

**CONCESSION AGREEMENT**

**FOR**

**PETROLEUM EXPLORATION AND EXPLOITATION**

**BETWEEN**

**THE ARAB REPUBLIC OF EGYPT**

**AND**

**South Valley Egyptian Petroleum Holding Company**

**AND**

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**AND**

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**IN**

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**AT**

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**A.R.E**

This Agreement made and entered on this \_\_\_\_\_ day of \_\_\_\_\_, 20---, by and between:

First: 1- the ARAB REPUBLIC OF EGYPT (hereinafter referred to variously as "A.R.E." or as the "GOVERNMENT"), represented by the Minister of Petroleum and Mineral Resources, in his capacity; and

2- SOUTH VALLEY EGYPTIAN PETROLEUM HOLDING COMPANY, a legal entity created by Prime Minister Decree No. 1755 of 2002, and pursuant to Law No. 203 of 1991 and its amendments (hereinafter referred to as "GANOPE") represented by the Chairman, in his capacity.

Second: "-----", a ----- company registered and existing under law ..... Hereinafter referred to as "....." and "....." is a "NATIONAL COMPANY" affiliating to Egyptian petroleum sector Hereinafter referred to as "....." . ----- and "....." shall be hereinafter referred to collectively as "CONTRACTOR" and individually as "Contractor Member".

A national company affiliating to the Egyptian petroleum sector shall obtain 10% of the contractor's share as a free carry share without incurring any burdens or costs until commercial discovery. (Instead of signature bonus), and just the production start-up the contractor will recover all carried expenditures paid on behalf of the national company from the national company percentage in cost recovery.

It is also understood that if no commercial discovery is made, the national company will not incur any expenditures as a result of the exploration phase.

## **PREAMBLE**

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

WHEREAS, GANOPE has applied for an exclusive concession for the exploration and

exploitation of petroleum 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") ; and

WHEREAS, "-----"and a "....." agree to undertake its obligations provided hereinafter as a CONTRACTOR with respect to the Exploration, Development and Production of Petroleum in ----- Area , at ----- ; and

WHEREAS, the GOVERNMENT desires hereby to grant such Concession under this agreement ; whereas the Minster of petroleum and pursuant to the provisions of Law No. 66 of 1953 and its amendments by Law No. 198 of 2014, may enter into a concession agreement with GANOPE, and with –"-----" and a "....." as a CONTRACTOR in the said Area.

NOW, THEREFORE, the parties hereto agree as follows:

The previous preamble to this Agreement are hereby made part hereof, complemented and integrated to its provisions.

## **ARTICLE I DEFINITIONS**

- (1) "Agreement" shall mean this Concession Agreement and its Annexes.
- (2) "A.R.E." means Arab Republic of Egypt.
- (3) "The Government" means the government of the Arab Republic of Egypt represented by the Minister of Petroleum in this Agreement.
- (4) "EGPC" means the EGYPTIAN GENERAL PETROLEUM CORPORATION, a legal entity created by Law No. 167 of 1958 as amended (hereinafter referred to as "EGPC").
- (5) "EGAS" means 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.
- (6) "CONTRACTOR" could be one company as individually or more as collectively (each company individually is called a "CONTRACTOR MEMBERS"), CONTRACTOR

under this Agreement is "-----and a "....." Unless modified by virtue of Article XXI herein.

(7) "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 Concession Agreement shall be made. CONTRACTOR shall notify the name of the Operator to GANOPE.

(8) An "Affiliated Company" means a company:

(a) Of which the share capital, conferring a majority of votes at stockholder s' meetings of such company, is owned directly or indirectly by a party hereto; or

(b) Which is the owner directly or indirectly of share capital conferring a majority of votes at stockholders' meetings of a party hereto; or

(c) Of which the share capital conferring a majority of votes at stockholder's meetings of such company and the share capital conferring a majority of votes at stockholder s' meetings of a party hereto are owned directly or indirectly by the same company.

For the avoidance of doubt, if CONTRACTOR is comprised of more than one company, Affiliated Company shall mean an Affiliated Company of a CONTRACTOR Member.

(9) "JOINT VENTURE OPERATING COMPANY " is a company to be formed in accordance with Article VI and Annex "D" of this Agreement.

(10) "Effective Date" means the date on which the text of this Agreement is signed by the Government, GANOPE and Contractor, after the relevant Law is issued

(11) " years and calendar years ":

(a) "Year" means a period of twelve (12) months according to the Gregorian calendar.

(b) "Calendar Year" means a period of twelve (12) months according to the Gregorian calendar begin from 1<sup>st</sup> January to 31<sup>st</sup> December.

- (12) "Financial Year" means the GOVERNMENT's financial year according to the laws and regulations of the A.R.E.
- (13) "Tax Year" means the period of twelve (12) months according to the laws and regulations of the A.R.E.
- (14) "Exploration" shall include such geological, geophysical, aerial and other surveys as may be contained in the approved Work Programs and Budgets, and the drilling of such shot holes, core holes, stratigraphic tests, holes 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.
- (15) "Exploration Block" shall mean an area, the corner points of which have to be coincident with three (3) minutes by 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 Concession Agreement as set out in Annex "A".
- (16) "Development" includes, but not be limited to, all the operations and activities pursuant to approved Work Programs and Budgets under this Agreement with respect to:
- (a) drilling, plugging, deepening, side tracking, re-drilling, completing, equipping of development wells and the changing of the status of a well, and
  - (b) designing, engineering, construction, installation, servicing and maintenance of equipment's, lines, systems facilities, plants and related operations to produce and operate said development wells, taking, saving, treating, handling, storing, transporting and delivering Petroleum, re-pressuring, recycling and other secondary recovery projects, and
  - (c) Transportation, Storage and any other work or activities necessary or ancillary to the activities specified in (a) and (b).
- (17) "Development Block" shall mean an area, the corner points of which have to be coincident with one ( 1 ) minute by 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 Concession Agreement as set out in Annex "A"

- (18) "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.
- (19) "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 from 14.65 to 14.696 PSIA. such term includes distillate and condensate.
- (20) "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 from 14.65 to 14.696 PSIA.
- (21) "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.
- (22) "LPG" means Liquefied Petroleum Gas, which is a mixture principally of butane and propane liquefied by pressure and temperature. .
- (23) " Liquefied Natural Gas( LNG)" which is Natural Gas that has been liquefied by cooling it to approximately negative two hundred and sixty degrees Fahrenheit (-260° F) at atmospheric pressure.
- (24) "Standard Cubic Foot" (SCF) is the amount of Gas necessary to fill one (1) cubic foot of space at atmospheric pressure from 14.65 to 14.696 PSIA.at temperature of sixty degrees Fahrenheit (60°F).
- (25) "British Thermal Unit (BTU) " means the amount of energy required to raise the temperature of one (1) pound of pure water by one (1) degree Fahrenheit from sixty degrees (60° F) to sixty one degrees (61° F) at atmospheric pressure from 14.65 to 14.696 PSIA.
- (26) "Condensate" means a mixture consisting primarily of pentanes and heavier hydrocarbons which is recovered as a liquid from crude Oil or Natural Gas in processing and separation facilities.
- (27) Commercial Well:

- a) "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 GANOPE, is found to be capable of producing at the economic rate. The date of discovery of a Commercial Gas Well is the date on which such well is tested and completed according to the above.
- b) "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 GANOPE, is found to be capable of producing at the economic rate. The date of discovery of a Commercial Oil Well is the date on which such well is tested and completed according to the above.
- (28) "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.
- (29) "Commercial Production" means producing for regular shipment of crude oil or regular delivery of Gas.
- (30) "Commercial Production Commencement Date " means the date on which the first regular shipment of Crude Oil or the first regular deliveries of Gas are made.
- (31) "Commercial Discovery" has the meaning ascribed in Article III (c)
- (32) "Development Lease(s)" means the Development Block or Blocks covering the geological structure capable of production, the corner points of which have to be coincident with one (1) minute by 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 Concession Agreement as set out in Annex "A".
- (33) "Gas Sales Agreement" means Agreement entered into in accordance with Article VII (e) between GANOPE and CONTRACTOR (as sellers) and GANOPE or the Egyptian General Petroleum Corporation "EGPC" or The Egyptian Natural Gas Holding Company "EGAS" or a mutually agreed party (as buyer), which contains the terms and conditions for Gas sales from a Development Lease .

(34) Development Plan" means a plan on high level basis and covering to be executed within two(2) years, sets out the strategic framework for the efficient exploitation of the reserves in the Area and describes the selected development concept required to provide a long production plan throughout the life of the field profiles used to support the requirements of domestic and external markets of Oil, Gas and condensate. The Development Plan outlines the activities to be conducted during the phases of Development and Exploration within Development Lease Blocks unless otherwise agreed upon by GANOPE.

(35) "Development Work Program" means those physical multi-disciplinary activities (including but not limited to drilling, engineering, projects, subsurface) required to be undertaken within a Financial Year to deliver the Production upon the agreed date.

(36) "Decommissioning Plan" means a plan submitted by CONTRACTOR and approved by GANOPE according to Article III (d) of this Agreement, containing the proper measures to terminate the Petroleum Operations conclusively, in accordance with sound and accepted Petroleum industry practices, taking into consideration the applicable laws stated in Article XVIII of this Agreement.

**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 Letter of Guarantee to be submitted by CONTRACTOR to GANOPE before the time of signature by the Minister of Petroleum of this Agreement, for the sum of \$ ----- (----- million US Dollars), guaranteeing the execution of CONTRACTOR's minimum Exploration obligations hereunder for the initial ----- (---) years from the Effective Date. In case CONTRACTOR extends the initial Exploration Period for ----- additional successive period(s) of ----- years, in accordance with Article III (b) of this Agreement, similar Letter(s) of Guarantee shall be issued and submitted by CONTRACTOR, prior the day CONTRACTOR exercises its option to extend. The Letter of Guarantee shall be for the sum of ----- million U.S. Dollars (\$-----) less in this/these instance(s) any excess expenditures of the preceding Exploration period permitted for carry forward in accordance with Article IV (b) third paragraph of this



Agreement. In case of any Shortfall ( the difference between the amount of CONTRACTOR's financial obligation of any Exploration period minus the total amount approved by GANOPE for the same concerned obligation period), plus any carry forward approved by GANOPE from the previous period, if any , GANOPE 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 GANOPE 's account and if CONTRACTOR did not transfer this shortfall within the mentioned fifteen (15) days, GANOPE has the right to liquidate the concerned letter of Guarantee up to the amount of the shortfall. Each of the ----- (---) Letters of Guarantee shall remain effective for six (6) months after the end of the Exploration period for which it has been issued except as it may be released prior to that time in accordance with the terms thereof.

The letters of Guarantee mentioned above shall be reduced quarterly by Exploration Expenditures incurred and paid by CONTRACTOR on operations and approved by GANOPE for the concerned Exploration period.

The CONTRACTOR has the right to submit a letter entitles GANOPE to solidify from the CONTRACTOR dues an amount equal to the financial commitment of the then current phase.

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

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

**Annex "F"** is a current map of the National Gas Pipeline Grid System established by the GOVERNMENT. The point of delivery for Gas shall be agreed upon by GANOPE and CONTRACTOR under a Gas Sales Agreement, which point of delivery shall be located at the flange connecting the development lease pipeline to the nearest point on the National Gas pipeline Grid System as depicted in Annex "F" or as otherwise agreed by GANOPE and CONTRACTOR.

**Annexes "A", "B", "C", "D","E" and "F"** 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 GANOPE and CONTRACTOR, an exclusive concession in and to the Area described in Annexes "A" and "B" subject to the terms, covenants and conditions set out in this Agreement, which insofar as they are contrary to or inconsistent with any provisions of Law No. 66 of 1953, as amended, shall have the force of Law

- A. The GOVERNMENT shall own and be entitled, as hereinafter provided to 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 the two extension periods (if any). Said royalty shall be borne and paid by GANOPE and shall not be the obligation of CONTRACTOR. The payment of royalties by GANOPE shall not considered an income attributable to the CONTRACTOR.

