

**EGAS INTERNATIONAL BID ROUND 2008**  
**OPTION (A)**  
**MAIN CONTRACT TERMS AND CONDITIONS**  
The Egyptian Production Sharing Model

**1- TYPE OF CONTRACT: “PSC”**

The contract shall be a Production Sharing Model. Contractor undertakes all risk to explore and develop both gas and crude oil.

**2- PARTIES TO THE CONTRACT:**

The parties to the contract shall be The Government of Arab Republic of Egypt, The Egyptian Natural Gas Holding Company (EGAS) and Contractor.

**3- CONTRACTOR:**

Individual petroleum exploration company or group of companies are free to submit a separate offer for each block (if they bid for more than one block).

**4- ROYALTY & INCOME TAXES:**

EGAS shall bear and pay out of its share, on behalf of the Contractor:

- a. Royalty.
- b. The applicable Egyptian Income Tax.

**5- CONTRACT PERIOD: (Competitive)**

The duration of the Exploration period shall be specified in the offer and subdivided into two phases. Total Exploration period should not exceed (6) years, except for Blocks No. 6 and 7, the Total Exploration period should not exceed eight (8) years. The duration of any development lease shall be twenty (20) years from the date of the commercial oil discovery (in case of oil development lease) or from first delivery of gas (in case of gas development lease).

This period may be extended up to 5 years "Five Years Extension" upon Contractor's request and his submission of a complementary development or production plan to EGAS and subject to the Government's approval.

If Gas is discovered in commercial quantities and Contractor failed to put such gas on production in accordance to the submitted development plan or within six (6) years period from the date on which the Contractor notifies EGAS of the existence of a commercial gas discovery, (whichever is earlier); Contractor shall surrender such gas reserves and the relevant development lease to EGAS, except in case of Blocks No. 6 and 7, the production should start in accordance to the submitted development plan or within eight (8) years period from the date on which the Contractor notifies EGAS of the existence of a commercial gas discovery, (whichever is earlier); Contractor shall surrender such gas reserves and the relevant development lease to EGAS.

**6- RELINQUISHMENT: ( Competitive )**

At the end of the first Exploration phase, the Contractor shall relinquish a minimum of ----% (not less than 40%) of the original area in a single unit or a configuration accepted by EGAS. At the end of the last Exploration phase, the Contractor shall relinquish the remaining area except those parts that have been converted into development lease(s).

In any development lease, the Contractor shall relinquish development blocks not producing or contributing to production at the end of 4 years from the date of commercial oil discovery or 4 years from the date of first gas deliveries; as the case may be. Following to that there will be a periodical revision every 3 years during the development lease period, in order to relinquish any development block(s) not producing or contributing to production in the same development lease.

**7- MINIMUM WORK PROGRAM AND FINANCIAL OBLIGATIONS: (Competitive)**

For each phase, companies shall bid the minimum exploration program (seismic and exploratory wells) and its expected relevant financial commitments. Seismic acquisition accompanied by potential evaluation could be accepted during the first exploration phase in some blocks.

Any technical obligation and financial expenditure in excess of the minimum obligations during the first Exploration phase shall be carried forward to the second Exploration phase and offset against the minimum technical and financial commitment for the second phase.

A letter of Guarantee for the minimum financial commitment of the first exploration phase should be submitted to EGAS by the Contractor within certain period before final signature date of the contract and upon EGAS' notification.

A similar letter of Guarantee is required if Contractor elects to enter the subsequent phase.

**8- COST RECOVERY: (Competitive)**

Contractor recovers its cost out of ... percent (...% ) of the total production. Exploration and Development expenditures shall be recovered within a minimum of (...) years (competitive, not less than five (5) years).

**9- EXCESS COST RECOVERY:**

Excess cost recovery (if any) belongs to EGAS.

