



**ΕΠΙΣΗΜΗ ΕΦΗΜΕΡΙΔΑ  
ΤΗΣ ΚΥΠΡΙΑΚΗΣ ΔΗΜΟΚΡΑΤΙΑΣ**

**ΠΑΡΑΡΤΗΜΑ ΤΡΙΤΟ**

**ΜΕΡΟΣ Ι**

**ΚΑΝΟΝΙΣΤΙΚΕΣ ΔΙΟΙΚΗΤΙΚΕΣ ΠΡΑΞΕΙΣ**

<b>Αριθμός 4550</b>	<b>Δευτέρα, 20 Φεβρουαρίου 2012</b>	<b>277</b>
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**Αριθμός 50**

ΟΙ ΠΕΡΙ ΥΔΡΟΓΟΝΑΝΘΡΑΚΩΝ (ΑΝΑΖΗΤΗΣΗ, ΕΡΕΥΝΑ ΚΑΙ ΕΚΜΕΤΑΛΛΕΥΣΗ) ΚΑΝΟΝΙΣΜΟΙ ΤΟΥ 2007 ΚΑΙ 2009

Γνωστοποίηση δυνάμει του Κανονισμού 5(2)

Με την παρούσα γνωστοποιείται ότι η Υπουργός Εμπορίου, Βιομηχανίας και Τουρισμού ασκώντας τις εξουσίες που χορηγούνται σε αυτήν δυνάμει του Κανονισμού 5(2) των περί Υδρογονανθράκων (Αναζήτηση, Έρευνα και Εκμετάλλευση) Κανονισμών του 2007 και 2009, εκδίδει το πιο κάτω πρότυπο Συμβόλαιο Έρευνας και Αναλογικού Καταμερισμού Παραγωγής, στην βάση του οποίου στο εξής θα συνάπτονται Συμβόλαια μεταξύ της Κυπριακής Δημοκρατίας και προσώπων στα οποία το Υπουργικό Συμβούλιο θα παραχωρεί άδεια αναζήτησης, εξερεύνησης και εκμετάλλευσης υδρογονανθράκων δυνάμει του άρθρου 5(1) του περί Υδρογονανθράκων (Αναζήτηση, Έρευνα και Εκμετάλλευση) Νόμου του 2007.

Έγινε στις 20 Φεβρουαρίου 2012.

ΠΡΑΞΟΥΛΑ ΑΝΤΩΝΙΑΔΟΥ ΚΥΡΙΑΚΟΥ,  
Υπουργός Εμπορίου Βιομηχανίας και Τουρισμού.

**MODEL EXPLORATION AND PRODUCTION  
SHARING CONTRACT**

**REPUBLIC OF CYPRUS**

**MINISTRY OF COMMERCE, INDUSTRY AND TOURISM**

**[NICOSIA, FEBRUARY 2012 ]**

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**THE PRESENT CONTRACT WAS MADE ON THE .....**

**BETWEEN**

**THE REPUBLIC OF CYPRUS** (hereinafter referred to as the "Republic"), represented for the purposes of this Contract by **THE MINISTER OF COMMERCE, INDUSTRY AND TOURISM** of the **REPUBLIC** (hereinafter referred to as the "Minister"), by the powers vested to him pursuant to the decision of the Council of Ministers No. ...., dated.....

**AND**

\_\_\_\_\_, a company organized and existing under the laws of \_\_\_\_\_, having its headquarters in \_\_\_\_\_ (hereinafter referred to as the "Contractor"), represented for purposes of this Contract by \_\_\_\_\_, its \_\_\_\_\_.

The Republic and the Contractor hereinafter are referred to either individually as "Party" or collectively as "Parties".

**WITNESSETH:**

**WHEREAS**, the ownership of Hydrocarbons wherever they occur in the Republic, including the territorial waters, the continental shelf and the exclusive economic zone, is vested in and are deemed to always have been vested in the Republic;

**WHEREAS**, the Council of Ministers of the Republic by virtue of the Hydrocarbons (Prospecting, Exploration and Exploitation) Law of 2007, as amended or replaced from time to time, has the authority following a submission of an application, to grant an authorization for Hydrocarbons Operations;

**WHEREAS**, the Republic wishes to promote the development of Hydrocarbons resources within and throughout the Contract Area and the Contractor desires to join and assist the Republic in evaluating the Hydrocarbons potential and promptly and efficiently developing Hydrocarbons resources which may be discovered within the Contract Area;

**WHEREAS**, the Contractor represents that it has the financial ability, technical competence and professional skills necessary to carry out the Hydrocarbons Operations hereinafter described;

**NOW THEREFORE**, in consideration of the undertakings and covenants herein contained, the Parties hereby agree as follows:

## 1 INTERPRETATION

1.1 In this Contract, words importing the singular include the plural and vice versa, and except where the context otherwise indicates, shall have the meaning set forth in this Article. Words that are not defined herein, but are defined in the law and regulations pertaining to the prospecting, exploration and exploitation of hydrocarbons in force at any given time in the Republic, shall have the meanings set forth in the said law and regulations.

- “Affiliated Company” means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct, administer and dictate policies of such Person, through the ownership of a percentage of such Person's voting securities enough to hold a majority of voting rights at general meetings or through other means; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.
- “Annex” means any and all of the annexes:  
 (a) Annex A - Description of the Original Contract Area;  
 (b) Annex B - Map of the Original Contract Area;  
 (c) Annex C - Accounting and Financial Procedures;  
 (d) Annex D - Exploration Work Obligations;  
 (e) Annex E - Performance Guarantee.
- “Applicable Environmental Legislation” means all relevant environmental legislation, whether primary or secondary, national, European Union or international, applicable from time to time in the Republic, and includes judgments, rulings and orders of any competent court.
- “Appraisal” means all work carried out by the Contractor subsequent to a Discovery of Hydrocarbons for the purpose of delineating one or more Hydrocarbons reservoirs to which that Discovery relates in terms of thickness and lateral extent and in order to further define the quantity of recoverable Hydrocarbons therein and all activities related thereto.
- “Appraisal Area” means a geographical area within the Contract Area, encompassing the surface of the geological structure