In case CONTRACTOR dispose all or part of its share of Production Sharing Gas and Excess Cost Recovery Gas, if any, by itself to local Market, the effective Law No. 196 of 2017 for Regulating Gas Market Activities in A.R.E. shall be applied on CONTRACTOR

- B. An initial Exploration period of ----- (----) years shall start from the Effective Date. .... successive extension(s) to the initial Exploration period shall be ----- (----) years and shall be granted to CONTRACTOR at its option, upon not less than thirty (30) days prior written notice to GANOPE, such notice to be given not later than the end of the current period, as may be extended pursuant to the provisions of Article V (a), and subject only to fulfill its obligations for that period according to this agreement. This Agreement shall be terminated if neither a Commercial Oil Discovery nor a Commercial Gas Discovery is established by the end of the ----- (----) year of the Exploration period, as may be extended pursuant to Article V (a).The election by GANOPE to undertake a sole risk venture under paragraph (c) hereinafter shall neither extend the Exploration period nor affect the termination of this Agreement as to CONTRACTOR.

**C. Commercial Discovery:**

- (i) A Commercial Discovery whether of Oil or Gas may consist of one 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 GANOPE, undertake as part of its

Exploration program the appraisal of the discovery by drilling one 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 unless otherwise agreed upon by GANOPE.

- (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 GANOPE 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 following the date of the discovery of the Commercial Gas Well (unless GANOPE agrees that such period may be extended), 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 GANOPE's approval.
- (iv) It is understood that, any Crude Oil produced from a well in the Area before it is converted to a Development Lease, either considered Commercial or non-Commercial Well, and not used in Petroleum operations, is 100% owned by GANOPE and not subject to Article VII.

CONTRACTOR may also give a notice of a Commercial Oil Discovery in the event it wishes to undertake a Gas Recycling Project, A notice of Commercial Gas Discovery shall contain all detailed particulars of the discovery for example but not limited to the Area of Gas reserves, the estimated production potential, profile and field life (unless otherwise agreed upon by GANOPE).

Within sixty (60) days following receipt of a notice of a Commercial Oil or Gas Discovery, GANOPE and CONTRACTOR shall meet and review all appropriate data with a view to mutually agreeing upon the existence of a Commercial Discovery. The date of Commercial Discovery shall be the

date GANOPE and CONTRACTOR jointly agree in writing that a Commercial Discovery exists.

- (v) If Crude Oil or Gas is discovered but is not deemed by CONTRACTOR to be a Commercial Oil or Gas Discovery under the above provisions of this paragraph (c), after one (1) month from the period specified above within which CONTRACTOR can give notice of a Commercial Oil Discovery, 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", Ganope has the right to develop, produce and dispose all crude oil or Gas from the geological feature on which the well has been drilled at its sole risk, cost and expense or by other means deemed to be appropriate by Ganope for developing such discover after sixty (60) days from notifying contractor in writing. Said notification shall state the specific area covering said geological feature to be developed, the wells to be drilled, the production facilities to be installed and GANOPE's estimated cost thereof. Within thirty (30) days after receipt of said notification CONTRACTOR may, in writing, elect to develop such area as provided in the terms of this agreement hereunder. In such event all terms of this Agreement shall be applied 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 GANOPE, such area is mutually agreed upon by GANOPE and CONTRACTOR on the basis of good Petroleum industry practice. GANOPE shall be entitled to perform or in the event Joint venture Operating Company has come into existence, to let such Joint venture Operating Company perform such operations for the account of GANOPE and at GANOPE's sole cost, risk and expense. When GANOPE has recovered from the Crude Oil produced from such specific area a quantity of Oil or Gas equal in value to three hundred percent (300%) of the cost it has incurred in carrying out the sole risk operations, CONTRACTOR shall have the option, to share in further development and production of that specific area upon paying GANOPE one hundred percent (100%) of such costs incurred by GANOPE and Such one hundred percent (100%) payment shall not be recovered by CONTRACTOR, only in the event there has been a separate Commercial Discovery of oil elsewhere within the area.

Immediately following such payment the specific area shall either:

- (1) Revert to the status of an ordinary Development Lease under this Agreement and thereafter shall be operated in accordance with the terms hereof; or
- (2) Alternatively, in the event that at such time GANOPE or its Affiliated Company is conducting Development operations in the area at its sole expense and GANOPE elects to continue operations, the area shall remain set aside and CONTRACTOR shall only be entitled to its production sharing percentages of the Crude Oil as specified in Article VII (b).

The sole risk Crude Oil or Gas shall be valued in the manner provided 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 GANOPE's operations of any sole risk venture hereunder, although such Agreement shall have been terminated with respect to CONTRACTOR pursuant to the provisions of Article III (b).

#### **D. Conversion To A Development Lease :**

- (1) Following a Commercial Oil Discovery or a Commercial Gas Discovery and after submitting a Development Plan, the extent of the whole area capable of production to be covered by a Development Lease shall be mutually agreed upon by GANOPE and CONTRACTOR and be subject to the approval of the Minister of Petroleum. Such area shall be converted automatically into a Development Lease without the issue of any additional legal instrument or permission. In case CONTRACTOR did not fulfill its commitment to submit the Oil / Gas Development Lease documentations to GANOPE, in order to issue the Development Lease related to that discovery, within two (2) years from the Date of Contractor's notification to GANOPE of Commercial Discovery exists ( unless otherwise approved by GANOPE ), CONTRACTOR shall be considered assignor without charge for the area dedicated for issuing such Development Lease. GANOPE shall have the right to develop, produce and dispose all the Petroleum produced from such assigned area in the manner it deems appropriate without any further legal procedures , the CONTRACTOR shall have no right related to the production and has no right to have recourse against GANOPE for compensation or expenditures or costs.
- (2) Following the conversion of an area to a Development Lease based on a Commercial Gas Discovery (or upon the discovery of Gas in a Development Lease granted following a Commercial Oil Discovery), GANOPE and CONTRACTOR

shall endeavor with diligence to find adequate markets capable of absorbing the production of Gas and with respect to the local markets, GANOPE shall advise CONTRACTOR of the potential outlets for such Gas and the expected annual schedule of demand. Thereafter, GANOPE and CONTRACTOR shall meet with a view to assessing whether the outlets for such Gas and other relevant factors warrant the development and production of the Gas and in case of agreement such available gas shall be disposed to GANOPE or EGPC or EGAS under a long-term Gas Sales AGREEMENT in accordance with and subject to the conditions set forth in Article VII.

(3) The Development period of each Development Lease shall be as follows:

(aa) In respect of a Commercial Oil Discovery, twenty (20) years from the date of the Minister's of Petroleum approval of the Development Lease plus the two Extension Period (as defined below) provided that, in the event that, subsequent to the conversion of a Commercial Oil Discovery 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 the first deliveries of Gas locally or for export plus the Extension Periods (as defined below) provided that the duration of such Development Lease based on a Commercial Oil Discovery may not be extended beyond thirty (30) years from the date of the Minister's of Petroleum approval of the Oil Development Lease.

CONTRACTOR shall immediately notify GANOPE 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 Gas Discovery, twenty (20) years from the date of the Minister's of Petroleum approval of the Development Lease plus the two Extension Period (as defined below) provided that, if subsequent to the conversion of a Commercial Gas Discovery 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 GANOPE upon the lapse of twenty (20) years from the discovery date of such Crude Oil plus the two Extension Period (as defined below).

Notwithstanding, anything to the contrary under this Agreement, the duration of

Development Lease based on a Commercial Gas Discovery shall in no case exceed thirty (30) years from the date of the Minister's of Petroleum approval of the Gas Development Lease

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

The "Two Extension Periods" shall mean two periods of five (5) years each respectively which may be elected by CONTRACTOR upon written request sent by CONTRACTOR to GANOPE before six (6) months prior to the expiry of the relevant twenty (20) years period or the "Second Extension Period", as the case may be, supplemented by technical studies including evaluation of production period, expected production rates during extension period, CONTRACTOR's obligations and relevant economic consideration. This extension period is subject to the approval of GANOPE and the Minister of Petroleum. CONTRACTOR shall also pay a Development Lease Extension Bonus for each period, according to Article IX.

- E.** Development operations, upon the issuance of a Development Lease granted following a Commercial Oil or Gas Discovery shall be started promptly by Joint Venture Operating Company meanwhile and be conducted in accordance with good Oil field 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, GANOPE and CONTRACTOR shall negotiate in good faith on the best way to avoid impairing the production for the interests of the parties.

In case CONTRACTOR , through the Joint Venture Operating Company ,did not fulfill its obligations regarding the execution of the Development Plan and did not start producing Crude Oil ,in commercial regular shipments , within four (4) years from the Development Lease approval date, CONTRACTOR shall be considered assignor without charge for the Development Lease and for all its rights, privileges related to such area , GANOPE shall have the right to develop, produce, and dispose all Crude Oil produced from such assigned area through the Joint Venture Operating Company by any means deems to be appropriate by GANOPE without any further legal procedures, and CONTRACTOR shall have no right related to the production and shall have no right to have recourse against GANOPE for any compensation, expenditures or costs, Unless otherwise agreed by GANOPE.

In the event no Commercial deliveries of Gas in accordance with the mentioned Gas Sales Agreement/scheme within four (4) years from the approval date of the Development Lease, CONTRACTOR shall be considered assignor without charge for

the Development Lease and for all its rights, privileges, related to such area , GANOPE shall have the right to develop, produce, and dispose all Gas produced from such assigned area through the Joint Venture Operating Company by any means deems to be appropriate by GANOPE without any further legal procedures, and CONTRACTOR shall have no right related to the production and shall have no right to have recourse against GANOPE for any compensation, expenditures or costs, Unless otherwise agreed by GANOPE.

In the event no Commercial Production of Oil in regular shipments or Gas deliveries from any Development Block in the Development Lease within four (4) years from the date of commencement of Commercial Production for Oil or from the date of first deliveries of Gas locally or for export in such Development Lease, such Development Block shall immediately be relinquished, unless there is a Commercial Oil Discovery on the Development Lease based on Gas or a Commercial Gas Discovery on the Development Lease based on Oil. Each Block in a Development Lease being partly within the radius of drainage of any producing well shall be considered as participating in the Commercial Production referred to above, Unless otherwise agreed by GANOPE.

Every four (4) years GANOPE shall review the Development Blocks of Oil Development Leases from the date of commencement of Commercial Production and/or Gas from the date of the first regular Gas deliveries locally or for export, for immediate relinquish for any non-producing block or any block that does not participate in production( unless otherwise agreed by GANOPE ).

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 blocks will take place in order to relinquish the Development Blocks not producing or not contributing to production from such well (unless GANOPE agrees to extend such period).

Upon the signature of a Gas Sales Agreement or commencement of a scheme to dispose of the Gas, whether for export or otherwise as referred to Article VII Development operations in respect of Gas and Crude Oil in the form of condensate or LPG to be produced with or extracted from such Gas shall be started promptly by Joint venture Operating Company meanwhile and be conducted in accordance with good Gas field practices and accepted Petroleum engineering principles and the provisions of such Agreement or scheme. In the event no Commercial Production of Gas is established in accordance with such Gas Sales Agreement or scheme, the Development Lease relating to such Gas shall be relinquished, unless otherwise agreed upon by GANOPE.



If, upon application by CONTRACTOR it is recognized by GANOPE that Crude Oil or Gas is being drained from an Exploration Block under this Agreement into a Development Block on an adjoining concession area held by Same CONTRACTOR or another CONTRACTOR, the Block being drained shall be considered as participating in the commercial production of this Development Block and the 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 concession area.

