Egyptian Natural Gas Holding Company "EGAS"

2012 INTERNATIONAL BID ROUND

MAIN CONTRACT TERMS AND CONDITIONS

1- TYPE OF CONTRACT:

The Contract shall be a Production Sharing Agreement “PSA” Model. Contractor undertakes all risk to explore and develop both Gas and Crude Oil.

2- PARTIES TO THE CONTRACT:

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

3- CONTRACTOR:

Contractor could be either an individual Petroleum Exploration Company or a group of companies. Contractor shall submit a separate offer for each block if it 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.

In case Contractor elects to dispose all or part of its production share of Gas and excess cost recovery Gas (if any) by itself for the local market, Contractor shall bear and pay Royalty and Egyptian Income Tax for such Gas.

5- CONTRACT PHASES:

a) EXPLORATION PHASE: (Competitive)

The duration of the total Exploration Phase shall be specified in the offer, for Blocks (1, 2, 3, 4, 5 and 15) shall not exceed (6) years and shall be divided into two Exploration Periods and for Blocks (6, 7, 8, 9, 10, 11, 12, 13 and 14) could be up to eight (8) years and may be divided into two or three Exploration Periods.

b) <u>DEVELOPMENT PHASE:</u>

Following a Commercial Discovery of Oil or Gas, the Contractor should submit to EGAS a Development Plan including the abandonment plan of the Development area which shall be contained for example but not limited to abandonment procedures, estimated cost and the mechanism for recovering such costs (the concept for this mechanism will be attached to this terms & conditions) and the Contractor should submit also the Development Lease Application which should comprise the extent of the whole area capable of production to be covered by the Development Lease and mutually agreed upon by EGAS and Contractor, the destination of the disposed Petroleum, the Petroleum reserves and the Commercial Production Commencement and subject to the approval of the Minister of Petroleum.

In case of requesting a Gas Development Lease, the application should include in addition to what stated above, the Gas price which shall be agreed upon by EGAS and Contractor on the base of technical and economic factors for Developing area before the Minister of Petroleum approval of the Development Lease.

The duration of each development lease whether for Oil or Gas In case of blocks 1,2,3,4,5,6,7 and15 shall be twenty (20) years from the date of the development lease approval, and in case blocks 8,9,10,11,12 ,13 and 14 shall be twenty (20) Years from the Commercial Production Commencement provided that Commercial Production Commencement not later than four (4) years from the date of the Development Lease Approval and in all cases the Development Lease period may be extended up to 5 years “Five Years Extension” upon Contractor’s written request supplemented by a complementary Development or Production Plan to EGAS and subject to the Minister of Petroleum approval.

In case Contractor failed to submit the Development Lease Application within one (1) year (in case of onshore blocks) or three (3) years (in case of offshore blocks) from the Date of Contractor’s notification to EGAS of Commercial Discovery of Oil or Gas, as the case may be, (unless otherwise agreed upon by EGAS) the

Contractor is committed to immediately surrender the area containing such Oil or Gas reserves to EGAS.

In the event no Commercial Production of Oil in regular shipments or Gas in regular deliveries, have started from any Oil or Gas Development Lease in accordance with the specified items in the granted Development Lease, the Contractor shall, immediately surrender the petroleum reserves and relinquish the relevant Development Lease(s) (unless otherwise agreed upon by EGAS) . Such relinquished area is considered to be contained of the Contractor's relinquishments obligations at the end of the then current Exploration phase; if any.

6- <u>RELINQUISHMENT:(Competitive)</u>

The Contractor shall relinquish at the end of the first Exploration Period a minimum of ----% (not less than 30%) of the original area in a single unit, then:

- The remaining area shall be relinquished by the end of the second Exploration Period (except those parts that have been converted into Development Lease(s)) in case the Exploration Phase divided into two Exploration Periods.

or

- the Contractor shall relinquish a minimum of ----% (not less than 20%) of the original area in a single unit at the end of the second Exploration Period and then the remaining area shall be relinquished at the end of the subsequent Exploration Period (except those parts that have been converted into Development Lease(s)) In case the Exploration Phase divided into three Exploration Periods.

In any development lease, whether for Oil or Gas, the Contractor upon EGAS review shall relinquish development blocks not producing or not contributing to production at the end of three (3) years period from the Commercial Production Commencement Date. Following to that there will be a periodical revision every three (3) years during the development lease period, in order to relinquish any development block(s) not producing or not contributing to production in the same development lease.

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

For each Exploration Period, the bidders shall offer the minimum exploration program (seismic survey and number of exploratory wells) and its expected relevant financial commitments.

Any technical activities and actual financial expenditure approved by EGAS in excess of the minimum obligations during any Exploration Period shall be carried forward to the subsequent Exploration Period and offset against the minimum technical and financial commitment for such Exploration Period.

Upon EGAS' notification and before the final signature date of the Agreement; the Contractor shall submit a letter of Guarantee for the minimum financial commitment of the first Exploration Period.

A similar letter(s) of Guarantee shall be required if Contractor elects to enter the subsequent Exploration Period(s).

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, but not less than five (5) years.

9- EXCESS COST RECOVERY:

- In case of Blocks (1, 2, 3, 4, 5, 6, 7 and 15) the excess cost recovery ,if any, shall be belong to EGAS.
- In case of Blocks (8, 9, 10, 11, 12, 13 and 14) the excess cost recovery (if any) shall be Competitive and divided between EGAS and Contractor provided that EGAS' share should not be less than 75%.

