

**CONCESSION AGREEMENT FOR  
GAS AND CRUDE OIL  
EXPLORATION AND EXPLOITATION**

**BETWEEN**

**THE ARAB REPUBLIC OF EGYPT**

**AND**

**THE EGYPTIAN NATURAL GAS HOLDING COMPANY**

**AND**

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**AND**

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**AND**

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**IN**

----- **AREA**

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**A.R.E.**

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**A.R.E.**

This Agreement made and entered on this ----- day of -----20---, by and between the ARAB REPUBLIC OF EGYPT (hereinafter referred to variously as the "A.R.E." or as the "GOVERNMENT"), the EGYPTIAN NATURAL GAS HOLDING COMPANY, a legal entity created by the Prime Minister Decree No. 1009 of 2001, as amended, and according to Law No. 203 of 1991, as amended (hereinafter referred to as "EGAS"), ----- a ----- company organized and existing under the laws of ----- -- (hereinafter referred to as "-----") or CONTRACTOR. -----, a ----- company organized and existing under the laws of ----- (hereinafter referred to as "-----") and -----, a ----- company organized and existing under the laws of ----- (hereinafter referred to as "-----"). -----, ----- and ----- shall be hereinafter referred to collectively as "CONTRACTOR" and individually as "CONTRACTOR Member".

**PREAMBLE**

WHEREAS, all minerals, including Petroleum, existing in mines and quarries in the A.R.E., including its territorial waters, and in the seabed subject to its jurisdiction and extending beyond its territorial waters, are the property of the State;

WHEREAS, EGAS has applied to the GOVERNMENT for an exclusive concession for the Exploration and exploitation of Gas and Crude Oil in and throughout the Area referred to in Article II, and described in Annex "A" and shown approximately on Annex "B", which are attached hereto and made part hereof (hereinafter referred to as the "Area");

WHEREAS, -----, ----- and ----- agree(s) to undertake their obligations provided hereinafter as CONTRACTOR with respect to the Exploration, Development and production of Petroleum in -----AREA, - -----;

WHEREAS, the GOVERNMENT hereby desires to grant such concession pursuant to this Agreement; and

WHEREAS, the Minister of Petroleum, pursuant to the provisions of Law No. 66 of 1953 as amended, may enter into a concession agreement with EGAS, and with-----, ----- and ----- as CONTRACTOR in the said Area.

NOW, THEREFORE, the parties hereto agree as follows:

## **ARTICLE I DEFINITIONS**

- (a) "Affiliated Company" means a company:
- (i) of which the share capital, conferring a majority of votes at stockholders' meetings of such company, is owned directly or indirectly by a party hereto; or
  - (ii) which is the owner directly or indirectly of share capital conferring a majority of votes at stockholders' meetings of a party hereto; or
  - (iii) of which the share capital conferring a majority of votes at stockholders' meetings of such company and the share capital conferring a majority of votes at stockholders' meetings of a party hereto are owned directly or indirectly by the same company.

- (b) "Agreement" means this Concession Agreement and its Annexes.
- (c) "A.R.E." means the Arab Republic of Egypt.
- (d) "Barrel" shall consist of forty two (42) United States gallons, liquid measure, corrected to a temperature of sixty degrees Fahrenheit (60°F) at atmospheric pressure of 14.696 PSIA.
- (e) "Brent Price" means the simple arithmetic average of the monthly average price of the Mid of Platts Prices Dated Brent for six (6) months (t-1, t-2, t-3, t-4, t-5, t-6) immediately preceding the month of delivery of the sold Gas expressed in U.S. Dollars/Barrel. "Dated Brent" means the price assessment in US\$/bbl (calculated using the average of the mean of the daily highs and lows of Brent quotations) as published in Platts Crude Oil Marketwire report.
- (f) "BTU" (British Thermal Unit) means the amount of energy required to raise the temperature of one (1) pound of pure water by one degree Fahrenheit (1°F) from sixty degrees Fahrenheit (60°F) to sixty one degrees Fahrenheit (61°F) at a constant pressure of 14.696 PSIA.
- (g) "Calendar Year" means a period of twelve (12) months from 1<sup>st</sup> January to 31<sup>st</sup> December according to the Gregorian calendar.
- (h) "Commercial Discovery" has the meaning ascribed in Article III (c)
- (i) Commercial Well:
  - i- "Commercial Gas Well" means the first well on any geological feature which, after testing for a period of not more than thirty (30) consecutive days, where practical, but in any event in accordance with sound and accepted industry production practices and verified by EGAS, is found to be capable of producing at the average rate of not less than fifteen million (15000000) Standard Cubic Feet of Gas per day (SCFPD). The date of discovery of a Commercial Gas Well is the date on which such well is tested and completed according to the above.
  - ii- "Commercial Oil Well" means the first well on any geological feature which, after testing for a period of not more than thirty (30) consecutive days, where practical, but in any event in accordance with sound and accepted industry production practices and verified by EGAS, is found to be capable of producing at the average rate of not less than three thousand (3000) Barrels of Oil per day (BOPD) in case of Oil well. The date of discovery of a Commercial

Oil Well is the date on which such well is tested and completed according to the above.

- (j) "Commercial Production" means Petroleum produced and saved for regular shipment or delivery, as may be applicable for Oil or Gas.
- (k) "Commercial Production Commencement" means the date on which the first regular shipment of Crude Oil or the first regular deliveries of Gas are made.
- (l) "Condensate" means a mixture consisting principally of pentanes and heavier hydrocarbons which is recovered as a liquid from Crude Oil or Natural Gas in processing and separation facilities.
- (m) "CONTRACTOR" could be one or more companies (each company to be individually referred to as "CONTRACTOR Member"). Unless modified in accordance with Article XXI herein, CONTRACTOR under this Agreement shall mean -----, ----- and -----.
- (n) "Cost Recovery Petroleum" has the meaning ascribed in Article VII(a)(1) of this Agreement.
- (o) "Delivery Point" is defined as follows:
  - i- In case Gas is sold or disposed of for export the delivery point shall be agreed upon between EGAS and CONTRACTOR;
  - ii- In case Gas is sold or disposed of to EGAS, the delivery point shall be the point specified by this Agreement, unless otherwise agreed upon between EGAS and CONTRACTOR;
  - iii- In case Gas is sold or disposed of to third party within the Egyptian Market, the delivery point shall be agreed upon between EGAS and CONTRACTOR;
  - iv- In case of Crude Oil and/or Condensate, delivery point shall be agreed upon between EGAS/EGPC and CONTRACTOR in accordance with this Agreement.
- (p) "Development" includes, without limitation, all the operations and activities pursuant to approved work programs and budgets under this Agreement with respect to:
  - i- drilling, plugging, deepening, side tracking, re-drilling, completion and equipping of development wells and the change of a well status; and
  - ii- design, engineering, construction, installation, servicing and

maintenance of equipment, lines, systems facilities, plants and related operations to produce and operate said development wells, taking, saving, treatment, handling, storage, transportation and delivery of Petroleum, re-pressuring, recycling and other secondary recovery projects; and

iii-transportation, storage and any other work or activities necessary or ancillary to the activities specified in (i) and (ii) above.

- (q) “Development Block” means an area the corner points of which have to be coincident with one (1) minute x one (1) minute latitude and longitude divisions according to the International Coordinates Grid System, where possible, or with the existing boundaries of the Area covered by this Agreement as set out in Annex "A".
- (r) “Development Lease(s)” means rights and obligations under this Agreement through which an area that covers the Development Block(s) is converted to a development lease after the approval of the Minister of Petroleum under Article III(d) of this Agreement. Such area should cover the geological structure capable of production, the corner points of which have to be coincident with latitude and longitude divisions according to the International Coordinates Grid System, where possible, or with the existing boundaries of the Area covered by this Agreement as set out in Annex "A".
- (s) “Development Period” has the meaning ascribed in Article III(d)(iii) of this Agreement.
- (t) “Effective Date” means the date on which this Agreement is signed by the GOVERNMENT, EGAS and CONTRACTOR after the relevant law is issued.
- (u) “EGPC” means the Egyptian General Petroleum Corporation, a legal entity created by Law No. 167 of 1958, as amended.
- (v) “Egypt Upstream Gateway” means, integral digital platform for all Exploration and Production data (hereinafter referred to as “EUG”), to preserve legacy data, manage active data and promote the upstream opportunities and attract new investments through international bid rounds and through which CONTRACTOR can access, use, trade and deliver all data, information and geological and geophysical studies for the upstream activities in Egypt.
- (w) “Exploration” includes such geological, geophysical, aerial and other surveys as may be contained in the approved Exploration work



programs and budgets, and the drilling of shot holes, core holes, stratigraphic tests, drilling Wells for the discovery of Petroleum or the appraisal of Petroleum discoveries and other related holes and wells, and the purchase or acquisition of such supplies, materials, services and equipment therefore, all as may be contained in the approved work programs and budgets. The verb "explore" means the act of conducting Exploration and the word "exploratory" means relative to Exploration.

- (x) "Exploration Block" means an area the corner points of which are coincident with three (3) minutes x three (3) minutes latitude and longitude divisions according to the International Coordinates Grid System, where possible, or with the existing boundaries of the Area covered by this Agreement as set out in Annex "A".
- (y) "Exploration Work Program and Budget" has the meaning ascribed in Article IV(c) of this Agreement.
- (z) "Excess Cost Recovery" has the meaning ascribed in Article VII(a)(2) of this Agreement.
- (aa) "Financial Year" means the GOVERNMENT's financial year according to the laws and regulations of the A.R.E..
- (bb) "Gas" means natural gas both associated and non-associated, and all of its constituent elements produced from any well in the Area (other than Liquid Crude Oil) and all non-hydrocarbon substances therein.
- (cc) "Gas Sales Agreement" means a written agreement entered into pursuant to Article VII(e) between EGAS and/or CONTRACTOR (as sellers) and EGAS or a third party (as buyers), which contains the terms and conditions for Gas sales from a Development Lease.
- (dd) "Joint Venture Company" is a company to be formed in accordance with Article VI and Annex "D" of this Agreement.
- (ee) "Liquid Crude Oil" or "Crude Oil" or "Oil" means any hydrocarbon produced from the Area which is in a liquid state at the wellhead or lease separators or which is extracted from the Gas or casing head Gas in a plant. Such liquid state shall exist at sixty degrees Fahrenheit (60°F) and atmospheric pressure of 14.696 PSIA. Such term includes distillate and Condensate.
- (ff) "Liquefied Natural Gas (LNG)" means Natural Gas that has been liquefied by cooling it to approximately negative two hundred and sixty degrees Fahrenheit (-260°F) at atmospheric pressure.

- (gg) “Liquefied Petroleum Gas (LPG)” means a mixture of principally butane and propane liquefied by pressure and temperature.
- (hh) “Minimum Expenditure Obligations” means, in relation to a given Exploration period, the minimum amount of expenditure that CONTRACTOR is obligated to spend during such Exploration period as set out, or as may be adjusted, in accordance with Article IV(b) of this Agreement.
- (ii) “Minimum Exploration Work Obligations” means, in relation to a given Exploration period, the minimum Exploration works that CONTRACTOR shall undertake during such Exploration period as set out, or as may be adjusted, in accordance with Article IV(b) of this Agreement.
- (jj) “Operator” means CONTRACTOR (if it is one company) or one of the CONTRACTOR Members (if they are more than one company), as the case may be, appointed by them to be the entity to which, from which and in whose name all notifications related to or in connection with this Agreement shall be made. CONTRACTOR shall notify the name of the Operator to EGAS.
- (kk) “Petroleum” means Liquid Crude Oil of various densities, asphalt, Gas, casing head Gas and all other hydrocarbon substances that may be discovered and produced from the Area, or otherwise obtained and saved from the Area under this Agreement, and all substances that may be extracted there from.
- (ll) “Production Sharing” has the meaning ascribed in Article VII(b)(1) of this Agreement.
- (mm) “Standard Cubic Foot (SCF)” is the amount of Gas necessary to fill one (1) cubic foot of space at atmospheric pressure of 14.696 PSIA at a base temperature of sixty degrees Fahrenheit (60°F).
- (nn) “Tax Year” means the period of twelve (12) months according to the laws and regulations of the A.R.E..
- (oo) “Year” means a period of twelve (12) months according to the Gregorian calendar.

## **ARTICLE II ANNEXES TO THE AGREEMENT**

**Annex "A"** is a description of the Area covered and affected by this Agreement, hereinafter referred to as the "Area".

**Annex "B"** is a provisional illustrative map on the scale of approximately (1: --- --- ---) indicating the Area covered and affected by this Agreement and described in Annex "A".

**Annex "C"** is the form of a Bank Letter of Guarantee to be submitted by CONTRACTOR to EGAS for the sum of ----- million U.S. Dollars (\$ ---000000) after the issuance of the relevant law and before the date of signature by the Minister of Petroleum of this Agreement, to guarantee the execution of CONTRACTOR's Minimum Exploration Work Obligations hereunder for the first Exploration period of ----- (--) Year(s). In case CONTRACTOR elects to enter the second Exploration period and third Exploration period each of ----- (-----) Years and ----- (---) Years respectively in accordance with Article III(b) of this Agreement, two (2) similar Letter(s) of Guarantee shall be issued and be submitted by CONTRACTOR on the day the CONTRACTOR exercises its option to enter the second and third Exploration period(s). The Letter of Guarantee which is related to the second Exploration period shall be for the sum of ----- million U.S. Dollars (\$ -- -000000) and the Letter of Guarantee which is related to the third Exploration period shall be for the sum of ----- million U.S. Dollars (\$ ---000000), less in both instances any excess expenditures incurred in the preceding Exploration period permitted for carry forward in accordance with Article IV(b) third paragraph of this Agreement and approved by EGAS.

In case of any shortfall (the difference between the amount of CONTRACTOR's Minimum Expenditure Obligations for any Exploration period and the total amount of expenditures actually incurred and paid by CONTRACTOR and approved by EGAS for the same Exploration period plus any carry forward amount approved by EGAS from the previous Exploration period, if any), EGAS shall notify CONTRACTOR in writing by the value of such shortfall. Within fifteen (15) days from the date of this notification, CONTRACTOR shall transfer the amount of the shortfall to EGAS's account and if CONTRACTOR did not transfer the amount of this

shortfall within the mentioned fifteen (15) days, EGAS has the right to liquidate the concerned Letter of Guarantee.

Each letter of the two (2) or three (3) Letters of Guarantee shall remain effective for six (6) months after the end of the relevant Exploration period for which it has been issued, except as it may expire prior to that time in accordance with its terms.

The CONTRACTOR has the right to submit a letter that entitles EGAS to solidify an amount, from the CONTRACTOR's dues at EGAS/EGPC, equal to the financial commitment of the then current Exploration period.

**Annex "D"** is the form of a Charter of the Joint Venture Company to be formed as provided for in Article VI hereof.

**Annex "E"** is the Accounting Procedure.

**Annex "F"** is the Development Lease abandonment cost recovery mechanism.

**Annex "G"** is the following maps of:

- 1- The National Gas Pipeline Grid System.
- 2- Crude and Condensate Pipeline Network.
- 3- LPG Pipeline Network.

Annexes "A", "B", "C", "D", "E", "F" and "G" to this Agreement are hereby made part hereof, and they shall be considered as having equal force and effect with the provisions of this Agreement.

### **ARTICLE III GRANT OF RIGHTS AND TERM**

The GOVERNMENT hereby grants EGAS and CONTRACTOR, subject to the terms, covenants and conditions set out in this Agreement, which insofar as they may be contrary to or inconsistent with any provisions of Law No. 66 of 1953, as amended, shall have the force of law, an exclusive concession in and to the Area described in Annexes "A" and "B".

- (a) The GOVERNMENT shall own and be entitled to, as hereinafter provided, a royalty in cash or in kind of ten percent (10%) of the total quantity of Petroleum produced and saved from the Area during the Development Period including its extension, if any. In case EGAS buys CONTRACTOR's share, said royalty shall be borne and paid by EGAS

and shall not be the obligation of CONTRACTOR. In that case the payment of royalties by EGAS shall not be deemed to result in an income attributable to the CONTRACTOR.

In case CONTRACTOR disposes all or part of its share of Production Sharing, by itself to local market after obtaining the Minister of Petroleum's approval, CONTRACTOR shall pay to EGAS an amount equal to the royalty to be paid by EGAS in respect of such Petroleum, the payment of such royalties by CONTRACTOR shall be deemed to be non-recoverable cost.

In case CONTRACTOR export all or part of its share of Production Sharing, solely or jointly with EGAS after obtaining the Minister of Petroleum's approval, CONTRACTOR shall pay to EGAS an amount equal to the royalty to be paid by EGAS in respect of the quantities exported by CONTRACTOR, the payment of such royalties by CONTRACTOR shall be deemed to be non-recoverable cost.

(b) A first Exploration period of ----- (---) Year(s) shall start from the Effective Date. Second Exploration period of ----- (--) Years and third Exploration period of ----- (--) Years, shall be granted to CONTRACTOR at its option, upon written notice given to EGAS not less than thirty (30) days prior to the end of the then current Exploration period, as may be extended pursuant to the provisions of Article V(a), and subject only to CONTRACTOR having fulfilled its obligations hereunder for that period. This Agreement shall be terminated if neither a Commercial Discovery of Oil nor a Commercial Discovery of Gas is established by the end of the ----- (--<sup>th</sup>) Year of the Exploration phase, as may be extended pursuant to Article V(a). The election by EGAS to undertake a sole risk venture under paragraph (c) below shall neither extend the Exploration period nor affect the termination of this Agreement as to CONTRACTOR.

(c) Commercial Discovery:

(i) "Commercial Discovery" whether of Oil or Gas may consist of one (1) producing reservoir or a group of producing reservoirs which is worthy of being developed commercially. After discovery of a Commercial Oil or Gas Well, CONTRACTOR shall, unless otherwise agreed upon with EGAS, undertake as part of its Exploration program the appraisal of the discovery by drilling one (1) or more appraisal wells, to determine whether such discovery is worthy of being developed commercially, taking into consideration

the recoverable reserves, production, pipeline and terminal facilities required, estimated Petroleum prices, and all other relevant technical and economic factors.

- (ii) The provisions laid down herein postulate the unity and indivisibility of the concepts of Commercial Discovery and Development Lease. They shall apply uniformly to Oil and Gas, unless otherwise specified.
- (iii) CONTRACTOR shall give notice of a Commercial Discovery to EGAS immediately after the discovery is considered by CONTRACTOR to be worthy of commercial development, but in any event, with respect to a Commercial Oil Well, not later than thirty (30) days following the completion of the second appraisal well or twelve (12) months following the date of the discovery of the Commercial Oil Well, whichever is earlier; or with respect to a Commercial Gas Well, not later than twenty four (24) months from the date of the discovery of the Commercial Gas Well (unless EGAS agrees to extend such period either for a Commercial Oil or Gas Well). CONTRACTOR shall also have the right to give such notice of Commercial Discovery with respect to any reservoir(s) if the well(s), thereon, in its opinion, considered collectively could be worthy of commercial development after EGAS's approval.

Without prejudice to the provisions of Article (V)(a) fourth (4<sup>th</sup>) paragraph, if CONTRACTOR achieves a Commercial Discovery either for Oil or Gas within a period less than the period mentioned above and before the end of the last Exploration period, the CONTRACTOR should submit to EGAS such notice thirty (30) days before the end of the last Exploration period, and in case CONTRACTOR didn't submit such notice within such period, EGAS shall have the right to exercise the sole risk venture by any other means deemed to be appropriate by EGAS and the CONTRACTOR has no right to have recourse against EGAS for compensation or expenditures or costs or any share in production.

CONTRACTOR may also give a notice of a Commercial Discovery of Oil in the event it wishes to undertake a Gas recycling project.

A notice of Commercial Discovery of Gas shall contain all detailed particulars of the discovery, especially the area containing recoverable reserves, the estimated production potential and profile, field life, Gas analysis, the required pipeline and production

facilities, estimated Development costs, estimated Petroleum prices and all other relevant technical and economic factors (unless otherwise agreed upon by EGAS).

“Date of Notice of Commercial Discovery” means the date on which CONTRACTOR notifies EGAS of (i) the existence of a Commercial Oil Well or a Commercial Gas Well; or (ii) with respect to any well(s) in a reservoir if, in its opinion, the reservoir or a group of reservoirs, considered collectively, could be worthy of commercial development.