- or prospect where Appraisal is intended to be performed and a reasonable margin surrounding such structure or feature to be mutually agreed by the Minister and the Contractor.
- “Arm’s Length Sales” means sales of Hydrocarbons in freely convertible currencies between sellers and buyers having no direct or indirect relationship or common interest whatsoever with each other that could reasonably influence the sales price.
- “Available Gas” means Natural Gas produced and saved hereunder and not used in Hydrocarbons Operations, to the extent permitted under the provisions of Article 8.
- “Available Hydrocarbons” means Available Oil and Available Gas:
- “Available Oil” means Crude Oil produced and saved hereunder and not used in Hydrocarbons Operations, to the extent permitted under the provisions of Article 8.
- “Barrel” means a quantity or unit of Crude Oil equal to 158.9874 litres (forty-two [42] United States gallons) at a temperature of 15.56 degrees centigrade (sixty [60] degrees Fahrenheit) under one atmosphere of pressure.
- “Budget” means the estimate of the costs of all items included in a Work Programme.
- “Calendar Year” means a period of twelve (12) months commencing January 1st and ending on the following December 31st, according to the Gregorian Calendar.
- “Commercial Discovery” means a Discovery that, in the judgment of the Contractor, can be produced commercially after consideration of all pertinent operating and financial data collected during the performance of the appraisal work programme and otherwise, as provided in Article 5.5, including, but not limited to Crude Oil or Natural Gas recoverable reserves, sustainable production levels and other relevant technical and economic factors, according to generally accepted international petroleum industry practice.
- “Contract” means this present document and pertaining Annexes as may be amended from time to time.
- “Contract Area” means the geographic area which is subject to this Contract, after relinquishment, surrender, withdrawal, amendment, extension or otherwise from time to time pursuant to the terms of this Contract.

- “Contract Year” means a period of twelve (12) months commencing on the Effective Date, or on any anniversary of it, and ending on the calendar day immediately before the next anniversary thereof.
- “Cost Gas” means the portion of the Available Gas as set out in accordance with Article 8 that the Contractor may freely retain each Calendar Year for the purposes of recovery of its Hydrocarbons Costs.
- “Cost Hydrocarbons” means Cost Oil and Cost Gas.
- “Cost Oil” means the portion of the Available Oil as set out in accordance with Article 8 that the Contractor may freely retain each Calendar Year for the purposes of recovery of its Hydrocarbons Costs.
- “Council of Ministers” means the Council of Ministers of the Republic.
- “Crude Oil” means unrefined hydrocarbons which are produced at the wellhead in liquid state at a temperature of 15°C and pressure of 1 Atmosphere and the liquid hydrocarbons known as condensate and Natural Gas liquids obtained from Natural Gas by condensation or extraction.
- “Designated Area” means the area pertaining to a Discovery that does not merit Appraisal or is not a Commercial Discovery or a Significant Gas Discovery, as provided for in Article 5.4.
- “Development” shall include but not be limited to:
- (i) all the operations and activities under the Contract with respect to the drilling of wells other than Exploration Wells and Appraisal wells, the deepening, plugging, completing and equipping of such wells, together with the design, construction and installation of such equipment, pipeline or lines, installations, production units and all other systems relating to such wells as may be necessary in conformity with sound oilfield and generally prevailing environmental practices in the international petroleum industry;
  - (ii) all operations and activities relative to the servicing and maintenance of pipelines, lines, installations, production units and all related activities for Production and management of wells.
- “Decommissioning” means, in respect of the Contract Area, to abandon, decommission, transfer, remove and/or dispose of structures, facilities, installations, pipelines equipment and other property, and other works, used in Hydrocarbons Operations in the area, to clean up the area and make it good and safe, and to protect the

	environment.
“Decommissioning Cost”	has the meaning given in Article 12.
“Decommissioning Plan”	means a plan of works, and an estimate of expenditures therefore, for Decommissioning, including environmental, engineering and feasibility studies in support of the plan.
“Delivery Point”	means the location specified in the approved Development and Production Plan within or outside of the Contract Area.
“Development and Production Expenditures”	means direct expenditures of a capital nature on Development and Production Operations and general expenses made in connection with the development and production of a Field, excluding expenditures made within the corresponding Exploitation Area before the Discovery has been declared as Commercial Discovery, and Operating Expenditures, all as determined in accordance with the Accounting Procedure attached hereto as Annex C.
“Development and Production Operations”	means all operations other than Exploration Operations conducted to facilitate the extraction and the production of Crude Oil and Natural Gas.
“Development and Production Plan”	means a plan for the development and production of the Exploitation Area as determined in accordance with Article 7 in this Contract
“Discovery”	means an occurrence of Hydrocarbons recovered at the surface which was not previously known to have existed and which is measurable by conventional petroleum industry practices.
“Discovery Well”	means an Exploration Well that hits a Discovery
“EEA”	means the European Economic Area created by the Agreement on the European Economic Area signed in Porto on 2 May 1992, adjusted by the Protocol signed in Brussels on 17 March 1993.
“Effective Date”	means the date of execution of this Contract by the Parties, as set out in Article 40.
“Exploitation Area”	means a geographical area within the Contract Area, encompassing the extent of the geological structure or prospect which is subject to a Development and Production Plan.

“Exploitation License”	means an authorization granted by the Council of Ministers and providing its holder with the rights set forth in Section 14(3) of the Law.
“Exploitation Period”	means a period of time running from the Council of Ministers’ approval of an authorization for exploitation and for a period of twenty five (25) Contract Years or if such period is extended for such additional time as is set out in the authorization to extend the period until the expiry of such extended period.
“Exploration”	means any and all operations conducted for the purpose of making a Discovery, including but not limited to: any activities necessary to commence operations; any topographical, hydrographical, geological, geophysical, aerial and other surveys and activities (including interpretations, analyses and related studies) to investigate the subsurface for the location of Hydrocarbons; drilling of shot holes, core holes and stratigraphic test holes; spud, drilling, testing, coring, logging and equipping of Exploration Wells or Appraisal Wells; procurement of such material, equipment, machinery, items and supplies as may be required or expedient for the foregoing activities; and all auxiliary operations and activities required or expedient for the better conduct or result of the foregoing activities.
“Exploration Expenditures”	means direct expenditures on Exploration Operations and other expenses made in connection with exploration of the Contract Area, as these expenditures shall be determined in accordance with the Accounting Procedure attached hereto as Annex C, but expenditures made within an Exploitation Area shall be excluded.
“Exploration Licence”	means an authorization granted by the Council of Ministers and providing its holder with the rights set forth in Section 14(2) of the Law.
“Exploration Period”	means the period commencing on the Effective date and ending at the expiry of the First Renewal Period, the Second Renewal Period or any extensions permitted in accordance with the provisions of this Contract as the case may be.
“Exploration Phase”	means any of the Initial Licensing Period, the First Renewal Period and the Second Renewal Period including any extensions thereof as the case may be.
“Exploration Well”	means any well drilled for the purpose of confirming a structure or a separate geological feature in which

