

Egyptian Natural Gas Holding Company "EGAS"

2018 INTERNATIONAL BID ROUND

MAIN TERMS AND CONDITIONS

1- TYPE OF CONTRACT:

Production Sharing Agreement "PSA" Model. Contractor undertakes all risk to Explore and Develop both Gas and Crude Oil.

2- PARTIES OF THE CONTRACT:

The Government of Arab Republic of Egypt, the Egyptian Natural Gas Holding Company (EGAS) and Contractor.

3- CONTRACTOR:

Contractor could be either an individual Petroleum Exploration company or a group of companies.

4- ROYALTY & INCOME TAXES:

- EGAS shall bear and pay Royalty & Egyptian Income Tax out of its share on behalf of the Contractor, in case Contractor disposes all or part of its Production share, to EGAS.
- Contractor shall bear and pay Royalty & Egyptian Income Tax, in case Contractor elects to dispose all or part of its Production share by itself for the domestic market or for export, in respect of the value of such share.

5- CONTRACT PHASES:

a) EXPLORATION PHASE:

The duration of the total Exploration phase shall be specified in the offer, for blocks (9, 10 and 11) shall not exceed six (6) years and shall be divided into two Exploration periods, for blocks (1, 2, 3, 4, 5, 6, 18, 19, 20, 21, 22,

23 and 24) shall not exceed eight (8) years and shall be divided into two or three Exploration periods. (shorter Exploration phase is preferable)

b) DEVELOPMENT PHASE:

Following a Commercial Discovery of Oil or Gas, the Contractor should submit to EGAS a Development plan, including an abandonment plan for the Developed area.

The Contractor should also submit the Development Lease application comprising:

- 1-The extent of the whole area capable of Production to be covered by the Development Lease and mutually agreed upon by EGAS and Contractor,
- 2- The destination of the disposed Petroleum,
- 3- The Petroleum reserves, and
- 4- The Commercial Production Commencement date , and
- 5- The Gas price (in case of Gas commercial discovery).

The Development Lease is subject to the Minister of Petroleum approval.

The duration of each Development Lease whether for Oil or Gas shall be twenty (20) years from the Development Lease approval date and the Development Lease period can be extended up to (5) years “Five Years Extension” upon Contractor’s written request supplemented by a complementary Development or Production plan to EGAS and subject to the Minister of Petroleum approval.

In case Contractor failed to submit the Development Lease application within three (3) years for blocks (1, 2, 3, 4, 5, 6, 18, 19, 20, 21, 22, 23 and 24) and one (1) year for blocks (9, 10 and 11) from the date of Contractor’s notification to EGAS of Commercial Discovery of Oil or Gas, as the case may be, (unless otherwise agreed upon by EGAS) the Contractor should immediately surrender the area containing such Oil or Gas reserves to EGAS.

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

6- RELINQUISHMENT:(Competitive)

For all blocks the Contractor shall relinquish at the end of the first Exploration period a minimum of ----% (not less than (30%)) of the original area in a single unit, and for the second Exploration period (if any) an additional minimum of ----% (not less than (20%)) of the original area in a single unit, the remaining area shall be relinquished by the end of the last Exploration period (except those parts that have been converted into Development Lease(s)).

Contractor may retain the area supposed to be relinquished for the following Exploration period (if any), starting from the end of the then current Exploration period, by submitting a six (6) months pre-written request to EGAS stating the reasons for such retaining, such request shall also include an undertaken to perform additional Exploration activities and their relevant estimated costs (subject to EGAS' acceptance), then Contractor shall submit a separate Letter of Guarantee with an amount equivalent to the agreed costs of such activities.

Such retaining request shall be subject to the Minister of Petroleum approval.

In any Development Lease, whether for Oil or Gas, the Contractor shall relinquish Development Blocks not producing or not contributing to Production upon EGAS' review every four (4) years from the Commercial Production Commencement date and till the end of the Development phase.

At the time of relinquishment of all or any part of the Concession area, Contractor shall be committed to restore the area to its original condition or to the condition agreed upon between EGAS and Contractor.

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

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

The first exploration period shall not be more than 3 years.