- (iv) If Crude Oil or Gas is discovered but is not deemed by CONTRACTOR to be a Commercial Discovery of Oil or Gas under the above provisions of this paragraph (c), EGAS shall one (1) month after the expiration of the period specified above within which CONTRACTOR can give notice of a Commercial Discovery of Oil or Gas, or thirteen (13) months after the completion of a well not considered to be a Commercial Oil Well or twenty five (25) months after the completion of a well not considered to be a Commercial Gas Well, have the right, following sixty (60) days written notice to CONTRACTOR, at its sole cost, risk and expense, to develop, produce and dispose of all Crude Oil or Gas from the geological feature on which the well has been drilled. Said notice shall state the specific area covering said geological feature to be developed, the wells to be drilled, the production facilities to be installed and EGAS's estimated cost thereof. Within thirty (30) days after receipt of said notice CONTRACTOR may, in writing, elect to develop such area as hereunder provided for in the case of Commercial Discovery. In such event all terms of this Agreement shall continue to apply to the specified area.

If CONTRACTOR elects not to develop such area, the specific area covering said geological feature shall be set aside for sole risk operations by EGAS, such area to be mutually agreed upon by EGAS and CONTRACTOR on the basis of good Petroleum industry practice. EGAS shall be entitled to perform such operations or, in the event the Joint Venture Company has come into existence, to have the Joint Venture Company perform such operations for the account of EGAS and at EGAS's sole cost, risk and expense or by any other means deemed to be appropriate by EGAS for developing such discovery. When EGAS has recovered from the Petroleum produced from such specific area a quantity of

Petroleum equal in value, pursuant to the valuation principles set forth in Article VII(c), to three hundred percent (300%) of the cost it has incurred in carrying out the sole risk operations, CONTRACTOR shall have the option, only in the event that there has been a separate Commercial Discovery of Oil or Gas, elsewhere within the Area, to share in further Development and production of that specific area upon paying EGAS one hundred percent (100%) of such costs incurred by EGAS.

Such one hundred percent (100%) payment shall not be recovered by CONTRACTOR. Immediately following such payment, the specific area shall either (i) revert to the status of an ordinary Development Lease under this Agreement and thereafter shall be operated in accordance with the terms hereof; or (ii) alternatively, in the event that at such time EGAS or its Affiliated Company is conducting Development operations in the area at its sole expense and EGAS elects to continue operating, the area shall remain set aside and CONTRACTOR shall only be entitled to its share of Production Sharing percentages of the Crude Oil or Gas as specified in Article VII(b). The sole risk Crude Oil or Gas shall be valued in the manner provided for in Article VII(c). In the event of any termination of this Agreement under the provisions of Article III (b), this Agreement shall, however, continue to apply to EGAS's operations of any sole risk venture hereunder, although this Agreement shall have been terminated with respect to CONTRACTOR pursuant to the provisions of Article III(b).

(d) Conversion to a Development Lease:

- (i) Following a Commercial Discovery of Oil pursuant to the last paragraph of Article III(c)(iii), EGAS and CONTRACTOR shall endeavor with diligence to find adequate markets capable of absorbing the production of Oil. Thereafter, EGAS and CONTRACTOR shall meet with a view of assessing whether the outlets for such Oil and other relevant factors warrant the Development and production of the Oil in accordance with and subject to the conditions set forth in Article VII.
- (ii) Following a Commercial Discovery of Gas pursuant to the last paragraph of Article III(c)(iii), EGAS and CONTRACTOR shall endeavor with diligence to find adequate markets capable of absorbing the production of the Gas. EGAS shall notify



CONTRACTOR within one (1) Year from the Date of Notice of Commercial Discovery of Gas if EGAS requires such Gas for the local market, and the expected annual schedule of demand for such Gas. Thereafter, EGAS and CONTRACTOR shall meet with a view of assessing whether the outlets for such Gas and other relevant factors such as Gas price warrant the Development and production of the Gas and, in case of agreement, the Gas thus made available shall be disposed of to EGAS under a Gas Sales Agreement in accordance with and subject to the conditions set forth in Article VII. In case of unavailability of local market capable of absorbing such Gas; EGAS and/or CONTRACTOR shall endeavor with diligence to find adequate markets abroad capable of absorbing the production of such Gas subject to the Minister of Petroleum's approval.

Based on the scheme of disposition of Oil or Gas in (i) and (ii) above, the CONTRACTOR should submit to EGAS the Development Plan including abandonment plan of the Development area which shall be contained, for example, but not limited to, abandonment procedures and estimated cost. The mechanism for recovering such costs shall be according to Annex "F". The Development Lease abandonment cost recovery mechanism shall be annexed to the Development Lease application. CONTRACTOR should also submit the Development Lease application, which should comprise the extent of the whole area capable of production to be covered by the Development Lease, the Petroleum reserves and the Commercial Production Commencement date, in accordance with what was agreed upon by EGAS and CONTRACTOR.

In case of requesting a Gas Development Lease, the application should include in addition to what stated above, the Gas price which was agreed upon by EGAS and CONTRACTOR pursuant to Article VII(c)(2). Then the Development Lease should be subject to the Minister of Petroleum's approval and such area shall then be converted automatically into a Development Lease without the issue of any additional legal instrument or permission. The date on which the Minister of Petroleum approves the Development Lease Application will be the "Development Lease Approval Date".

In case CONTRACTOR failed to submit the Development Lease application within three (3) Years from the Date of Notice of

Commercial Discovery of Oil or Gas made by CONTRACTOR to EGAS (unless otherwise agreed upon by EGAS), the CONTRACTOR is committed to surrender such Oil or Gas reserves to EGAS.

EGAS can freely elect to develop such specific area covering said geological structure containing the said Petroleum reserves that the CONTRACTOR failed to submit the Development Lease application by any other mean deems to be appropriate by EGAS. The CONTRACTOR has no right to have recourse against EGAS for compensation or expenditures or costs or any share in production.

(iii) The “Development Period” of each Development Lease shall be as follows:

(aa) In respect of a Commercial Discovery of Oil, it shall be twenty (20) Years from the Development Lease Approval Date plus a first Extension Period followed by a second Extension Period, if any, each of them is subject to the Minister of Petroleum’s approval; provided that, if after the conversion of a Commercial Discovery of Oil into a Development Lease, Gas is discovered in the same Development Lease and is used or is capable of being used locally or for export hereunder, the period of the Development Lease shall be extended only with respect to such Gas, LPG extracted from such Gas and Crude Oil in the form of Condensate produced with such Gas for twenty (20) Years from the Date of Notice of Commercial Discovery of Gas made by CONTRACTOR to EGAS plus the Extension Period (as defined below); provided that the duration of such Development Lease based on a Commercial Discovery of Oil shall not be extended beyond thirty (30) Years from the Development Lease Approval Date of such Commercial Discovery of Oil.

CONTRACTOR shall immediately notify EGAS of any Gas discovery but shall not be required to apply for a new Development Lease in respect of such Gas.

(bb) In respect of a Commercial Discovery of Gas, it shall be twenty (20) Years from the Development Lease Approval Date, plus a first Extension Period followed by a second Extension Period, if any, each of them is subject to the

Minister of Petroleum's approval; provided that, if after the conversion of a Commercial Discovery of Gas into a Development Lease, Crude Oil is discovered in the same Development Lease, CONTRACTOR's share of such Crude Oil from the Development Lease (except LPG extracted from Gas or Crude Oil in the form of Condensate produced with Gas) and Gas associated with such Crude Oil shall revert entirely to EGAS upon the expiry of twenty (20) Years from the Date of Notice of Commercial Discovery of Crude Oil plus the Extension Period (as defined below). Notwithstanding, anything to the contrary under this Agreement, the duration of a Development Lease based on a Commercial Discovery of Gas shall in no case exceed thirty (30) Years from the Development Lease Approval date of such Commercial Discovery of Gas.

CONTRACTOR shall immediately notify EGAS of any Crude Oil discovery but shall not be required to apply for a new Development Lease in respect of such Crude Oil.

- (cc) The notification to EGAS of the discovery of Gas in a Development Lease based on Commercial Discovery of Oil, or vice versa, should include all technical information mentioned in Article III(c)(i) and (iii) above.
- (dd) The "Extension Period" means a period of five (5) Years which may be elected by CONTRACTOR upon six (6) months prior written request sent by CONTRACTOR to EGAS prior to the expiry of the relevant twenty (20) Year period and the first Extension Period, as the case may be, supplemented by technical studies, including the evaluation of production period, the expected levels of production during the Extension Period, CONTRACTOR's obligations and relevant economic considerations. The Extension Period is subject to the Minister of Petroleum's approval.
- (e) Development operations shall, upon the issuance of a Development Lease granted following a Commercial Discovery of Oil or Gas, be started promptly by the Joint Venture Company and conducted in accordance with good Petroleum fields' practices and accepted Petroleum engineering principles, until the field is considered to be fully developed. It is understood that if associated Gas is not utilized, EGAS

and CONTRACTOR shall negotiate in good faith on the best way to avoid impairing the production in the interests of the parties.

In the event Commercial Production Commencement of Oil or Gas has not started from any Oil or Gas Development Lease in accordance with the items specified in the granted Development Lease, the CONTRACTOR shall immediately surrender such petroleum reserves to EGAS and relinquish the relevant Development Lease (unless otherwise agreed upon by EGAS); without any right to CONTRACTOR to claim for recovering any expenditures spent by CONTRACTOR or any compensation relevant to such Petroleum reserves. Such relinquished area is considered to be contained of the CONTRACTOR's relinquishments obligations at the end of the then current Exploration period, if any.

In the event no Commercial Production of Oil, in regular shipments or Gas in regular deliveries, is established from any Development Block in any Oil or Gas Development Lease within four (4) Years from the Commercial Production Commencement for Oil or Gas, CONTRACTOR shall immediately relinquish such Development Block at the end of these four (4) Years, unless it is sharing in production with another Commercial Discovery of Oil or Gas in the same Development Lease. A periodical revision shall take place every four (4) Years during Development Period of the same Development Lease, in order to relinquish any Development Block not producing or not contributing to production in the same Development Lease.

In case the production has stopped from any well, and the reproduction hasn't started within a period of maximum one (1) year from the date of such stop, a revision for the Development Lease block(s) will take place in order to relinquish the Development Block(s) not contributing to production from such Development Lease (unless EGAS agrees to extend such period).

Each Development Block in a Development Lease being partly within the radius of drainage of any producing well in such Development Lease shall be considered as participating in the Commercial Production referred to above.

If EGAS deems, or upon application by CONTRACTOR, it is recognized by EGAS that Crude Oil or Gas is being drained or might be drained from an Exploration Block under this Agreement into a development block on an adjoining concession area held by the same

CONTRACTOR or another contractor, such Exploration Block being drained or which will be drained from shall be considered as participating in the Commercial Production of the Development Block in question and the Exploration Block being drained shall be converted into a Development Lease with the ensuing allocation of costs and production (calculated from the Effective Date or the date such drainage occurs, whichever is later) between the two concession areas. The allocation of such costs and production under each concession agreement shall be in the same portion that the recoverable reserves in the drained geological structure underlying each concession area bears to the total recoverable reserves of such structure underlying both concession areas. The production allocated to a concession area shall be priced according to the concession agreement covering that area.

In case of failure by the CONTRACTOR in this Agreement and the contractor in adjoining concession area to agree on the allocation of costs and/or production for such separate Development Leases under each concession area, such disagreement shall be resolved by expert determination, the expert to be agreed upon by the two contractors. EGAS shall have the right to interfere and induce the contractors to fully cooperate and resolve the drainage matter in expedient manner as per the expert decision, such that neither contractor shall be unjustifiably enriched. The cost of the expert shall in no event be recovered.

In case Petroleum reserves exists in one of the geological structures, that extends between this Area which is located in the exclusive economic zone of the A.R.E and the exclusive economic zone of one of the neighboring states, then the CONTRACTOR under this Agreement shall notify EGAS, as a government's representative, of the existence of this Petroleum reserves as a preparation for the competent authority to take all required procedures to reach an agreement on the modalities of the exploitation of such petroleum reserves "Unitization Agreement" whilst taking into account the following:-

- i) The geographical extension and the geological features for such extended petroleum reserves and the proposed area for exploitation and/or the joint development of the said reserves.
- ii) The methodology used for the calculation of such petroleum reserves and its allocation between the parties.

In order to reach Unitization Agreement CONTRACTOR shall cooperate with EGAS, as a government's representative, and shall supply EGAS

with all available data and information it has, in order to keep the rights of this Agreement's parties.

(f) CONTRACTOR shall bear and pay all the costs and expenses required in carrying out all the operations under this Agreement, but such costs and expenses shall not include any interest on investment. CONTRACTOR shall look only to the Petroleum to which it is entitled under this Agreement to recover such costs and expenses. Such costs and expenses shall be recoverable as provided in Article VII. During the term of this Agreement, the total production achieved in the conduct of such operations shall be divided between EGAS and CONTRACTOR in accordance with the provisions of Article VII.

(g)

(1) Unless otherwise provided, CONTRACTOR shall be subject to Egyptian income tax laws in A.R.E. and shall comply with the requirements of such laws with respect to the filing of returns, the assessment of tax, and keeping and showing of books and records.

(2) CONTRACTOR shall be liable to prepare the income tax return statement. CONTRACTOR shall submit the tax return statement to EGAS at least twenty five (25) days prior to the due date of submitting thereof to the tax authority. EGAS shall have the right to review the tax return statement in order to approve the tax calculation therein. EGAS shall provide comments on such tax return statement within fifteen (15) days from the date of receiving the tax return statement from CONTRACTOR. In any case CONTRACTOR shall be responsible for submitting the tax return statement to the tax authority within the legal due date.

(3) CONTRACTOR's annual income for Egyptian income tax in A.R.E. purposes under this Agreement shall be an amount calculated as follows:

The total of the sums received by CONTRACTOR from the sale or other disposition of all Petroleum acquired by CONTRACTOR pursuant to Article VII(a) and (b);

*Reduced by:*

(i) The costs and expenses of CONTRACTOR; and

(ii) The value of EGAS's share of the Excess Cost Recovery , if

any, to be paid to EGAS in cash or in kind as determined according to Article VII;

*Plus:*

An amount equal to CONTRACTOR's Egyptian income taxes in A.R.E. grossed-up in the manner shown in Article VI of Annex "E".

In case CONTRACTOR pays its own taxes pursuant to the second or third paragraph of Article III(g)(4), the last addition (gross-up) shall not be applied to the equation to calculate CONTRACTOR's annual income for Egyptian income tax.

For purposes of above mentioned tax deductions in any Tax Year, Article VII(a) shall apply only in respect of classification of costs and expenses and rates of amortization, without regard to the percentage limitation referred to in the first paragraph of Article VII(a)(1). All costs and expenses of CONTRACTOR in conducting the operations under this Agreement which are not controlled by Article VII(a) as above qualified shall be deductible in accordance with the provisions of the Egyptian Income Tax Law.

- (4) EGAS shall assume, pay and discharge, in the name and on behalf of CONTRACTOR, CONTRACTOR's Egyptian income tax in A.R.E. out of EGAS's share of the Petroleum produced and saved and not used in Petroleum operations under Article VII. All taxes paid by EGAS in the name and on behalf of CONTRACTOR shall be considered as income to CONTRACTOR.

In case CONTRACTOR disposes of all or part of its share of Production Sharing, by itself to local market and after obtaining the Minister of Petroleum's approval, CONTRACTOR shall bear and pay to EGAS an amount equal to the CONTRACTOR's Egyptian income tax, which shall be paid by EGAS, in respect of the value of such Petroleum, the payment of such tax by CONTRACTOR shall neither be considered as income nor as recoverable cost to CONTRACTOR.

In case CONTRACTOR exports all or part of its share of Production Sharing, solely or jointly with EGAS and after obtaining the Minister of Petroleum's approval, CONTRACTOR shall pay to EGAS an amount equal to the CONTRACTOR's Egyptian income tax, which shall be paid by EGAS, in respect of the value of the quantities

exported by CONTRACTOR, the payment of such tax by CONTRACTOR shall neither be considered as income nor as recoverable cost to CONTRACTOR.

- (5) EGAS shall furnish to CONTRACTOR the proper official receipts evidencing the payment of CONTRACTOR's Egyptian income tax in A.R.E. for each Tax Year within ninety (90) days following the receipt by EGAS of CONTRACTOR's income tax return statement for the preceding Tax Year. Such receipts shall be issued by the proper tax authorities and shall state the paid amount and other particulars that are customary for such receipts.
- (6) As used herein, Egyptian Income Tax in A.R.E. shall be inclusive of all income taxes payable in the A.R.E. (including tax on tax) such as the tax on income from movable capital and the tax on profits from commerce and industry and inclusive of taxes based on income or profits, including all dividends, withholding with respect to shareholders and other taxes imposed by the GOVERNMENT of A.R.E. on the distribution of income or profits by CONTRACTOR.
- (7) In calculating its income taxes in A.R.E., EGAS shall be entitled to deduct all royalties paid by EGAS to the GOVERNMENT and CONTRACTOR's Egyptian income taxes paid by EGAS on CONTRACTOR's behalf.

#### **ARTICLE IV WORK PROGRAM AND EXPENDITURES DURING EXPLORATION PHASE**

- (a) CONTRACTOR shall commence Exploration operations hereunder not later than six (6) months from the Effective Date. CONTRACTOR shall have the right to use and obtain all seismic, wells and other data with respect to the Area in EUG's possession and in accordance with the regulations in such respect.
- (b) The first Exploration period shall be of ----- (---) Year(s). CONTRACTOR may elect to enter one (1) or two (2) successive period(s), ----- (--) Years for the second Exploration period and ----- (--) Years for the third Exploration period, in accordance with Article III(b), each of which upon a written application to EGAS at least thirty (30)



days before the end of the then current Exploration period, subject to EGAS's approval and CONTRACTOR's fulfillment of its minimum Exploration obligations hereunder for the then current Exploration period.

For the first Exploration period, CONTRACTOR shall spend a minimum of ----- million U.S. Dollars (\$ ---000000) on Exploration operations and activities related thereto, which shall be the Minimum Expenditure Obligations for the first Exploration period of ----- (---) Year(s); provided that the Minimum Exploration Work Obligations of CONTRACTOR in such period shall be to acquire ----- square kilometers (---- km<sup>2</sup>) of 3D seismic program, acquire ----- kilometers (--- km) of 2D seismic program, reprocess seismic data, carry out technical studies and drill ----- (---) exploratory well(s).

For the second Exploration period of ----- (---) Year(s) that CONTRACTOR elects to enter after the first Exploration period, the Minimum Expenditure Obligations shall be ----- million U.S. Dollars (\$ --000000), provided that the Minimum Exploration Work Obligations for the CONTRACTOR in such period shall be to acquire ----- square kilometers (---- km<sup>2</sup>) of 3D seismic program, acquire ----- kilometers (--- km) of 2D seismic program, reprocess seismic data, carry out technical studies and drill ----- (---) exploratory well(s).

For the third Exploration period of ----- (---) Year(s) that CONTRACTOR elects to enter after the second Exploration period, the Minimum Expenditure Obligations shall be ----- million U.S. Dollars (\$ --000000), provided that the Minimum Exploration Work Obligations of CONTRACTOR in such period shall be to acquire ----- square kilometers (---- km<sup>2</sup>) of 3D seismic program, acquire ----- kilometers (--- km) of 2D seismic program, reprocess seismic data, carry out technical studies and drill ----- (---) exploratory well(s).

In case CONTRACTOR spends more than the Minimum Expenditure Obligations required to be expended or performs works (approved by EGAS) in excess of the Minimum Exploration Work Obligations during any Exploration period, the excess expenditure and/or works shall be subtracted from the Minimum Expenditure Obligations and/or the Minimum Exploration Work Obligations for any succeeding Exploration period, as the case may be.

EGAS may approve CONTRACTOR's request to enter the succeeding Exploration period in the event the CONTRACTOR has failed to fulfill any of its Minimum Exploration Work Obligations of the then current Exploration period subject to its fulfillment of the Minimum Expenditure Obligations for such period.

If CONTRACTOR is allowed to enter the succeeding Exploration period without having fulfilled all of its Minimum Exploration Work Obligations, the part of the Minimum Exploration Work Obligations which has not been fulfilled shall be carried forward to the succeeding Exploration period and CONTRACTOR shall submit a separate letter of guarantee with the value of the part of such Minimum Exploration Work Obligations which shall be valid until the end of the succeeding Exploration period. Such letter of guarantee cannot be reduced by any other expenses that do not relate to the specific obligation(s) it guarantees.