	no Discovery has previously been made by the Contractor.
“Exploration Work Obligations”	means the work obligations specified for each Exploration Phase as set out in Annex D .
“Exploration Operations”	includes, without limitation, geological studies, geophysical studies, aerial mapping, investigations relating to the subsurface geology, stratigraphic test drilling, exploratory wells, and related activities such as drillsite preparation, surveying and all work necessarily connected therewith, that is conducted in connection with exploration for Crude Oil and/or Natural Gas.
“Field”	means a Hydrocarbons reservoir or multiple Hydrocarbons reservoirs all grouped on or related to the same individual geological structural features or stratigraphic conditions. All reservoirs overlying and underlying a Field shall constitute part of such Field.
“First Renewal Period”	means a period of time running from the expiry of the Initial Licensing Period and for a period of two (2) Contract Years.
“Foreign Exchange”	means currency acceptable to the Parties other than that of the Republic.
“Hydrocarbons”	means any kind of petroleum products in solid, liquid or gaseous state, including crude oil or natural gasoline, natural hydrocarbon gases as well as all related minerals or substances of any kind extracted together therewith;
“Hydrocarbons Cost”	means expenditures made and obligations incurred by the Contractor in carrying out Hydrocarbons Operations hereunder, determined in accordance with the Accounting Procedure attached hereto as Annex C.
“Hydrocarbons Operations”	means Exploration Operations, Development and Production Operations and all other related activities carried out under this Contract, including the lifting of Hydrocarbons from the Contract Area but excluding any storage, transportation or processing beyond the Delivery Point.
“Initial Licensing Period”	means a period of time running from the Effective Date and for a period of three (3) Contract Years thereafter.
“Law”	means the Hydrocarbons (Prospecting, Exploration

	and Exploitation) Law, No. 4 (I) of 2007 as amended from time to time or any law replacing the above.
“Lifting Schedule”	means the planned programme of Hydrocarbons liftings by each Party approved by the Minister.
“Minister”	shall have the meaning ascribed to such term in the Law
“Natural Gas”	means hydrocarbons that at a temperature of 15°C and pressure of 1 Atmosphere are in a gaseous phase, including wet mineral gas, dry mineral gas, wet gas and residue gas remaining after the extraction, processing or separation of liquid hydrocarbons from wet gas, as well as non-hydrocarbon gas or gases produced in association with liquid or gaseous hydrocarbons.
“Original Contract Area”	means the geographical area that is described in Annex A and delineated on the map attached as Annex B.
“Operating Expenditures”	means those costs described in Article 2.5 of Annex C.
“Operator”	means the Person appointed pursuant to Article 4 to serve as Operator with responsibility for carrying out Hydrocarbons Operations in the Contract Area in accordance with the provisions of this Contract. If more than one Operator exists at any time under this Contract, references to the term “Operator” shall be to each Operator with respect to the parts of the Contract Area in which it conducts Hydrocarbons Operations.
“Person”	means any individual, company, co-operative, partnership, joint venture, association, trust, estate, public body, unincorporated organization of government or any agency or political subdivision thereof.
“Production”	shall include but not be limited to operations and all activities related thereto carried out for Hydrocarbons production after the Council of Ministers’ approval of the Development and Production Plan, such as extraction, injection, stimulation, treatment, transportation, storage, lifting, and related operations, but does not include any storage or transportation beyond the Delivery Point.
“Profit Gas”	means the remaining Available Gas, after the Contractor has taken the Cost Gas pursuant to the provisions of Article 8.1.

"Profit Hydrocarbons"	means Profit Oil and Profit Gas.
"Profit Oil"	means the remaining Available Oil, after the Contractor has taken the Cost Oil pursuant to the provisions of Article 8.1.
"Quarter"	means a period of three (3) consecutive months beginning January 1 <sup>st</sup> , April 1 <sup>st</sup> , July 1 <sup>st</sup> or October 1 <sup>st</sup> and ending March 31 <sup>st</sup> , June 30 <sup>th</sup> , September 30 <sup>th</sup> or December 31 <sup>st</sup> , respectively.
"Regulations"	means the regulations issued under the Law.
"Research and Development"	means activities related to but not limited to research and development studies, development and testing of concepts and technical solutions and product development.
"Second Renewal Period"	means a period of time running from the expiry of the First Renewal Period and for a period of two (2) Contract Years thereafter.
"Semester"	means a period of six (6) consecutive months, commencing January 1 <sup>st</sup> and July 1 <sup>st</sup> and ending June 30 <sup>th</sup> and December 31 <sup>st</sup> , respectively.
"Significant Gas Discovery"	<p>means a Discovery of Natural Gas from an Exploration Well in the Contract Area which has tested significant flow rates of Natural Gas (predominantly methane) from one or more reservoirs, and which is estimated to be capable of continuous production from the said reservoir(s) over a reasonable period and which in the opinion of the Contractor could be declared a Commercial Discovery in the future, provided inter-alia that:</p> <ul style="list-style-type: none"> <li>(a) adequate gas pipeline transportation facilities are installed, or</li> <li>(b) markets have been sufficiently developed for sale of Natural Gas on a commercial basis, or</li> <li>(c) the requirements of both (a) and (b) have been met.</li> </ul>
"Significant Gas Discovery Area"	means a geographical area within the Contract Area, encompassing the surface of the geological structure or prospect of a Significant Gas Discovery.
"Territory"	means the land territory, the internal waters, the territorial waters, the continental shelf and the exclusive economic zone of the Republic.

- “Well” means any opening in the ground or seabed made or being made by drilling or boring, or in any other manner, for the purpose of discovering and/or producing Crude Oil or Natural Gas, or for the injection of any fluid into a hydrocarbon reservoir, other than a seismic hole or a structure test hole or stratigraphic test hole.
- “Work Programme” means a statement itemizing the Hydrocarbons Operations to be carried out pursuant to this Contract during any Calendar Year or part thereof.

## **2 GRANT OF RIGHTS AND TITLE TO HYDROCARBONS**

### **2.1 Grant of Rights**

The Contractor is granted the exclusive right to conduct Hydrocarbons Operations in the Contract Area at its sole risk, cost and expense and in accordance with applicable law and the terms and conditions set out herein. This Contract shall not include rights for any activity other than Hydrocarbons Operations with respect to surface areas, sea beds, sub-soil or to any other natural resources or aquatic reserves.

### **2.2 Title to Hydrocarbons**

Title to Cost Oil and Cost Gas and the Contractor's share of Profit Gas and Profit Oil shall pass to the Contractor at the Delivery Point.

### **3 SCOPE**

- 3.1** This is an exploration and production sharing contract, the object of which is the Exploration, Appraisal, Development and Production of Hydrocarbons in the Contract Area and the supply of required infrastructure within and outside of the Contract Area up to the Delivery Point, all at the Contractor's sole risk and expense.
- 3.2** The Contractor shall be responsible to the Republic for the execution of such Hydrocarbons Operations in accordance with the provisions of the Contract. Without prejudice to the Contractor's position as an independent Contractor hereunder, the work to be done by the Contractor shall be subject to the general inspection, supervision and review of the Minister in accordance with the Contract.

