until the payment in full of all amounts due under the Credit Agreement and the Notes.

11. Notices

Any demands or other communications by the Agent and/or the Banks to the Guarantor shall be deemed duly served if sent in writing or by telex, telegram or cable addressed to the address following (or such other address as the Guarantor may notify to the Agent in writing):

Ministro da Fazenda,
Edificio do Ministerio da Fazenda - 5° andar,
Esplanada dos Ministerios,
70048 Brasilia (DF), Brazil:

Telex: 611506 MFAZ BR

12. Assigns

This Guarantee shall enure to the benefit of the Agent's and the Banks' successors and assigns as shall the Avals of the Guarantor to be endorsed on the Notes.

13. Currency Indemnity

- (a) In the event of a judgment, order or award being rendered by any court or tribunal for the payment of any amounts owing to the Agent or any Bank under this Guarantee, the Credit Agreement, the Notes or the Avals or for the payment of damages in respect of any breach of this Guarantee, the Credit Agreement, the Notes or the Avals or under or in respect of a judgment, order or award of another court or tribunal for the payment of such amounts or damages, such judgment, order or award being expressed in a currency ("the Judgment Currency") other than the currency due hereunder (the "Agreed Currency"), the Guarantor agrees to indemnify and hold harmless the Agent and such Bank against any deficiency in terms of the Agreed Currency in the amounts received by the Agent or such Bank (as the case may be), arising or resulting from any variation as between (a) the rate of exchange at which the Agreed Currency is converted

into the Judgment Currency for the purposes of such judgment, order or award, and (b) the rate of exchange at which the Agent or such Bank (as the case may be) is able to purchase the Agreed Currency with the amount of the Judgment Currency actually received by the Agent or such Bank pursuant to such judgment, order or award on the Business Day following such receipt.

- (b) The above indemnity shall constitute a separate and independent obligation of the Guarantor from its other obligations hereunder and under the Avals and shall apply irrespective of any indulgence granted by the Agent or the Banks and no proof or evidence of any actual loss shall be required by the Guarantor.
- (c) The term "rate of exchange" shall include any premiums, Taxes and costs of exchange payable in connection with the purchase of, or conversion into, the relevant currency.

14. Law and Jurisdiction

- (a) This Guarantee shall be governed by and construed in accordance with the laws of the Province of Ontario, Canada, and the laws of Canada applicable therein.
- (b) If any dispute, difference or question relating to the performance, interpretation or construction of this Guarantee shall arise between, on the one hand, any of the Banks and/or the Agent which has/have made a claim or demand for payment by the Guarantor under this Guarantee and, on the other hand, the Guarantor, with respect to such claim or demand, it shall finally be settled in accordance with the procedure laid down in sub-clause (d) below, provided however that nothing herein set forth shall abridge the right of any Bank or the Agent to enforce or protect any of its respective rights in a court of law of competent jurisdiction, and provided further that nothing contained in this sub-clause (b) shall be construed as an agreement by the parties hereto on the jurisdiction of any court of law other than the Federal Courts of Brazil.
- (c) The Guarantor hereby represents that it has no rights of immunity from any judicial proceedings or from execution of judgment in Brazil or from the enforcement of any arbitration award on the grounds of sovereignty or otherwise in respect of any matter arising out of or relating to its obligations under this guarantee (except for the limitation on alienation of public property referred to in Article 67 of the Civil Code of Brazil). To the extent that the Guarantor is or becomes entitled to any immunity from suit, judgment or execution or other legal process or from the