Such letter of guarantee shall not be returned except after the execution of the carried forward obligation. EGAS shall have the right to liquidate the letter of guarantee in case the carried forward obligation is not executed by the end of the succeeding Exploration period. In such case, CONTRACTOR shall not be entitled to recover such values as Exploration expenditures in the manner provided for under Article VII in the event of Commercial Production.

In case CONTRACTOR surrenders its Exploration rights under this Agreement as set forth above before or at the end of the first Exploration period, having expended less than the total sum of the Minimum Expenditure Obligations for such period on Exploration operations, an amount equal to the difference between the said Minimum Expenditure Obligations and the amount actually spent on Exploration and approved as recoverable cost by EGAS shall be paid by CONTRACTOR to EGAS at the time of surrendering or within six (6) months from the end of the first Exploration period, as the case may be.

Any expenditure deficiency by CONTRACTOR at the end of any successive Exploration period for the reasons stated above shall similarly result in a payment by CONTRACTOR to EGAS of such deficiency. Provided that this Agreement is still in force as to CONTRACTOR, CONTRACTOR shall be entitled to recover any such payments as Exploration expenditure in the manner provided for under Article VII in the event of Commercial Production.

Without prejudice to Article III (b), in case no Commercial Oil Discovery is established or no notice of Commercial Gas Discovery is given by the end of the ----- (----) Year, as may be extended pursuant to Article V(a), or in case CONTRACTOR surrenders the Area under this Agreement prior to such time, EGAS shall not bear any of the aforesaid expenses spent by CONTRACTOR.

- (c) At least four (4) months prior to the beginning of each Financial Year or at such other times as may mutually be agreed to by EGAS and CONTRACTOR, CONTRACTOR shall prepare an exploration work program and budget for the Area setting forth the Exploration operations which CONTRACTOR proposes to carry out during the ensuing Year "Exploration Work Program and Budget".

The Exploration Work Program and Budget shall be reviewed by a joint committee to be established by EGAS and CONTRACTOR after the Effective Date of this Agreement. This committee, hereinafter referred to as the "Exploration Advisory Committee", shall consist of six (6) members, three (3) of whom shall be appointed by EGAS and three (3) by CONTRACTOR. The Chairman of the Exploration Advisory Committee shall be designated by EGAS among the members appointed by it. The Exploration Advisory Committee shall review and give such advice as it deems appropriate with respect to the proposed Exploration Work Program and Budget. Following review by the Exploration Advisory Committee, CONTRACTOR shall make such revisions and submit the Exploration Work Program and Budget to EGAS for its approval.

Following such approval, it is further agreed that:

- (i) CONTRACTOR shall neither substantially revise or modify said Exploration Work Program and Budget nor reduce the approved budgeted expenditure without the approval of EGAS;
- (ii) CONTRACTOR should obtain EGAS's approvals needed for executing the items included in the approved Exploration Work Program and Budget, in accordance with the rules and procedures applicable in that issue.
- (iii) In the event of emergencies involving danger of loss of lives or property or damage to the environment, CONTRACTOR may expend such additional unbudgeted amounts as may be required to alleviate such danger or damage. Such expenditure shall be considered in all aspects as Exploration expenditure and recovered

pursuant to the provisions of Article VII hereof.

- (d) CONTRACTOR shall advance all necessary funds for all materials, equipment, supplies, personnel administration and operations pursuant to the Exploration Work Program and Budget and EGAS shall not be responsible to bear or repay any of the aforesaid costs.
- (e) CONTRACTOR shall be responsible for the preparation and performance of the Exploration Work Program and Budget which shall be implemented in a workmanlike manner and consistent with good Petroleum industry practices.

All geological and geophysical studies, as well as any other studies related to the performance of this Agreement, shall be made in the A.R.E., except as is appropriate for the specialized geophysical, geological, engineering and development studies thereon, that may be made in specialized centers outside the A.R.E., subject to EGAS's approval.

CONTRACTOR shall entrust the management of Exploration operations in the A.R.E. to its technically competent General Manager and Deputy General Manager. The names of such General Manager and Deputy General Manager shall, upon appointment, be forthwith notified to the GOVERNMENT and to EGAS. The General Manager and, in his absence, the Deputy General Manager shall be entrusted by CONTRACTOR with sufficient powers to carry out immediately all lawful written directions given to them by the GOVERNMENT or its representative under the terms of this Agreement. All lawful regulations issued or hereafter to be issued which are applicable hereunder and not in conflict with this Agreement shall apply to CONTRACTOR.

- (f) CONTRACTOR shall supply EGAS, within thirty (30) days from the end of each calendar quarter, with a Statement of Exploration Activity relating to Exploration operations which has been conducted in any portion of the Area not converted into a Development Lease, showing costs incurred by CONTRACTOR during such quarter. CONTRACTOR's records and necessary supporting documents shall be available for inspection by EGAS at any time during regular working hours for three (3) months from the date of receiving each Statement of Exploration Activity.

Within the three (3) months from the date of receiving each Statement of Exploration Activity, EGAS shall advise CONTRACTOR in writing if it considers:

- (1) that the record of costs is not correct; or
- (2) that the costs of goods or services supplied are not in line with the international market prices for goods or services of similar quality supplied on similar terms prevailing at the time such goods or services were supplied; provided however, that purchases made and services performed within the A.R.E. shall be subject to Article XXVI; or
- (3) that the condition of the materials furnished by CONTRACTOR does not tally with their prices; or
- (4) that the costs incurred are not reasonably required for operations.

CONTRACTOR shall give written notice on EGAS remarks which include the reasons and justifications and supporting documents and shall confer with EGAS in connection with the problem thus presented, and the parties shall attempt to reach a mutually satisfactory settlement.

If within the time limit of the three (3) month period provided for in this paragraph, EGAS has not advised CONTRACTOR of its objection to any statement, such statement shall be considered as approved.

- (g) CONTRACTOR shall supply all funds necessary for its operations in the A.R.E. under this Agreement in freely convertible currency from abroad. CONTRACTOR shall have the right to freely purchase Egyptian currency in the amount necessary for its operations in the A.R.E. from EGAS or EGPC or from any bank authorized by the GOVERNMENT to conduct foreign currency exchange. Priority shall be given by CONTRACTOR to purchase the Egyptian currency from EGAS or EGPC, at the discretion of EGAS, at the same applicable rate and date as such currency may be purchased from the National Bank of Egypt.
- (h) EGAS and EGPC are authorized to advance to CONTRACTOR the Egyptian currency required for the operations under this Agreement against receiving from CONTRACTOR an equivalent amount of U.S. Dollars at the official rate of exchange in A.R.E., such amount in U.S. Dollars shall be deposited in EGAS's or EGPC's account abroad (as the case may be) with a correspondent bank of the National Bank of Egypt, Cairo, A.R.E.. Withdrawals from said account shall be used to finance EGAS's or EGPC's (as the case may be) and their Affiliated Companies' foreign currency requirements, subject to the Minister of Petroleum's approval.
- (i) Any reimbursement due to EGAS out of the Cost Recovery Petroleum,

as a result of reaching agreement or as a result of an arbitral award, shall be promptly made in cash to EGAS, plus simple interest at LIBOR plus two and half percent (2.5%) per annum from the date on which the disputed amount(s) would have been paid to EGAS according to Article VII(a)(2) and Annex "E" of this Agreement (i.e., from the date of rendition of the relevant Cost Recovery Statement) to the date of payment. The LIBOR rate applicable shall be the average of the figure(s) published by The Financial Times of London representing the mid-point of the rates (bid and ask) applicable to one (1) month U.S. Dollars deposits in the London Interbank Eurocurrency Market on each fifteenth (15<sup>th</sup>) day of each month occurring between the date on which the disputed amount(s) would have been paid to EGAS and the date on which it is settled.

If the LIBOR rate is available on any fifteenth (15<sup>th</sup>) day but is not published in The Financial Times in respect of such day for any reason, the LIBOR rate chosen shall be that offered by Citibank N.A. to other leading banks in the London Interbank Eurocurrency Market for one (1) month U.S. Dollar deposits.

If such fifteenth (15<sup>th</sup>) day is not a day on which LIBOR rates are quoted in the London Interbank Eurocurrency Market, the LIBOR rate to be used shall be that quoted on the next following day on which such rates are quoted.

## **ARTICLE V**

### **RELINQUISHMENTS**

(a) **MANDATORY:**

At the end of the ----- (---) Year after the Effective Date hereof, CONTRACTOR shall relinquish to the GOVERNMENT a total of ----- percent (---%) of the original Area on the Effective Date, not then converted into a Development Lease(s). Such relinquishment shall be in a single unit of whole Exploration Blocks or originally existing parts of Exploration Blocks not converted into Development Lease(s) (unless otherwise agreed by EGAS) so as to enable the relinquishment requirements to be precisely fulfilled.

At the end of the ----- (---) Year after the Effective Date hereof, CONTRACTOR shall relinquish to the GOVERNMENT an additional -

----- percent (---%) of the original Area on the Effective Date, not then converted into a Development Lease(s). Such relinquishment shall be in a single unit (unless otherwise agreed by EGAS) of whole Exploration Blocks or originally existing parts of Exploration Blocks not converted to Development Lease(s) so as to enable the relinquishment requirements to be precisely fulfilled.

Without prejudice to Articles III and XXIII and the last three paragraphs of this Article V(a), at the end of the ----- (---) Year of the Exploration phase, CONTRACTOR shall relinquish the remainder of the Area not then converted into Development Lease(s).

It is understood, that at the time of any relinquishment the areas to be converted into Development Lease(s) and which are submitted to the Minister of Petroleum by application(s) for his approval according to Article III(d) shall, subject to such approval, be deemed converted into Development Lease(s).

CONTRACTOR shall not be required to relinquish any Exploration Block(s) in respect of which a notice of Commercial Discovery of Oil or Gas has been given to EGAS, subject to EGAS's right to agree on the existence of a Commercial Discovery pursuant to Article III(c) and without prejudice to the requirements of Article III(e).

In the event, that at the end of any Exploration period, a well is already under drilling or testing, CONTRACTOR shall be allowed up to six (6) months to enable it to discover a Commercial Oil or Gas Well or to establish a Commercial Discovery, as the case may be. However, any such extension of up to six (6) months shall reduce the duration of the next succeeding Exploration period, if any, as applicable, by that duration.

(b) VOLUNTARY:

CONTRACTOR may, voluntarily, during any Exploration period relinquish all or any part of the Area in a single unit of whole Exploration Blocks or parts of Exploration Blocks; provided that at the time of such voluntary relinquishment its minimum Exploration obligations under Article IV(b) have been fulfilled for such period. Such voluntary relinquishment shall be credited toward the mandatory relinquishment provisions of Article V(a) above (unless otherwise agreed by EGAS).

Following Commercial Discovery, EGAS and CONTRACTOR shall

mutually agree upon any area to be relinquished thereafter, except for the relinquishment provided for above at the end of the total Exploration periods.

CONTRACTOR may, voluntarily, during the Development Period relinquish the Area as a single unit if it deems the Petroleum operations in the Area to be un-economic to CONTRACTOR; provided that:

- (1) CONTRACTOR has fulfilled all of its obligations and commitments under this Agreement including, but not limited to, those concerning abandonment of the assets and facilities, or provides financial security (in form and amount as to be agreed between EGAS and CONTRACTOR) to fulfil such obligations and commitments; and
- (2) CONTRACTOR has submitted a written notice of voluntary relinquishment to EGAS, requesting EGAS confirmation in writing that CONTRACTOR has fulfilled such obligations and commitments, or provided such financial security.

Following such notice:

- i) if EGAS does not notify CONTRACTOR in writing, either to confirm or to raise a reasoned objection, within one hundred and eighty (180) days from EGAS's receipt of CONTRACTOR's notice to relinquish the Area, then the CONTRACTOR's relinquishment of such Area shall be effective as of the end of the one hundred and eighty (180) day period; or
- ii) if EGAS notifies CONTRACTOR in writing within the one hundred and eighty (180) day period to confirm that CONTRACTOR has fulfilled its obligations and commitments under this Agreement, or provides financial security approved by EGAS, the relinquishment of the Area will be effective ninety (90) days from the date of CONTRACTOR's receipt of such confirmation; or
- iii) if EGAS notifies CONTRACTOR in writing within the one hundred and eighty (180) day period to raise a reasoned objection, the relinquishment shall not be effective until EGAS confirms that CONTRACTOR has fulfilled its obligations and commitments under this Agreement, or provides financial security approved by EGAS. The CONTRACTOR's voluntary relinquishment of the Area will be effective ninety (90) days from the date of CONTRACTOR's receipt of EGAS's confirmation.

At the time of relinquishment of all or any part of the Area, CONTRACTOR shall undertake and be committed to restore the Area as it was by the time CONTRACTOR had received it, in accordance with good Petroleum industry practices (unless otherwise agreed upon between EGAS and



CONTRACTOR).

During the term of this Agreement and according to Article III (e) and Article V and in case CONTRACTOR relinquishes any block (blocks) from the Area, CONTRACTOR shall submit to EUG, all data and information obtained following Petroleum operations under this Agreement, no later than thirty (30) days from CONTRACTOR's relinquishment notification and before EGAS's approval on this relinquishment.

## **ARTICLE VI OPERATIONS AFTER COMMERCIAL DISCOVERY**

- (a) Upon the approval of the first Development Lease, EGAS and CONTRACTOR should form in the A.R.E. a company to carry out operations pursuant to this Article VI and Annex "D" (hereinafter referred to as the "Joint Venture Company"), which company shall be named by mutual agreement between EGAS and CONTRACTOR provided that such name shall be subject to the Minister of Petroleum's approval. Said company shall be a private sector joint stock company, subject to the laws and regulations in force in the A.R.E. to the extent that such laws and regulations are not inconsistent with the provisions of this Agreement or the Charter of the Joint Venture Company (the "Charter").
- However, the Joint Venture Company and CONTRACTOR shall, for the purpose of this Agreement, be exempted from the following laws and regulations as now or hereafter amended or substituted:
- Law No. 48 of 1978, promulgating the law on the employee regulations of public sector companies;
  - Law No. 159 of 1981, promulgating the law on joint stock companies, partnership limited by shares and limited liability companies;
  - Law No. 97 of 1983, promulgating the law concerning public sector organizations and companies;
  - Law No. 203 of 1991, promulgating the law on public business sector companies; and
  - provisions of part 2 of chapter 6 of Law No. 88 of 2003, organizing dealings in foreign currencies in accordance with Central Bank of

Egypt and the A.R.E. banking system law.

- (b) The Charter of Joint Venture Company is hereto attached as Annex "D". The Joint Venture Company will be established within three (3) months from the date of the Minister of Petroleum's approval of the first Development Lease whether for Crude Oil or Gas, to carry out the Development operations in accordance with the approved Development Plan and the work program and budget for the Exploration, Development and production from the Development Lease(s), the Charter shall take effect and the Joint Venture Company shall automatically come into existence without any further procedures. The Exploration Advisory Committee shall be dissolved upon the final relinquishment of all portions of the Area not converted into Development Lease(s).
- (c) Ninety (90) days after the date the Joint Venture Company comes into existence in accordance with paragraph (b) above, it shall prepare a work program and budget for further Exploration and Development in any portion of the Area converted into a Development Lease for the remainder of the Financial Year of the Development Lease approval . And not later than four (4) months before the end of the current Financial Year (or such other date as may be agreed upon by EGAS and CONTRACTOR) and four (4) months preceding the commencement of each succeeding Financial Year thereafter (or such other date as may be agreed upon by EGAS and CONTRACTOR), the Joint Venture Company shall prepare an annual production schedule and work program and budget for further Exploration and Development in any portion of the Area converted into a Development Lease for the succeeding Financial Year. The production schedule, work program and budget shall be submitted to the Joint Venture Company's Board of Directors for approval.

The Exploration Work Program and Budget for further Exploration operations in any portion of the Area not converted into a Development Lease shall be reviewed, approved and implemented in accordance with Article IV.

- (d) Not later than the twentieth (20<sup>th</sup>) day of each month, the Joint Venture Company shall furnish to CONTRACTOR a written estimate of its total cash requirements for expenditure for the first half and the second half of the succeeding month, expressed in U.S. Dollars, consistent with the

approved work program and budget. Such estimate shall take into consideration any cash expected to be in hand at month end.

Payment for the appropriate period of such month shall be made to the correspondent bank designated in paragraph (e) below on the first (1<sup>st</sup>) day and fifteenth (15<sup>th</sup>) day respectively, or the next following business day, if such day is not a business day.

- (e) The Joint Venture Company is authorized to keep at its own disposal abroad in an account opened with a correspondent bank of the National Bank of Egypt, Cairo, A.R.E., the foreign funds advanced by CONTRACTOR. Withdrawals from said account shall be used for the payment for goods and services acquired abroad and for transferring to a local bank in the A.R.E. of the required amount to meet the expenditures in Egyptian Pounds for Joint Venture Company in connection with its activities under this Agreement.

Within sixty (60) days after the end of each Financial Year, the Joint Venture Company shall submit to the appropriate exchange control authorities in the A.R.E. a statement, duly certified by a recognized firm of auditors, showing the funds credited to that account, the disbursements made out of that account and the outstanding balance at the end of the Financial Year.

- (f) If and for as long during the period of production operations there exists an excess capacity in facilities which cannot during the period of such excess be used by the Joint Venture Company, EGAS shall have the right to use the excess capacity if it so desires without any financial or operational disadvantage to the CONTRACTOR or the Joint Venture Company.

## **ARTICLE VII RECOVERY OF COSTS AND EXPENSES AND PRODUCTION SHARING**

- (a) **COST RECOVERY:**

- (1) **Cost Recovery Petroleum:**

Subject to the auditing provisions under this Agreement, CONTRACTOR shall recover quarterly all costs, expenses and expenditures in respect of all the Exploration, Development and

related operations under this Agreement and which were approved by EGAS to the extent and out of ----- percent (--%) of all Petroleum produced and saved from all Development Leases within the Area hereunder and not used in Petroleum operations. Such Petroleum is hereinafter referred to as "Cost Recovery Petroleum".

For the purpose of determining the classification of all costs, expenses and expenditures for their recovery, the following terms shall apply:

1. "Exploration Expenditures" means all costs and expenses for Exploration and the related portion of indirect expenses and administrative overhead and general expenses.
2. "Development Expenditures" means all costs and expenses for Development (with the exception of Operating Expenses) and the related portion of indirect expenses and administrative overhead and general expenses.
3. "Operating Expenses" means all costs, expenses and expenditures made after the Commercial Production Commencement, which costs, expenses and expenditures are not normally depreciable.

However, Operating Expenses shall include work over, repair and maintenance of assets, but shall not include any of the following: sidetracking, re-drilling, change of a well status and plugging and permanent abandonment of a well, replacement of assets or a part of an asset, additions, improvements, renewals or major overhauling that extend the life of the asset.

Exploration Expenditures, Development Expenditures and Operating Expenses shall be recovered from Cost Recovery Petroleum in the following manner:

- (i) "Exploration Expenditures", including those accumulated prior to the Commercial Production Commencement, shall be recoverable at the rate of ----- percent (---%) per annum starting either in the Tax Year in which such expenditures are incurred and paid or the Tax Year in which the Commercial Production Commencement occurs, whichever is the later date.
- (ii) "Development Expenditures", including those accumulated

prior to the Commercial Production Commencement, shall be recoverable at the rate of ----- percent (---%) per annum starting either in the Tax Year in which such expenditures are incurred and paid or the Tax Year in which the Commercial Production Commencement occurs, whichever is the later date.

- (iii) "Operating Expenses", which are incurred and paid after the Commercial Production Commencement, shall be recoverable either in the Tax Year in which such costs and expenses are incurred and paid or the Tax Year in which the Commercial Production Commencement occurs, whichever is the later date.
  - (iv) To the extent that, in a Tax Year, costs, expenses or expenditures subject to recoverability per preceding paragraphs (i), (ii) and (iii), exceed the value of all Cost Recovery Petroleum for such Tax Year, the excess shall be carried forward for recovery in the next succeeding Tax Year(s) until fully recovered, but in no case after the termination of this Agreement, as to CONTRACTOR.
  - (v) The recovery of costs and expenses, based upon the rates referred to above, shall be allocated to each quarter proportionately (one fourth to each quarter). However, any recoverable costs and expenses not recovered in one quarter as thus allocated shall be carried forward for recovery in the next quarter.
- (2) Except as provided in Article VII(a)(3) and Article VII(e)(1), CONTRACTOR shall, each quarter, be entitled to take and own all Cost Recovery Petroleum, which shall be taken and disposed of in the manner determined pursuant to Article VII(e). To the extent that the value of all Cost Recovery Petroleum as determined in Article VII(c) exceeds the actual recoverable costs and expenditures, including any carry forward under Article VII(a)(1)(iv), to be recovered in that quarter, then the value of such excess Cost Recovery Petroleum ("Excess Cost Recovery") shall be split between EGAS and CONTRACTOR according to the following percentages:

EGAS's share: ----- percent (----%);

CONTRACTOR's share: ----- percent (-----%).