10- PRODUCTION SHARING: (Competitive)

After deducting the cost recovery percentage; the remaining percentage of petroleum shall be divided between EGAS and Contractor based on Brent Price (quarterly average) and according to the Production tranches shown in the following table which the bidder shall fill abiding by the specified tranches and submit in the bid provided that EGAS' share should not be less than 60% at Brent Price less than or equal 40 US$ at the 1st Production trench.

A. EGAS' Share of Crude Oil and Condensate :

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

B. EGAS' Share of Gas and LPG :

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

11- BONUSES: "non recoverable"

a. SIGNATURE BONUS: (Competitive)

It shall be transferred to EGAS account upon EGAS' notification to the Contractor after the issuance of the relevant law and before Signing the Concession Agreement.

b. DEVELOPMENT LEASE BONUS:

Contractor shall pay to EGAS as a Development Lease Bonus the sum of US$ 25 000 for each Development Block (1'x1') on the approval date of each Development Lease.

c. PRODUCTION BONUS: (Competitive)

Contractor shall pay to EGAS the following production bonuses 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 :(Competitive)

Five year extension bonus shall be due upon the approval date of The Government on the Contractor's request.

e. TRAINING BONUS: (Competitive)

During any exploration period, the Contractor shall pay to EGAS the sum of US$ ------ (not less than US$ 150,000) at the beginning of each financial year to cover the training of EGAS' employees.

f. <u>ASSIGNMENT BONUS:</u>

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

- The Assignment Bonus in case of assignment to a third party(ies) shall be according to the following:

  i- During any Exploration period(10%) of the value of the total financial commitment of the then current Exploration period and according to the assigned percentage ;

  ii- During any Development phase, (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 and the assignee, from the Development Lease(s) areas; or
  * Any other type of deal to be declared by the Contractor.

  iii- In case of assignment during an Exploration Period and after discovery of a Commercial (Oil or Gas) Well or a Development Lease was granted to the Contractor of an area; 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$ 150000.

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. Except in case of assignment to an affiliated company of the same Contractor member, priority shall be given to EGAS to obtain Contractor's share intended to be assigned. The assignor must submit all reasonable documents that evidence the assignee's financial and technical competence which will be subject to EGAS' and concerned authorities' acceptance.

13- Disposition of Gas , LPG and Crude Oil:

- Priority shall be given to meet the local market needs for Gas, LPG and Crude Oil as determined by EGAS.
- CONTRACTOR may elect to dispose all or part of its Gas of production share and excess cost recovery (if any) by itself for the local market, provided that the CONTRACTOR should submit the application to EGAS to obtain the A.R.E. competent authorities' approval on Gas quantities and price. And CONTRACTOR shall bear Egyptian income tax and royalty for such Gas.
- In case EGAS and Contractor agree on exporting Gas, they should obtain the A.R.E. competent authorities' approval on the Gas quantities allocated for export and the price for such Gas.

14- VALUATION OF GAS:

1- In case the Contractor's share of gas (cost recovery, production share and excess cost recovery (if any)) is disposed of for the local market; according to a Gas Sales Agreement between EGAS and CONTRACTOR (as sellers) and EGAS (as buyer) it shall be valued, delivered to and purchased at a price, which should be agreed upon by EGAS and Contractor on the basis of technical and economic factors for Developing area such as 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 the concessions of similar conditions and stated in the relevant development lease before the Minister of Petroleum approval of the Development Lease .

2- In case gas is disposed of for export by EGAS or EGAS and Contractor, 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 Periods 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.

The Joint Venture Company will be established three (3) months prior to the Commercial Production Commencement stated in the Development Lease whether for Crude Oil or Gas to carry out the Development operations. The name of Joint Venture Company will be approved by The Minister of Petroleum.

16- Local Preference of GOODS AND SERVICES

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

17- 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.

Abandonment of Assets

- The CONTRACTOR should submit to EGAS the Development Plan including abandonment plan of the Development area, such abandonment plan shall include abandonment procedures, estimated cost and the mechanism for recovering such costs.

- In order to finance abandonment of all fixed assets which include large structures and facilities essential to the conduct of Petroleum Operations that are located in the Concession Area, for example but not limited to platforms, wells, pipelines….etc; the CONTRACTOR shall open a bank account for that purpose to be agreed upon between EGAS and the Contractor at the joint venture company. This account shall be known as the "Abandonment Fund". The terms for the administration of the Abandonment Fund monies shall be by EGAS.
- In no event shall the Abandonment Fund exceed ten (10%) for onshore blocks and seven (7%) for deep water blocks of all Capital Costs.
- Contractor shall commence paying contributions to the Abandonment Fund in the first Calendar Quarter following the Calendar Quarter in which a percentage that doesn't exceed 50% of Petroleum reserves, identified in the Development lease, has been recovered.
- Contractor shall pay the contributions to the Abandonment Fund according to the following formula:

$$X = (A/B*C) - Y$$

where:

X = The amount of funds to be transferred to the Abandonment Fund in respect of the relevant Calendar Quarter.
A = The 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 was opened.

C = The cumulative production of Petroleum from the end of the Calendar Quarter in which the Abandonment Fund was opened.

Y = The Abandonment Fund balance at the end of the previous Calendar Quarter.

- All monies allocated to the Abandonment Fund shall be recoverable as Operating Costs.
- In case the actual abandonment cost greater than the Abandonment Fund, the contractor shall borne the difference in costs.
- In the event that there are excess funds in the Abandonment Fund following completion of all abandonment operations then such excess shall be belong to EGAS plus accrued banking interest thereon.
- No Taxes shall be imposed on any amounts paid into, received or earned by or held in the Abandonment Fund.