The offers should contain the following minimum requirements during the first Exploration period:

` Block no.	Technical commitment	Min. Financial obligation
-------------	----------------------	---------------------------

		for 1 st Expl. period
1	at least one exploratory well in each Expl. period	at least 30 million US\$
2, 3, 4, 5, 6		at least 60 million US\$
9, 10, 11		at least 15 million US\$
18, 19, 20		at least 80 million US\$
21, 22		at least 100 million US\$
23, 24	at least 3D seismic in the 1 st period	at least 60 million US\$
	In case of 2 nd - 3 rd Expl. Period at least one exploratory well	at least 100 million US\$

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

Upon EGAS' notification and before the Agreement final signature date; the Contractor shall submit a Letter of Guarantee (bank/production) or solidification letter of Contractor's dues for the minimum financial commitments of the first Exploration period.

A similar Letter of Guarantee shall be required if Contractor elects to enter the subsequent Exploration period.

8- COST RECOVERY: (Competitive)

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

9- EXCESS COST RECOVERY: (Competitive)

The excess cost recovery, if any, shall be Competitive and divided between EGAS and Contractor provided that EGAS' share should not be less than 75%.

10- PRODUCTION SHARING: (Competitive)

After deducting the cost recovery percentage; the remaining percentage of petroleum shall be divided between EGAS and Contractor based on Brent Price (quarterly average) and according to the Production tranches shown in the following table which the bidder shall fill abiding by the specified tranches and submit in the bid provided that EGAS’ share should not be less than (65%) at Brent Price less than or equal to 40 US\$ at the first Production tranche and should increase with the Brent Price and Production tranches increase.

A. EGAS’ Share of Crude Oil and Condensate:

Brent Price US\$/bbl	Crude Oil produced and saved under this Agreement and not used in Petroleum operations. Barrel of Oil Per Day (BOPD) (quarterly average)			
	Less than or equal to 5000 BOPD	More than 5000 BOPD and less than or equal to 10000 BOPD	More than 10000 BOPD and less than or equal to 20000 BOPD	More than 20000 BOPD
Less than or equal to 40 US\$				
More than 40 US\$ and less than or equal to 60 US\$				
More than 60 US\$ and less than or equal to 80 US\$				
More than 80 US\$ and less than or equal to 100 US\$				
More than 100 US\$ and less than or equal to 120 US\$				
More than 120 US\$ and less than or equal to 140 US\$				
More than 140 US\$ and less than or equal to 160 US\$				
More than 160 US\$ and less than or equal to 180 US\$				
More than 180 US\$ and less than or equal to 200 US\$				
More than 200 US\$				

B. EGAS' Share of Gas and LPG:

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

11- BONUSSES: “non recoverable”

a. SIGNATURE BONUS: (Competitive)

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

b. DEVELOPMENT LEASE BONUS: (Competitive)

For blocks (9, 10 and 11) Contractor shall pay to EGAS as a Development Lease Bonus not less than US\$ 50000 for each Development Block (1'x1') or part of Development Block at the approval date of each Development Lease.

For blocks (1, 2, 3, 4, 5, 6, 18, 19, 20, 21, 22, 23 and 24) Contractor shall pay to EGAS as a Development Lease Bonus not less than US\$ 25000 for each

Development Block (1'x1') or part of Development Block at the approval date of each Development Lease.

c. PRODUCTION BONUS: (Competitive)

Contractor shall pay to EGAS the following Production bonuses at the following Production rates:

	MMUS\$
5000 BOPD or its equivalent	-----
10000 BOPD or its equivalent	-----
20000 BOPD or its equivalent	-----
25000 BOPD or its equivalent	-----

d. FIVE YEAR EXTENSION BONUS :(Competitive)

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

e. TRAINING BONUS: (Competitive)

From the Agreement's Effective date and during the Agreement life time (Exploration or Development periods), Contractor shall, for each Financial Year, prepare and carry out approved specialized training programs to EGAS' employees for the sum of US\$ ----- (not less than US\$ 100000) as a training Bonus of EGAS' Employees.

f. ASSIGNMENT BONUS:

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

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

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

ii- During the Development phase, (10%) of the value of each assignment deal according to the following provisions, whichever is applicable:

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

iii- In case of assignment during an Exploration period and after discovery of a Commercial (Oil or Gas) Well or a Development Lease was granted to the Contractor of an area; the value of the assignment bonus will be the sum of the value of both Assignment Bonuses mentioned in (i & ii) above.