In case of failure by the CONTRACTOR and another contractor in this Agreement 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. GANOPE 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, in case of failure to reach an agreement. GANOPE's decision shall be binding on all parties. The cost of the expert shall in no event be recovered in both concession areas.

In the case of the existence of petroleum reserves in one of the geological structures extended between this Concession 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 GANOPE, as a government's representative, of the existence of this petroleum reserves and shall cooperate 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 extent and the geological features for such extended petroleum reserves and the proposed area for the joint exploitation and/or development of the said reserves.
- ii) The methodology used for the calculation of such petroleum reserves and its allocation between the 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 only look forward to the Petroleum in 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 GANOPE and CONTRACTOR in accordance with the provisions of Article VII.

- G.**
1. CONTRACTOR shall be subject to Egyptian income tax laws 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, Unless otherwise provided in this agreement.
  2. CONTRACTOR shall be liable to prepare the tax return, that only the tax authority shall be entitled to audit. CONTRACTOR shall submit the tax return to GANOPE twenty five (25) days prior to the due date of submitting thereof to the tax authority. GANOPE shall have the right to review the tax return in order to accept the tax calculation therein. GANOPE shall provide comments on such return within fifteen (15) days of the date of receiving the tax return from CONTRACTOR. In any case CONTRACTOR shall be responsible for submitting the tax return to the tax authority within the due date.

CONTRACTOR's annual income for Egyptian income tax 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 the following :**

- (i) The costs and expenses of CONTRACTOR; and
- (ii) The value as determined according to Article VII (c), of GANOPE's share of the Excess Cost Recovery Petroleum paid / have to be paid to GANOPE in cash or in kind, if any,

**Plus the following:**

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

For purposes of the above 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.

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

Whereas, Contractor shall bear and pay the Egyptian income tax for all or part of the Contractor's profit share of Gas and Excess Gas cost recovery (if any) in case of Contractor dispose such Gas by itself provided that there is no need for The Government / GANOPE for such quantity of Gas and obtaining the approval of competent authority, Inconsistent with Article VII (e) (2) (1) and the value of what the Contractor pays as a tax in this case, is not recovered.

- (2) GANOPE is committed to furnish to CONTRACTOR the proper official receipts evidencing the payment of CONTRACTOR's Egyptian income tax for each Tax Year within ninety (90) days following the receipt by GANOPE of CONTRACTOR's tax declaration for the preceding Tax Year. Such receipts shall be issued by the proper Tax Authority and shall state the amount and other particulars customary for such receipts.
- (3) Egyptian Income Tax shall be applied in this agreement and inclusive of all income taxes payable in the A.R.E. (including tax on tax) such as the tax on income from movable capital, the tax on profits from commerce, 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.
- (4) When Ganope calculate its imposed income taxes in A.R.E, GANOPE shall be entitled to deduct all royalties paid by GANOPE to the GOVERNMENT and CONTRACTOR's Egyptian income taxes paid by GANOPE on behalf Of CONTRACTOR .

**ARTICLE IV  
WORK PROGRAM AND EXPENDITURES  
DURING EXPLORATION PERIOD**

(a) CONTRACTOR shall commence Exploration operations hereunder not later than six (6) months after the Effective Date. Contractor shall purchase all seismic, magnetic and gravitational data related to the concession area, from any third party entered into a contract with GANOPE to grant a license for collecting and exploiting data with charge executed prior to the effective date

(b) The initial Exploration period shall be ----- ( ) years from the Effective date, and CONTRACTOR shall spend a minimum of ----- million US dollars (US \$-----) during the initial ----- (-----) years Exploration Period to execute the Exploration and drilling operations to include contractor's obligation to implement :

- 1 -----
- 2 -----
- 3 -----

the Contractor may extend this Exploration period for .....(.....) successive extension period, that extension period shall be ----- ( ) years in accordance with Article III (b), upon at least thirty (30) days prior written notice sent by Contractor to GANOPE before this extension period and subject to CONTRACTOR'S expenditure of minimum Exploration obligations and fulfillment of its technical obligations according to this Agreement hereunder, for the current period meanwhile.

CONTRACTOR shall spend a minimum of ----- million US dollars (US \$-----) during the extension period ----- (-----) years in which the contractor elects to extend it after the initial exploration period to execute the Exploration and Drilling operations Which include contractor's obligation to implement :

- 1 -----
- 2 -----
- 3 -----

In case the CONTRACTOR spend more than the minimum amount required to be

expended or drills more than the minimum wells required to be drilled during the initial Exploration period ----- (-----) years, so the excess may be subtracted from the minimum amount required to be expended by CONTRACTOR and approved by GANOPE or minimum number of wells required to be drilled during any successive extension period, as the case may be.

GANOPE may approve the CONTRACTOR's request to enter the next extension period subject to fulfillment the minimum financial and technical obligations for the current exploration period, In case that contractor did not perform any of its technical obligations during any exploration period , GANOPE has the right (based on a contractor request ) , to allow the contractor to enter the next extension period and relay that technical obligation to it ,provided that the contractor submit a letter of guarantee with the value of that technical obligation only and shall be valid for six (6) months after the end of the extension period carried toward to it , and that letter of guarantee is not for reduction or discount compared to any other expenses that do not relate to the obligation guarantee, and shall not be recovered unless that technical obligation is executed, and if not, the value of the letter of guarantee will be a fully right to GANOPE.

GANOPE has the right to approve (based on a CONTRACTOR's request), to exchange a technical work by another technical work during the same exploration period if GANOPE assured that this technical work required to be replaced is not less in value than it and achieves the same purpose, so the rejected technical work becomes useless.

GANOPE has the right to approve (based on a CONTRACTOR's request), to perform the obligations of a next extension period of the initial exploration period or any of its extensions, however to be deducted from the letter of guarantee which submitted and approved by GANOPE and related to the certain exploration period and this shall be applicable to all extensions, if any.

In case CONTRACTOR surrenders its Exploration rights under this Agreement as mentioned above before or at the end of the ----- (-----)year of the initial Exploration period, having expended less than the total sum of ----- million US Dollars (US\$-----) on Exploration or in the event at the end of the ---- (-----) year CONTRACTOR has expended less than the said sum, an amount equal to the difference between the said (US\$-----) ----- million US Dollars and the amount actually spent on Exploration shall be paid by CONTRACTOR to GANOPE at the time of surrendering or within six (6) months from the end of the initial Exploration period (----) years or extension periods as the case may be . Any expenditure deficiency by contractor at the end of any extension period for the reasons above noted shall similarly result in a

payment by contractor to GANOPE of such deficiency shall be unrecoverable , As long as this Agreement still effective, CONTRACTOR shall be entitled to recover any such payments as Exploration Expenditure according to Article VII in the event of Commercial Production.

Without prejudice to Article III (b), in case no Commercial Oil or Gas Discovery is established or no notice of Commercial Oil or 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, GANOPE 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 terms as may be mutually agreed to by GANOPE 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.

A joint committee between GANOPE and CONTRACTOR is to be formed and referred to as "Exploration Advisory Committee" and such committee is consist of six (6) members, three (3) of them shall be appointed by GANOPE and three (3) of whom shall be appointed by CONTRACTOR, and Ganope shall appoint the Chairman of the Exploration Advisory Committee from Ganope's members. The Exploration Advisory Committee discuss the proposed Work Program and Budget And offers the advice and or / the amendments which is appropriate ,and after finishing the discussion by the committee, the contractor shall implement such agreed amendments and submit the work program and budget to GANOPE for its approval.

**Following such approval, it is further agreed that:**

- (i) CONTRACTOR shall neither substantially change or modify said Work Program and Budget nor reduce the approved budgeted expenditure without the approval of GANOPE;
- (ii) The CONTRACTOR should obtain GANOPE'S approvals needed for executing the items included in the exploration work program and budget in accordance with the rules and procedures applicable in this respect to GANOPE.
- (iii) In the event of emergencies involving danger of loss of lives or property, CONTRACTOR may expend such additional unbudgeted amounts as may be required to alleviate such danger. Such expenditure shall be considered in all

aspects as Exploration Expenditure and shall be recovered according to Article VII hereof.

- (d) CONTRACTOR shall submit all necessary funds for all materials, equipment, supplies, personnel administration and operations pursuant to the Exploration Work Program and Budget and GANOPE shall not be responsible to bear or pay any of the aforesaid costs.
- (e) CONTRACTOR shall be responsible for the preparation and performance of the Exploration Work Program which shall be implemented in efficient manner and consistent with good petroleum industry practices thus:
  - All the 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 processing of data, specialized laboratory engineering and development studies thereon, that may be made in specialized centers outside A.R.E. subject to GANOPE'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 Government and GANOPE shall be forthwith notified by the names of such General Manager and his Deputy upon appointment. The contractor shall entrust the General Manger and the Deputy General Manager, in the absence of General Manager, 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 to be issued which are applicable hereunder and not in conflict with this Agreement shall apply to CONTRACTOR.
- (f) CONTRACTOR shall supply GANOPE, within thirty (30) days from the end of each calendar quarter, with a Statement of Exploration activity showing costs incurred by CONTRACTOR during such quarter. CONTRACTOR's records and necessary supporting documents shall be available for inspection by GANOPE at any time during regular working hours for three (3) months from the date of receiving each statement.

Within the three (3) months from the date of receiving such Statement, GANOPE 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 supplied by CONTRACTOR does not applicable with their prices; or
4. that the costs incurred are not reasonably required for operations.

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

CONTRACTOR shall confer with GANOPE about in connection with thus presented, and the parties shall attempt to reach a settlement which is mutually satisfactory.

Any reimbursement due to GANOPE out of the Cost Recovery Petroleum as a result of reaching Agreement or as result of an arbitral award shall be promptly made in cash to GANOPE, 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 GANOPE 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 or figures published by the Financial Times representing the mid-point of the rates (bid and ask) applicable to one month U.S. Dollars deposits in the London Interbank Eurocurrency Market on each fifteenth (15th) day of each month occurring between the date on which the disputed amount(s) would have been paid to GANOPE and the date on which it is settled. If the LIBOR rate is available on any fifteenth (15th) 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 month U.S. Dollar deposits. If such fifteenth (15th ) 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.

If within the time limit of the three (3) month period provided for in this paragraph, GANOPE 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 amounts necessary for its operations in the A.R.E. from GANOPE or from any bank authorized by the GOVERNMENT to conduct foreign currency exchanges. Priority shall be given to GANOPE to purchase the foreign currencies from CONTRACTOR at the same applicable rate and date as such currencies may be purchased from the National Bank of Egypt.

(h) GANOPE is 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 GANOPE's account abroad with a correspondent bank of the National Bank of Egypt, Cairo. Withdrawals from said account shall be used for financing GANOPE's and its Affiliated Companies' foreign currency requirements subject to the approval of the Minister of Petroleum.

**ARTICLE V**  
**MANDATORY AND VOLUNTARY RELINQUISHMENTS**

**A. Mandatory:**

At the end of the ----- (-----) Year after the Effective Date hereof, CONTRACTOR shall relinquish to the GOVERNMENT not less than twenty five percent (25%) of the original Area on the Effective date not then converted into a Development Lease (s)" Area subject to relinquish. 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 upon between GANOPE and CONTRACTOR so as to enable the relinquishment requirements to be precisely fulfilled, then relinquish the remaining Area at the end of the last Exploration phase except the areas converted to development lease(s).

Contractor may retain the " Area subject to relinquish" in any Exploration phase Subject to the approval of the Minister of Petroleum by submitting at least six (6) months pre-notification to GANOPE, including the additional technical activities to be undertaken in the " Area subject to relinquish" during the next exploration period of ----- years which CONTRACTOR elects to extend after the initial exploration period provided that CONTRACTOR shall submit a statement of costs and expenses of such additional activities, It is understood that CONTRACTOR is committed to such financial and technical commitments in addition to the Exploration commitments related to the second ----- (---) Exploration period according to Article IV (b) ,provisions of

Article IV of this Agreement shall be applied, provided that CONTRACTOR shall submit a letter of guarantee with an equal amount to the costs of such additional activities, according to annex ( c ) of this agreement and shall also pay an unrecoverable bonus for retaining "the Area subject to relinquish".