EGAS's total share of such Excess Cost Recovery shall be paid by CONTRACTOR to EGAS either (i) in cash in the manner set forth in Article IV of the Accounting Procedure contained in Annex "E", or (ii) in kind in accordance with Article VII(a)(3).

- (3) Ninety (90) days prior to the commencement of each Calendar Year EGAS shall be entitled to elect by notice in writing to CONTRACTOR to require payment of up to one hundred percent (100%) of EGAS's Excess Cost Recovery entitlement and according to (2) above in kind. Such payment shall be in Crude Oil from the Area F.O.B. export terminal or other agreed delivery point; provided that the amount of Crude Oil taken by EGAS in kind in a quarter shall not exceed the value of Cost Recovery Crude Oil actually taken and separately disposed of by CONTRACTOR from the Area during the previous quarter. If EGAS's entitlement to receive payment of its Excess Cost Recovery in kind is limited by the foregoing provision, the balance of such entitlement shall be paid in cash.

(b) PRODUCTION SHARING:

- (1) The remaining ----- percent (----- %) of all Petroleum produced and saved from the Area hereunder and not used in Petroleum operations shall be divided quarterly between EGAS and the CONTRACTOR based on Brent value and according to the following shares ("Production Sharing").

*i) Crude Oil and Condensate:*

<b>BRENT PRICE US\$/bbl</b>	<b>Crude Oil and Condensate produced and saved under this Agreement and not used in Petroleum operations. Barrel of Oil Per Day (BOPD) (quarterly average)</b>	<b>EGAS's SHARE (percent %)</b>	<b>CONTRACTOR'S SHARE (percent %)</b>
<b>Less than or equal to 40 US\$</b>	<i>That portion or increment less than or equal to 5000 BOPD</i>	----- (----)	----- (----)
	<i>That portion or increment more than 5000 BOPD and less than or equal to 10000 BOPD</i>	----- (----)	----- (----)
	<i>That portion or increment more than 10000 BOPD and less than or equal to 20000 BOPD</i>	----- (----)	----- (----)
	<i>That portion or increment more than 20000 BOPD</i>	----- (----)	----- (----)
	<i>That portion or increment less than or equal to 5000 BOPD</i>	----- (----)	----- (----)



	<i>That portion or increment more than 10000 BOPD and less than or equal to 20000 BOPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 20000 BOPD</i>	----- (---)	----- (---)

ii) Gas and LPG:

For the purpose of calculating Production Sharing of Gas and LPG and the purpose of Production bonuses, all quantities of LPG produced shall convert into equivalent quantities of Gas and to be added to the quantities of Gas produced from the Area.

<b>BRENT PRICE US\$/bbl</b>	<b>Gas and LPG produced and saved under this Agreement and not used in Petroleum operations. Standard Cubic Feet per Day (SCFPD)(quarterly average).</b>	<b>EGAS'S SHARE (percent %)</b>	<b>CONTRACTOR'S SHARE (percent %)</b>
<b>Less than or equal to 40 US\$</b>	<i>That portion or increment less than or equal to 100 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 100 Million SCFPD and less than or equal to 250 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 250 Million SCFPD and less than or equal to 500 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 500 Million SCFPD</i>	----- (---)	----- (---)
<b>More than 40 US\$ and less than or equal to 60 US\$</b>	<i>That portion or increment less than or equal to 100 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 100 Million SCFPD and less than or equal to 250 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 250 Million SCFPD and less than or equal to 500 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 500 Million SCFPD</i>	----- (---)	----- (---)
<b>More than 60 US\$ and less than or equal to 80 US\$</b>	<i>That portion or increment less than or equal to 100 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 100 Million SCFPD and less than or equal to 250 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 250 Million SCFPD and less than or equal to 500 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 500 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment less than or equal to 100 Million SCFPD</i>	----- (---)	----- (---)



<b>More than 80 US\$ and less than or equal to 100 US\$</b>	<i>That portion or increment more than 100 Million SCFPD and less than or equal to 250 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 250 Million SCFPD and less than or equal to 500 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 500 Million SCFPD</i>	----- (---)	----- (---)
<b>More than 100 US\$ and less than or equal to 120 US\$</b>	<i>That portion or increment less than or equal to 100 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 100 Million SCFPD and less than or equal to 250 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 250 Million SCFPD and less than or equal to 500 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 500 Million SCFPD</i>	----- (---)	----- (---)
<b>More than 120 US\$ and less than or equal to 140 US\$</b>	<i>That portion or increment less than or equal to 100 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 100 Million SCFPD and less than or equal to 250 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 250 Million SCFPD and less than or equal to 500 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 500 Million SCFPD</i>	----- (---)	----- (---)
<b>More than 140 US\$</b>	<i>That portion or increment less than or equal to 100 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 100 Million SCFPD and less than or equal to 250 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 250 Million SCFPD and less than or equal to 500 Million SCFPD</i>	----- (---)	----- (---)
	<i>That portion or increment more than 500 Million SCFPD</i>	----- (---)	----- (---)

where Brent price upon which shares are divided is the quarterly average price expressed in U.S. Dollars per barrel for Brent quoted in “Platts Crude Oil Marketwire report”, in the event that such average cannot be determined because “Platts Crude Oil Marketwire report” is not published at all during a month, the parties shall meet and agree the value of Brent by reference to other published sources. In the event that there are no such published sources or if the value of Brent cannot be determined pursuant to the foregoing for any other reason, EGAS and CONTRACTOR shall meet and agree on a value of Brent.

Such Production Sharing referred to in Article VII (b) (1) (i) and (ii) above shall be taken and disposed of pursuant to Article VII (e).

- (2) After the end of each contractual Year during the term of any Gas Sales Agreement entered into pursuant to Article VII(e), EGAS and CONTRACTOR (as sellers) shall render to EGAS (as buyer) a statement for an amount of Gas, if any, equal to the amount by which the quantity of Gas of which EGAS (as buyer) has taken delivery falls below seventy five percent (75%) of the contract quantities of Gas as established by the applicable Gas Sales Agreement (the "Shortfall Gas"), provided that the Gas is available at the Delivery Point. Within sixty (60) days of receipt of such statement, EGAS (as buyer) shall pay EGAS and CONTRACTOR (as sellers) for the amount of the Shortfall Gas, if any. The Shortfall Gas shall be included in EGAS's and CONTRACTOR's entitlement to Gas pursuant to Article VII (a) and (b) in the fourth (4<sup>th</sup>) quarter of such contractual Year.

Shortfall Gas shall be recorded in a separate "Take or Pay Account". Quantities of Gas which are delivered in subsequent Years in excess of seventy five percent (75%) of the contract quantities of Gas as established by the applicable Gas Sales Agreement ("Make Up Gas"), shall be set against and reduce quantities of Gas in the "Take or Pay Account" to the extent thereof and, to that extent, no payment shall be due in respect of such Make Up Gas. Such Make Up Gas shall not be included in CONTRACTOR's entitlement to Gas pursuant to Article VII(a) and (b), CONTRACTOR shall have no rights to such Make Up Gas.

At the end of any contractual Year, if EGAS and CONTRACTOR (as sellers) fail to deliver seventy five percent (75%) of the annual contract quantity of Gas as defined in Gas Sales Agreement with EGAS (as buyer); the difference between seventy five percent (75%) of the annual contract quantity of Gas and the actual delivered Gas quantity shall be referred to as the "Deliver or Pay Shortfall Gas". EGAS (as buyer) shall have the right to take a quantity of Gas equals to the Deliver or Pay Shortfall Gas and such quantity shall be valued with ninety percent (90%) of the Gas price as defined in the Gas Sales Agreement.

The percentages set forth in Article VII(a) and (b) in respect of LPG produced from a plant constructed and operated by or on behalf of

EGAS and CONTRACTOR shall apply to all LPG available for delivery.

(c) VALUATION OF PETROLEUM:

(1) Crude Oil and Condensate:

- i- The Cost Recovery Crude Oil to which CONTRACTOR is entitled hereunder shall be valued by EGAS and CONTRACTOR at "Market Price" for each calendar quarter.
- ii- "Market Price" means the weighted average price realized from sales by EGAS or CONTRACTOR during the given quarter, whichever is higher, provided that the sales to be used in arriving at the weighted average(s) shall be arm's length sales of comparable quantities on comparable credit terms in freely convertible currency from F.O.B. point of export sales to non-Affiliated Companies under all Crude Oil sales contracts then in effect, but excluding Crude Oil sales contracts involving barter, and
  - 1) Sales, whether direct or indirect, through brokers or otherwise, of EGAS or CONTRACTOR to any Affiliated Company.
  - 2) Sales involving a quid pro quo other than payment in a freely convertible currency or motivated in whole or in part by considerations other than the usual economic incentives for commercial arm's length crude oil sales.
- iii- It is understood that in the case of C.I.F. sales, appropriate deductions shall be made for transport and insurance charges to calculate the F.O.B. point of export price; and always taking into account the appropriate adjustment for quality of Crude Oil, freight advantage or disadvantage of port of loading and other appropriate adjustments. Market Price shall be determined separately for each Crude Oil or Crude Oil mix, and for each port of loading.
- iv- If during any calendar quarter, there are no such sales by EGAS and/or CONTRACTOR under the Crude Oil sales contracts in effect, EGAS and CONTRACTOR shall mutually agree upon the Market Price of the Barrel of Crude Oil to be used for such quarter, and shall be guided by all relevant and available

evidence including current prices in freely convertible currency of leading crude oils produced by major oil producing countries (in the Arabian Gulf or the Mediterranean area), which are regularly sold in the open market according to actual sales contracts terms but excluding paper sales and sales promises where no crude oil is delivered, to the extent that such sales are effected under such terms and conditions (excluding the price) not significantly different from those under which the Crude Oil to be valued, was sold, and always taking into consideration appropriate adjustments for Crude Oil quality, freight advantage or disadvantage of port of loading and other appropriate adjustments, as the case may be, for differences in gravity, sulphur and other factors generally recognized by sellers and purchasers, as reflected in crude oil prices, transportation ninety (90) days insurance premiums, unusual fees borne by the seller, and for credit terms in excess of sixty (60) days, and the cost of loans or guarantees granted for the benefit of the sellers at prevailing interest rates.

It is the intent of the parties that the value of the Cost Recovery Crude Oil shall reflect the prevailing market price for such Crude Oil.

- v- If either EGAS or CONTRACTOR considers that the Market Price as determined under sub-paragraph (ii) above does not reflect the prevailing market price or in the event EGAS and CONTRACTOR fail to agree on the Market Price for any Crude Oil produced under this Agreement for any quarter within fifteen (15) days after the end thereof, any party may elect at any time thereafter to submit to a single arbitrator the question, what single price per Barrel, in the arbitrator's judgment, best represents for the pertinent quarter the Market Price for the Crude Oil in question. The arbitrator shall make his determination as soon as possible following the quarter in question. His determination shall be final and binding upon all the parties. The arbitrator shall be selected in the manner described below.

In the event EGAS and CONTRACTOR fail to agree on the arbitrator within thirty (30) days from the date any party notifies the other that it has decided to submit the determination of the Market Price to an arbitrator, such arbitrator shall be chosen by

the appointing authority designated in accordance with Article XXIV(e), or such other appointing authority with access to such expertise as may be agreed to between EGAS and CONTRACTOR, with regard to the qualifications for arbitrators set forth below, upon written application of one or both of EGAS and CONTRACTOR. A copy of such application by one of them shall be promptly sent to the other.

The arbitrator shall be as nearly as possible a person with an established reputation in the international petroleum industry as an expert in pricing and marketing crude oil in international commerce. The arbitrator shall not be a citizen of a country which does not have diplomatic relations with the A.R.E. and the country(ies) of CONTRACTOR. He shall not be, at the time of selection, employed by, or an arbitrator or consultant on a continuing or frequent basis to, the American Petroleum Institute, or the Organization of the Petroleum Exporting Countries or the Organization of Arab Petroleum Exporting Countries, or a consultant on a continuing basis to EGAS, or CONTRACTOR or an Affiliated Company of either, but past occasional consultation with such companies, or with other petroleum companies, or governmental agencies or organizations shall not be a ground for disqualification. He shall not be, at any time during the two (2) Years before his selection, an employee of any petroleum company or of any governmental agency or organization.

Should a selected person decline or be unable to serve as arbitrator or should the position of arbitrator fall vacant prior to the decision called for, another person shall be chosen in the same manner provided for in this paragraph. EGAS and CONTRACTOR shall share equally the expenses of the arbitrator.

The arbitrator shall make his determination in accordance with the provisions of this paragraph, based on the best evidence available to him. He shall review Crude Oil sales contracts as well as other sales data and information but shall be free to evaluate the extent to which any contracts, data or information is substantiated or pertinent. Representatives of EGAS and CONTRACTOR shall have the right to consult with the arbitrator and furnish him written materials; provided that the arbitrator

may impose reasonable limitations on this right. EGAS and CONTRACTOR, each shall cooperate with the arbitrator to the fullest extent and each shall insure such cooperation of its trading companies. The arbitrator shall be provided access to crude oil sales contracts and related data and information which EGAS and CONTRACTOR or their trading companies are able to make available and which in the judgment of the arbitrator might aid the arbitrator in making a valid determination.

- vi- Pending Market Price agreement by EGAS and CONTRACTOR or determination by the arbitrator, as applicable, the Market Price agreed upon between EGAS and CONTRACTOR for the quarter preceding the quarter in question shall remain temporarily in effect. In the event that either EGAS or CONTRACTOR should incur a loss by virtue of the temporary continuation of the Market Price of the previous quarter, it shall promptly be reimbursed such loss by the other party plus simple interest at the LIBOR plus two and one half percent (2.5%) per annum rate provided for in Article IV(f) from the date on which the disputed amount(s) should have been paid to the date of payment.

(2) Gas and LPG:

- i- The Cost Recovery Petroleum, Production Sharing and Excess Cost Recovery, if any, of Gas which is disposed of for local market, according to the Gas Sales Agreement between EGAS and CONTRACTOR (as sellers) and EGAS (as buyer) entered into pursuant to Article VII(e) shall be valued, delivered to and purchased at a price, to be agreed upon by EGAS and CONTRACTOR, based on technical and economic factors for developing the area (including but not limited to water depth, reservoir depth, the actual expenditure and expected investments over the Development project lifetime, proven and probable Gas reserves, internal rate of return on investment to achieve the interests of the parties and the prevailing applicable Gas price in comparable concession areas having similar conditions). Such agreed Gas price shall be stated in the relevant Development Lease application before the Minister of Petroleum's approval according to Article III(d)(ii).
- ii- In case CONTRACTOR exports part or all its share of

Production Sharing of Gas jointly with EGAS, pursuant to Article VII(e), such exported Gas shall be valued according to the relevant net back price.

- iii- In case CONTRACTOR disposes locally and/or solely exports part of its share of Production Sharing of Gas to third party then the following shall apply:
  - a- CONTRACTOR's quantities disposed to the third party shall be valued based on the agreed price between the CONTRACTOR and such third party.
  - b- CONTRACTOR's quantities disposed to EGAS shall be valued based on gas price agreed by EGAS and CONTRACTOR according to the basis mentioned above.
- iv- In case CONTRACTOR disposes solely all its share of Production Sharing of Gas locally and/or exports to third party then the CONTRACTOR's quantities sold to the third party shall be valued based on the agreed price between the CONTRACTOR and such third party.
- v- The Cost Recovery Petroleum, Production Sharing and Excess Cost Recovery, if any, of LPG produced from a plant constructed and operated by or on behalf of EGAS and CONTRACTOR shall be separately valued for Propane and Butane at the outlet of such LPG plant according to the following formula (unless otherwise agreed between EGAS and CONTRACTOR):

$$PLPG = 0.95 \times PR$$

*Where:*

PLPG = LPG price (separately determined for Propane and Butane) in U.S. Dollars per metric ton.

PR = The average over a period of a month of the figures representing the mid-point between the high and low prices in U.S. Dollars per metric ton quoted in "Platt's LP Gaswire" during such month for Propane and Butane F.O.B Ex-Ref/Stor. West Mediterranean.

In the event that "Platt's LP Gaswire" is issued on certain days during a month but not on others, the value of (PR) shall be calculated using only those issues which are published during

such month. In the event that the value of (PR) cannot be determined because "Platt's LP Gaswire" is not published at all during a month, EGAS and CONTRACTOR shall meet and agree to the value of (PR) by reference to other published sources. In the event that there are no such other published sources or if the value of (PR) cannot be determined pursuant to the foregoing for any other reason, EGAS and CONTRACTOR shall meet and agree the value of (PR) by reference to the value of LPG (Propane and Butane) delivered F.O.B. from the Mediterranean area.

Such valuation of LPG is based upon delivery at the Delivery Point specified in Article VII(e)(2)(iii).

- vi- The prices of Gas and LPG so calculated shall apply during the same month.
- vii- The Cost Recovery Petroleum, Production Sharing and Excess Cost Recovery, if any, of Gas disposed of for export jointly by EGAS and CONTRACTOR to a third party, pursuant to Article VII(e), shall be valued according to the net back price.
- viii- The Cost Recovery Petroleum, Production Sharing and Excess Cost Recovery, if any, of LPG disposed of for export jointly by EGAS and CONTRACTOR pursuant to Article VII(e) shall be valued at its actual realized price.

(d) FORECASTS:

The Joint Venture Company shall prepare (not less than ninety (90) days prior to the beginning of each calendar semester following first regular production) and furnish in writing to CONTRACTOR and EGAS a forecast setting out a total quantity of Petroleum that the Joint Venture Company estimates can be produced, saved and transported hereunder during such calendar semester in accordance with good Petroleum industry practices.

The Joint Venture Company shall endeavor to produce the forecast quantity during each calendar semester. The Crude Oil shall be run to storage tanks or offshore loading facilities constructed, maintained and operated according to GOVERNMENT Regulations, by the Joint Venture Company, in which said Crude Oil shall be metered or otherwise measured for royalty and other purposes required by this Agreement. Gas shall be handled by the Joint Venture Company in



accordance with the provisions of Article VII(e).

(e) DISPOSITION OF PETROLEUM:

(1) Crude Oil and Condensate:

EGAS and CONTRACTOR shall have the right and the obligation to separately take and freely export or otherwise dispose of, currently all of the Crude Oil to which each is entitled under Article VII(a) and (b). Subject to payment of sums due to EGAS under Article VII(a)(2) and Article IX, CONTRACTOR shall have the right to remit and retain abroad all funds acquired by it including the proceeds from the sale of its share of Crude Oil. Notwithstanding anything to the contrary under this Agreement, priority shall be given to meet the requirements of the A.R.E. market from CONTRACTOR's share under Article VII (a) and (b) of the Crude Oil produced from the Area and EGAS or EGPC shall have the preferential right to purchase such Crude Oil at a price to be determined pursuant to Article VII(c). The amount of Crude Oil so purchased shall be a portion of CONTRACTOR's share under Article VII (a) and (b). Such amount shall be proportional to CONTRACTOR's share of the total production of Crude Oil from the concession areas in the A.R.E. that are also subject to EGAS's or EGPC's preferential right to purchase. The payment for such purchased amount shall be made by EGAS in U.S. Dollars or in any other freely convertible currency remittable by CONTRACTOR abroad.

It is agreed upon that EGAS shall notify CONTRACTOR, at least forty five (45) days prior to the beginning of the calendar semester, of the amount to be purchased during such semester under this Article VII(e)(1).

(2) Gas and LPG:

i- Priority shall be given to meet the requirements of the local market as determined by EGAS as follows:

- Before the Development Lease approval date, EGAS shall notify the CONTRACTOR in writing within a year from the notice of Commercial Discovery of Gas pursuant to Article III(d)(ii).
- During the Development Lease period EGAS shall notify the CONTRACTOR in writing no later than six (6) months prior to

such requirements date.