enforcement of any arbitration award, the Guarantor hereby irrevocably and unconditionally agrees not to claim or take the benefit of such immunity with respect to its obligations or any other matter arising under or in connection with this Guarantee (except for the limitation on the alienation of public property referred to in Article 67 of the Civil Code of Brazil). Judgment upon any such arbitration award may be entered in any court lawfully entitled to render such judgment, and application may be made for judicial acceptance of the award and an order of enforcement ("homologacao judicial") to any court lawfully entitled to accept such award and issue such order, for which purpose the Guarantor hereby irrevocably waives all defences of immunity (whether on the basis of sovereignty or otherwise) and for such purposes only the Guarantor irrevocably submits to the jurisdiction of the courts of Ontario and consents generally in connection with such proceedings to the giving of any relief or the issue of any process in connection with such proceedings. Without limiting the foregoing, for the purpose of receiving service of process in connection with obtaining judicial acceptance of any arbitration award and a corresponding order of enforcement ("homologacao judicial") in the courts of Ontario, the Guarantor agrees that any such process may be served on it by delivery to the Attorney General of the Federative Republic of Brazil (Procurador Geral da Republica) pursuant to Article 42 of Law No. 1341 of 30th January, 1951, as amended, of letters rogatory or by any of the means permissible under the laws of Ontario provided that such means are not contrary to Brazilian law and public policy.

- (d) Subject to sub-clause (b) above, if any dispute, difference or question relating to the performance, interpretation or construction of this Guarantee shall arise between, on the one hand, any of the Banks and/or the Agent which has/have made a claim or demand for payment by the Guarantor under this Guarantee (the person or persons having made such claim or demand being herein collectively called the "Payee") and, on the other hand, the Guarantor, with respect to such claim or demand, either the Payee or the Guarantor (the "Referring Party") may, by written notice (the "Referral Notice") to the other (the "Other Party"), refer such dispute, difference or question to arbitration, and the Other Party, upon receipt of the Referral Notice, shall be obliged to refer such dispute, difference or question to arbitration proceedings as set forth herein. The Referral Notice shall describe the nature of such dispute, difference or question and request the formation of an arbitral tribunal for the purposes of such arbitration. Such arbitral tribunal shall consist of three arbitrators (each of whom shall be fluent in English), one appointed by the Referring Party and one by the Other Party (the party appointing each such arbitrator to notify the other of the name of such arbitrator within

ten days of the date of the Referral Notice). The arbitrators so selected shall within twenty days of the date of the Referral Notice agree on a third arbitrator, who may be (but need not be) of the same nationality as either of the parties to the arbitration but who shall be a practicing member of the Bar of Province of Ontario who is experienced in such matters. If any of the arbitrators shall not be appointed within the time limits specified above, such arbitrator shall be appointed by the Secretary General of the International Centre for the Settlement of Investment Disputes (Washington, D.C.); PROVIDED HOWEVER, that if the Secretary General of the International Centre for the Settlement of Investment Disputes shall decline or fail, within twenty days, to make such an appointment, then such arbitrator shall be appointed by the American Arbitration Association, presently located at 140 West 51st Street, New York, N.Y. 10020, U.S.A. Unless otherwise agreed by the parties to the arbitration, all hearings shall be held and all submissions shall be made by the parties within thirty days of the date of the selection of the third arbitrator and the decisions of the arbitrators shall be made within ten days of the later of the date of the closing of the hearings or the date of the final submissions by the parties. Except as otherwise provided herein, arbitration proceedings hereunder shall be governed by Articles 41-45, 47-48 and 60-61 of the Convention of the Settlement of Investment Disputes between States and Nationals of Other States. Such arbitration proceedings, including the rendering of the arbitral decision, shall take place in Toronto, Canada and the language of such proceedings (including written submissions by the parties) shall be English. Any arbitral tribunal established hereunder shall state the reasons for its decisions in writing and shall make such decisions entirely on the basis of the substantive law specified in sub-clause (a) above and not on the basis of the principle of ex aequo et bono or otherwise. The decision of any such arbitral tribunal shall be final to the fullest extent permitted by law. The Guarantor agrees that in any such arbitration it will not raise any defence which it could not raise but for the fact that it is a sovereign state. No arbitration proceedings hereunder shall be binding upon or in any way affect the rights or interests of any party other than the Referring Party and the Other Party with respect to such arbitration.

- (e) Without prejudice to anything herein contained, in the event that any action or proceedings with respect to this Guarantee or the Avals are brought in the Federal Courts of Brazil, it is agreed that (i) in order that this Guarantee shall be considered to be a valid and enforceable instrument evidencing indebtedness of the Guarantor for a sum certain ("Titulo de divida liquida, certa e exigivel") as provided under Section 586 of the Code of Civil Procedure of Brazil, this Guarantee shall bear the signature of two witnesses in

accordance with Section 585(II) of such Code of Civil Procedure, and (ii) the Agent and the Banks shall have the right to institute legal action for the payment and collection of any sum payable under this Guarantee in the manner provided in Sections 730 and 731 of the aforesaid Code of Civil Procedure, using this Guarantee as the competent instrument for such purpose.