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 to a Development Lease(s). CONTRACTOR shall also relinquish the "Area subject to relinquish" retained pursuant to the above mentioned paragraph, excluding the area(s) converted to Development Lease(s). Such relinquishment shall be in a single unit of whole Exploration Blocks not converted to Development Lease(s) unless otherwise agreed upon between GANOPE and CONTRACTOR so as to enable the relinquishment requirements to be precisely fulfilled. CONTRACTOR may retain the above mentioned additional ----- percent ( ------%) area and/or the area retained during the previous Exploration period, during the next ----- (--) year Exploration period that CONTRACTOR elects to extend beyond the second Exploration period, subject to the approval of the Minister of Petroleum and pursuant to the terms and conditions mentioned above.

( this paragraph shall be added in case there are 3 exploration periods)

Without prejudice to Articles III , XXIII and the last three paragraphs of this Article V (a), at the end of the ----- (-----) year of the Exploration periods, CONTRACTOR shall relinquish the remainder of the Area not then converted to 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 for his approval according to Article III (d) shall, subject to such approval, be deemed converted to Development Lease(s).

CONTRACTOR shall not be required to relinquish any Exploration Block(s) on which a Commercial Oil or Gas Well is discovered before the period of time referred to in Article III (c) given to CONTRACTOR, to determine whether such Well is a Commercial well worthy of Development or to relinquish an Exploration Block(s) in respect of which a notice of Commercial oil or Gas Discovery has been given to GANOPE subject to GANOPE'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 at the end of any Exploration period or extension ( if any ), is well already

under drilling or testing, CONTRACTOR shall be allowed with a period up to (6) months to enable the Contractor to discover a Commercial Oil or Gas Well or to achieve a Commercial Discovery, as the case may be, provided that such period shall be deducted from the next extension period ,if any.

**B. VOLUNTARY:**

- CONTRACTOR may, voluntarily, during any period relinquish all or any part of the Area in whole Exploration Blocks or parts of Exploration Blocks provided that at the time of such voluntary relinquishment, CONTRACTOR's Exploration obligations under Article IV (b) have been fulfilled for such period.
- Any relinquishments hereunder shall be deducted from the mandatory relinquishment according to Article V (a) above.
- Following Commercial Discovery, GANOPE and CONTRACTOR shall mutually agree upon any area to be relinquished thereafter, except for the relinquishment at the end of the total Exploration period, as mentioned above.
- By the time of such relinquishment or the expiry date of the concession period, contractor shall ensure that all environmental regulations set out in article xviii have been followed , in accordance with sound and accepted petroleum industry practices , if so requested by GANOPE

**ARTICLE VI  
OPERATIONS AFTER COMMERCIAL DISCOVERY**

(a) Upon the approval of the first Development lease, GANOPE and CONTRACTOR shall form in the A.R.E. a joint venture Operating Company pursuant to Article VI (b) and Annex (D) (hereinafter referred to as "Joint venture Operating Company") such name shall be subject to the approval of the Minister of Petroleum. such company shall be joint stock company, in which GANOPE and CONTRACTOR each contribute by fifty percent (50%). and shall be 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 Joint venture Operating Company Set out in Annex "D" hereto. However, Joint venture Operating Company and CONTRACTOR shall, for the purpose of this Agreement, be exempted from the following laws and regulations by current and future amendments which substituted by laws or regulations :

- 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;
- Provisions of part 2 of Chapter 6 of Law No. 88 of 2003, organizing dealings in foreign currencies.

(b) The Charter of Joint venture Operating Company is hereto attached as Annex "D". Within ninety (90) days after the date of the Minister's of Petroleum approval of the first Development Lease for Oil or Gas (unless otherwise agreed upon by GANOPE and CONTRACTOR), the Charter shall take effect and Joint venture Operating 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 Joint venture Operating Company comes into existence in accordance with paragraph (b) above, it shall prepare a Work Program and Budget for further Exploration and Development 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 GANOPE 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 GANOPE and CONTRACTOR), Joint venture Operating Company shall prepare an annual Production Schedule, Work Program and Budget for further Exploration and Development for the succeeding Financial Year. The Production Schedule, Work Program and Budget shall be submitted to the Board of Directors of Joint venture Operating Company for approval.

The 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, Joint venture Operating 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 having regard to the approved 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) Joint venture Operating 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, the foreign funds advanced by CONTRACTOR. Withdrawals from said account shall be used for 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 Operating Company in connection with its activities under this Agreement. Within sixty (60) days after the end of each Financial Year, Joint venture Operating 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 outstanding the balance at the end of the 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 Operating Company or CONTRACTOR from a Development Lease or adjacent concession Area related to the CONTRACTOR, GANOPE shall have the right to use the excess capacity if it desires without any financial burdens or operational disadvantage to the CONTRACTOR or the Joint Venture Operating Company.

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

(a)

**(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 was approved by GANOPE 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:

- (i) "Exploration Expenditures" shall mean all costs and expenses for Exploration and the related portion of indirect expenses, overheads and general expenses.
- (ii) "Development Expenditures" shall mean all costs and expenses for Development (with the exception of Operating Expenses) and the related portion of indirect expenses, overheads and general expenses.
- (iii) "Operating Expenses" shall mean all costs, expenses and expenditures made after initial Commercial Production, 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, and changing of the status of plugging and permanent abandonment of a well, replacement of assets or 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:-

1. "Exploration Expenditures", including those accumulated prior to the commencement of initial Commercial Production, 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 initial Commercial Production commences, whichever is the later date.
2. "Development Expenditures", including those accumulated prior to the commencement of initial Commercial Production, shall be recoverable at the rate ----- percent (----%) per annum starting either in the Tax Year in which such expenditures are incurred and paid or the Tax Year in which initial Commercial Production commences, whichever is the later date.
3. "Operating Expenses", incurred and paid after the date of initial Commercial Production, shall be recoverable either in the Tax Year in which such costs and expenses are incurred and paid or the Tax Year in which initial Commercial Production occurs, whichever is the later date.

4. If in any Taxable Year ,costs, expenses or expenditures recoverable per paragraphs (1), (2) and (3) preceding, 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.
  5. 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.
  6. Any new investments or expenditures during the last ----- (--) years from the obligation period stated in this Agreement shall be excluded from item (1) and (2) above, and shall be recoverable proportionately over the remaining available quarters of the Concession Agreement period starting from the quarter in which such costs are incurred and paid during the Tax Year, and till the end date
- (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 Excess Cost Recovery Petroleum shall be divided between Ganope and Contractor according to production sharing rates. such Excess Cost Recovery Petroleum shall be paid by CONTRACTOR to GANOPE 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 GANOPE shall be entitled to elect by notice in writing to CONTRACTOR to require payment of up to one hundred percent (100%) of all the Excess Cost Recovery Crude Oil in kind. Such payment will 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 GANOPE 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 GANOPE's entitlement to receive payment of its share of Excess Cost Recovery Petroleum in kind is limited by the foregoing provision, the balance of such

entitlement shall be paid in cash.

**(b) PRODUCTION SHARING SPLIT:**

(1) The remaining ..... percent ( ..... %) of Petroleum shall be divided between GANOPE and CONTRACTOR according to the following shares:  
Such shares shall be taken and disposed of pursuant to Article VII (e).

**(i) Crude Oil and Condensate (Quarterly Average):**

Crude Oil produced and saved under this Agreement and not used in Petroleum operations, Barrel of Oil Per Day (BOPD) (quarterly average)								
Qty. BOPD	Less than or equal to 5,000 BOPD		More than 5,000 BOPD and less than or equal to 10,000 BOPD		More than 10,000 BOPD and less than or equal to 20,000 BOPD		More than 20,000 BOPD	
	Gan.	Cont.	Gan.	Cont.	Gan.	Cont.	Gan.	Cont.
Brent price US\$	%	%	%	%	%	%	%	%
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\$								



**(ii) Gas & LPG (Quarterly Average):**

For the purpose of 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

Gas and LPG produced and saved under this Agreement and not used in Petroleum operations (Standard Cubic Feet Of Gas Per Day (SCFD)).								
Qty. SCFPD	<i>Less than or equal to 100 Million SCFPD</i>		<i>more than 100 Million SCFPD and less than or equal to 250 Million SCFPD</i>		<i>more than 250 Million SCFPD and less than or equal to 500 Million SCFPD</i>		<i>more than 500 Million SCFPD</i>	
	Gan.	Cont.	Gan.	Cont.	Gan.	Cont.	Gan.	Cont.
Brent price US\$	%	%	%	%	%	%	%	%
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\$								

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, GANOPE and CONTRACTOR shall meet and agree on a value of Brent

Such Production Shares 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), GANOPE and CONTRACTOR (as sellers) shall render to GANOPE or EGPC or EGAS (as buyer) a statement for an amount of Gas, if any, equal to the amount by which the quantity of Gas of which GANOPE or EGPC or 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"), provided the Gas is available. Within sixty (60) days of receipt of the statement, GANOPE or EGPC or EGAS (as buyer) shall pay GANOPE and CONTRACTOR (as sellers) for the amount of the Shortfall, if any. The Shortfall shall be included in GANOPE'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.

Quantities of Gas not taken but to be paid for shall be recorded in a separate "Take-or-Pay Account" Quantities of Gas ("Make Up 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, 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 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 GANOPE and CONTRACTOR (as sellers) fail to deliver seventy five percent (75%) of the annual contract quantity of Gas as defined in the Gas Sales Agreement with GANOPE or EGPC or EGAS (as buyer), the difference between seventy five percent (75%) of the annual Contract quantity of Gas and the actual Gas quantity delivered shall be referred to as the "Deliver- or - Pay Shortfall Gas". GANOPE or EGPC or EGAS (as buyer) shall have the right to take a quantity of Gas equal to Deliver-or-Pay the Shortfall Gas and such quantity of Gas shall be priced at ninety percent (90%) of the Gas price as defined in the Gas Sales Agreement. The mechanism for the Deliver-or-Pay concept will be determined 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 GANOPE and CONTRACTOR shall apply to all LPG available for delivery.

**(c) Valuation of Petroleum:**

**(1) Crude Oil and Condensate:**

- (1) The Cost Recovery Crude Oil and Condensate to which CONTRACTOR is entitled hereunder shall be valued by GANOPE and CONTRACTOR at "Market Price" for each calendar quarter.
- (2) "Market Price" shall mean the weighted average prices realized from sales by GANOPE or CONTRACTOR during the quarter, whichever is higher, provided that the sales to be used in arriving at the weighted average(s) shall be sales of comparable quantities on comparable credit terms in freely convertible currency from F.O.B. point of export sales to non-affiliated companies at arm's length under all Crude Oil sales contracts then in effect, but excluding Crude Oil and Condensate sales contracts involving barter, and
  - (a) Sales, whether direct or indirect, through brokers or otherwise, of GANOPE or CONTRACTOR to any Affiliated Company.
  - (b) 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 and Condensate sales.
- (3) 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 and Condensate, freight advantage or disadvantage of port of loading and other appropriate adjustments, and Market Price shall be determined separately for each Crude Oil and Condensate or Crude Oil mix and Condensate, and for each port of loading.
- (4) If during any calendar quarter, there are no such sales by GANOPE and/or CONTRACTOR under the Crude Oil and Condensate sales contracts in effect,

GANOPE and CONTRACTOR shall mutually agree upon the Market Price of the barrel of Crude Oil and Condensate 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 Oil and Condensate 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 and Condensate 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 and Condensate to be valued, was sold, and always taking into consideration appropriate adjustments for Crude Oil and Condensate quality, freight advantage or disadvantage of shipping port 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 and Condensate 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 and Condensate shall reflect the prevailing market price for such Crude Oil and Condensate.