Taking into consideration the following cases:-

- In case CONTRACTOR elects to dispose all or part of its share of Production Sharing of Gas, by itself to the local market to third party other than EGAS, CONTRACTOR shall submit an application to EGAS including the Gas price, quantities and basic terms of a Gas Sales Agreement in order for EGAS to obtain the Minister of Petroleum's approval. Such approval shall entitle CONTRACTOR to enter into a third party Gas Sales Agreement.
  - In case CONTRACTOR exports Gas, solely or jointly with EGAS, CONTRACTOR or CONTRACTOR and EGAS, as the case may be, should obtain the Minister of Petroleum's approval on the price and quantities allocated for export.  
In case CONTRACTOR disposes all or part of its share of Production Sharing of Gas, by itself, CONTRACTOR shall be subject to law no. 196 of 2017.
  - In case EGAS or EGAS and CONTRACTOR export LPG, EGAS or EGAS and CONTRACTOR, as the case may be, should obtain the Minister of Petroleum's approval on the price and quantities allocated for export.
- ii- In the event that EGAS is the buyer of Gas, the disposition of Gas as indicated above shall be made by virtue of a Gas Sales Agreement(s) to be entered into between EGAS and CONTRACTOR (as sellers) and EGAS (as buyer).

EGAS and CONTRACTOR (as sellers) shall have the obligation to deliver the Gas at the Delivery Point as indicated below, where such Gas shall be metered for sales, royalty and other purposes required by this Agreement.

- (a) In the event no LPG plant is constructed to process such Gas, the processed Gas Delivery Point shall be at the flange connecting the Development Lease pipeline to the nearest point on the National Gas Pipeline Grid System and the Crude and Condensate Delivery Point shall be at the nearest point on the Crude and Condensate Pipeline Network as depicted in Annex "G" hereto or as otherwise agreed by EGAS and CONTRACTOR.

- (b) In the event an LPG plant is constructed to process such Gas, such Gas shall, for the purposes of valuation and sales, be metered at the outlet of such LPG plant. However, notwithstanding the fact that the metering shall take place at the LPG plant outlet, CONTRACTOR shall through the Joint Venture Company build a pipeline suitable for transport of the processed Gas from the LPG plant outlet to the nearest point on the National Gas Pipeline Grid System (Gas Delivery Point), the Condensate Delivery Point shall be at the nearest point on the Crude and Condensate Pipeline Network and the LPG Delivery Point shall be at the nearest point on the LPG Pipeline Network as depicted in Annex "G" hereto, or otherwise agreed by EGAS and CONTRACTOR. Such pipeline shall be owned in accordance with Article VIII (a) by EGAS, and its cost shall be financed and recovered by CONTRACTOR as Development Expenditures pursuant to this Article VII.
- iii- EGAS and CONTRACTOR shall consult together to determine whether to build LPG plant to recover LPG from any Gas produced hereunder. In the event that EGAS and CONTRACTOR decide to build such plant, the plant shall, as is appropriate, be in the vicinity of the point of delivery as determined in Article VII(e)(2)(ii). The delivery of LPG for, royalty and other purposes required by this Agreement shall be at the outlet of the LPG plant. The costs of such LPG plant shall be recoverable in accordance with the provisions of this Agreement, unless the Minister of Petroleum agrees to accelerated recovery.
- iv- EGAS (as buyer) shall have the right to elect, by ninety (90) days prior written notice to EGAS and CONTRACTOR (as sellers), whether payment for the Gas which is subject to a Gas Sales Agreement entered between EGAS and CONTRACTOR (as sellers) and EGAS (as buyer) and also LPG produced from a plant constructed and operated by or on behalf of EGAS and CONTRACTOR, as valued in accordance with Article VII(c), and to which CONTRACTOR is entitled under the Cost Recovery and Production Sharing provisions of this Article VII hereunder, shall be made 1) in cash or 2) in kind.

Payments in cash shall be made by EGAS (as buyer) at

intervals provided for in the relevant Gas Sales Agreement in U.S. Dollars, remittable by CONTRACTOR abroad.

Payments in kind shall be calculated by converting the value of Gas and LPG to which CONTRACTOR is entitled into equivalent Barrels of Crude Oil to be taken concurrently by CONTRACTOR from the Area, or to the extent that such Crude Oil is insufficient, Crude Oil from CONTRACTOR's other concession areas or such other areas as may be agreed. Such Crude Oil shall be added to the Crude Oil that CONTRACTOR is otherwise entitled to lift under this Agreement. Such equivalent Barrels shall be calculated on the basis of the provisions of Article VII(c) relating to the valuation of Cost Recovery Crude Oil.

Provided that:

- (aa) Payment of the value of Gas and LPG shall always be made in cash in U.S. Dollars remittable by CONTRACTOR abroad to the extent that there is insufficient Crude Oil available for conversion as provided for above;
- (bb) Payment of the value of Gas and LPG shall always be made in kind as provided for above to the extent that payments in cash are not made by EGAS.

Payments to CONTRACTOR (whether in cash or in kind), when related to CONTRACTOR's Cost Recovery Petroleum, shall be included in CONTRACTOR's Statement of Recovery of Costs and of Cost Recovery Petroleum referred to in Article IV of Annex "E" of this Agreement.

- v- The proceeds of sale of CONTRACTOR's share of Gas and LPG disposed of pursuant to Article VII(e)(2) may be freely remitted or retained abroad by CONTRACTOR.
- vi- In the event that EGAS and CONTRACTOR agree to accept new Gas and LPG producers to join in an ongoing export project, such producers shall have to contribute a fair and equitable share of the investment made.
- vii- CONTRACTOR shall not be obligated to surrender a Development Lease based on a Commercial Discovery of Gas, if Crude Oil has been discovered in commercial quantities in the

same Gas Development Lease but CONTRACTOR shall surrender its rights of such Gas reserves which were not produced and disposed as stated in the second paragraph of Article III(e).

(f) OPERATIONS:

If following the reversion to EGAS of any rights to Crude Oil hereunder, CONTRACTOR retains rights to Gas in the same Development Lease area, or if, following the surrender of rights to Gas hereunder, CONTRACTOR retains rights to Crude Oil in the same Development Lease area, operations to explore for or exploit the Petroleum, the rights to which have been reverted or surrendered (Oil or Gas, as the case may be) shall only be carried out by the Joint Venture Company which shall act on behalf of EGAS alone, unless CONTRACTOR and EGAS agree otherwise.

(g) TANKER SCHEDULING:

At reasonable time prior to the commencement of Commercial Production EGAS and CONTRACTOR shall meet and agree upon a procedure for scheduling tankers lifting from the agreed upon point of export.

## **ARTICLE VIII TITLE TO ASSETS**

(a) EGAS shall become the owner of all CONTRACTOR acquired and owned assets which assets were charged to Cost Recovery by CONTRACTOR in connection with the operations carried out by CONTRACTOR or the Joint Venture Company in accordance with the following:

- 1- Land shall become the property of EGAS as soon as it is purchased.
- 2- (i) Title to fixed and movable assets, which are charged to the recoverable cost and approved by EGAS, shall be transferred from CONTRACTOR to EGAS upon the final relinquishment of all parts of the Area during the Exploration periods.
  - (ii) Title to fixed and movable assets shall be transferred automatically and gradually from CONTRACTOR to EGAS as they become subject to recovery in accordance with the

provisions of Article VII; however, the full title to fixed and movable assets shall be transferred automatically from CONTRACTOR to EGAS when their total cost has been recovered by CONTRACTOR in accordance with the provisions of Article VII or at the time of termination of this Agreement with respect to all assets chargeable to the operations, whether recovered or not, whichever occurs first.

The book value of the assets created during each calendar quarter shall be notified by CONTRACTOR to EGAS or by the Joint Venture Company to EGAS and CONTRACTOR within thirty (30) days of the end of each calendar quarter.

- 3- All samples and technical data shall be transferred to EGAS through EUG once it is completed, requested by EGAS or at the time of termination of this Agreement.

At the expiry date of this Agreement, EGAS shall, own and be entitled, through EUG, to all data and information (original and/or copied as detailed in Article XIV (e) second paragraph) resulting from Petroleum operations hereunder either charged to recoverable cost or not..

- (b) During the term of this Agreement, EGAS, CONTRACTOR and the Joint Venture Company are entitled to the full use and enjoyment of all fixed and movable assets referred to above in connection with operations hereunder or under any other Petroleum concession agreement entered into by the parties. In that case, proper accounting adjustment shall be made. CONTRACTOR and EGAS shall not dispose of the same except with agreement of the other.
- (c) CONTRACTOR and the Joint Venture Company may freely import into the A.R.E., use therein and freely export at the end of such use, machinery and equipment which they either rent or lease in accordance with good industry practices, including but not limited to the lease of computer hardware and software.

## **ARTICLE IX BONUSES**

- (a) CONTRACTOR shall pay to EGAS as a signature bonus the sum of ---  
----- U.S. Dollars (\$-----) after the relevant law is issued and before the Effective Date of this Agreement.

(b) CONTRACTOR shall pay to EGAS as a Development Lease bonus the sum of (-----) U.S. Dollars (\$-----) for each Development Block (1'x1') or part of Development Block on the approval date of each Development Lease.

(c) CONTRACTOR shall pay to EGAS the sum of -----U.S. Dollars (\$ - -----) as a first Development Lease extension bonus on the approval date of entry into the first Extension Period of each Development Lease pursuant to Article III(d)(iii)(dd).

CONTRACTOR shall also pay to EGAS the sum of ----- U.S. Dollars (\$ -----) as a second Development Lease extension bonus on the approval date of entry into the second Extension Period of each Development Lease pursuant to Article III(d)(iii)(dd).

(d) CONTRACTOR shall pay to EGAS as an assignment bonus on the date of approval of each assignment requested by CONTRACTOR or any of the CONTRACTOR Members to any assignee pursuant to Article XXI, according to the following:

(i) During any Exploration period, in case CONTRACTOR/ CONTRACTOR Member assigns in whole or in part of its rights, privileges, duties and obligations to any assignee other than an Affiliate Company of the same CONTRACTOR/CONTRACTOR Member, CONTRACTOR or CONTRACTOR Member, as the case may be, shall pay to EGAS the sum equivalent to ten percent (10%), valued in U.S. Dollars, of the total Minimum Expenditure Obligations of the then current Exploration period during which the assignment is made and according to the assigned percentage.

(ii) During the Development Period, in case CONTRACTOR/ CONTRACTOR Member assigns in whole or in part of its rights, privileges, duties and obligations to any assignee other than an Affiliate Company of the same CONTRACTOR/ CONTRACTOR Member, CONTRACTOR or CONTRACTOR Member, as the case may be, shall pay to EGAS the sum of ten percent (10%), valued in U.S. Dollars, of the value of each assignment deal whichever is applicable :

- In case it is a cash deal, the percentage shall be calculated on the base of the financial value to be paid by the assignee to the assignor; or
- In case it is an exchange of shares or stocks deal, the percentage

shall be calculated on the base of the financial value of shares or stocks to be exchanged between the assignor and the assignee; or

- In case it is a reserve swap deal, the percentage shall be calculated on the base of the financial value of the reserves, to be swapped between the assignor and the assignee from the Development Lease(s) areas; or
- In case it is any other type of deals, the value of any assignment deal to be declared by the assignor.

(iii) During any Exploration period and after a discovery of a Commercial Oil or Gas Well or after a Development Lease is granted to CONTRACTOR, in case CONTRACTOR/ CONTRACTOR Member assigns in whole or in part of its rights, privileges, duties and obligations to any assignee other than an Affiliate Company of the same CONTRACTOR/ CONTRACTOR Member, CONTRACTOR or CONTRACTOR Member, as the case may be, shall pay to EGAS the sum of the value of the assignment bonus as mentioned in (i) and (ii) above.

(iv) In case of an assignment to an Affiliate company of the same CONTRACTOR/ CONTRACTOR Member during any Exploration or Development period, CONTRACTOR or CONTRACTOR Member, as the case may be, shall pay to EGAS one hundred and fifty thousand U.S. Dollars (\$ 150000).

(e) From the Effective date and during any Exploration or Development period (as it may be extended), CONTRACTOR shall, for each Financial Year, prepare and carry out specialized training programs abroad to EGAS's employees at approved specialized international training centers for the sum of ----- U.S. Dollars (\$ -----). For such purpose, at the beginning of each Financial Year, CONTRACTOR shall submit to EGAS a training program proposal subject to EGAS's approval.

In the case of incapability of training EGAS's employees at specialized training centers abroad, or in case of disqualified training programs (not approved by EGAS), CONTRACTOR shall pay to EGAS the training bonus or its shortfall (if any), before the end of each Financial Year, to cover the training of EGAS' employees.

(f) CONTRACTOR shall pay to EGAS the sum of -----U.S. Dollars (\$



- 000000) as a production bonus when the total average daily production from the Area first reaches the rate of five thousand (5000) Barrels of Oil or equivalent per day as for a period of thirty (30) consecutive producing days. Payment shall be made within fifteen (15) days thereafter.
- (g) CONTRACTOR shall pay to EGAS the additional sum of -----U.S. Dollars (\$ ---000000) as a production bonus when the total average daily production from the Area first reaches the rate of ten thousand (10000) Barrels of Oil or equivalent per day for a period of thirty (30) consecutive producing days. Payment shall be made within fifteen (15) days thereafter.
- (h) CONTRACTOR shall pay to EGAS the additional sum of -----U.S. Dollars (\$ ---000000) as a production bonus when the total average daily production from the Area first reaches the rate of twenty thousand (20000) Barrels of Oil or equivalent per day for a period of thirty (30) consecutive producing days. Payment will be made within fifteen (15) days thereafter.
- (i) CONTRACTOR shall pay to EGAS the additional sum of -----U.S. Dollars (\$ ---000000) as a production bonus when the total average daily production from the Area first reaches the rate of twenty five thousand (25000) Barrels of Oil or equivalent per day for a period of thirty (30) consecutive producing days. Payment shall be made within fifteen (15) days thereafter.
- (j) All the above mentioned bonuses shall in no event be recovered by CONTRACTOR.
- (k) In the event that EGAS elects to develop any part of the Area pursuant to the sole risk provisions of Article III(c)(iv), production from such sole risk area shall be considered for the purposes of this Article IX only if CONTRACTOR exercises its option to share in such production, and only from the date of such sharing.
- (l) Gas shall be taken into account for purpose of determining the total average daily production from the Area under Article IX(f-i) by converting daily Gas delivered into equivalent barrels of daily Crude Oil production in accordance with the following formula for each unit of one thousand (1000) standard Cubic Feet of Gas:

$$\text{Equivalent Barrels of Oil per MSCF} = H \times 0.167$$

*Where:*

MSCF = one thousand Standard Cubic Feet of Gas.

H = the number of million British Thermal Units (MMBTUs) per MSCF.

## **ARTICLE X OFFICE AND SERVICE OF NOTICES**

CONTRACTOR shall maintain an office in the A.R.E. at which notices shall be validly served.

The General Manager and Deputy General Manager shall be entrusted by CONTRACTOR with sufficient power to carry out immediately all local written directions given to them by the GOVERNMENT or its representatives under the terms of this Agreement. All lawful regulations issued or hereafter to be issued, which are applicable hereunder and not in conflict with this Agreement, shall apply to the duties and activities of the General Manager and Deputy General Manager.

All matters and notices shall be deemed to be validly served if they are delivered to the office of the General Manager, with adequate proof of receipt, or if they are sent to him by registered mail to CONTRACTOR's office in the A.R.E..

All matters and notices shall be deemed to be validly served if delivered to the office of the Chairman of EGAS, with adequate proof of receipt, or which are sent to him by registered mail to EGAS's main office in Cairo, A.R.E..

## **ARTICLE XI SAVING OF PETROLEUM AND PREVENTION OF LOSS**

- (a) The Joint Venture Company shall take all proper measures, according to generally accepted methods in use in the Petroleum industry, to prevent loss or waste of Petroleum above or under the ground in any form during drilling or producing or gathering or distributing or storage operations. The GOVERNMENT has the right to prevent any operation on any well that it might reasonably expect would result in loss or damage to the well or the Oil or Gas field.
- (b) Upon completion of the drilling of a productive well, the Joint Venture Company shall inform the GOVERNMENT or its representative of the time when the well shall be tested and the production rate ascertained.

- (c) Except in instances where multiple producing formations in the same well can only be produced economically through a single tubing string, Petroleum shall not be produced from multiple Oil bearing zones through one string of tubing at the same time, except with the prior approval of the GOVERNMENT or its representative, which shall not be unreasonably withheld.
- (d) The Joint Venture Company shall record data regarding the quantities of Petroleum and water produced monthly from each Development Lease. Such data shall be sent to the GOVERNMENT or its representative on special forms provided for that purpose within thirty (30) days after the data has been obtained. Daily or weekly statistics regarding the production from the Area shall be available at all reasonable times for examination by authorized representatives of the GOVERNMENT.
- (e) Daily drilling records and the graphic logs of wells shall show the quantity and type of cement and the amount of any other materials used in the well for the purpose of protecting Petroleum, Gas bearing or fresh water strata.
- (f) Any substantial change of mechanical conditions of the well after its completion shall be subject to the approval of the representative of the GOVERNMENT, which approval shall not be unreasonably withheld.

## **ARTICLE XII CUSTOMS EXEMPTIONS**

- (a) EGAS, CONTRACTOR and the Joint Venture Company shall be permitted to import and shall be exempted from customs duties, any taxes, levies or fees (including fees imposed by Ministerial Decision No. 254 of 1993 issued by the Minister of Finance, as now or hereafter amended or substituted) of any nature and from the importation rules with respect to the importation of machinery, equipment, appliances, materials, items, means of transport and transportation, electric appliances, air conditioners for offices, field housing and facilities, electronic appliances, computer hardware and software, as well as spare parts required for any of the imported items, all subject to a duly approved certificate issued by the responsible representative nominated by EGAS for such purpose, stating that the imported items are required

for conducting the operations pursuant to this Agreement. Such certificate shall be final and binding and shall automatically result in the importation and the exemption without any further approval, delay or procedure.

- (b) Machinery, equipment, appliances and means of transport and transportation imported by EGAS's, CONTRACTOR's and the Joint Venture Company's contractors and sub-contractors temporarily engaged in any activity pursuant to the operations which are the subject to this Agreement, shall be cleared under the "Temporary Release System" without payment of customs duties, any taxes, levies or fees (including fees imposed by Ministerial Decision No. 254 of 1993 issued by the Minister of Finance, as now or hereafter amended or substituted) of any nature, upon presentation of a duly approved certificate issued by EGAS's responsible representative nominated by EGAS for such purpose, stating that the imported items are required for conducting the operations pursuant to this Agreement. Items set out in Article XII(a) imported by EGAS's, CONTRACTOR's and the Joint Venture Company's contractors and sub-contractors for the aforesaid operations, in order to be installed or used permanently or consumed shall meet the conditions for exemption set forth in Article XII(a) after being duly certified by EGAS's responsible representative to be used for conducting operations pursuant to this Agreement.
- (c) The expatriate employees of CONTRACTOR, the Joint Venture Company and their contractors and sub-contractors shall not be entitled to any exemptions from customs duties and other ancillary taxes and charges except within the limits of the provisions of the laws and regulations applicable in the A.R.E.; however, personal household goods and furniture [including one (1) car] for each expatriate employee of CONTRACTOR and/or the Joint Venture Company shall be cleared under the "Temporary Release System" (without payment of any customs duties and other ancillary taxes) upon presentation of a letter to the appropriate customs authorities by CONTRACTOR or the Joint Venture Company approved by EGAS's responsible representative, stating that the imported items are imported for the sole use of the expatriate employee and his family and that such imported items shall be re-exported outside the A.R.E. upon the repatriation of the concerned expatriate employee.
- (d) Items imported into the A.R.E., whether exempted or not exempted from

customs, duties and other ancillary taxes and charges hereunder, may be exported by the importing party at any time after obtaining EGAS's approval, which approval shall not be unreasonably withheld or delayed, without any export duties, taxes or charges or any taxes or charges from which such items have been already exempted, being applicable. Such items may be sold within the A.R.E. after obtaining the approval of EGAS, which approval shall not be unreasonably withheld. In this event, the purchaser of such items shall pay all applicable customs duties and other ancillary taxes and charges according to the condition and value of such items and the tariff applicable on the date of sale, unless such items have already been sold to an Affiliated Company of CONTRACTOR, if any, or EGAS, having the same exemption, or unless title to such items has passed to EGAS.

In the event of any such sale under this paragraph (d), the proceeds from such sale shall be divided in the following manner:

CONTRACTOR shall be entitled to reimbursement of its unrecovered cost in such items, if any, and shall pay the excess, if any, to EGAS.