**10- PRODUCTION SHARING: (Competitive)**

The remaining percentage of the Petroleum after deducting cost recovery percentage shall be divided between EGAS and Contractor based on Brent value and according to the following shares, considering that EGAS' share shall increase with Brent Price increasing.:

**A. Crude Oil and Condensate (EGAS' Share):**

<i>Crude Oil produced and saved under this Agreement and not used in Petroleum operations. Barrel of Oil Per Day (BOPD)(quarterly average)</i>	<i>Less than or Equal to 40 US\$</i>	<i>More than 40 US\$ and less than or equal to 60 US\$</i>	<i>More than 60 US\$ and less than or equal to 80 US\$</i>	<i>More than 80 US\$ and less than or equal to 100 US\$</i>	<i>More than 100 US\$ and less than or equal to 120 US\$</i>	<i>More than 120 US\$ and less than or equal to 140 US\$</i>	<i>More than 140 US\$ and less than or equal to 160 US\$</i>	<i>More than 160 US\$ and less than or equal to 180 US\$</i>	<i>More than 180 US\$ and less than or equal to 200 US\$</i>	<i>More than 200 US\$</i>
<i>That portion or increment less than 5 000 BOPD</i>										
<i>That portion or increment from 5 000 BOPD and less than 10 000 BOPD</i>										
<i>That portion or increment from 10 000 BOPD and less than 20 000 BOPD</i>										
<i>That portion or increment equal to or more than 20 000 BOPD</i>										

**N.B.** : Bidder(s) shall abide to fill the above blank EGAS' share.

**B. Gas and LPG(EGAS' Share):**

<i>Gas and LPG produced and saved under this Agreement and not used in Petroleum operations. Standard Cubic Feet per Day (SCFPD)(quarterly average).</i>	<i>Less than or Equal to 40 US\$</i>	<i>More than 40 US\$ and less than or equal to 60 US\$</i>	<i>More than 60 US\$ and less than or equal to 80 US\$</i>	<i>More than 80 US\$ and less than or equal to 100 US\$</i>	<i>More than 100 US\$ and less than or equal to 120 US\$</i>	<i>More than 120 US\$ and less than or equal to 140 US\$</i>	<i>More than 140 US\$ and less than or equal to 160 US\$</i>	<i>More than 160 US\$ and less than or equal to 180 US\$</i>	<i>More than 180 US\$ and less than or equal to 200 US\$</i>	<i>More than 200 US\$</i>
<i>That portion or increment less than 100 Million SCFPD</i>										
<i>That portion or increment from 100 Million SCFPD and less than 250 Million SCFPD</i>										
<i>That portion or increment from 250 Million SCFPD and less than 500 Million SCFPD</i>										
<i>That portion or increment equal to or more than 500 Million SCFPD</i>										

**N.B.:** Bidder(s) shall abide to fill the above blank EGAS' share, regardless the type of the gas whether dry or wet.

**11- BONUSES: “non recoverable”**

a. SIGNATURE BONUS:

Shall be competitive, and transferred to EGAS account before the final signature date of the Concession Agreement.

b. DEVELOPMENT LEASE BONUS:

Shall be competitive and due upon approval of each development lease.

c. PRODUCTION BONUS:

Shall be competitive and due to at the following production rates:

	MMUS\$
* 5,000 BOPD or its equivalent	-----
* 10,000 BOPD or its equivalent	-----
* 20,000 BOPD or its equivalent	-----
* 25,000 BOPD or its equivalent	-----

d. FIVE YEAR EXTENSION BONUS:

Five year extension bonus shall be competitive and due upon the approval of EGAS and The Government on Contractor’s request.

e. TRAINING BONUS:

During any exploration phase, a training budget of the sum of US\$ ..... (Competitive but not less than US\$ 100,000) at the beginning of any financial year to cover the training of EGAS’ employees.

f. ASSIGNMENT BONUS:

The following Assignment Bonus shall be paid by Contractor to EGAS on the Government’s approval date to each assignment and upon EGAS’ notification to the Contractor:

- The Assignment Bonus in case of an assignment to a nonaffiliated company(ies) shall be according to the following:

- i- (10%) of the value of the total financial commitment of the then current Exploration phase and according to the assigned percentage in case of assigning during any Exploration phase;
  - ii- During any Development period, (10%) of the value of each assignment deal which could be any of the following:
    - \* The financial value to be paid by the Assignee to the Assignor; or
    - \* The financial value of shares or stocks to be exchanged between the Assignor and the Assignee; or
    - \* The financial commitments for the development technical programs; or
    - \* The financial value of the reserves, to be swapped between the assignor & the assignee, from the Development Lease(s) areas; or
    - \* Any other type of deal to be declared by the Contractor; subject to EGAS' and the Government's approval.
  - iii- In case of assignment during an Exploration Phase of an area where a development lease(s) was granted to the Contractor; the value of the assignment bonus will be the sum of the value of both assignment bonuses mentioned in (i & ii) above.
- In case of each assignment to an affiliated company (ies) of the same Contractor member, the assignment Bonus shall be the Sum of US\$ 150 000.

## **12- ASSIGNMENTS**

Neither Contractor nor Contractor member(s) may assign to a person, firm, corporation or affiliated company in whole or in part, any of its rights, privileges, duties and obligations under the contract without the written approval of the Government. Priority shall be given to EGAS to obtain Contractor's share intended to be assigned except in case of assignment to an affiliated company of the same Contractor member. The assignor must submit reasonable documents that evidence the assignee's financial and technical competence which will be subject to EGAS' and Government's approval.

### **13- Disposition of Gas and Crude Oil :**

- Priority shall be given to satisfy the Local Market needs for both gas & crude oil. EGAS shall have the right to buy Contractor's share of both gas and crude oil.
- In case quantity of gas and / or crude oil isn't required for the local market, the Contractor may have the right to dispose its remaining production share the way it prefers after having the A.R.E. competent authorities' approval.
- In case a part or the total Contractor's production share of gas is disposed of for export, the quantities of gas to be exported will be subject to the A.R.E. competent authorities' approval.
- In case gas is disposed of for export by EGAS and Contractor, the quantities of gas to be exported, the gas price, as well as the relevant gas sales agreement will be subject to the A.R.E competent authorities' approval.

### **14- VALUATION OF GAS:**

- 1- In case the Contractor's share of gas (cost recovery and production share gas) is disposed of for the local market; it will be according to the following:
  - a) It will be valued according to a gas price formula to be agreed upon by EGAS and Contractor.
  - b) A development lease shall be granted.
  - c) A gas sales agreement will be concluded.
- 2- In case gas is disposed of for export by EGAS and Contractor, the price of the cost recovery and production share gas shall be valued at the net back price.
- 3- Take or pay & deliver or pay shortfall gas concepts shall be applied.

## **15- MANAGEMENT OF OPERATIONS**

During the exploration period an Exploration Advisory Committee consisting of equal number of representatives from Contractor and EGAS, shall discuss and recommend proposed annual work program and budget to EGAS for approval.

During the development of any discovery, EGAS and Contractor shall meet and agree on the Joint Venture Company that will take place to conduct the operations. Such Joint Venture Company will be approved by The Minister of Petroleum.

## **16- LOCAL PREFERENCE**

The Contractor shall give preference to the use of Egyptian Goods and Services (design, construction, engineering...etc.) subject to quality, availability and competitive pricing.

## **17- EMPLOYMENT & TRAINING**

Contractor shall give preference to the employment of qualified Egyptian nationals, whom shall undertake appropriate training programs.

## **18- APPLICABLE LAW AND ARBITRATION**

The Egyptian laws shall be the applied law in enforcing the terms of the Agreement. Arbitration procedure shall be governed by the Arbitration rules of the Cairo Regional Center for International Commercial Arbitration.

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