- (5) If either GANOPE or CONTRACTOR considers that the Market Price as determined under sub-paragraph (2) above does not reflect the prevailing Market Price or in the event GANOPE and CONTRACTOR fail to agree on 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 and Condensate 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 GANOPE 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 upon

between GANOPE and CONTRACTOR, with regard to the qualifications for arbitrators set forth below, upon written request of one or both of GANOPE and CONTRACTOR, and shall be promptly sent a copy of such request by one of them 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 and Condensate in international commerce. The arbitrator shall not be a citizen of a country which does not have diplomatic relations with any party of this Agreement. He may 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 GANOPE, CONTRACTOR or an Affiliated Company to any of them. The consulting crossbar, which has in the past for these companies or to other oil companies or agencies or government agencies this is not considered a reason for exclusion. The arbitrator may not be at any time during the past two (2) years before 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 in this paragraph, GANOPE 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 will review Oil and Condensate 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 GANOPE and CONTRACTOR shall have the right to consult with the arbitrator and furnish him written statements, provided the arbitrator may impose reasonable limitations on this right, GANOPE 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 and Condensate sales contracts and related data and information which GANOPE 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.

(6) Pending Market Price Agreement by GANOPE and CONTRACTOR or

determination by the arbitrator, as applicable, the Market Price agreed for the quarter preceding the quarter in question shall remain temporarily in effect. In the event either GANOPE 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, Production Shares and Excess Cost Recovery , if any, which is disposed of for local market, according to a Gas Sales Agreement between GANOPE and CONTRACTOR (as sellers) and GANOPE or EGPC or EGAS (as buyer) entered into pursuant to Article VII (e) shall be valued, delivered to and purchased at a price, which should be agreed upon between GANOPE 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 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 GANOPE, pursuant to Article VII (e), such exported Gas shall be valued according to the relevant net back price.
- iii- In case CONTRACTOR disposes locally/solely export part of its share of production, 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 GANOPE shall be valued based on gas price agreed by GANOPE and Contractor according to the basis mentioned in above.
- iv- In case CONTRACTOR disposes all share of production and excess cost recovery, if any, of Gas locally/solely export 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 and Production Shares of (LPG) produced from a plant

constructed and operated by or on behalf of GANOPE 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 GANOPE and CONTRACTOR):

$$\text{PLPG} = 0.95 \text{ PR}$$

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 Gas wire" during such month for Propane and Butane FOB Ex-Ref/Store West Mediterranean.

In the event that "Platt's LP Gas wire" 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 Gas wire" is not published at all during a month, GANOPE 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, GANOPE and CONTRACTOR shall meet and agree the value of (PR) by reference to the value of LPG (Propane and Butane) delivered FOB 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- In case Gas is disposed of for export by GANOPE and CONTRACTOR to a third party, pursuant to Article VII (e), then the Cost Recovery, Production Shares and excess Cost Recovery, if any, of such Gas shall be valued according to the net back price.
- viii- The Cost Recovery, Production Shares and excess Cost Recovery, if any, of LPG disposed of for export by GANOPE and CONTRACTOR pursuant to Article VII(e) shall be valued at its actual realized price.

**(d) Forecasts:**

Joint venture Operating Company shall prepare (at least ninety (90) days prior to the beginning of each calendar semester following first regular production) and submit a written forecast to CONTRACTOR and GANOPE setting out a total quantity of Petroleum which Joint Venture Operating Company estimated to be produced, saved and transported hereunder during such calendar semester, in accordance with proper applicable practices in petroleum industry.

Joint Venture Operating Company shall endeavor to produce the forecasted quantity during each calendar semester, and it should convey the Crude Oil to storage tanks or marine shipping facilities that are constructed, maintained and operated according to the GOVERNMENT Regulations, and where crude oil is measured in metric or measured by other methods for the purpose of calculating the royalty, and other purposes required by this Agreement. Gas shall be handled by Joint venture Operating Company in accordance with the provisions of Article VII (e).

**(e) Disposition of Petroleum:**

**(1) With respect to Crude Oil and Condensate produced from the Area:**

GANOPE and CONTRACTOR shall have the right and the obligation to get the whole Crude Oil and Condensate which they deserve and freely export and dispose of separately on a regular basis according to Article VII (a) and (b). 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 Petroleum, and provided that it has paid the amounts due to GANOPE under Article VII (a) (2) and Article IX.

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) & (b) of the Crude Oil and Condensate produced from the Area and GANOPE shall have the preferential right to purchase such Crude Oil and Condensate at a price to be determined pursuant to Article VII (c). The amount of Crude Oil and Condensate so purchased shall be a portion of CONTRACTOR's share under Article VII (a) & (b). Such amount shall be proportional to CONTRACTOR's share of the total production of Crude Oil and Condensate from the concession area in the A.R.E. that are also subject to GANOPE's preferential right to purchase. The payment for such purchased amount shall be made by GANOPE in U.S. Dollars or in any other freely convertible currency remittable by CONTRACTOR abroad .



It is agreed upon that GANOPE shall notify CONTRACTOR, at least forty-five (45) days prior to the beginning of the Calendar Semester, by the quantity to be purchased during such semester under this Article VII (e) (1).

**(2) ) With respect to Gas and LPG produced from the Area:**

i- Priority shall be given to meet the requirements of the local market as determined by GANOPE, taking into consideration the following cases:-

- In case CONTRACTOR elects to dispose all or part of its share of production sharing Gas and, to local market to third party other than GANOPE or EGPC or EGAS, contractor shall submit an application to GANOPE or EGPC or EGAS to obtain the Minister of Petroleum's approval on Gas quantities, price and Gas Sales Agreement of such Gas.
- In case contractor or GANOPE and CONTRACTOR exports Gas, they should obtain the Minister of Petroleum's approval on the price and quantities allocated for export.
- In case GANOPE or GANOPE and CONTRACTOR export LPG , they should obtain the Minister of Petroleum's approval on the price and quantities allocated for export.

ii- In the event that GANOPE or EGPC or EGAS is to be the buyer of Gas, the disposition of Gas to the local markets as indicated above shall be by virtue of long term Gas Sales Agreements to be entered into between GANOPE and CONTRACTOR (as sellers) and GANOPE or EGPC or EGAS (as buyer). GANOPE and CONTRACTOR (as sellers) shall have the obligation to deliver Gas to the following point 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 delivery point shall be at the flange connecting the Lease pipeline to the nearest point on the National Gas Pipeline Grid System as depicted in Annex "F" hereto or as otherwise agreed by GANOPE 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 to such LPG Plant. However, notwithstanding the fact that the metering shall take place at the LPG Plant outlet, CONTRACTOR shall through the Joint venture Operating 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 as depicted in Annex "F" hereto, or otherwise agreed by GANOPE and CONTRACTOR. Such pipeline shall be owned in accordance with Article VIII (a) by GANOPE, and its cost shall be financed and

recovered by CONTRACTOR as Development Expenditures pursuant to Article VII.

- iii- GANOPE and CONTRACTOR shall consult together to determine whether to build an LPG plant for recovering LPG from any Gas produced hereunder. In the event GANOPE and CONTRACTOR decide to build such a plant, the plant shall, as is appropriate, be in the vicinity of the point of delivery as determined in Article II and 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 any such LPG plant shall be recoverable in accordance with the provisions of this Agreement unless the Minister of Petroleum agrees to accelerated recovery.
- iv- GANOPE or EGPC or EGAS (as buyer) shall have the option to elect, by ninety (90) days prior written notice to GANOPE and CONTRACTOR (as sellers), whether payment for the Gas which is subject to a Gas Sales Agreement between GANOPE and CONTRACTOR (as sellers) and GANOPE or EGPC or EGAS (as buyer) and LPG produced from a plant constructed and operated by or on behalf of GANOPE 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 Article VII, of this Agreement, shall be made (1) in cash or (2) in kind.

Payments in cash shall be made by GANOPE or EGPC or 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 Area 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

GANOPE.

Payments to CONTRACTOR (whether in cash or 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 the above sub-paragraph (v) may be freely remitted or retained abroad by CONTRACTOR.

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

**(g) Tanker Scheduling:**

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

**ARTICLE VIII  
TITLE TO ASSETS**

(a) GANOPE 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 Joint venture Operating Company in accordance with the following:

1. Land shall become the property of GANOPE as soon as it is purchased.
2. Title to fixed and movable assets shall be transferred automatically and gradually from CONTRACTOR to GANOPE 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 GANOPE when its 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 first occurs.

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

3. All samples and technical data shall be transferred to GANOPE upon GANOPE 's request or at the termination of the Agreement.
- (b) During the term of this Agreement and the extension period GANOPE, CONTRACTOR and Joint venture Operating 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. Proper accounting adjustment shall be made. CONTRACTOR and GANOPE shall not dispose of the assets except upon their mutual agreement.
- (c) CONTRACTOR and Joint venture Operating 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 GANOPE an unrecoverable U.S. Dollars bonus for retaining "the Area subject to relinquish to be mutually agreed upon it's value between CONTRACTOR and GANOPE in case CONTRACTOR retains an " Area subject to relinquish " according to the provisions of Article V of this Agreement, upon the Minister of Petroleum approval for such request.

- (b) CONTRACTOR shall pay to GANOPE the sum of \$---- (million U.S. Dollars) as first extension bonus for the development lease upon the approval of the Government for the CONTRACTOR to enter the first extension period of five (5) years in accordance with Article III paragraph (d) (iii) (bb).
- (c) CONTRACTOR shall pay to GANOPE the sum of \$---- (million U.S. Dollars) as second extension bonus for the development lease upon the approval of the Government for the CONTRACTOR to enter the second extension period of five (5) years in accordance with Article III paragraph (d) (iii) (bb).
- (d) CONTRACTOR/ CONTRACTOR Member shall pay to GANOPE the sum of two hundred thousand U.S. Dollars (\$200,000), in case CONTRACTOR or CONTRACTOR Member assigns in whole or in part of it's rights, privileges, duties and obligations to an Affiliated Company of the same CONTRACTOR/CONTRACTOR Member, on the date of the GOVERNMENT's approval of each assignment request.
- (e) CONTRACTOR / CONTRACTOR Member shall pay to GANOPE as an Assignment Bonus on the date of the GOVERNMENT's approval of each assignment requested by any of the CONTRACTOR Members to any assignee, pursuant to Article XXI, as follows:
- 1- During any Exploration period (as it may be extended), CONTRACTOR / CONTRACTOR Member assigns in whole or in part of its rights, privileges, duties and obligations to any assignee ( other than an Affiliated Company of the same CONTRACTOR /CONTRACTOR Member), CONTRACTOR /CONTRACTOR Member shall pay to GANOPE the sum equivalent to ten percent (10%) valued in U.S. Dollars of the total financial commitment of the then current Exploration period during which the assignment is made and according to the assigned percentage .
  - 2- During the Development period or its extensions, in case CONTRACTOR / CONTRACTOR Member assigns in whole or in part of its rights, privileges, duties and obligations to any assignee (other than an Affiliated Company of the same CONTRACTOR / CONTRACTOR Member), CONTRACTOR/CONTRACTOR Member shall pay to GANOPE the sum equivalent to ten percent (10%), valued in U.S. Dollars, 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 commitments for technical programs /Development plan; or
    - The financial value of the reserves , to be swapped between the Assignor and the Assignee from the Development Lease(s) areas; or

- The financial value of shares and/or stocks to be exchanged between the Assignor and the Assignee; or
- Any other type of deals to be declared.

3- During any Exploration phase and after a Development Lease is granted, in case CONTRACTOR / CONTRACTOR Member assigns in whole or in part of its rights, privileges, duties and obligations to any assignee (other than an Affiliated Company of the same CONTRACTOR /CONTRACTOR Member) CONTRACTOR/ CONTRACTOR Member shall pay to GANOPE the sum value, in U.S. Dollars, as mentioned in 1- and 2- above.