- (e) The exemption provided for in Article XII(a) shall not apply to any imported items when items of the same or substantially the same kind and quality are manufactured locally, meet the CONTRACTOR's and/or the Joint Venture Company's specifications for quality and safety, and are available for timely purchase and delivery in the A.R.E. at a price not higher than ten percent (10%) more than the cost of the imported item, before customs, duties but after freight and insurance costs, if any, have been added.
- (f) EGAS and CONTRACTOR shall have the right to freely export the Petroleum produced from the Area after obtaining the approval of the competent authorities in A.R.E. pursuant to this Agreement, and such Petroleum shall be exempted from any customs duties, any taxes, levies or any other imposts in respect of the export of Petroleum hereunder.

### **ARTICLE XIII**

#### **BOOKS OF ACCOUNT; ACCOUNTING AND PAYMENTS**

- (a) EGAS, CONTRACTOR and the Joint Venture Company shall each maintain at their business offices in the A.R.E. books of account, in

accordance with the Accounting Procedure in Annex "E" and accepted accounting practices generally used in the Petroleum industry, and such other books and records as may be necessary to show the work performed under this Agreement, including the amount and value of all Petroleum produced and saved hereunder. CONTRACTOR and the Joint Venture Company shall keep their books of account and accounting records in U.S. Dollars.

The Joint Venture Company shall furnish to the GOVERNMENT or its representatives monthly returns showing the amount of Petroleum produced and saved hereunder. Such returns shall be prepared in the form required by the GOVERNMENT, or its representatives and shall be signed by the General Manager or by the Deputy General Manager or a duly designated deputy and delivered to the GOVERNMENT or its representatives within thirty (30) days after the end of the month covered in the returns.

- (b) The aforesaid books of account and other books and records referred to above shall be available at all reasonable times for inspection by duly authorized representatives of the GOVERNMENT.
- (c) CONTRACTOR shall submit to EGAS a profit and loss statement of its Tax Year not later than four (4) months after the commencement of the following Tax Year to show its net profit or loss from the Petroleum operations under this Agreement for such Tax Year.

CONTRACTOR shall at the same time submit a year-end balance sheet for the same Tax Year to EGAS. The balance sheet and financial statements shall be certified by an Egyptian certified accounting firm.

#### **ARTICLE XIV RECORDS, REPORTS AND INSPECTION**

- (a) CONTRACTOR and/or the Joint Venture Company shall prepare and keep, at all times while this Agreement is in force, maintain accurate and current records of their operations in the Area. CONTRACTOR and/or the Joint Venture Company shall annually furnish the GOVERNMENT or its representatives, in conformity with applicable regulations or as the GOVERNMENT or its representatives may require based on good Petroleum industry practice, with a detailed report includes all technical data and information and their interpretations, if any, concerning their

operations under this Agreement which were collected within the Year. The Joint Venture Company shall perform the functions indicated in this Article XIV in accordance with its role as specified in Article VI.

- (b) CONTRACTOR and/or the Joint Venture Company shall save and keep a portion presents each sample of cores and cuttings taken from drilling wells, to be disposed of, or forwarded to the GOVERNMENT or its representatives in the manner directed by the GOVERNMENT. All samples acquired by CONTRACTOR and/or the Joint Venture Company for their own purposes shall be considered available for inspection at any reasonable time by the GOVERNMENT or its representatives.
- (c) Unless otherwise agreed to by EGAS, in case of exporting any rock samples outside the A.R.E., samples equivalent in size and quality shall, before such exportation, be delivered to EGAS as representative of the GOVERNMENT.
- (d) Originals of records shall only be exported with the permission of EGAS; exporting such data shall be by transferring it digitally, through EUG, for the purpose mentioned in this paragraph, if possible, provided that a monitor or a comparable record is maintained in EUG in the A.R.E. and provided that such exports shall be repatriated to A.R.E. promptly following such processing or analysis on the understanding that they belong to EGAS.
- (e) During the period in which CONTRACTOR is conducting the Exploration operations, EGAS's duly authorized representatives or employees shall have the right to full and complete access to the Area at all reasonable times with the right to observe the operations being conducted and to inspect all assets, records and data kept by CONTRACTOR. EGAS's representatives or employees, in exercising their rights under the preceding sentence of this paragraph (e), shall not cause any harm to CONTRACTOR's operations.

CONTRACTOR shall provide EGAS, through EUG, with copies of **any and all** data (including, but not limited to, geological and geophysical reports, logs and well surveys) also all information and interpretation of such data and other information which is in CONTRACTOR's possession.

For the purpose of obtaining new offers or carrying out regional studies, GOVERNMENT and/or EGAS shall, through EUG, during Exploration and Development Period, show any third party geophysical, geological data, information and other technical data or CONTRACTOR's reports and interpretations with respect to the part or parts adjacent to the proposed area in the new offers, upon notifying CONTRACTOR and provided that three (3) years has passed such data, unless CONTRACTOR agrees shorter period.

CONTRACTOR shall also have the right to show any third party the data of the Area (subject to EGAS's approval) in case CONTRACTOR desires to of assign in accordance to Article XXI.

## **ARTICLE XV RESPONSIBILITY FOR DAMAGES**

CONTRACTOR shall entirely and solely be responsible in law toward third parties for any damage caused by CONTRACTOR's Exploration operations and shall indemnify the GOVERNMENT and/or EGAS against all damages for which they may be held liable on account of any such operations.

However, in the event that any damage results as a consequence of the issuance of any order, regulation or direction of the GOVERNMENT of the A.R.E. whether promulgated in the form of a law or otherwise, then EGAS and/or CONTRACTOR shall be exempted from the responsibility resulting from the non-performance or delay in performance of any obligation under this Agreement as long as such non-performance or delay in performance is arising out of the issuance of such laws, regulations or orders within the limits imposed by such laws, regulations or orders. EGAS and/or CONTRACTOR shall be granted the necessary period for the restoration of any damage resulting from the non-performance or the delay in performance, provided that such granted period shall be added to the term of the relevant period of this Agreement at that time and shall be restricted to the block(s) affected by such laws, regulations or orders and shall not exceed the period of delay referred to above.



## **ARTICLE XVI PRIVILEGES OF GOVERNMENT REPRESENTATIVES**

Duly authorized representatives of the GOVERNMENT shall have access to the Area covered by this Agreement and to the Petroleum operations conducted thereon. Such representatives may examine the books, registers and records of EGAS, CONTRACTOR and the Joint Venture Company and make a reasonable number of surveys, drawings and tests for the purpose of enforcing this Agreement. They shall, for this purpose, be entitled to make reasonable use of the machinery and instruments of CONTRACTOR or the Joint Venture Company on the condition that no danger or impediment to the operations hereunder shall arise directly or indirectly from such use. Such representatives shall be given reasonable assistance by the agents and employees of CONTRACTOR or the Joint Venture Company so that none of their activities endanger or hinder the safety or efficiency of the operations. CONTRACTOR or the Joint Venture Company shall offer such representatives all privileges and facilities accorded to its own employees in the field and shall provide them, free of charge, the use of reasonable office space and of adequately furnished housing while they are in the field for the purpose of facilitating the objectives of this Article XVI. Without prejudice to Article XIV(e), any and all information obtained by the GOVERNMENT or its representatives under this Article XVI shall be kept confidential with respect to the Area.

## **ARTICLE XVII EMPLOYMENT RIGHTS AND TRAINING OF THE ARAB REPUBLIC OF EGYPT'S PERSONNEL**

- (a) It is the desire of EGAS and CONTRACTOR that operations hereunder be conducted in a business-like and efficient manner:
  - (1) The expatriate administrative, professional and technical personnel employed by CONTRACTOR or the Joint Venture Company and the personnel of its contractors for the conduct of the operations hereunder, shall be granted a residence as provided for in Law No. 89 of 1960, as amended, and Ministerial Order No. 8180 of 1996, and CONTRACTOR agrees that all immigration, passport, visa and employment regulations of the A.R.E., shall be applicable to all expatriate employees of CONTRACTOR working in the A.R.E..
  - (2) A minimum of twenty five percent (25%) of the combined salaries

and wages of each of the expatriate administrative, professional and technical personnel employed by CONTRACTOR or the Joint Venture Company shall be paid monthly in Egyptian currency.

- (b) CONTRACTOR and the Joint Venture Company shall each select its employees and determine the number thereof, to be used for operations hereunder.
- (c) CONTRACTOR, shall after consultation with EGAS, prepare and carry out specialized training programs for all its employees in A.R.E. engaged in operations hereunder with respect to applicable aspects of the Petroleum industry. CONTRACTOR and the Joint Venture Company shall give priority to employ the qualified Egyptians, as they are available.

## **ARTICLE XVIII LAWS AND REGULATIONS**

- (a) CONTRACTOR and the Joint Venture Company shall be subject to Law No. 66 of 1953 (excluding Article 37 thereof), as amended and the regulations issued for the implementation thereof, including the regulations for the safe and efficient performance of operations carried out for the execution of this Agreement and for the conservation of the Petroleum resources of the A.R.E.; provided that no regulations, or modification or interpretation thereof are contrary to or inconsistent with the provisions of this Agreement.
- (b) CONTRACTOR and the Joint Venture Company shall be subject to the provisions of the Law No. 4 of 1994 concerning the environment and its executive regulation, as may be amended, as well as any laws or regulations that may be issued, concerning the protection of the environment.
- (c) Except as provided in Article III(g) for income taxes, EGAS, CONTRACTOR and the Joint Venture Company shall be exempted from all taxes and duties, whether imposed by the GOVERNMENT or municipalities including among others, sales tax, value added tax and taxes on the Exploration, Development, extracting, producing, exporting or transporting of Petroleum and LPG as well as any and all withholding tax obligation that might otherwise be imposed on dividends, interest, technical service fees, patent and trademark royalties, and similar items.

CONTRACTOR shall also be exempted from any tax on the liquidation of CONTRACTOR, or distributions of any income to the shareholders of CONTRACTOR, and from any tax on capital.

- (d) The rights and obligations of EGAS and CONTRACTOR under, and for the effective term of this Agreement shall be governed by and in accordance with the provisions of this Agreement and may only be altered or amended by the written mutual agreement of the said contracting parties and according to the same procedures by which the original Agreement has been issued.
- (e) The contractors and sub-contractors of CONTRACTOR and the Joint Venture Company shall be subject to the provisions of this Agreement which affect them. Without prejudice to Article XVIII(b) above, if regulations which are duly issued by the GOVERNMENT apply from time to time and are not in accordance with the provisions of this Agreement, such regulations shall not apply to CONTRACTOR, the Joint Venture Company and their respective contractors and sub-contractors, as the case may be.
- (f) EGAS, CONTRACTOR, the Joint Venture Company and their respective contractors and sub-contractors shall for the purposes of this Agreement be exempted from all professional stamp duties, imposts and levies imposed by syndical laws with respect to their documents and activities mentioned hereunder.
- (g) Without prejudice to Article XVIII(b) above, all the exemptions from the application of the A.R.E. laws or regulations granted to EGAS, CONTRACTOR, the Joint Venture Company and their contractors and sub-contractors under this Agreement shall include such laws and regulations as presently in effect or as thereafter amended or substituted.

## **ARTICLE XIX STABILIZATION**

In case of changes in existing legislation or regulations applicable to the conduct of Exploration, Development and production of Petroleum, which take place after the Effective Date, and which significantly affect the economic interest of this Agreement to the detriment of CONTRACTOR or

which imposes on CONTRACTOR an obligation to remit to the A.R.E. the proceeds from sales of CONTRACTOR's Petroleum, then CONTRACTOR shall notify EGAS of the subject legislative or regulatory measure as well as its consequent effects that may cause the destabilization of the Agreement. In such case, the parties shall negotiate appropriate modifications to this Agreement designed to restore the economic balance thereof which existed on the Effective Date.

The parties shall use their best efforts to agree on the appropriate amendments to this Agreement within ninety (90) days from the aforesaid notice.

These amendments to this Agreement shall in any event neither decrease nor increase the rights and obligations of CONTRACTOR as these were agreed on the Effective Date.

In the event the parties fail to reach an agreement during the period referred to above in this Article, such dispute shall be referred to the general rules in settling the disputes stated in Article XXIV of this Agreement.

## **ARTICLE XX RIGHT OF REQUISITION**

- (a) In case of national emergency due to war or imminent expectation of war or internal causes, the GOVERNMENT may requisite all or part of the production from the Area obtained hereunder and require the Joint Venture Company to increase such production to the utmost possible maximum. The GOVERNMENT may also requisite the Oil and/or Gas field itself and, if necessary, related facilities.
- (b) In any such case, such requisition shall not be effected except after inviting EGAS and CONTRACTOR or their representatives by registered letter, with acknowledgement of receipt, to express their views with respect to such requisition.
- (c) The requisition of production shall be effected by Ministerial Order. Any requisition of Oil and/or Gas field itself, or any related facilities, shall be effected by a Presidential Decree duly notified to EGAS and CONTRACTOR.

- (d) In the event of any requisition as provided for above, the GOVERNMENT shall indemnify in full EGAS and CONTRACTOR for the period during which the requisition is maintained, including:
- (1) all damages which result from such requisition; and
  - (2) full repayment each month for all Petroleum extracted by the GOVERNMENT less the royalty share of such production.

However, any damage resulting from enemy attack is not within the meaning of this paragraph (d). Payment hereunder shall be made to CONTRACTOR in U.S. Dollars remittable abroad. The price paid to CONTRACTOR for Petroleum taken shall be calculated in accordance with Article VII(c).

## **ARTICLE XXI ASSIGNMENT**

- (a) Neither EGAS nor CONTRACTOR may assign to a person, firm or corporation, in whole or in part, any of its rights, privileges, duties or obligations under this Agreement either directly or indirectly (indirect assignment means, for example but not limited to, any sale, purchase, transfer of stocks, capital or assets or any other action that would change the control of CONTRACTOR/CONTRACTOR Member on its share in the company's capital) without the written approval of the GOVERNMENT. In all cases priority shall be given to EGAS, if it so desires, to obtain such interest intended to be assigned except assignment to an Affiliated Company of the same CONTRACTOR Member.
- (b) Without prejudice to Article XXI(a), CONTRACTOR may assign all or any of its rights, privileges, duties and obligations under this Agreement to an Affiliated Company of the same CONTRACTOR Member, provided that CONTRACTOR shall notify EGAS and the GOVERNMENT in writing and obtain the written approval of the GOVERNMENT on the assignment.

In case of an assignment either in whole or in part to an Affiliated Company, the assignor together with the assignee shall remain jointly and severally liable for all duties and obligations of CONTRACTOR under this Agreement provided such Affiliated Company remains in the same capacity as an Affiliated Company.

- (c) To enable consideration to be given to any request for such GOVERNMENT's consent referred to in (a) or (b) above, the following conditions must be fulfilled:
- (1) The obligations of the assignor deriving from this Agreement must have been duly fulfilled as of the date such request is made.
  - (2) The deed of assignment must include provisions stating precisely that the assignee is bound by all covenants contained in this Agreement and any modifications or additions in writing that up to such date may have been made.  
  
A draft of such instrument of assignment shall be submitted to EGAS for review and approval before being formally executed, such approval not to be unreasonably withheld.
  - (3) The assignor(s) shall submit to EGAS the required documents that evidence the assignee's financial and technical competence, and also the required documents that evidence the affiliation of the assignee to the CONTRACTOR/CONTRACTOR Member (in case of assignment to an Affiliated Company).
- (d) Any assignment, sale, transfer or other such conveyance made pursuant to the provisions of this Article XXI shall be free of any transfer, capital gains taxes or related taxes, charges or fees including without limitation, all Income Tax, Sales Tax, Value Added Tax, Stamp Duty, or other Taxes or similar payments.
- (e) Once the assignor and the proposed third party assignee, other than an Affiliated Company, have agreed the final conditions of an assignment (including the details of assignment deal), the assignor shall disclose in details such final conditions in a written notification to EGAS. EGAS shall have the right to acquire the interest intended to be assigned, if, within ninety (90) days from assignor's written notification, EGAS delivers to the assignor a written notification that it accepts the same conditions agreed with the proposed third party assignee. If EGAS does not deliver such notification within such ninety (90) day period, the assignor shall have the right to assign the interest notified to be assigned to the proposed third party assignee, subject to the GOVERNMENT's approval under paragraph (a) of this Article.
- (f) As long as the assignor shall hold any interest under this Agreement, the assignor together with the assignee shall be jointly and severally liable for all duties and obligations of CONTRACTOR under this

Agreement.

**ARTICLE XXII**  
**BREACH OF AGREEMENT AND POWER TO CANCEL**

- (a) The GOVERNMENT shall have the right to cancel this Agreement by Order or Presidential Decree, with respect to CONTRACTOR, in the following instances:
- (1) If it has knowingly submitted any false statements to the GOVERNMENT which were of a material consideration for the execution of this Agreement.
  - (2) If it assigns any interest hereunder contrary to the provisions of Article XXI.
  - (3) If it is adjudicated bankrupt by a court of competent jurisdiction.
  - (4) If it does not comply with any final decision reached as the result of court proceedings conducted under Article XXIV(a).
  - (5) If it intentionally extracts any mineral, other than Petroleum, not authorized by this Agreement or without the authorization of the GOVERNMENT, except such extractions that may be unavoidable as the result of the operations conducted hereunder in accordance with accepted Petroleum industry practice and which shall be notified to the GOVERNMENT or its representative as soon as possible.
  - (6) If it commits any material breach of this Agreement or of the provisions of Law No. 66 of 1953, as amended; provided that they, are not contradicted by the provisions of this Agreement.

Such cancellation shall take place without prejudice to any rights which may have accrued to the GOVERNMENT against CONTRACTOR in accordance with the provisions of this Agreement and, in the event of such cancellation, CONTRACTOR shall have the right to remove from the Area all its personal property.

- (b) If the GOVERNMENT deems that one of the aforesaid causes (other than a Force Majeure cause referred to in Article XXIII) exists to cancel this Agreement, the GOVERNMENT shall give CONTRACTOR ninety (90) days written notice personally served on CONTRACTOR's General Manager, in the legally manner and receipt of which is acknowledged

by him or by his legal agents, to remedy and remove such cause. But if for any reason such service is impossible due to un-notified change of address, publication in the Official Journal of such notice shall be considered as valid service upon CONTRACTOR. If at the end of the said ninety (90) day notice period such cause has not been remedied and removed, this Agreement may be canceled forthwith by Order or Presidential Decree as aforesaid. Provided however, that if such cause, or the failure to remedy or remove such cause, results from any act or omission of one party, cancellation of this Agreement shall be effective only against that party and not as against any other party hereto.

### **ARTICLE XXIII FORCE MAJEURE**

- (a) The non-performance or delay in performance by EGAS and CONTRACTOR, or either of them, of any obligation under this Agreement shall be excused if, and to the extent that, such non-performance or delay is caused by Force Majeure. The period of any such non-performance or delay, together with such period as may be necessary for the restoration of any damage done during such delay, shall be added to the time given in this Agreement for the performance of such obligation and for the performance of any obligation dependent thereon and consequently, to the term of this Agreement, but only with respect to the Exploration or Development Block(s) affected by such case.
- (b) "Force Majeure" within the meaning of this Article XXIII, shall be any act of God, insurrection, riot, war, strike, and other labor disturbance, fires, floods or any cause not due to the fault or negligence of EGAS and CONTRACTOR or either of them, whether or not similar to the foregoing, provided that any such cause is beyond the reasonable control of EGAS and CONTRACTOR, or either of them.
- (c) The GOVERNMENT shall incur no responsibility whatsoever to EGAS and CONTRACTOR, or either of them, for any damages, restrictions or losses arising in consequence of such case of Force Majeure hereinafter referred to in this Article.
- (d) If the Force Majeure event occurs during the first Exploration period or any extension in accordance with article V(a) thereof and continues in effect for a period of six (6) months, CONTRACTOR shall have the option upon ninety (90) days prior written notice to EGAS to terminate its obligations hereunder without further liability of any kind.