#### **4 JOINT OPERATING AGREEMENT, OPERATOR AND MANAGEMENT COMMITTEE**

**4.1** Where the Contractor consists of several entities, the entities shall enter into a joint operating agreement binding the entities constituting the Contractor. The Contractor shall nominate, and the Council of Ministers shall approve, an Operator.

**4.2** The Contractor shall provide the Minister with a copy of the joint operating agreement for approval by the Council of Ministers. The Minister may require alterations to be made in the joint operating agreement. Without prejudice to the Law and the Regulations, any changes to the joint operating agreement to be made after the Effective Date shall be approved by the Council of Ministers.

The joint operating agreement shall establish a Management Committee for the purposes of controlling and supervising the conduct of Hydrocarbons Operations, ensuring cooperation between the Parties, overseeing and supervising the implementation of Hydrocarbons Operations and the compliance with Work Programmes and Development and Production Plans. The joint operating agreement shall establish the functions and the procedures of the Management Committee.

**4.3** The Republic is entitled to appoint government representatives who shall be part of the Management Committee and shall act as government observers in all Management Committee activities. The Contractor shall ensure that the appointed government representatives in the Management Committee receive all information in connection with the activities of the Management Committee. The Contractor shall ensure that the government representatives receive written notice within reasonable time and latest at the same time as the other Contractor representatives in the Management Committee.

**4.4** Where the Contractor consists of one entity, a Management Committee with the functions as provided for in Article 4.2 shall be established and the provisions of Article 4.3 shall apply.

- 4.5** The Operator shall execute the Hydrocarbons Operations on behalf of the Contractor.

For all purposes of this Contract, the Operator shall represent the Contractor and the Minister may deal with the Operator. The Operator shall be subject to all of the specific obligations provided for in this Contract and in the applicable law and shall have the exclusive control and administration of the Hydrocarbons Operations.

The Operator shall be the only entity which, on behalf of the Contractor, may execute contracts, incur expenses, make commitments and implement other actions in connection with the Hydrocarbon Operations.

- 4.6** Any change in Operator shall be subject to the prior approval of the Council of Ministers.

- 4.7** Where the Minister determines that an Operator is no longer competent to be an Operator, the Minister may, by written notice to the Operator and the entities constituting the Contractor, request that a new Operator shall be proposed. The Contractor must then within thirty (30) days propose to the Minister a new Operator. If the Contractor does not put forward a proposal for a new Operator or a proposed Operator is not approved, the Council of Ministers may, by written notice to the Operator and the entities constituting the Contractor, revoke the authorization and terminate this Contract.

## **5 EXPLORATION**

### **5.1 Authorization to explore**

- 5.1.1 The Contractor is, subject to the provisions of this Contract, authorized to conduct Exploration Operations within the Contract Area during the Exploration Period.

### **5.2 Exploration Work Obligations**

- 5.2.1 The Contractor shall, during the Exploration Period and subject to the provisions of Annex D, carry out the Exploration Work Obligations.

The licensees will conduct a preliminary Environmental Impact Assessment study prior to the initiation of any exploration work and a full Environmental Impact Assessment study prior to the initiation of any exploitation work, both of which will comply with the provisions of the Strategic Environmental Assessment (SEA) of the hydrocarbon licensing programme within the EEZ of the Republic of Cyprus and with the relevant opinion of the Environmental Authority, as well as with the relevant provisions of the Directive 85/337/EEC. The SEA study is available on the MCIT website ([www.mcit.gov.cy](http://www.mcit.gov.cy)) while the relevant opinion of the Environmental Authority is available at

[http://www.moa.gov.cy/moa/environment/environment.nsf/All/0F381D48CB93F576C22579A30040CCE4/\\$file/2008-3%20b.pdf](http://www.moa.gov.cy/moa/environment/environment.nsf/All/0F381D48CB93F576C22579A30040CCE4/$file/2008-3%20b.pdf)

- 5.2.2 If in an Exploration Phase the Contractor drills a number of wells greater than the minimum drilling obligations specified for said phase in the Exploration Work Obligations, the excess exploration wells may be carried forward to a subsequent Exploration Phase and shall be deducted from the minimum drilling obligations specified for said Exploration Phase, provided that at least one Exploration Well shall be drilled during each Exploration Phase.
- 5.2.3 Appraisal Wells drilled under an Appraisal Work Program with respect to a Discovery shall not be considered as Exploration Wells and, in the event of a Hydrocarbons Discovery, only the Discovery Well shall be deemed to be an Exploration Well.

### **5.3 Renewal of authorization to explore**

- 5.3.1 At the expiry of any Exploration Phase of the Exploration Period, provided that the Contractor has completed the Exploration Work Obligations for that Exploration Phase, the Contractor shall have the option, exercisable by filing at least three (3) months prior to the expiry of the current Exploration Phase a written application, to the Minister, who shall seek the approval of the Council of Ministers, either:

- i. to proceed to the next Exploration Phase on presentation of the requisite guarantees as provided for in Article 38; or
- ii. to relinquish the entire Contract Area except for any Appraisal Area and any Exploitation Area and to conduct Appraisal Operations and/or Development and Production Operations in relation to any Commercial Discovery in accordance with the terms of this Contract, and the Contractor shall have no further obligation in respect of the Exploration Work Obligations for any subsequent Exploration Phases of the Exploration Period.

If neither of the options provided for in Article 5.3.1.(i) and Article 5.3.1.(ii) is exercised by the Contractor, this Contract shall terminate at the end of the then current Exploration Phase and the Exploration License shall be automatically cancelled.

5.3.2 The application for renewal shall be accompanied with a map specifying the Contract Area retained by the Contractor, specified in accordance with the provisions of Article 6.1, together with a report specifying the work performed on the area to be relinquished in accordance with Article 6.1.(a) since the Effective Date and the results obtained therefrom.

5.3.3 Any renewals shall be approved by the Council of Ministers and granted in writing by the Minister.

#### **5.4 Discovery**

5.4.1 In the event of a Discovery of Hydrocarbons in the Contract Area, the Contractor shall promptly inform the Minister in writing thereof. The notice shall include all relevant information on the Discovery and particulars on any testing program which the Contractor intends to carry out, in accordance with best international petroleum industry practice, to contribute to the evaluation of the Hydrocarbons encountered during drilling.