15. Severability

Any provision in this Guarantee which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or enforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

16. Bank's Rights

Nothing herein shall limit the right of each Bank to protect and enforce its rights arising out of this Guarantee and it shall not be necessary for any Bank or the Agent to be joined as an additional party in any proceedings for this purpose.

17. Redistribution of Payments

If any Bank at any time shall receive or recover (whether by way of voluntary or involuntary payment or by virtue of an exercise of its legal rights) the whole or any part of any amounts due from the Guarantor to such Bank or to the Agent on behalf of such Bank hereunder otherwise than by distribution from the Agent under the terms of this Guarantee or the Credit Agreement, then:-

- (1) such Bank ("the Paying Bank") shall promptly (and in any event within ten Business Days) pay to the Agent the full amount so received or recovered;
- (2) as between the Guarantor and the Paying Bank, the Guarantor shall remain or again become indebted to such Paying Bank hereunder in the amount so paid as if it had not been received or recovered as aforesaid; and
- (3) the Agent shall treat the amount so paid as if it were a payment by the Guarantor on account of amounts due from the Guarantor for distribution to the Paying Bank and each of the other Banks in the proportions in which the Paying Bank and the other Banks would have been entitled to receive such amount had it been paid by the Guarantor to the Agent hereunder

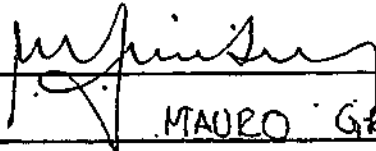
WITNESSED THAT

- a) a Paying Bank which shall have commenced or joined in an action or proceeding in any court to recover sums due to it under the Credit Agreement or the Notes or this Guarantee and pursuant to a judgment obtained therein or a settlement or compromise of that action or proceeding shall have received any amount, shall not be required to share any proportion of that amount with a Bank which has the legal right to, but does not, join such action or proceeding or commence and diligently prosecute a separate action or proceeding to enforce its rights in the same or another court; and
- (b) every payment and adjustment made pursuant to this sub-clause shall be subject to the condition that if such amount (or any part thereof) subsequently must be repaid by the Paying Bank to the Guarantor or any third person, as the case may be, the Agent (if it holds the same) and each of the Banks who has received any part thereof from the Agent shall repay such amount (or the relevant part as the case may be) to the Paying Bank together with such amount (if any) as is necessary to reimburse the Paying Bank the appropriate portion of any interest it shall have been obliged to pay, when repaying such amount as aforesaid and the relevant adjustments pursuant to this sub-clause shall be cancelled.

Each Bank exercising any rights giving rise to a receipt or receiving any payment of the type referred to in this Clause or instituting legal proceedings to recover sums owing to it under this Guarantee shall as soon as reasonably practicable (and in any event within 10 Business Days) thereafter give notice thereof to the Agent who shall give notice to the other Banks.

IN WITNESS whereof this Guarantee has been entered into by the Guarantor as of the date first above written.

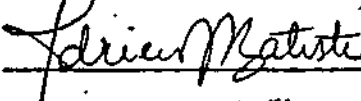
THE FEDERATIVE REPUBLIC OF BRAZIL

By: 

Name: MAURO GRINBERG

Title: ATTORNEY FOR THE NATIONAL TREASURY

As Witnesses to the execution of this Guarantee:

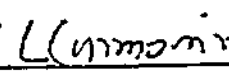
(1) By: 

Name: ADRIENNE NOGUEIRA BATISTA

Address: MINISTERIO DA FAZENDA

SALA 819 - 8º ANDAR

BRASÍLIA - DF.

(2) By: 

Name: LUIS CARLOS ARMANI

Address: CENTRO POLITICO

ADMINISTRATIVO

CUIABÁ - MATO GROSSO