## **ARTICLE XXIV DISPUTES AND ARBITRATION**

- (a) Any dispute, controversy or claim arising out of or relating to this Agreement or the breach, termination or invalidity thereof, between the GOVERNMENT and the parties shall be referred to the appropriate courts in A.R.E. and shall be finally settled by such courts.
- (b) Any dispute, controversy or claim arising out of or relating to this Agreement, or the breach, termination or invalidity thereof, between EGAS and CONTRACTOR shall be settled by arbitration in accordance with the Arbitration Rules of the Cairo Regional Center for International Commercial Arbitration (the "Center") in effect on the date of this Agreement. The award of the arbitrators shall be final and binding on the parties.
- (c) The number of arbitrators shall be three (3).
- (d) Each party shall appoint one (1) arbitrator. If, within thirty (30) days after receipt of the claimant's notification of the appointment of an arbitrator the respondent has not notified the claimant in writing of the name of the arbitrator he appoints, the claimant may request the Center to appoint the second arbitrator.
- (e) The two (2) arbitrators thus appointed shall choose the third arbitrator who shall act as the presiding arbitrator of the tribunal. If within thirty (30) days after the appointment of the second arbitrator, the two (2) arbitrators have not agreed upon the choice of the presiding arbitrator, then either party may request the Secretary General of the Permanent Court of Arbitration at The Hague, Netherlands, to designate the appointing authority. Such appointing authority shall appoint the presiding arbitrator in the same way as a sole arbitrator would be appointed under Article 6.3 of the UNCITRAL Arbitration Rules. Such presiding arbitrator shall be a person of a nationality other than the A.R.E. or the CONTRACTOR's nationality(ies) and of a country which has diplomatic relations with both the A.R.E. and the CONTRACTOR's country(ies) and who has no economic interest in the Petroleum business of the signatories hereto.
- (f) Unless otherwise agreed by the parties to the arbitration, the arbitration, including the making of the award, shall take place in Cairo, A.R.E..
- (g) The decision of the arbitrators shall be final and binding upon the

parties, including the arbitration fees and all related issues and the execution of the arbitrators' decision shall be referred to the competent courts according to the Egyptian laws.

- (h) Egyptian law shall apply to the dispute except that in the event of any conflict between Egyptian laws and this Agreement, the provisions of this Agreement (including the arbitration provision) shall prevail. The arbitration shall be conducted in both Arabic and English languages.
- (i) If, for whatever reason, arbitration in accordance with the above procedure cannot take place, EGAS and CONTRACTOR will transfer all disputes, controversies or claims arising out of or relating to this Agreement or the breach, termination or invalidity thereof shall be settled by ad hoc arbitration in accordance with the UNCITRAL Arbitration Rules in effect on the Effective Date.

## **ARTICLE XXV STATUS OF PARTIES**

- (a) The rights, duties, obligations and liabilities in respect of EGAS and CONTRACTOR hereunder shall be several and not joint or collective, it is being understood that this Agreement shall not be construed as constituting an association or corporation or partnership.
- (b) Each CONTRACTOR Member shall be subject to the laws of the place where it is incorporated regarding its legal status or creation, organization, charter and by-laws, shareholding, and ownership.

Each CONTRACTOR Member's shares of capital which are entirely held abroad shall not be negotiable in the A.R.E. and shall not be offered for public subscription nor shall be subject to the stamp tax on capital shares nor any tax or duty in the A.R.E.. Any procedure carried out by CONTRACTOR/CONTRACTOR Member in A.R.E. or outside A.R.E. that leads to change of control of the CONTRACTOR/CONTRACTOR Member on its share in the company's capital, shall be subject to the procedures and provisions of Article IX "Bonuses" and Article XXI "Assignment" CONTRACTOR shall be exempted from the application of Law No. 159 of 1981, as amended.

- (c) All CONTRACTOR Members shall be jointly and severally liable for the performance of the obligations of CONTRACTOR under this Agreement.

**ARTICLE XXVI**  
**LOCAL CONTRACTORS AND**  
**LOCALLY MANUFACTURED MATERIAL**

CONTRACTOR or the Joint Venture Company, as the case may be, and their contractors shall:

- (a) Give priority to local contractors and sub-contractors, including EGAS's Affiliated Companies, as long as their performance is comparable with international performance and the prices of their services are not higher than the prices of other contractors and sub-contractors by more than ten percent (10%).
- (b) Give preference to locally manufactured material, equipment, machinery and consumables as long as their quality and time of delivery are comparable to internationally available material, equipment, machinery and consumables. However, such material, equipment, machinery and consumables may be imported for operations conducted hereunder if the local price of such items at CONTRACTOR's or the Joint Venture Company's operating base in the A.R.E. is more than ten percent (10%) higher than the price of such imported items before customs duties, but after transportation and insurance costs have been added.

**ARTICLE XXVII**  
**TEXT OF THE AGREEMENT**

The Arabic version of this Agreement shall, before the competent courts of A.R.E., be referred to in construing or interpreting this Agreement; provided, however, that in any arbitration pursuant to Article XXIV herein above between EGAS and CONTRACTOR the Arabic and English versions shall both be referred to as having equal force in construing or interpreting this Agreement.

**ARTICLE XXVIII**  
**GENERAL**

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

**ARTICLE XXIX**  
**APPROVAL OF THE GOVERNMENT**

This Agreement shall not be binding upon any of the parties hereto unless and until a law is issued by the competent authorities of the A.R.E. authorizing the Minister of Petroleum to sign this Agreement and giving this Agreement full force and effect of law notwithstanding any countervailing governmental enactment, and the Agreement is signed by the GOVERNMENT, EGAS and CONTRACTOR.

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BY: .....

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BY: .....

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BY: .....

THE EGYPTIAN NATURAL GAS HOLDING COMPANY

BY: .....

ARAB REPUBLIC OF EGYPT

BY: .....

DATE:.....

**ANNEX "A"**  
**CONCESSION AGREEMENT**  
**BETWEEN**  
**THE ARAB REPUBLIC OF EGYPT**  
**AND**  
**THE EGYPTIAN NATURAL GAS HOLDING COMPANY**  
**AND**  
-----  
**AND**  
-----  
**AND**  
-----  
**IN**  
----- **AREA**  
-----  
**A.R.E.**

**BOUNDARY DESCRIPTION OF THE CONCESSION AREA**

Annex "B" is a provisional illustrative map at an approximate scale of (1: --000000) showing the Area covered and affected by this Agreement.

The acreage of the Area measures approximately ----- square kilometers (----- km<sup>2</sup>). It consists of all or part of Exploration Blocks, the whole Blocks are defined on three (3) minutes latitude x three (3) minutes longitude grid.

The delineation lines of the Area in Annex "B" are intended to be only illustrative and provisional and may not show accurately the true position of such blocks in relation to existing monuments and geographical features.

Coordinates of the corner points of the Area are given in the following table which forms an integral part of this Annex "A":

**BOUNDARY COORDINATES  
OF**

**----- AREA**

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**ANNEX “B”**

**MAP OF THE CONCESSION AGREEMENT**

----- AREA

-----

**A.R.E.**

## **ANNEX "C"**

### **BANK LETTER OF GUARANTEE**

Letter of Guarantee No. --- (Cairo ----- 20--),  
EGYPTIAN NATURAL GAS HOLDING COMPANY,

The undersigned, National Bank of Egypt as Guarantor, or any other bank under supervision of CENTRAL BANK OF EGYPT, hereby guarantees to the EGYPTIAN NATURAL GAS HOLDING COMPANY, hereinafter referred to as "EGAS" to the limit of ----- million U.S. Dollars (\$ -----), the performance by ----- "-----", ----- "-----" and ----- "-----", hereinafter referred to as "CONTRACTOR" of its obligations required for Exploration operations to spend a minimum of ----- million U.S. Dollars (\$ -----) during the ----- (-) Years of the ----- Exploration period under Article IV of the Concession Agreement, hereinafter referred to as the "Agreement" covering that Area described in Annexes "A" and "B" of said Agreement, by and between the Arab Republic of Egypt, hereinafter referred to as "A.R.E.", EGAS and CONTRACTOR, in ----- AREA, ----- issued by Law No..... of 20...

It is understood that this Guarantee and the liability of the Guarantor hereunder shall be reduced quarterly, during the period of expenditure of said -----million U.S. Dollars (\$ -----) by the amount of money expended by CONTRACTOR for such Exploration operations during each such quarter and approved by EGAS. Each such reduction shall be established by the joint written statement to the Guarantor by EGAS and CONTRACTOR.

In the event of a claim by EGAS of non-performance or surrender of the Agreement by the CONTRACTOR prior to fulfillment of said Minimum Expenditure Obligations for the ----- Exploration period under Article IV of this Agreement, there shall be no liability on the undersigned Guarantor for payment to EGAS unless and until such liability has been established by written statement of EGAS setting forth the amount due under the Agreement.

It is a further condition of this Letter of Guarantee that:

- (1) This Letter of Guarantee will become available only provided that the Guarantor will have been informed in writing by CONTRACTOR and EGAS that the Agreement between CONTRACTOR, A.R.E. and EGAS has become effective according to its terms and said Guarantee shall



become effective on the Effective Date of said Agreement.

- (2) This Letter of Guarantee shall in any event automatically expire:
  - (a) ----- (--) Years and six (6) months after the date it becomes effective, or
  - (b) At such time as the total of the amounts shown on quarterly joint statements of EGAS and CONTRACTOR equals or exceeds the amount of said Minimum Expenditure Obligations for the ----- Exploration period, whichever is earlier.
- (3) Consequently, any claim, in respect thereof should be made to the Guarantor prior to either of said expiration dates at the latest accompanied by EGAS's written statement, setting forth the amount of under-expenditure by CONTRACTOR to the effect that:
  - (a) CONTRACTOR has failed to perform its Minimum Expenditure Obligations referred to in this Guarantee, and
  - (b) CONTRACTOR has failed to pay the expenditure deficiency to EGAS.

Please return to us this Letter of Guarantee in the event it does not become effective, or upon the expiry date.

Yours Faithfully,

Accountant: -----

Manager : -----

Date : -----

# **ANNEX "D"**

## **CHARTER OF THE JOINT VENTURE COMPANY**

### **ARTICLE I**

#### **FORM AND GOVERNING LAW**

A joint stock company having the nationality of the ARAB REPUBLIC OF EGYPT shall be formed with the authorization of the GOVERNMENT in accordance with the provisions of this Agreement referred to below and of this Charter.

The Joint Venture Company shall be subject to all laws and regulations in force in the A.R.E. to the extent that such laws and regulations are not inconsistent with the provisions of this Charter and the Agreement referred to hereunder.

### **ARTICLE II**

#### **NAME OF JOINT VENTURE COMPANY**

The name of the Joint Venture Company shall be mutually agreed upon between EGAS and CONTRACTOR on the date of commercial discovery and shall be subject to the Minister of Petroleum's approval.

### **ARTICLE III**

#### **LOCATION OF HEAD OFFICE**

The Head Office of the Joint Venture Company shall be in Cairo, A.R.E..

### **ARTICLE IV**

#### **OBJECT OF THE JOINT VENTURE COMPANY**

The object of the Joint Venture Company is to act as the agency through which EGAS and CONTRACTOR, carry out and conduct the Development operations required in accordance with the provisions of the Agreement for Gas and Crude Oil Exploration and Exploitation in ----- AREA, ----- --, A.R.E. (hereinafter referred to as the "Agreement") entered into by and between the Arab Republic of Egypt (hereinafter referred to as the "A.R.E."), EGAS and CONTRACTOR issued by Law No. ----- of 20--.

Following the Minister of Petroleum's approval date to the Development Lease the Joint Venture Company shall also be the agency to carry out and conduct Exploration operations, in any portion of the Area converted into a

Development Lease, pursuant to work programs and budgets approved in accordance with the Agreement.

The Joint Venture Company shall keep account of all costs, expenses and expenditures for such operations under the terms of the Agreement and Annex "E" thereto.

The Joint Venture Company shall not engage in any business or undertake any activity beyond the performance of said operations unless otherwise agreed upon by EGAS and CONTRACTOR.

## ARTICLE V

### CAPITAL

The authorized capital of the Joint Venture Company is twenty thousand (20000) Egyptian Pounds divided into five thousand (5000) shares of common stock with a value of four (4) Egyptian Pounds per share having equal voting rights, fully paid and non-assessable.

EGAS and CONTRACTOR shall each pay for, hold and own, throughout the life of the Joint Venture Company, one half of the capital stock of the Joint Venture Company provided that only in the event that either party should transfer or assign the whole or any percentage of its ownership interest in the entirety of the Agreement to another party, may such transferring or assigning party transfer or assign any of the capital stock of the Joint Venture Company and, in that event, such transferring or assigning party (and its successors and assignees) must transfer and assign a stock interest in the Joint Venture Company equal to the transferred or assigned whole or percentage of its ownership interest in the entirety of the said Agreement, without prejudice to Article XXI of the Agreement.

## ARTICLE VI

### ASSETS

The Joint Venture Company shall not own any right, title, interest or estate in or under the Agreement or any Development Lease created there under or in any of the Petroleum produced from any Exploration Block or Development Lease there under or in any of the assets, equipment or other property obtained or used in connection therewith, and shall not be obligated as a principal for the financing or performance of any of the duties or obligations of either EGAS or CONTRACTOR under the Agreement. The Joint Venture Company shall not make any profit from any source whatsoever.

ARTICLE VII  
ROLE OF THE JOINT VENTURE COMPANY

The Joint Venture Company shall be no more than an agent for EGAS and CONTRACTOR. Whenever it is indicated herein that the Joint Venture Company shall decide, take action or make a proposal and the like, it is understood that such decision or judgment is the result of the decision or judgment of EGAS and/or CONTRACTOR as may be required by the Agreement.

ARTICLE VIII  
BOARD OF DIRECTORS

The Joint Venture Company shall have a Board of Directors consisting of eight (8) members, four (4) of whom shall be designated by EGAS and the other four (4) by CONTRACTOR. The Chairman shall be designated by EGAS and shall also be a Managing Director. CONTRACTOR shall designate the General Manager who shall also be a Managing Director.

ARTICLE IX  
VALIDITY OF BOARD RESOLUTIONS

Meetings of the Board of Directors shall be valid if a majority of the Directors are present and any decision taken at such meetings must have the affirmative vote of five (5) or more of the Directors; provided, however, that any Director may be represented and vote by proxy held by another Director.

ARTICLE X  
SHAREHOLDERS' MEETINGS

General meetings of the shareholders shall be valid if a majority of the capital stock of the Joint Venture Company is represented thereat. Any decision taken at such meetings must have the affirmative vote of shareholders owning or representing a majority of the capital stock.

ARTICLE XI  
PERSONNEL AND BY-LAWS

The Board of Directors shall approve the regulations covering the terms and conditions of employment of the personnel of the Joint Venture Company employed directly by the Joint Venture Company and not assigned thereto by CONTRACTOR and EGAS.

The Board of Directors shall, in due course, draw up the By-Laws of the Joint Venture Company and such By-Laws shall be effective upon being approved by a General Meeting of the shareholders, in accordance with the provisions of Article X hereof.

ARTICLE XII

DURATION OF THE JOINT VENTURE COMPANY

The Joint Venture Company shall come into existence within three (3) months from the date of the Minister of Petroleum's approval of the first Development Lease whether for Crude Oil or Gas.

The duration of the Joint Venture Company shall be for a period equal to the duration of the Agreement, including any extension thereof.

The Joint Venture Company shall be wound up if this Agreement is terminated for any reason as provided for therein.

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BY: .....

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BY: .....

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BY: .....

THE EGYPTIAN NATURAL GAS HOLDING COMPANY

BY: .....

## **ANNEX "E"**

### **ACCOUNTING PROCEDURE**

#### ARTICLE I GENERAL PROVISIONS

(a) Definitions:

The definitions contained in this Agreement shall apply to this Accounting Procedure and have the same meaning.

(b) Statements of Activity:

(1) CONTRACTOR shall, pursuant to Article IV of this Agreement, render to EGAS within thirty (30) days of the end of each calendar quarter a Statement of Exploration Activity reflecting all charges and credits related to the Exploration operations conducted in any portion of the Area not converted into a Development Lease for that quarter, summarized by appropriate classifications indicative of the nature thereof.

(2) Following its coming into existence, the Joint Venture Company shall render to EGAS and CONTRACTOR within fifteen (15) days of the end of each calendar quarter a Statement of Development and Exploration Activity reflecting all charges and credits related to the Development and Exploration operations conducted in any portion of the Area converted into a Development Lease for that quarter, summarized by appropriate classifications indicative of the nature thereof, provided that items of controllable material and unusual charges and credits shall be detailed.

Pursuant to Article VII, EGAS shall audit and approve each statement of Development and Exploration Activity submitted by the CONTRACTOR or the Joint Venture Company (as the case may be). Any comments made by EGAS shall be reflected by the CONTRACTOR or the Joint Venture Company (as the case may be) on the Statement produced for the next calendar quarter.

(c) Adjustments and Audits:

(1) Each quarterly Statement of Exploration Activity pursuant to Article I(b)(1) of this Annex shall conclusively be presumed to be true and correct after three (3) months following the receipt of each Statement by EGAS, unless within the said three (3) month period

EGAS objects in writing with its remarks thereto pursuant to Article IV(f) of the Agreement. During the said three (3) month period supporting documents will be available for inspection by EGAS during working hours.

CONTRACTOR shall have the same audit rights on the Joint Venture Company Statements as EGAS under this sub-paragraph.

- (2) All Statements of Development and Exploration Activity for any calendar quarter pursuant to Article I(b)(2) of this Annex, shall conclusively be presumed to be true and correct after three (3) months following the receipt of each Statement of Development and Exploration Activity by EGAS and CONTRACTOR, unless within the said three (3) month period EGAS or CONTRACTOR objects in writing with its remarks thereto. Pending expiration of said three (3) month period EGAS or CONTRACTOR or both of them shall have the right to audit the Joint Venture Company's accounts, records and supporting documents for such quarter, in the same manner as provided for in Article IV(f) of the Agreement.

(d) Currency Exchange:

CONTRACTOR's books for Exploration and the Joint Venture Company's books for Development and Exploration, if any, shall be kept in the A.R.E. in U.S. Dollars. All U.S. Dollars expenditures shall be charged in the amount expended. All Egyptian currency expenditures shall be converted to U.S. Dollars at the applicable rate of exchange issued by the Central Bank of Egypt on the first day of the month in which expenditures are recorded, and all other non-U.S. Dollars expenditures shall be converted into U.S. Dollars at the buying rate of exchange for such currency as quoted by National Westminster Bank Limited, London, at 10:30 a.m. G.M.T., on the first day of the month in which expenditures are recorded. A record shall be kept of the exchange rates used in converting Egyptian currency or other non-U.S. Dollars expenditures into U.S. Dollars.

(e) Precedence of Documents:

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

(f) Revision of Accounting Procedure:

By mutual agreement between EGAS and CONTRACTOR, this Accounting Procedure may be revised in writing from time to time in the light of future arrangements.

(g) No Charge for Interest on Investment:

Interest on investment or any bank fees, charges or commissions related to any bank guarantees shall not at any time be charged as recoverable costs under the Agreement.

ARTICLE II  
COSTS, EXPENSES AND EXPENDITURES

Subject to the provisions of the Agreement, CONTRACTOR shall alone bear and directly or through the Joint Venture Company, pay the following costs and expenses, which costs and expenses shall be classified and allocated to the activities according to sound and generally accepted accounting principles and treated and recovered in accordance with Article VII of this Agreement:

(a) Surface Rights:

All direct cost attributable to the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the Area.

(b) Labor and Related Costs:

(1) Salaries and wages which were approved by EGAS of CONTRACTOR's or Joint Venture Company's employees, as the case may be, directly engaged in the various activities under the Agreement, including salaries and wages paid to geologists and other employees who are temporarily assigned to and employed in such activities.

Reasonable revisions of such salaries and wages shall be effected to take into account changes in CONTRACTOR's policies and amendments of laws applicable to salaries. For the purpose of this Article II(b) and(c) of this Annex, salaries and wages shall mean the assessable amounts for A.R.E. Income taxes, including the salaries during vacations and sick leaves, but excluding all the amounts corresponding to the other items covered by the percentage fixed under (2) below.

(2) For expatriate employees permanently assigned to A.R.E.:

1) All allowances applicable to salaries and wages;



- 2) Cost of established plans; and
- 3) All travel and relocation costs of such expatriate employees and their families to and from the employee's country or point of origin at the time of employment, at the time of separation, or as a result of transfer from one location to another and for vacation (transportation costs for employees and their families transferring from the A.R.E. to another location other than their country of origin shall not be charged to A.R.E. operations).

Costs under this Article II(b)(2) shall be deemed to be equal to sixty percent (60%) of basic salaries and wages paid for such expatriate personnel including those paid during vacations and sick leaves as established in CONTRACTOR's international policies, chargeable under Article II(b)(1), (i), (k)(1) and (k)(3) of this Annex.

However, salaries and wages during vacations, sick leaves and disability are covered by the foregoing percentage. The percentage outlined above shall be deemed to reflect CONTRACTOR's actual costs as of the Effective Date with regard to the following benefits, allowances and costs :-

1. Housing and utilities allowance.
2. Commodities and services allowance.
3. Special rental allowance.
4. Vacation transportation allowance.
5. Vacation travel expense allowance.
6. Vacation excess baggage allowance.
7. Education allowances (children of expatriate employees).
8. Hypothetical home country tax offset (which results in a reduction of the chargeable percentage).
9. Storage of personal effects.
10. Housing refurbishment expense.
11. Property management service fees.
12. Recreation allowance.
13. Retirement plan.
14. Group life insurance.