5.4.2 Not later than thirty (30) days after the suspension or abandonment of the Discovery Well, the Contractor shall submit to the Minister a report including, but not limited to:

- a) All the results of the drilling of the Discovery Well;
- b) The results of any tests being made of the Discovery Well;
- c) A preliminary classification of the Discovery as Crude Oil or Natural Gas; and
- d) A recommendation with respect to any Appraisal to be made of the Discovery.

5.4.3 If the Contractor notifies the Minister that the Discovery does not merit Appraisal, the Minister shall have the option, on three (3) months written notice, to require the Contractor to immediately relinquish the Designated Area unless the Contractor has provided valid justification to retain the area covering the Discovery. The Designated Area shall:

- a) comprise the vertical projection to the surface of the geological structure on which the Discovery Well was drilled; and
- b) be determined based on geophysical and other technical information obtained from the Discovery.

## 5.5 Appraisal

5.5.1 If the Contractor considers that the Discovery merits Appraisal, it shall no later than three (3) months following the submission of the report referred to in Article 5.4.2 diligently submit to the Minister a detailed Appraisal Work Program and the estimated corresponding Budget for approval.

5.5.2 The Appraisal Work Program shall:

- i. specify in reasonable detail the Appraisal work including seismic, drilling of wells and studies to be carried out, the estimated cost of these works and the time frame within which the Contractor shall commence and complete the programme; and
- ii. specify the presumed extension of said Discovery which shall not exceed the area encompassing the geological structure or feature and a reasonable margin surrounding such structure or feature proposed to be the Appraisal Area.

5.5.3 The Contractor shall diligently carry out the approved Appraisal Work Programme and within the time frame specified therein. The Contractor may amend the Appraisal Work Programme subject to the Minister's prior approval.

5.5.4 Within three (3) months after completion of the Appraisal Work Programme the Contractor shall submit to the Minister a comprehensive evaluation report on the work performed relative to the Appraisal Work Programme. Such evaluation report shall include, but not be limited to, the following information: geological conditions, such as structural configuration; physical properties and extent of reservoir rocks; pressure, volume and temperature analysis of the reservoir fluid; fluid characteristics, including gravity and composition of liquid and gaseous hydrocarbons, sulphur percentage, sediment and water percentage, and product yield pattern; production forecasts (per Well and per Field); and estimates of recoverable

reserves, projected delivery rate and pressure, quality specifications and other relevant technical and economic factors including economic feasibility studies carried out by the Contractor in respect of its declaration made under Article 5.6.

- 5.5.5 If upon expiry of the Second Renewal Period an Appraisal Work Programme with respect to a Discovery is actually under progress, the Contractor may obtain, upon an application to the Minister, with respect to the Appraisal Area related to said Discovery, the extension of the Exploration Period for a period of time necessary to complete the relevant Appraisal Operation. Such extension shall not exceed a period of six (6) months if the Appraisal Work Programme relates to Crude Oil and not exceed a period of twenty-four (24) months if the Appraisal Work Programme relates to Natural Gas. The Council of Ministers shall decide on the extension sought.
- 5.5.6 If the Contractor, after completion of Appraisal, considers that the Discovery is not commercial, the Minister, with the approval of the Council of Ministers may, with a three (3) months' prior notice, require the Contractor to relinquish its rights on the Appraisal Area related to said Discovery.
- 5.5.7 Where the Council of Ministers makes use of the right provided in Article 5.5.6, the Contractor shall forfeit its rights on all Hydrocarbons which could be produced from said Discovery, and the Republic may then carry out, or cause to be carried out, all the appraisal, development, production, treatment, transportation and marketing work relating to that Discovery, without any compensation to the Contractor, provided, however, that said work shall not cause prejudice to the performance of the Hydrocarbons Operations by the Contractor.
- 5.5.8 Any quantity of Hydrocarbons produced from a Discovery prior to it being declared as a Commercial Discovery, if it is not used for the Hydrocarbons Operations or lost, shall be subject to the provisions of Article 8.
- 5.5.9 Subject to the provisions of Article 5.5.5, if no Commercial Discovery has been made in the Contract Area by the end of the Exploration Period, this Contract shall terminate.

## **5.6 Declaration of Commerciality**

- 5.6.1 With the submission of the evaluation reports pursuant to Article 5.5.4, the Contractor shall submit a written declaration to the Minister indicating one of the following:

- a) that based on the results of its Appraisal Work Programme it has determined that the Discovery is a Commercial Discovery;
- b) that based on the results of its Appraisal Work Programme it has determined that the Discovery is not a Commercial Discovery;
- c) that based on the results of its Appraisal Work Programme it has determined that the Discovery is a significant Discovery which may become a Commercial Discovery conditional on the outcome of further work that the Contractor commits itself to carry out under a further Exploration or Appraisal Work Programme in specified areas within or outside the Appraisal Area.

5.6.2. If the Contractor declares pursuant to Article 5.6.1.(a) that a Discovery is a Commercial Discovery, the Contractor shall submit to the Minister for approval within four (4) months of such declaration:

- i. a proposed Development and Production Plan; and
  - ii. a proposed designation of the Production Area;
- both of which shall be subject to the Council of Ministers' prior approval; and
- iii. a full environmental impact study prepared in accordance with the Applicable Environmental Legislation, covering the proposed Development and any related facilities or infrastructure inside or outside of the Contract Area, which shall be subject to prior approval in accordance with the Applicable Environmental Legislation.

The licensees will conduct a full Environmental Impact Assessment study prior to the initiation of any exploitation work, which will comply with the provisions of the Strategic Environmental Assessment (SEA) of the hydrocarbon licensing programme within the EEZ of the Republic of Cyprus and with the relevant opinion of the Environmental Authority, as well as with the relevant provisions of the Directive 85/337/EEC. The SEA study is available on the MCIT website ([www.mcit.gov.cy](http://www.mcit.gov.cy)) while the relevant opinion of the Environmental Authority is available at [http://www.moa.gov.cy/moa/environment/environment.nsf/All/0F381D48CB93F576C22579A30040CCE4/\\$file/2008-3%20b.pdf](http://www.moa.gov.cy/moa/environment/environment.nsf/All/0F381D48CB93F576C22579A30040CCE4/$file/2008-3%20b.pdf)

The proposed Development and Production Plan and Production Area shall be deemed approved as submitted if, respectively, the Council of Ministers or the competent authority according to the Applicable Environmental Legislation, does not respond within ... (...) days of receipt.

## 6 RELINQUISHMENTS

### 6.1 Periodic relinquishment

- a) The Contractor shall:
  - i. at the end of the Initial Licensing Period relinquish not less than twenty five percent (25%) of the Original Contract Area;
  - ii. at the end of the First Renewal Period relinquish an additional portion of the Contract Area not less than twenty five percent (25%) of the Original Contract Area.
  - iii. at the end of the Second Renewal Period relinquish the remaining portion of the Contract Area.
  