- In case of each assignment to an affiliated company(ies) of the same Contractor member, the Assignment Bonus shall be the Sum of US\$ 150000.

12- ASSIGNMENTS:

Neither Contractor nor Contractor member(s) may assign to a person, firm, corporation or affiliated company in whole or in part, any of its rights, privileges, duties and obligations under the contract either directly or indirectly “indirect assignment shall mean, for example any sale, purchase, transfer of stocks, capital or assets or any other legal action would change the control of the Contractor / Contractor member” without the written approval of the Government. Priority shall be given to EGAS to obtain Contractor’s share intended to be assigned, except in case of assignment to an affiliated company of the same Contractor member. The assignor shall submit all reasonable documents that evidence the assignee's financial and technical competence which will be subject to EGAS’ and concerned authorities’ acceptance.

13- DISPOSITION OF GAS, LPG AND CRUDE OIL:

Priority shall be given to meet the domestic market needs for Gas, LPG and Crude Oil as determined by EGAS and subject to the Minister of Petroleum approval.

- Contractor may elect to dispose to EGAS its share of Gas according to a Gas Sales Agreement between EGAS and Contractor.

- Contractor may elect to dispose all or part of its Gas' Production share by itself for the domestic market, provided that the Contractor should submit the application to EGAS to obtain the Minister of Petroleum approval on Gas quantities and price.
- In case Contractor or EGAS and Contractor export Gas, it should obtain the Minister of Petroleum approval on the Gas price and quantities allocated for export.
- In case EGAS or EGAS and Contractor export LPG, it should obtain the Minister of Petroleum approval on the LPG price and quantities allocated for export.

14- VALUATION OF GAS:

- 1- In case the Contractor disposes its share of Gas (cost recovery, Production share and excess cost recovery, if any) to EGAS; according to a Gas Sales Agreement between EGAS and Contractor (as sellers) and EGAS (as buyer), Gas shall be valued, delivered to and purchased at a price, which should be agreed upon by EGAS and Contractor on the basis of technical and economic factors for Developing area such as water depth, reservoir depth, the actual expenditure and expected investments over the Development project lifetime, proven and probable Gas reserves , internal rate of return on investment to achieve the interests of the parties and the prevailing applicable Gas price in the concessions of similar conditions and stated in the relevant Development Lease before the Minister of Petroleum approval of the Development Lease.
- 2- In case Contractor disposes locally part of its Production share of Gas to third party then the following shall apply:
 - a- Contractor's quantities disposed to the third party, shall be valued based on the agreed price between the Contractor and such third party.
 - b- Contractor's quantities disposed to EGAS shall be valued based on Gas price agreed by EGAS and Contractor according to the basis mentioned in (1) above.
- 3- In case Contractor disposes all Production share of Gas locally 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.
- 4- In case Contractor solely exports part or all its Production share of Gas to third party, such exported Gas shall be valued based on the agreed price between the Contractor and such third party.
- 5- In case EGAS and Contractor export Gas, such Gas shall be valued at the net back price.

15- MANAGEMENT OF OPERATIONS:

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

The Joint Venture Company will be established within three (3) months from the date of the Minister of Petroleum approval of the first Development Lease whether for Crude Oil or Gas to carry out the Development operations. The name of the Joint Venture Company will be approved by the Minister of Petroleum.

16- PREFERENCE OF LOCAL GOODS AND SERVICES:

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

17- APPLICABLE LAW AND ARBITRATION:

The Egyptian laws shall be the applied law in enforcing the terms of the Agreement. The competent courts shall settle any dispute between the Government of Arab Republic of Egypt and the parties. Arbitration procedures between EGAS and Contractor shall be governed by the Arbitration rules of the Cairo Regional Center for International Commercial Arbitration.

18- ABANDONMENT OF ASSETS:

The Contractor should submit to EGAS the Development Plan including abandonment plan of the Developed area, such abandonment plan shall include abandonment procedures and its estimated costs.