15. Group medical insurance.
16. Sickness and disability.
17. Vacation plans paid (excluding allowable vacation travel expenses).
18. Savings plan.
19. Educational assistance.
20. Military service allowance.
21. Home country social security and medical care contributions.
22. Workman's compensation.
23. Federal and state unemployment insurance.
24. Personnel transfer expense.
25. National insurance.
26. Any other costs, allowances and benefits of a similar nature as established in CONTRACTOR's international policies.

The percentages outlined above shall be reviewed at intervals of three (3) Years from the Effective Date and at such time CONTRACTOR and EGAS shall agree on new percentages to be used under this Article II(b)(2).

Revisions of the percentage shall take into consideration variances in costs and changes in CONTRACTOR's international policies which modify or exclude any of the above allowances and benefits.

The revised percentages shall reflect as nearly as possible CONTRACTOR's actual costs of all its established allowances and benefits and of personnel transfers.

- (3) For expatriate employees temporarily assigned to the A.R.E. all allowances, costs of established plans and all travel and/or relocation costs for such expatriates as paid in accordance with CONTRACTOR's international established policies. Such costs shall not include any administrative overhead other than what is mentioned in Article II(k)(2) of this Annex.
- (4) Expenditure or contributions made pursuant to law or assessment imposed by any governmental authority which are applicable to labor cost of salaries and wages as provided under paragraphs (b)(1), (b)(2), (i), (k)(1) and (k)(3) of Article II of this Annex.

(c) Benefits, allowances and related costs of national employees:

Bonuses, overtime, customary allowances and benefits on a basis similar to that prevailing for oil companies operating in the A.R.E., all as chargeable under Article II(b)(1), (i), (k)(1) and (k)(3) of this Annex. Severance pay shall be charged at a fixed rate applied to payrolls which shall equal an amount equivalent to the maximum liability for severance payment as required under the A.R.E. Labor Law.

(d) Material:

Material, equipment and supplies purchased and furnished as such by CONTRACTOR or the Joint Venture Company.

(1) Purchases:

Material, equipment and supplies purchased shall be accounted for at the price paid by CONTRACTOR or the Joint Venture Company plus any related cost and after deduction of all discounts actually received.

(2) Material furnished by CONTRACTOR:

Material, required for operations shall be purchased directly whenever practicable, except that CONTRACTOR may furnish such material from CONTRACTOR's or CONTRACTOR's Affiliated Companies stocks outside the A.R.E. under the following conditions:

1) New Material (Condition "A"):

New Material transferred from CONTRACTOR's or CONTRACTOR's Affiliated Companies warehouses or other properties shall be priced at cost, provided that the cost of material supplied is not higher than international prices for material of similar quality supplied on similar terms, prevailing at the time such material was supplied.

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

a) Used Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classified as Condition "B" and priced at seventy five percent (75%) of the price of new material.

b) Used Material which cannot be classified as Condition "B" but which is serviceable for original function but

substantially not suitable for re-use without reconditioning, shall be classified as Condition "C" and priced at fifty percent (50%) of the price of new material.

- c) Used Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.
- d) Tanks, buildings and other equipment involving erection costs shall be charged at applicable percentage of knocked - down new price.

(3) Warranty of material furnished by CONTRACTOR:

CONTRACTOR does not warrant the material furnished beyond or back of the dealer's or manufacturer's guarantee, and in case of defective material, credit shall not be recorded until adjustment has been received by CONTRACTOR from the manufacturer(s) or its (their) agents.

It is understood that the value of the warehouse stock and spare parts shall be charged to the Cost Recovery category defined above, only when used in operations.

(e) Transportation and Employee Relocation Costs:

- (1) Transportation of material, equipment and supplies necessary for the conduct of CONTRACTOR's or the Joint Venture Company's activities.
- (2) Business travel and transportation expenses to the extent covered by CONTRACTOR's established policies of or with regard to expatriate and national employees, as incurred and paid by, or for, employees in the conduct of CONTRACTOR's or the Joint Venture Company's business.
- (3) Employees transportation and relocation costs for national employees to the extent covered by established policies.

(f) Services:

- (1) Outside services: The costs of contracts for consultants, services and utilities procured from third parties.
- (2) Cost of services performed by EGAS or by CONTRACTOR, or their Affiliated Companies in facilities inside or outside the A.R.E. regular, recurring, routine services, such as interpreting magnetic

tapes and/or other analyses, shall be performed and charged by EGAS and/or CONTRACTOR or their Affiliated Companies, as well as, geological and geophysical studies relevant to the Concession area purchased by CONTRACTOR, through EUG, for example at an agreed contracted price. Major projects involving engineering and design services shall be performed by EGAS and/or CONTRACTOR or their Affiliated Companies at an agreed contract amount.

- (3) Use of EGAS's, CONTRACTOR's or their Affiliated Companies' wholly owned equipment shall be charged at a rental rate commensurate with the cost of ownership and operation, but not in excess of competitive rates then prevailing in the A.R.E. .
- (4) CONTRACTOR's and CONTRACTOR's Affiliated Companies' rates shall not include any administrative or overhead costs other than what is mentioned in Article II(k)(2) of this Annex.

(g) Damages and Losses:

All costs or expenses, necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident or any other cause not controllable by CONTRACTOR or the Joint Venture Company through the exercise of reasonable diligence. CONTRACTOR or the Joint Venture Company shall furnish EGAS and CONTRACTOR with a written notice of damages or losses incurred in excess of ten thousand U.S. Dollars (\$10000) per occurrence, as soon as practicable after report of the same has been received by CONTRACTOR or the Joint Venture Company.

(h) Insurance and Claims:

The cost of insurance against any public liability, property damage and other insurance against liabilities of CONTRACTOR, the Joint Venture Company and/or the parties or any of them to their employees and/or outsiders as may be required by the laws, regulations and orders of the GOVERNMENT or as the parties may agree upon. The proceeds of any such insurance or claim collected, less the actual cost of making a claim, shall be credited against operations.

If no insurance is carried for a particular risk, in accordance with good international Petroleum industry practices, all related actual expenditures incurred and paid by CONTRACTOR or the Joint Venture Company in settlement of any and all losses, claims, damages,

judgments and any other expenses, including legal services.

(i) Indirect Expenses:

Camp overhead and facilities such as shore base, warehouses, water systems, road systems, salaries and expenses of field supervisory personnel, field clerks, assistants and other general employees indirectly serving the Area.

(j) Legal Expenses:

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

(k) Administrative Overhead and General Expenses:

(1) While CONTRACTOR is conducting Exploration operations, the cost of staffing and maintaining CONTRACTOR's head office in the A.R.E. and/or other offices established in the A.R.E. as appropriate other than field offices, which shall be charged as provided for in Article II(i) of this Annex, and excepting salaries of employees of CONTRACTOR who are temporarily assigned to and directly serving on the Area, which shall be charged as provided for in Article II(b) of this Annex.

(2) CONTRACTOR's administrative overhead and General Expenses outside the A.R.E. applicable to Exploration operations in the A.R.E. shall be charged each month at the rate of five percent (5%) of total Exploration expenditures, provided that no administrative overhead of CONTRACTOR outside the A.R.E. applicable to A.R.E. Exploration operations shall be charged for Exploration operations conducted by the Joint Venture Company. No other direct charges as such for CONTRACTOR's administrative overhead outside the A.R.E. shall be applied against the Exploration obligations. Examples of the type of costs

CONTRACTOR is incurring and charging hereunder due to activities under this Agreement and covered by said percentage are:

- 1- Executive - time of executive officers.
- 2- Treasury – financial and exchange problems.
- 3- Purchasing - procuring materials, equipment and supplies.
- 4- Exploration and Production - directing, advising and controlling the entire project.
- 5- Other departments such as legal, controlling and engineering which contribute time, knowledge and experience to the operations.

The foregoing does not preclude charging for direct service under Article II(f)(2) of this Annex.

- (3) While the Joint Venture Company is conducting operations, the Joint Venture Company's personnel engaged in general clerical and office work, supervisors and officers whose time is generally spent in the main office and not the field, and all employees generally considered as general and administrative and not charged to other types of expenses shall be charged to operations. Such expenses shall be allocated each month between Exploration and Development operations according to sound and practicable accounting methods.

(l) Taxes:

All taxes, duties or levies paid in the A.R.E. by CONTRACTOR or the Joint Venture Company with respect to this Agreement other than those covered by Article III(g)(1) of the Agreement.

(m) Continuing CONTRACTOR Costs:

Costs of CONTRACTOR activities required under the Agreement and incurred exclusively in the A.R.E. after the Joint Venture Company is formed. No sales expenses incurred outside or inside the A.R.E. may be recovered as a cost.

(n) Other Expenditures:

Any costs, expenses or expenditures, other than those which are covered and dealt with by the foregoing provisions of this Article II, incurred by CONTRACTOR or the Joint Venture Company under

approved work programs and budgets.

### ARTICLE III INVENTORIES

(a) Periodic Inventories, Notice and Representation:

At reasonable intervals as agreed upon by EGAS and CONTRACTOR inventories shall be taken by the Joint Venture Company of the operations materials, which shall include all such materials, physical assets and construction projects. Written notice of intention to take inventory shall be given by the Joint Venture Company to EGAS and CONTRACTOR at least thirty (30) days before any inventory is to begin so that EGAS and CONTRACTOR may be represented when any inventory is taken. Failure of EGAS and/or CONTRACTOR to be represented at an inventory shall bind the party who failed to accept the inventory taken by the Joint Venture Company, who shall in that event furnish the party not represented with a copy thereof.

(b) Reconciliation and Adjustment of Inventories:

Reconciliation of inventory shall be made by CONTRACTOR and EGAS, and a list of overages and shortages shall be jointly determined by the Joint Venture Company and CONTRACTOR and EGAS, and the inventory adjusted by the Joint Venture Company.

### ARTICLE IV COST RECOVERY

(a) Statements of Recovery of Costs and of Cost Recovery Petroleum:

CONTRACTOR shall, pursuant to Article VII of the Agreement, render to EGAS as promptly as practicable but not later than fifteen (15) days after receipt from the Joint Venture Company of the Statements for Development and Exploration Activity for the calendar quarter a "Statement" for that quarter showing:

- 1- Recoverable costs carried forward from the previous quarter, if any.
- 2- Recoverable costs incurred and paid during the quarter.
- 3- Total recoverable costs for the quarter (1) + (2).
- 4- Value of Cost Recovery Petroleum taken and separately disposed of by CONTRACTOR for the quarter.
- 5- Amount of costs recovered for the quarter.
- 6- Amount of recoverable costs carried forward into the succeeding



quarter, if any.

7- Excess, if any, of the value of Cost Recovery Petroleum taken and separately disposed of by CONTRACTOR over costs recovered for the quarter.

Pursuant to Article VII, EGAS shall audit and approve each Statement of Development and Exploration Activity submitted by the CONTRACTOR and the total production and pricing related to the relevant calendar quarter. Any comments made by EGAS shall be reflected by the CONTRACTOR on the statement produced for the next calendar quarter.

(b) Payments:

If such Statement shows an amount due to EGAS, payment of that amount shall be made in U.S. Dollars by CONTRACTOR with the rendition of such Statement. If CONTRACTOR fails to make any such payment to EGAS on the date when such payment is due, then CONTRACTOR shall pay interest of two and a half percent (2.5%) per annum higher than the London Interbank Borrowing Offered Rate (LIBOR), for three (3) months U.S. Dollars deposits prevailing on the date such interest is calculated. Such interest payment shall not be recoverable.

(c) Settlement of Excess Cost Recovery:

EGAS has the right to take its entitlement of Excess Cost Recovery under Article VII(a)(2) of the Agreement in kind during the said quarter. A settlement shall be required with the rendition of such Statements in case CONTRACTOR has taken more than its own entitlement of such Excess Cost Recovery.

(d) Audit Right:

EGAS shall have the right within a period of twelve (12) months from receipt of any Statement under this Article IV in which to audit and raise objection to any such Statement. EGAS and CONTRACTOR shall agree on any required adjustments. Supporting documents and accounts will be available to EGAS during said twelve (12) month period.

## ARTICLE V CONTROL AND MAJOR ACCOUNTS

(a) Exploration Obligation Control Accounts:

CONTRACTOR shall establish an Exploration Obligation Control

Account and an offsetting contra account to control therein the total amount of Exploration expenditures reported on Statements of activity prepared in accordance with Article I(b)(1) of this Annex, less any reductions agreed to by EGAS and CONTRACTOR following written remarks taken by a non-operator pursuant to Article I(c)(1) of this Annex, in order to determine when Minimum Exploration Work Obligations have been met.

(b) Cost Recovery Control Account:

CONTRACTOR shall establish a Cost Recovery Control Account and an off-setting contra account to control therein, the amount of cost remaining to be recovered, if any, the amount of cost recovered and the value of Excess Cost Recovery, if any.

(c) Major Accounts:

For the purpose of classifying costs, expenses and expenditures for Cost Recovery Petroleum as well as for the purpose of establishing when the Minimum Exploration Work Obligations have been met, costs, expenses and expenditures shall be recorded in major accounts including the following:

- Exploration Expenditures;
- Development Expenditures other than Operating Expenses;
- Operating Expenses;

Necessary sub-accounts shall be used.

Revenue accounts shall be maintained by CONTRACTOR to the extent necessary for the control of recovery of costs and the treatment of Cost Recovery Petroleum.

## ARTICLE VI TAX IMPLEMENTATION PROVISIONS

It is understood that CONTRACTOR shall be subject to Egyptian income tax laws, except as otherwise provided for in the Agreement, that any A.R.E. income taxes paid by EGAS on CONTRACTOR's behalf constitute additional income to CONTRACTOR, and this additional income is also subject to A.R.E. income tax, that is "grossed-up".

"CONTRACTOR's annual income", as determined in Article III(g)(2) of this Agreement, less the amount equal to CONTRACTOR's grossed-up Egyptian income tax liability, shall be CONTRACTOR's "Provisional Income".

The "Grossed-up Value" is an amount added to Provisional Income to give "Taxable Income", such that the Grossed-up Value is equivalent to the A.R.E. income taxes.

THEREFORE:

Taxable Income = Provisional Income + Grossed-up Value

and

Grossed-up Value = A.R.E. income tax ÷ Taxable Income

If the "A.R.E. income tax rate", which means the effective or composite tax rate due to the various A.R.E. taxes levied on income or profits, is constant and not dependent on the level of income, then:

Grossed-up Value = A.R.E. income tax rate × Taxable Income

Combining the first and last equations above

$$\text{Grossed-up Value} = \frac{\text{Provisional income} \times \text{Tax Rate}}{1 - \text{Tax Rate}}$$

where the tax rate is expressed as a decimal.

The above computations are illustrated by the following numerical example. Assuming that the Provisional Income is \$10 and the A.R.E. Income Tax rate is forty percent (40%), then the Grossed-up Value is equal to:

$$\frac{\$ 10 \times 0.4}{1 - 0.4} = \$ 6.67$$

Therefore:

Provisional income	\$10.00
+ Grossed-up Value	6.67
= Taxable Income	<u>\$16.67</u>
- A.R.E. Income Taxes at 40%	6.67
= CONTRACTOR's Income after taxes	<u>\$ 10.00</u>

**ANNEX "F"**  
**DEVELOPMENT LEASE ABANDONMENT**  
**COST RECOVERY MECHANISM**

Reference to Concession Agreement ..... Area issued by Law No. ... of ..... (“Agreement”), and to the Notice of Commercial Gas Discovery of well ..... sent to EGAS on ..... according to article III(d)(ii) of the Agreement, the parties under the Agreement hereby agreed the mechanism for recovering the abandonment cost, which shall be attached to “..... Development Lease”.

**1. Abandonment Financial Procedures and Costs Funding:**

The Joint Venture Company will open a bank account in a bank approved by EGAS and CONTRACTOR, for the purpose of managing the abandonment fund, such bank account currency shall be in U.S. Dollars.

The bank account shall be opened upon a notice by the CONTRACTOR. The Joint Venture Company may appoint another bank during the Development Lease Period upon approval of EGAS and CONTRACTOR.

EGAS shall set the terms for administration of the “..... abandonment fund”, the account shall be dedicated for the sole purpose of the implementation of the Development lease abandonment.

CONTRACTOR shall commence paying contributions to the ..... abandonment fund in the Calendar quarter in which a percentage of fifty percent (50%) of Petroleum reserves has been recovered.

The reference for the abandonment fund estimate shall be in accordance to the ..... plan of Development, and shall be revised by the CONTRACTOR and agreed by EGAS after ten (10) years from the Development Lease signature. Afterwards, CONTRACTOR and EGAS shall perform a periodical update of the abandonment cost every five (5) years or upon any significant change in the estimated cost.

The reference for the Petroleum reserves shall be as identified in the ..... Gas Sales Agreement, in consistency with the Development Lease and shall be updated in accordance to the ..... Gas Sales Agreement amendments, if any.

## **2. Abandonment Fund Cost Recovery:**

Without prejudice to Article VII of the Agreement, all monies paid by CONTRACTOR in the account of ..... abandonment fund shall be recovered as Development Expenditures starting in the Tax Year in which such contribution is incurred and paid.

## **3. The Contributions:**

At the tenth (10<sup>th</sup>) day of the beginning of each Calendar quarter, CONTRACTOR shall pay, in the account of “..... abandonment fund” an amount of fund (X) calculated according to the following formula:

$$X = \{(A/B) \times (C)\} - Y$$

Where:

- X = The amount of contribution to be transferred to the account of ..... abandonment fund in respect of the relevant Calendar quarter.
- A = the latest estimated cost of abandonment operations.
- B = the estimated Petroleum reserves remaining to be recovered from the end of the Calendar quarter in which the abandonment fund account(s) was opened until the Calendar quarter in which the ..... Development Lease will expire.
- C = the cumulative Production of Petroleum from ..... Development Lease starting from the end of the Calendar quarter in which the abandonment fund account was opened.
- Y = the abandonment fund bank balance at the end of the previous Calendar quarter.

## **4. The Implementation of the Abandonment**

Five years before the expiration of the ..... Development Lease, EGAS and CONTRACTOR shall meet to discuss, considering the last abandonment costs estimate performed by the CONTRACTOR and EGAS and the foreseen production potentials of the ..... Development Lease the implementation operations of the abandonment of ..... existing wells and facilities.

i) In case the production from ..... field expected to cease before or on the expiration date of the ..... Development Lease (as may be extended):

- CONTRACTOR and EGAS shall agree on the details of the abandonment implementation and shall consult together on whether to assign the abandonment implementation operations to the Joint Venture Company or to evaluate other options;
- In case actual abandonment costs are higher than the abandonment fund including matured banking interest, CONTRACTOR shall bear the difference in costs; and
- In case the total contributions in the abandonment fund including any matured banking interest thereon is higher than the actual abandonment cost following completion of all abandonment operations, then the excess shall revert to recover the carry forward situation (if any) for the CONTRACTOR resulting from the actual funding of the abandonment fund, then any excess amount including any matured banking interest shall be fully transferred to EGAS.

ii) If EGAS decided that the production from ..... field will be continued by any entity other than CONTRACTOR after the expiration of the Development Lease (as may be extended in accordance to the Agreement):

- a) the account of ..... abandonment fund shall belong to EGAS including any accrued banking interest thereon;
- b) EGAS shall be responsible for the implementation of the abandonment operations of ..... field with no responsibility or liability on CONTRACTOR.

**5.** Any other points which are not covered by this document shall be agreed upon by EGAS and CONTRACTOR in a manner consistent with the provisions of the Agreement and this Annex "F."

For:.....

.....(Signature).....

By: Mr. ....

.....(Title) .....

For:.....

.....(Signature).....

By: Mr. ....

.....(Title) .....

For: the Egyptian Natural Gas Holding Company (EGAS)

.....(Signature).....

By: Mr. ....

.....(Title) .....

Approved By:

.....(Signature).....

H.E. ....

Minister of Petroleum and Mineral Resources

DATE:.....

## **ANNEX "G"**

### **1- MAP OF THE NATIONAL GAS PIPELINE GRID SYSTEM**



## **2- MAP OF CRUDE AND CONDENSATE PIPELINE NETWORK.**

**3- MAP OF LPG PIPELINE NETWORK.**