- b) Notwithstanding paragraph 6.1.(a) above, the Contractor shall not be obliged to relinquish any part of the Contract Area which has been made subject to an Appraisal Area or Exploitation Area or Significant Gas Discovery Area.
  
- c) Subject to paragraph 6.1.(h), the Contractor may at any time with at least three (3) months' prior written notice to the Minister relinquish all or part of the Contract Area. Any area so relinquished will be credited against the next relinquishment obligation of the Contractor under paragraph 6.1(a).

Any such voluntary relinquishment of part of the Contract Area during the Exploration Period shall not reduce the Exploration Work Obligations set forth in Annex D nor the amount of the corresponding guarantee.
  
- d) The Contractor shall, subject to paragraphs 6.1.(a) and 6.1.(e), propose the size, shape and location of the portion of the Contract Area which it intends to relinquish pursuant to the provisions of this Contract.
  
- e) The notice submitted by the Contractor in accordance with paragraph 6.1.(c) shall be accompanied by a description of the area to be relinquished with pertaining map of the area.

- f) The area to be relinquished by the Contractor pursuant to the provisions of this Contract shall be contiguous and delimited by meridians and parallels of latitude expressed in whole minutes of a degree, all of sufficient size and convenient shape to enable Hydrocarbons Operations to be conducted thereon. This applies correspondingly to the areas retained by the Contractor.
- g) The Council of Ministers shall approve the shape and size of the Contract Area that will remain after relinquishment and may exempt from the requirement that the areas are to be contiguous. When particular reasons so warrant, the Council of Ministers may exempt from the requirement to delimit the area in whole minutes of a degree.
- h) If the Contractor does not relinquish a portion of the Contract Area at the time and in the manner required by this Article 6.1., all of the Contract Area shall be deemed relinquished at the end of the Contract Year concerned.
- i) Without the consent of the Council of Ministers, and notwithstanding paragraph 6.1.(b), the Contractor may not relinquish all of the Contract Area if it has not then fulfilled the Exploration Work Obligations or is then in breach of any provision of this Contract.

## **6.2 Final Relinquishment of Exploration Area**

- a) The Contractor shall, at the expiry of the Exploration Period, relinquish all of the Contract Area other than such part thereof as is an Exploitation Area.
- b) If, at the end of the Exploration Period, a Discovery has been made but there has been insufficient time for the Contractor (acting, and having acted, in accordance with this Contract) to Appraise such Discovery, the obligation of the Contractors under this Article 6.2. shall, subject to the provisions of the Regulations, be postponed:
  - i. for such area as the Contractor proposes and the Minister may determine to be reasonably necessary for Appraisal of the Discovery;
  - ii. for such period as is reasonably necessary to permit the Contractor to Appraise (or to complete the Appraisal of) the Discovery; and

- iii. as a consequence of that Appraisal, for the Contractor to decide whether to declare a Commercial Discovery and, if it does so, for the Council of Ministers to declare an Exploitation Area in respect of it.

### **6.3 Relinquishment of Exploitation Area**

- a) Except with the approval of the Council of Ministers, an Exploitation Area shall be deemed to be relinquished on the first to occur of:
  - i. production from the Exploitation Area ceasing permanently or for a continuous period of twelve (12) months (or, if because of Force Majeure, twenty four (24) months or such greater period as determined by the Council of Ministers, in consultation with the Contractor); and
  - ii. the expiry of the Exploitation Period.
- b) Without the approval of the Council of Ministers, the Contractor may not otherwise relinquish all or any part of an Exploitation Area.

### **6.4 Termination of Agreement and Continuing Obligations in respect of Relinquished Area**

- a) This Contract shall terminate in respect of a part of the Contract Area which is relinquished.
- b) Relinquishment of all or a part of the Contract Area is without prejudice to the obligations of the Contractor to Decommission.
- c) No relinquishment made in accordance with this Article 6 shall relieve the Contractor of the obligation to pay surface fees accrued, or making payments due and payable as a result of Hydrocarbons Operations conducted prior to the date of relinquishment.

## **7 DEVELOPMENT AND PRODUCTION PERIOD**

### **7.1 Approval of a Development and Production Plan**

The Contractor shall prepare and submit the Development and Production Plan and any amendments to the same to Minister with the approval of the Council of Ministers, through the Minister, for approval. The Contractor may not perform any activities with reference to the Development and Production Plan prior to such approval being obtained, save with the express permission to enter into specific activities granted by the Minister.

### **7.2 Development and Production Plan**

7.2.1 Except with the consent of the Minister a Development and Production Plan shall include but not be limited to:

- i. a description and a map of the estimated extent of the Exploitation Area;
- ii. all information and data pertaining to the characteristics of the Commercial Discovery, including but not limited to:  
Geological and geophysical information, areas, thickness and extent of the productive strata, petrophysical properties of the reservoir formations, PVT data, the reservoir's productivity indices for the wells tested at various flow rates, permeability and porosity of the reservoir formation, the relevant characteristics and qualities of the Hydrocarbons discovered, additional geological data and evaluations of the reservoir, reserves estimates, and any other relevant characteristics and properties of the reservoir and fluids contained therein, as well as evaluations, interpretations and analysis of such data;
- iii. a description of the proposed reservoir development and management programme;
- iv. an evaluation of the commerciality of the Development, including a full economic evaluation with an estimate of the hydrocarbons reserves, both proven and probable, and of the corresponding production profiles, as well as a study on the methods for recovery of Hydrocarbons and utilization of Natural Gas, if any;
- v. In the event of Associated Natural Gas, the Contractor shall give an assessment of the possibility of such Associated Natural Gas exceeding the quantities of Natural Gas necessary for the requirements of the Hydrocarbons

Operations related to the production of Crude Oil (including reinjection operations) and if it considers that such excess Associated Natural Gas is capable of being produced in commercial quantities together with any analysis made thereof;