- (f) CONTRACTOR shall pay to GANOPE at the beginning of every Financial Year during any of the Exploration periods an amount equal to fifty thousand U.S. Dollars (\$50,000) as a training bonus for the training of GANOPE employees in departments of Agreements , Exploration , Production and Financial Control Foreign and Joint Venture companies. CONTRACTOR shall also pay fifty thousand U.S. Dollars (\$50,000) as a training bonus for the training of GANOPE employees from other departments with a total amount of one hundred thousand U.S. Dollars (\$100,000).
- (g) CONTRACTOR shall pay to GANOPE at the beginning of every Financial Year during any of the Development periods an amount equal to fifty thousand U.S. Dollars (\$50,000) as a training bonus for the training of GANOPE employees in departments of Agreements , Exploration , Production and Financial Control Foreign and Joint Venture companies. CONTRACTOR shall also pay fifty thousand United States Dollars (\$50,000) as a training bonus for the training of GANOPE employees from other departments with a total amount of one hundred thousand U.S. Dollars (\$100,000).
- (h) Contractor shall pay to Ganope as a Development lease Bonus the sum of US\$ 100,000 for each Development block (1'×1') or (division of Development block (1'×1') upon the approval of each Development Lease.
- (i) CONTRACTOR shall pay to GANOPE as a Cumulative Production bonus the sum of ----- U.S. Dollars (-----) every time the total Cumulative Production from the Area exceeds by ten million (10,000,000) equivalent Barrels. Payment will be made within fifteen (15) days thereafter.
- (g) All the above mentioned bonuses shall in no event be recovered by CONTRACTOR.

In the event that GANOPE 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 initial date of sharing.

(h) Gas shall be taken into account for purposes of determining the total average daily production from the Area under Article IX (i) by converting daily Gas delivered into equivalent barrels of daily Crude Oil production in accordance with the following formula:

$$\text{MSCF} \times \text{H} \times 0.167 = \text{equivalent barrels of Crude Oil}$$

Where

MSCF = one thousand Standard Cubic Feet of Gas.

H = the number of million British Thermal Units (BTU's per MSCF).

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

CONTRACTOR shall maintain an office in A.R.E. at which notices by all notifications and correspondence correctly and validly produces its legal effects when sent to that office.

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 which are delivered to the office of the General Manager or which 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 which are delivered to the office of the Chairman of GANOPE or which are sent to him by registered mail at GANOPE's main office in Cairo.

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

(a) Joint venture Operating Company shall take all proper measures, according to generally accepted methods in use in the Oil and Gas industry to prevent loss or waste of Petroleum above or under the ground in any form during drilling, producing, gathering, and

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, Joint venture Operating Company shall inform the GOVERNMENT or its representative of the time when the well will 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) Joint venture Operating 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 the special forms provided for that purpose within thirty (30) days after the data are 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 must 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.

## **ARTICLE XII CUSTOMS EXEMPTIONS**

- (a) GANOPE, CONTRACTOR, and Joint venture Operating 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 (the exemption from taxes and duties for cars shall only apply to cars to be used in operations), 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 GANOPE for such purpose, which states 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 GANOPE's, CONTRACTOR's and Joint venture Operating Company 's contractors and sub-contractors temporarily engaged in any activity pursuant to the operations which are the subject of 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 an GANOPE responsible representative nominated by GANOPE for such purpose which states, that the imported items are required for conducting the operations pursuant to this Agreement. Items (excluding cars not to be used in operations) set out in Article XII (a) imported by GANOPE's, CONTRACTOR's and Joint venture Operating 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 an GANOPE responsible representative to be used for conducting operations pursuant to this Agreement.
- (c) The expatriate employees of CONTRACTOR, Joint venture Operating 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 Joint venture Operating 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 Joint venture Operating Company approved by an GANOPE responsible representative 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 exempt or not exempt from custom duties and other ancillary taxes and charges hereunder, may be exported by the importing party at any time after obtaining GANOPE's approval, which approval shall not be unreasonably withheld, without any export duties, or any taxes or charges from which such items have

been already exempt, being applicable. Such items may be sold within the A.R.E. after obtaining the approval of GANOPE 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 GANOPE, having the same exemption, or unless title to such items (excluding cars not used in operations) has passed to GANOPE.

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, if any, in such items and the excess, if any, shall be paid to GANOPE.

- (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 meeting CONTRACTOR's and/or Joint venture Operating 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%) of the cost of the imported item, before custom duties but after freight and insurance costs , if any , have been added.
- (f) CONTRACTOR, GANOPE and their respective buyers shall have the right to freely export the Petroleum produced from the Area pursuant to this Agreement; no license shall be required, and such Petroleum shall be exempted from any custom 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) GANOPE, CONTRACTOR and Joint venture Operating 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 Joint venture Operating Company shall keep their books of account and accounting records in United States Dollars. Joint venture Operating 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 representative 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 representative within thirty (30) days after the end of the month covered in the return.

- (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 GANOPE 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 GANOPE. 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 Joint Venture Operating Company shall prepare and, at all times while this Agreement is in force, maintain accurate and current records of its operations in the Area. CONTRACTOR and/or Joint Venture Operating Company shall furnish the GOVERNMENT or its representative, in conformity with applicable regulations or as the GOVERNMENT or its representative, in accordance with sound and accepted petroleum industry practices, may require information and data concerning its operations under this Agreement. joint venture joint venture Operating Company will perform the functions indicated in this Article XIV in accordance with its role as specified in Article VI.
- (b) CONTRACTOR and/or joint venture Operating Company shall save and keep for a reasonable period of time a representative portion of each sample of cores and cuttings taken from drilling wells, to be disposed of, or forwarded to the GOVERNMENT or its representative in the manner directed by the GOVERNMENT. All samples acquired by CONTRACTOR and/or Joint venture Operating 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 GANOPE, in case of exporting any rock samples outside A.R.E., samples equivalent in size and quality shall be, before such exportation, delivered to GANOPE as representative of the GOVERNMENT.

- (d) Originals of records can only be exported with the permission of GANOPE; provided, however, that magnetic tapes and any other data which must be processed or analyzed outside the A.R.E. may be exported if a monitor or a comparable record, if available, is maintained 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 GANOPE.
- (e) During the period CONTRACTOR is conducting the Exploration operations, GANOPE'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. GANOPE's representative, in exercising its rights under the preceding sentence of this paragraph (e), shall not interfere with CONTRACTOR's operations. CONTRACTOR shall provide GANOPE with copies of any and all data (including, but not limited to, geological and geophysical reports, logs and well surveys) information and interpretation of such data, and other information in CONTRACTOR's possession.

For the purpose of obtaining new offers or carrying out regional studies, the GOVERNMENT and/or GANOPE shall after the end of the first Exploration period, show any other party non-interpreted basic geophysical and geological data with respect to the original Area unless CONTRACTOR agrees to a shorter period.

## **ARTICLE XV RESPONSIBILITY FOR DAMAGES**

CONTRACTOR shall entirely and solely be responsible in law towards third party for any damage caused by CONTRACTOR's Exploration and development operations and shall indemnify the GOVERNMENT and/or GANOPE against all damages for which they may be held liable on account of any such operations. CONTRACTOR should respect and adhere to all current and future laws and decrees of environment and antiquities issued and applied in Arab Republic of Egypt.

However, any damage resulting from issuing any order, regulation or direction of the GOVERNMENT of the Arab Republic of Egypt whether in the form of a law or otherwise, GANOPE and/or CONTRACTOR shall be exempted from the responsibility of non-performance or delay of any obligation hereunder, in consequence of issuing these orders, regulations or directions in the limitation of imposing these orders, regulations or directions. GANOPE and/or CONTRACTOR shall be granted the necessary period to restore the damage done of the non-performance or delay by adding a period to the period of the

Agreement, with respect to the Block or Blocks affected by these orders , regulations or directions 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 Operations conducted thereon. Such representatives may examine the books, registers and records of GANOPE, CONTRACTOR and Joint venture Operating 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 Joint venture Operating 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 Joint venture Operating Company so that none of the activities shall endanger or hinder the safety or efficiency of the operations. CONTRACTOR or Joint venture Operating 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. 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 ARAB REPUBLIC OF EGYPT PERSONNEL**

(a) It is the desire of GANOPE 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 Operating 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.8180of 1996 as amended, and CONTRACTOR agrees that all immigration, passport, visa, wages and salaries and employment regulations of the A.R.E., shall be applicable to all Egyptians and alien 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 Joint venture Operating Company shall be paid monthly in Egyptian Currency.
- (b) CONTRACTOR and Joint venture Operating Company shall each select its employees and determine the number thereof, to be used for operations hereunder.
- (c) CONTRACTOR shall after consultation with GANOPE, prepare and carry out specialized training programs for all its A.R.E. Employees engaged in operations hereunder with respect to applicable aspects of the Petroleum industry. CONTRACTOR and Joint venture Operating Company undertake to replace gradually their non-executive expatriate staff by qualified nationals as they are available.
- (d) During the Agreement duration, CONTRACTOR shall give mutually agreed numbers of GANOPE employees an opportunity to attend and participate in CONTRACTOR's and CONTRACTOR's Affiliated Companies training programs relating to Exploration and Development operations, with annual total cost -----U.S. Dollars ( \$----- --) In the event that the total cost of such programs is less than -----U.S. Dollars ( \$-----) in any Financial Year during such period, CONTRACTOR shall pay GANOPE the amount of the shortfall within thirty (30) days following the end of such Financial Year. However, GANOPE shall have the right that said amount -----U.S. Dollars ( \$-----) allocated for training, be paid directly to GANOPE for such purpose.

## **ARTICLE XVIII**

### **LAWS AND REGULATIONS**

- (a) CONTRACTOR and Joint venture Operating Company shall be subject to Law No. 66 of 1953 for Mines and Quarries (excluding Article 37 thereof) as amended by Law No. 86 of 1956 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, shall be contrary to or inconsistent with the provisions of this Agreement.
- (b) CONTRACTOR and Joint venture Operating 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 may be issued , concerning the protection of the environment.

- (c) Except as provided in Article III (g) for Income Taxes, GANOPE, CONTRACTOR and Joint venture Operating 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 taxes 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 GANOPE and CONTRACTOR hereunder, and for the effective term of this Agreement shall be governed by and in accordance with the provisions of this Agreement and can only be altered or amended by the written mutual Agreement of the said contracting parties in the same procedures by which the original Agreement has been issued.
- (e) The contractors and sub-contractors of CONTRACTOR and Joint venture Operating Company shall be subject to the provisions of this Agreement which affect them. Insofar as all regulations which are duly issued by the GOVERNMENT apply from time to time and are not in accord with the provisions of this Agreement, such regulations shall not apply to CONTRACTOR, Joint venture Operating Company and their respective contractors and sub-contractors, as the case may be.
- (f) GANOPE, CONTRACTOR, Joint venture Operating 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 hereunder.
- (g) All the exemptions from the application of the A.R.E. laws or regulations granted to GANOPE, CONTRACTOR, the Joint venture Operating Company, their contractors and sub-contractors under this Agreement shall include such laws and regulations as presently in effect or hereafter 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, CONTRACTOR shall notify GANOPE of the subject legislative or regulatory measure and also the consequent effects upon issuing legislation or regulation which has an impact on the stabilization. In such case, the Parties shall negotiate possible 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 amendments to this Agreement within ninety (90) days from aforesaid notice. These amendments to this Agreement shall not in any event diminish or increase the rights and obligations of CONTRACTOR as these were agreed on the Effective Date. In case of the parties' failure to solve the disputes, Article XXIV of this Agreement shall be applied.