- vi. an assessment and presentation of the possible outlets for the Natural Gas from the Discovery in question, both on the local market and for export, together with an evaluation of the necessary means for its marketing, with due consideration to the sale and marketing of the Republic's Profit Gas in accordance with Article [14];
- vii. proposals as to the possibility of a joint marketing of the Parties shares of Hydrocarbons;
- viii. details of:
  - a. the geological and the reservoir work done, together with the production profiles simulated, in order to reach the best depletion alternative;
  - b. the work, facilities and services required for the development and production of the reservoir, including, inter alia, drilling schedules, number of wells, well spacing and any other related activities. Proposals relating to production procedures shall ensure that the area does not suffer an excessive rate of decline of production, or an excessive loss of reservoir pressure, and shall ensure environmental protection conforming to best practices in the petroleum industry and comply with the Regulations;
  - c. the plan for the production, processing, storage, transportation, sale, and other disposal of Hydrocarbons (hereunder exploitation of Associated Natural Gas) to be extracted from the Contract Area;
  - d. the production, treatment and transportation facilities to be located in the Republic. Proposals relating to facilities shall provide for the optimal use of existing or planned facilities;
  - e. facilities, wherever located, which are connected to any such facilities as aforesaid and which (or the operation of which) might affect the integrity, management or operation thereof;
  - f. the Delivery Point;
- ix. the production profiles for all hydrocarbon products, including possible injections for the life of the

Development, the commencement of Production and the specific rates of Hydrocarbons production, and the level of production and of deliveries which the Contractor submits, should constitute the start of Commercial Production;

- x. a decommissioning plan, in such detail as the Minister requires, including a calculation of the decommissioning costs, the annual amount in the decommissioning fund provided for in Article [12.4], and the Contractor's proposal for the Decommissioning Security;
- xi. a risk management plan prepared in accordance with the requirements of the Law and the Applicable Environmental Legislation, including the measures and directions established by the Minister to prevent any damage and remove any hazards that the Hydrocarbons Operations may cause to affected communities, Contractor's personnel and the environment;
- xii. an environmental impact assessment study, prepared in accordance with the Applicable Environmental Legislation, containing a description of the ecosystem prior to the commencement of the development (baseline study), including the flora and fauna, soil, air quality, underground and surface water, landscape aesthetics prior to commencement of Hydrocarbons Operations, and the aspects of the ecosystem which may be affected qualitatively and quantitatively by the Hydrocarbon Operations and the effect of said operations on local populations and industries, if any, and the socio-economic conditions of those individuals;

The licensees will conduct a full Environmental Impact Assessment study prior to the initiation of any exploitation work, which will comply with the provisions of the Strategic Environmental Assessment (SEA) of the hydrocarbon licensing programme within the EEZ of the Republic of Cyprus and with the relevant opinion of the Environmental Authority, as well as with the relevant provisions of the Directive 85/337/EEC. The SEA study is available on the MCIT website ([www.mcit.gov.cy](http://www.mcit.gov.cy)) while the relevant opinion of the Environmental Authority is available at

[http://www.moa.gov.cy/moa/environment/environment.nsf/A11/0F381D48CB93F576C22579A30040CCE4/\\$file/2008-3%20b.pdf](http://www.moa.gov.cy/moa/environment/environment.nsf/A11/0F381D48CB93F576C22579A30040CCE4/$file/2008-3%20b.pdf)

- xiii. an environment management plan, including a socio-economic management plan, prepared in accordance with

- the requirements of the Regulations and of the Applicable Environmental Legislation, including the measures planned for the protection of the environment, the elimination or the reduction of pollution and the protection and compensation of affected populations and industries if applicable, and the verification of the effectiveness of said measures;
- xiv. an emergency response plan prepared in accordance with the requirements of the Regulations and of the Applicable Environmental Legislation, including measures to respond to any accident that may occur at the site of the Hydrocarbon Operations, medical treatment and evacuation of employees and surrounding populations and the protection of the environment;
  - xv. the Contractor's proposals for:
    - a. the use of local goods and services;
    - b. training and employment of nationals of the Republic and of the EEA member states residing in Cyprus; and
  - xvi. a plan for Research and Development activities;
  - xvii. the estimated Development and Production Expenditure covering the feasibility, fabrication, installation, commissioning and pre-production stages of the Development;
  - xviii. the Contractor's proposals for financing, hereunder full information as to the Contractor's current financial status, technical competence and experience;
  - xix. summary details and copies of:
    - a. all contracts and arrangements made or to be made by each Contractor for the sale of Natural Gas;
    - b. all contracts and arrangements made or to be made by persons in respect of that Natural Gas downstream of the point at which it is to be sold by the Contractor and which are relevant to the price at which (and other terms on which) it is to be sold by the Contractor or are otherwise relevant to the determination of the value of it for the purposes of this Contract, but not beyond the point at which it is first disposed of in an arm's length transaction; and
    - c. all contracts and arrangements made or to be made by the Contractor in respect of facilities downstream of the Field export point for transporting,

processing, liquefying, storing, handling and delivering that Natural Gas;

- xx. the programme and time-schedule for the performance of the Development and Production Operations, including the estimated date of the commencement of Hydrocarbons production; and
- xxi. such other data and information (including in respect of insurance to be obtained by the Contractors, and buyers and shippers of Hydrocarbons) as the Law and Regulations require and as the Minister otherwise requires.

- 7.2.2 From time to time, and in like manner, the Contractor may submit, for the approval of the Council of Ministers, amendments to the Development and Production Plan.
- 7.2.3 In determining whether to approve a Development and Production Plan or an amendment to it properly submitted by the Contractor, the Council of Ministers shall give due consideration to the Contractor's proposal to secure the implementation of a Decommissioning Plan in respect of the Exploitation Area.
- 7.2.4 The Council of Ministers may propose amendments or modifications to the Development and Production Plan, as well as the requested Exploitation Area.
- 7.2.5 The Council of Ministers may set as a condition for approval of the Development and Production Plan that Hydrocarbons are to be transported in specified transportation systems.
- 7.2.6 The Council of Ministers shall specify its reasons for not approving a Development and Production Plan or an amendment to it.
- 7.2.7 A Development and Production Plan will be such as would be undertaken by a person seeking diligently to develop and exploit (in accordance with this Contract) the Hydrocarbons in the Exploitation Area in the long term best interests of the Parties.
- 7.2.8 The Contractor shall proceed with the development and production of the Hydrocarbons in accordance with the Development and Production Plan submitted to and approved by the Council of Ministers pursuant to the provisions of Article 7.1.

### **7.3 Development Work Programmes and Budgets**

- a) At such time and in such manner as the Law and Regulations require, and as the Minister otherwise requires, the Contractor

shall submit, for the approval of the Minister, a Development Work Programme and Budget for each Exploitation Area for each Calendar Year. At any time and from time to time, the Contractor may submit, for approval, amendments to it.

- b) A Development Work Programme and Budget for a Calendar Year shall be substantially in accordance with the Development and Production Plan for the Exploitation Area.

#### **7.4 Exploitation Licence**

7.4.1 Upon approval of a Development and Production Plan of a Commercial Discovery pursuant to Article 7.1, the Contractor shall submit an application through the Minister for approval by the Council of Ministers for an Exploitation License in respect of the proposed Exploitation Area.