## **ARTICLE XX RIGHT OF REQUISITION**

- (a) In case of national emergency due to war or imminent expectation of war or internal causes, the GOVERNMENT has the right to requisite all or part of the production from the Area obtained hereunder, without any objection from the contractor or the Joint Venture Operating Company, and requires Joint Venture Operating Company to increase such production to the utmost possible maximum. The GOVERNMENT has the right to requisite also 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 GANOPE and CONTRACTOR or their representative 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 an Oil and/or Gas field, or any related facilities shall be effected by a Presidential Decree duly notified to GANOPE and CONTRACTOR.
- (d) In the event of any requisition as provided above, the GOVERNMENT shall indemnify in full GANOPE 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.



- (e) 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 GANOPE 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 shall mean, 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 consent of the GOVERNMENT, and in all cases priority shall be given to GANOPE, 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/ CONTRACTOR Member, provided that CONTRACTOR shall notify GANOPE and the GOVERNMENT in writing and obtain the written approval of the GOVERNMENT on the assignment.

In the case of an assignment either in a whole or in a 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 instrument 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 time may have been made. A draft of such instrument of assignment shall be submitted to GANOPE for review and approval before being formally executed.

(3) The assignor(s) must submit to GANOPE reasonable documents that evidence the

assignee's financial and technical competence, and the documents that confirm the affiliation of such company to the CONTRACTOR/CONTRACTOR MEMBER.

(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 a proposed third party assignee, other than an Affiliated Company, have agreed the final conditions of an assignment, the assignor shall disclose in details such final conditions, including the value of each assignment deal valued in U.S. Dollars, in a written notification to GANOPE. GANOPE shall have the right to acquire the interest intended to be assigned, if within ninety (90) days from assignor's written notification, GANOPE delivers to the assignor a written notification that it accepts the same conditions agreed to with the proposed third party assignee. If GANOPE does not deliver such notification within such ninety (90) day period, the assignor shall have the right to assign to the proposed third party assignee, subject to the Government approval under paragraph (a) of this Article.

In the event that GANOPE exercises its option to acquire the interest intended to be assigned and if a joint operating agreement is not already existing among the CONTRACTOR MEMBERS including the assignor, GANOPE and CONTRACTOR shall negotiate in good faith to enter into a joint operating agreement, according to the model published by the Association for International Petroleum Negotiators to finalize such agreement within one hundred and twenty (120) days from GANOPE's notification. If GANOPE and CONTRACTOR cannot agree on a joint operating agreement within such one hundred and twenty (120) day period, the assignor shall have the right to assign to the proposed third party assignee, subject to the Government 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 knowingly has 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 authority of the GOVERNMENT, except such extractions as 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; and
6. If it commits any material breach of this Agreement or of the provisions of Law No. 66 of 1953, as amended by Law No. 189 of 2014, which 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 a legal 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.

### **ARTICLE XXIII FORCE MAJEURE**

- (a) The non-performance or delay in performance by GANOPE 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 block or blocks affected, however Ganope and contractor shall undertake all their obligations arising from this Agreement after the case of force majeure is terminated.
- (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 GANOPE and CONTRACTOR or either of them, whether or not similar to the foregoing, provided that any such cause is beyond the reasonable control of GANOPE and CONTRACTOR, or either of them.
- (c) Without prejudice to the above and except as may be otherwise provided herein, the GOVERNMENT shall incur no responsibility whatsoever to GANOPE and CONTRACTOR, or either of them for any damages, restrictions or loss arising in consequence of such case of force majeure hereinafter referred to in this Article.
- (d) If the force majeure event occurs during the initial Exploration period or any extension 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 GANOPE to terminate its obligations hereunder without further liability of any kind, if the contractor chooses to retain his rights in the Exploration period after the expiry of that period, his right to claim any compensation other than the additional extension of the Exploration period shall be equal to the delay periods.

**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 jurisdiction of competent authorities of A.R.E. to settle any dispute arising on the interpretation or the execution of any term of this Agreement according to the Egyptian laws.
- (b) Any dispute, controversy or claim arising out of or relating to this Agreement, or breach, termination or invalidity thereof between GANOPE and CONTRACTOR shall be settled by arbitration in accordance with the Arbitration Rules of the Cairo Regional Center for International Commercial Arbitration in effect on the date of this Agreement, the approval of the Minister of Petroleum is provided in case GANOPE only turn to arbitration. The award of the arbitrators shall be final and binding on the parties, according to Law No. 27 of 1994 with respect to the civil and commercial articles and its amendments by laws no. 9 of 1997 and 8 of 2000.
- (c) The number of arbitrators shall be three (3).
- (d) Each party shall appoint one 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 arbitrators thus appointed shall choose the third arbitrator who will act as the presiding arbitrator of the tribunal. If within thirty (30) days after the appointment of the second arbitrator, the two 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 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 any party of this Agreement and of a country which has diplomatic relations with the parties of this Agreement and who shall have no economic interest in the Petroleum business of the parties 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 the related issues and the execution of the arbitrators decision shall be referred to the appropriate 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) GANOPE and CONTRACTOR may agree that if, for whatever reason, arbitration in accordance with the above procedure cannot take place, or is likely to take place under circumstances for CONTRACTOR which could prejudice CONTRACTOR's right to fair arbitration, 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 Rules in effect on the Effective Date.

## **ARTICLE XXV**

### **STATUS OF PARTIES**

- (a) The rights, duties, obligations and liabilities in respect of GANOPE 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) CONTRACTOR 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. CONTRACTOR'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. CONTRACTOR shall be exempted from the application of Law No. 159 of 1981 as amended.
- (c) In case CONTRACTOR consists of more than one member, 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 Joint venture Operating Company , as the case may be, and their Contractors shall:

- (a) Give priority to local contractors and sub-contractors, including GANOPE'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 so 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 Joint venture Operating Company 's operating base in A.R.E. is more than ten percent (10%) higher than the price of such imported items before custom duties, but after transportation and insurance costs have been added.

## **ARTICLE XXVII**

### **ARABIC TEXT**

The Arabic version of this Agreement shall, before the appropriate 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 GANOPE and CONTRACTOR the English and Arabic versions shall both be referred to as having equal force in construing or interpreting this Agreement, and in the event of a conflict between both of them , the Arabic text shall prevail.

## **ARTICLE XXVIII**

### **GENERAL**

The headings or titles to each of the Articles to 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, GANOPE, and CONTRACTOR .

.....  
BY -----

.....  
BY -----

South Valley Egyptian Petroleum Holding Company  
BY -----

THE ARAB REPUBLIC OF EGYPT  
BY -----

DATE-----



**ANNEX "A"**

**CONCESSION AGREEMENT**

**BETWEEN**

**THE ARAB REPUBLIC OF EGYPT**

**AND**

**South Valley Egyptian Petroleum Holding Company**

**AND**

-----.

**AND**

-----.

**IN**

----- **Area**

**AT** -----

**A.R.E.**

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**BOUNDARY DESCRIPTION OF THE CONCESSION Area**

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

The Area measures approximately ----- square kilometers of surface Area. It is composed of all or part of Exploration Blocks, the whole Blocks are defined on three (3) minutes latitude by three (3) minutes longitude grid.

It is to be noted that the delineation lines of the Area in Annex "B" are intended to be only illustrative and provisional and may not show accurately their true position 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 Annex "A":-

**BOUNDARY COORDINATES OF**

----- Area

**AT** -----

<b>Point</b>	<b>Latitude/ N</b>	<b>Longitude/ E</b>	<b>DUE</b>
<b>1</b>			
<b>2</b>			
<b>3</b>			
<b>4</b>			
<b>5</b>			
<b>6</b>			

**ANNEX "B"**  
**Map of Concession Agreement**

----- Area  
Scale 1 : .....

<p>" B"ANNEX PETROLEUM CONCESSION AGREEMENT BETWEEN</p> <p>ARAB REPUBLIC OF EGYPT AND South Valley Egyptian Petroleum Holding Company</p> <p>AND</p> <hr/> <p>AND</p> <hr/> <p>IN</p> <p>□□□□□□□□□□ AREA</p> <p>AT</p> <p>□□□□□□□□□□</p> <hr/> <p>.A. R. E</p> <p>Scale 1: .....</p>	<p>ملحق "ب" اتفاقية التزام بين ج.م.ع. و شركة جنوب الوادى المصرية القابضة للبترو ل و شركة □□□□□□□□□□ و شركة □□□□□□□□□□  في منطقة □□□□□□□□□□  ب □□□□□□□□□□  ج.م.ع. مقياس رسم ١ : .....</p>
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**ANNEX "C"**  
**Letter of Guarantee**

Letter of Guarantee No. ----- (Cairo ----- 20 ----)

South Valley Egyptian Petroleum Holding Company

Gentlemen ,

The undersigned, National Bank of Egypt / or any first class significant bank working under the full supervision and control of Central Bank of Egypt as Guarantor, hereby guarantees to the South Valley Egyptian Petroleum Holding Company ( hereinafter referred to as “ GANOPE ”) to the limit of \$ ( -----) ----- million US Dollars , the performance by ----- “(hereinafter referred to as “CONTRACTOR”) of its technical obligations required for Exploration operations to spend a minimum of \$ ( -----) ----- million US Dollars during the initial ----- years (---) of the Exploration period under Article IV of that certain 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”), GANOPE and CONTRACTOR in the ----- Area.

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 US Dollars by the amount of money expended by CONTRACTOR for such Exploration operations which approved by GANOPE during each such quarter.

Each such reduction shall be established by the joint written statement of CONTRACTOR and GANOPE. In the event of a claim by GANOPE of non-performance or surrender of the Agreement on the part of CONTRACTOR prior to fulfillment of said minimum technical and financial obligations under Article IV of the Agreement, there shall be no liability on the undersigned Guarantor for payment to GANOPE unless and until such liability has been established by written statement of GANOPE 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 GANOPE that the Agreement between CONTRACTOR, A.R.E. and GANOPE 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) (Initial Exploration Period)(-----) 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 GANOPE and CONTRACTOR equals or exceeds the amount of said minimum expenditure obligation, 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 GANOPE's written statement, setting forth the amount of under expenditure by CONTRACTOR to the effect that: (a) CONTRACTOR has failed to perform its expenditure obligations referred to in this Guarantee, and (b) CONTRACTOR has failed to pay the expenditure deficiency to GANOPE. 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: -----

**ANNEX "D"**  
**CHARTER OF JOINT VENTURE OPERATING COMPANY**

**ARTICLE I**  
**FORM AND GOVERING LAW**

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

The 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 below.

**ARTICLE II**  
**NAME OF JOINT VENTURE OPERATING COMPANY**

The name of the Joint venture Operating Company shall be mutually agreed upon between GANOPE and CONTRACTOR on the date of signing and approving and shall be subject to the approval of the Minister of Petroleum.

**ARTICLE III**  
**LOCATION OF HEAD OFFICE**

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

**ARTICLE IV**  
**OBJECT OF THE OPERATING JOINT VENTURE COMPANY**

The object of Joint venture Operating Company is to act as the agency through which GANOPE and CONTRACTOR, carry out and conduct the Development operations required in accordance with the provisions of the Agreement signed on the ----- day of ----- by and between the ARAB REPUBLIC OF EGYPT, South Valley Egyptian Petroleum Holding Company and CONTRACTOR covering Petroleum operations in the ----- Area described therein.

Joint venture Operating Company shall be the agency to carry out and conduct Exploration operations after the date of signing and approving pursuant to Work Programs and Budgets

approved in accordance with the Agreement. Joint Venture Operating Company shall keep account of all costs, expenses and expenditures for such operations under the terms of the Agreement and Annex "E" thereto. Joint Venture Operating Company shall not engage in any business or undertake any activity beyond the performance of said operations unless otherwise agreed upon by GANOPE and CONTRACTOR.

## **ARTICLE V CAPITAL**

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

GANOPE and CONTRACTOR shall each pay for, hold and own, throughout the life of Joint venture Operating Company , one half (1/2) of the capital stock of Joint Venture Operating 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, may such transferring or assigning party transfer or assigning any of the capital stock of Operating Company and, in that event, such transferring or assigning party (and its successors and assignees) must transfer and assign a stock interest in Joint Venture Operating Company equal to the transferred or assigned whole or percentage of its ownership interest in the entirety of the said Agreement.

## **ARTICLE VI ASSETS**

Joint Venture Operating Company shall not own any right, title, interest or estate in or under the Agreement or any Development Lease created thereunder or in any of the Petroleum produced from any Exploration Block or Development Lease thereunder 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 GANOPE or CONTRACTOR under the Agreement. Joint Venture Operating Company shall not make any profit from any source whatsoever.

## **ARTICLE VII ROLE OF THE JOINT VENTURE OPERATING COMPANY**

Joint venture Operating Company shall be no more than an agent for GANOPE and CONTRACTOR. Whenever it is indicated herein that Operating Company shall decide, take action or make a proposal and any similar action, it is understood that such decision or

judgment is the result of the decision or judgment of GANOPE and CONTRACTOR, as may be required by the Agreement.

## **ARTICLE VIII BOARD OF DIRECTORS**

Joint venture Operating Company shall have a Board of Directors consisting of eight (8) members, four (4) of whom shall be designated by GANOPE and the other four (4) by CONTRACTOR. The Chairman shall be designated by GANOPE 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 Joint Venture Operating 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 Joint Venture Operating Company employed directly by Joint Venture Operating Company and not assigned thereto by CONTRACTOR and GANOPE .

The Board shall, in due course, draw up the By-Laws of Joint Venture Operating 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 OPERATING JOINT VENTURE COMPANY**

Joint Venture Operating Company shall come into existence within ninety (90) days after the date of the Minister's of Petroleum approval of a Development Lease, whether for Oil or Gas, as provided for in the Agreement (unless otherwise agreed by GANOPE and CONTRACTOR)

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

The Joint Venture Operating Company shall be wound up if the Agreement referred to above is terminated for any reason as provided for therein.

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BY-----

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BY-----

South Valley Egyptian Petroleum Holding Company

BY-----

**ANNEX "E"**  
**ACCOUNTING PROCEDURE**

**ARTICLE I**  
**GENERAL PROVISIONS**

(a) Definitions:

The definitions contained in Article I of the Agreement shall apply to this Accounting Procedure and have the same meanings.

(b) Statements of activity:

1. CONTRACTOR shall, pursuant to Article IV of this Agreement, and until the coming into existence of the Joint Venture Operating Company - in accordance with Article VI of the Agreement - render to GANOPE 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 for that quarter summarized by appropriate classifications indicative of the nature thereof.
2. Following its coming into existence, Joint Venture Operating Company shall render to GANOPE 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 for that quarter summarized by appropriate classifications indicative of the nature thereof, except that items of controllable material and unusual charges and credits shall be detailed.

Pursuant to Article VII, GANOPE shall audit and approve each statement of Development and Exploration Activity submitted by the CONTRACTOR or the joint venture Operating Company (as the case may be). Any comments made by GANOPE shall be reflected by the CONTRACTOR or joint venture the Operating 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 GANOPE unless within the said three (3) months GANOPE takes written exception thereto pursuant to Article IV (f) of the Agreement. During the said three (3) month period supporting

documents will be available for inspection by GANOPE during all working hours. CONTRACTOR will have the same audit rights on Joint Venture Operating Company Statements as GANOPE 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 three (3) months following the receipt of such Statement, unless within the said three (3) months period GANOPE or CONTRACTOR takes written exception thereto. Pending expiration of said three (3) months GANOPE or CONTRACTOR or both of them shall have the right to audit Joint Venture Operating Company accounts, records and supporting documents for such quarter in the same manner as provided in Article IV (f) of the Agreement.

(d) Currency Exchange:

CONTRACTOR's books for Exploration and Joint Venture Operating 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 Pounds 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 translated to 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 translating Egyptian Pounds or other non-U.S. Dollars expenditures to 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 GANOPE 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, according to Article III (a), (G) 4 CONTRACTOR shall alone bear and, directly or through Joint Venture Operating 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 approved by GANOPE, of CONTRACTOR's or Joint Venture Operating 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. Such salaries and wages to be certified by a certified public accounting firm. 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 Article II (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 of the other items covered by the percentage fixed under (2) below.

2. For expatriate employees permanently assigned to Egypt:

(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 Forty seven percent (47%) or applied percentage, which is lesser, 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), Article II (i), Article II (k) (1) and Article II (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 U.S. 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. F.I.C.A.
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 every two (2) years from the Effective Date and at such time CONTRACTOR and GANOPE will agree on new percentages to be used under this paragraph.

Revisions of the percentages will take into consideration variances in costs and changes in CONTRACTOR's international policies which change or exclude any of the above allowances and benefits. The revised percentages will reflect as nearly as possible CONTRACTOR's actual costs of all its established allowances and benefits and of personnel transfers.

- (4) For expatriate employees temporarily assigned to Egypt all allowances, costs of established plans and all travel relocation costs for such expatriates as paid in accordance with CONTRACTOR's international policies. Such costs shall not include any administrative overhead other than what is mentioned in Article II (k) (2) of this Annex.
- (5) Costs of expenditure or contributions made pursuant to law or assessment imposed by Governmental authority which are applicable to labor cost of salaries and wages as provided under Article II (b) (1), Article II (b) (2), Article II (i), Article II (k) (1) and Article II (k) (3) 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), Article II (i), Article II (k) (1) and Article II (k) (3) of this Annex. Severance pay will be charged at a fixed rate applied to payrolls which will 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 or furnished as such by CONTRACTOR or Joint venture Operating Company .

(1) Purchases: Material, equipment and supplies purchased shall be at the price paid by CONTRACTOR or Joint venture Operating 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 to be charged only for the materials used, 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 warehouse 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) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at seventy five percent (75%) of the price of new material.
  - (b) Material which cannot be classified as Condition "B" but which is serviceable for original function but substantially not suitable for reconditioning, shall be classed as Condition "C" and priced at fifty percent (50%) of the price of new material.
  - (c) 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 Materials Furnished by 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 manufacturers or their agents.

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 equipment, materials and supplies necessary for the conduct of CONTRACTOR's or Joint venture Operating Company 's activities.
2. Business travel and transportation expenses to the extent covered by Established policies of CONTRACTOR or with regard to expatriate and national employees, as incurred and paid by, or for, employees in the conduct of CONTRACTOR's or Joint venture Operating 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 GANOPE, by CONTRACTOR or by 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 GANOPE and/or CONTRACTOR or their Affiliated Companies at an agreed contracted price. Major projects involving engineering and design services shall be performed by GANOPE and/or CONTRACTOR or their Affiliated Companies at a negotiated contract amount.
3. Use of GANOPE'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 currently 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 Joint venture Operating Company through the exercise of reasonable diligence.



CONTRACTOR or Joint venture Operating Company shall furnish GANOPE and CONTRACTOR written notice of damages or losses incurred in excess of 10000\$ ten thousand U.S. Dollars per occurrence, as soon as practicable after report of the same has been received by CONTRACTOR or Joint Venture Operating Company.

(h) Insurance and Claims:

The cost of any public liability, property damage and other insurance against liabilities of CONTRACTOR, Joint Venture Operating Company and/or the parties or any of them to their employees and/or outsiders as may be required by the laws, rules and regulations 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 Oil field practices, all related actual expenditures incurred and paid by CONTRACTOR or joint Venture Operating 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 or parties 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 shall be handled by the legal staff of one or more of the parties hereto, a charge commensurate with cost of providing and furnishing such services may 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 will be charged as provided in Article II (i), and excepting salaries of employees of CONTRACTOR who are temporarily assigned to and directly serving on the Area,

which will be charged as provided in Article II (b) of this Annex.

2. CONTRACTOR's administrative overhead outside the A.R.E. applicable to Exploration operations in the A.R.E. during the period prior to the formation of the Joint Venture Operating Company shall be charged each month at the rate of five percent (5%) of total Exploration expenditures, where CONTRACTOR's Exploration operations are carried out by CONTRACTOR itself. Any administrative overhead of CONTRACTOR outside the A.R.E. applicable to A.R.E. Exploration operations will not be charged on the Exploration operations in A.R.E. while Exploration operations are being conducted following the formations of the Joint Venture Operating Company . No other direct charges as such for CONTRACTOR's administrative Overhead outside the A.R.E. will 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, comptroller 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 Joint Venture Operating Company is conducting operations, Joint Venture Operating 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 expense will be charged to operations. Such expenses shall be allocated each month between Exploration and Development operations according to sound and practicable accounting methods.

(1) Taxes:

All taxes, duties or levies paid in the A.R.E. by CONTRACTOR or Joint Venture Operating 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 Joint Venture Operating 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 Joint Venture Operating Company under approved Work Programs and Budgets.

### **ARTICLE III INVENTORIES**

(a) Periodic Inventories, Notice and Representation:

At reasonable intervals as agreed upon by GANOPE and CONTRACTOR inventories shall be taken Joint Venture Operating 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 Joint Venture Operating Company to GANOPE and CONTRACTOR at least thirty (30) days before any inventory is to begin so that GANOPE and CONTRACTOR may be represented when any inventory is taken. Failure of GANOPE and/or CONTRACTOR to be represented at an inventory shall bind them to accept the inventory taken by joint venture joint venture Operating 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 GANOPE, and a list of overages and shortages shall be jointly determined by Joint Venture Operating Company and CONTRACTOR and GANOPE, and the inventory adjusted by joint venture joint venture Operating 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 GANOPE as promptly as practicable but not later than fifteen (15) days after receipt from Joint Venture Operating 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 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, GANOPE shall audit and approve each statement of Development and Exploration Activity submitted by the CONTRACTOR or the joint venture Operating Company (as the case may be). Any comments made by GANOPE shall be reflected by the CONTRACTOR or joint venture the Operating Company (as the case may be) on the Statement produced for the next calendar quarter

(b) Payments:

If such Statement shows an amount due to GANOPE, 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 GANOPE on the date when such payment is due, then CONTRACTOR shall pay interest of two and one 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 Petroleum:

GANOPE has the right to take its entitlement of Excess Cost Recovery Petroleum 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 the Cost Recovery Petroleum.

(d) Audit Right:

GANOPE shall have 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. GANOPE and CONTRACTOR shall agree on any required adjustments. Supporting documents and accounts will be available to GANOPE during said twelve (12) month period.

**ARTICLE V**  
**CONTROL AND MAJOR ACCOUNTS**

(a) Exploration Obligation Control Accounts:

CONTRACTOR will 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 per Article I (b) (1) of this Annex, less any reductions agreed to by GANOPE and CONTRACTOR following written exceptions taken by a non-operator pursuant to Article I (c) (1) of this Annex, in order to determine when minimum Exploration obligations have been met.

(b) Cost Recovery Control Account:

CONTRACTOR will 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 Petroleum, if any.

(c) Major Accounts:

For the purpose of classifying costs, expenses and expenditures for Cost Recovery as well as for the purpose of establishing when the minimum Exploration 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 as provided in the agreement, that any A.R.E. Income Taxes paid by GANOPE 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) (3) of this Agreement, less the amount equal to CONTRACTOR's grossed-up Egyptian income tax liability, shall be CONTRACTOR's "Provisional Income."

The "gross-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 plus Grossed-up Value

And

Grossed-up Value = A.R.E. Income Tax on 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 TIMES 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:

$$\begin{aligned} \$10 \times 0.4 &= \$ 6.67 \\ 1 - 0.4 & \end{aligned}$$

Therefore:	
Provisional income	\$10.00
Plus Grossed-up Value	6.67
Taxable Income	\$16.67
Less: A.R.E. Income Taxes at 40%	6.67
CONTRACTOR's Income after taxes	\$ 10.00

ANNEX "F"

# MAP OF NATIONAL GAS PIPELINE GRID SYSTEM