7.4.2 Where a part of a Reservoir in respect of which a Commercial Discovery has been declared extends beyond the Contract Area, such area shall be included in the proposed Exploitation Area, in relation to which application for an Exploitation License is made, on terms and conditions as decided by the Council of Ministers, provided that such area is:

- i. not subject to a License granted to any other Person;
- ii. not the subject of negotiations/bidding for an Exploration License or an Exploitation License; and
- iii. available for licensing (i.e. is not an area over which Hydrocarbons Operations are excluded).

7.4.3 Where a Development and Production Plan has been approved pursuant to Article [7.1] and the Contractor has complied with the terms and conditions of the Exploration License and this Contract and is not in breach of any of the terms thereof, or the provisions of any law and subject to normal Government clearances/approvals being obtained by the Contractor as applicable before grant/issue of the Exploitation License, the Council of Ministers shall, subject to the Law and the Regulations, grant to the Contractor an Exploitation Licence over the Exploitation Area as agreed, subject to Section 14(2) of the Law to enable the Contractor to carry out Hydrocarbons Operations in the Exploitation Area in accordance with the Development and Production Plan.

7.4.4 Upon expiry of the initial Exploitation Period, such period may be extended for an additional period of ten (10) years, at the Contractor's request submitted to the Council of Ministers through the Minister at least one (1) year prior to said expiry, provided that the Contractor has fulfilled all its contractual obligations during the initial Exploitation Period and provided that it can demonstrate that a commercial production from the corresponding field is still possible after the initial Exploitation Period.

7.4.5 The Contractor shall commence Exploitation Operations within six (6) months after the date of approval of the Exploitation Licence and shall pursue said operations diligently. The Contractor undertakes to perform the Exploitation Operations in accordance with best international petroleum industry practice and the provisions of the Law and the Regulations.

## **8 RECOVERY OF HYDROCARBONS COSTS AND PRODUCTION SHARING**

### **8.1 Recovery of Hydrocarbons Costs**

8.1.1 In case of a Commercial Discovery, the Contractor shall be entitled to recover its Hydrocarbons Costs. Any Available Oil and/or any Available Gas produced from the Hydrocarbon Operations conducted in accordance herewith shall be shared between the Parties as set out in this Article 8 and the Contractor shall be entitled to take and receive and freely export its Cost Oil and Cost Gas and share of Profit Oil and Profit Gas.

8.1.2 The Contractor shall be entitled to recover its Hydrocarbons Costs out of the sales proceeds or other disposition of Available Oil and Available Gas, to the extent permitted under the provisions of Article 8.1.3.

8.1.3 For purposes of recovery of its Hydrocarbons Costs, the Contractor may freely retain each Calendar Year Cost Oil and Cost Gas in no event greater than percent ( %) of the Available Oil and of the Available Gas respectively, or only any lesser percentage which would be necessary and sufficient.

8.1.4 The value of Cost Oil and Cost Gas shall be determined in accordance with the provisions of Article 9.

8.1.5 To the extent that in a Calendar Year outstanding recoverable Hydrocarbons Costs exceed the value of Cost Hydrocarbons for such Calendar Year, the excess shall be carried forward for recovery in the next succeeding Calendar Year until fully recovered, or until termination of the Contract, where such termination occurs earlier, whatever the reason thereof. No unrecovered cost can be recovered by the Contractor after such termination.

### **8.2 Production Sharing**

8.2.1 From the first day of production and as and when Hydrocarbons are being produced, the Contractor shall be entitled to take a percentage share of Profit Oil and/or Profit Gas, in consideration for its investment in the Hydrocarbons Operations, which percentage share shall be determined in accordance with Article 8.2.4.

8.2.2 To determine the percentage share of Profit Oil and/or Profit Gas to which the Contractor is entitled, the "R" Factor shall be calculated each Quarter in accordance with Article 8.2.3.

8.2.3 The "R" Factor shall be calculated as follows:

$$R = X / Y$$

where:

X: is equal to the "Cumulative Net Revenues" actually received by the Contractor;

Y: is equal to the "Cumulative Capital Expenditures" actually incurred by the Contractor

For the purpose of this Article 8.2.3:

"Cumulative Net Revenues" means total Net Revenues, as defined below, received by the Contractor from the Effective Date until the end of the Quarter preceding the relevant Quarter;

"Net Revenues" means the total amount actually received by the Contractor for recovery of its Hydrocarbons Costs and its share of Profit Hydrocarbons in the Contract Area, less all Operating Expenditures actually incurred by the Contractor in the Contract Area;

"Cumulative Capital Expenditures" means all Development and Production Expenditures and all Exploration Expenditures in the Contract Area, actually incurred by the Contractor from the Effective Date until the end of the Quarter preceding the relevant Quarter.

- 8.2.4 The share of Profit Hydrocarbons to which the Contractor shall be entitled to [from the first day of production] is equal to the relevant percentage according to the value of the "R" factor as indicated in the table below:

"R" Factor	Contractor's Share of Profit Hydrocarbons (in percentage)
$R \leq 1$	[A] %
$1 < R \leq 2.5$	$[A] - \frac{([A] - [B]) \times (R - 1)}{(2.5 - 1)}$
$R > 2.5$	[B] %

The Republic's share of Profit Hydrocarbons shall be 100% minus the Contractor's share of Profit Hydrocarbons.

[Note: A and B shall be open to bid. B shall always be lower than A].

- 8.2.5 Both the [A] % as well as the percentage (%) referred to in Article 8.1.3, shall be such to ensure the highest percentage of commercially recoverable reserves will be exploited over the period that  $R \leq 1$  (based on prudent industry practice).

- 8.2.6 The Contractor shall account separately for all components for the calculation of the values of X and Y, pursuant to the Accounting Procedure referred to in Annex C .

### **8.3 Calculations**

Cost Hydrocarbons and Profit Hydrocarbons calculations shall be done for each Quarter. To the extent that actual quantities, expenditures and/or prices are not known, provisional estimates based on the approved annual Work Programme and Budget and any other relevant documentation and information shall be used. Within sixty (60) days of the end of each Year, a final calculation based on actual quantities, expenditures and/or prices shall be made and any necessary adjustments to the sharing of Hydrocarbons shall be agreed upon between the Minister and the Contractor.

## 9 VALUATION

9.1 The value of Crude Oil to be considered under this Contract shall be the F.O.B. realized market price at the Delivery Point expressed in Euros per Barrel and payable thirty (30) days after the date of the bill of lading, as determined hereinafter for each Quarter and referred to as "Market Price".

A value shall be established for each grade of Crude Oil or for each Crude Oil blend, if any.

9.2 The Market Price applicable to liftings of Crude Oil during a Quarter shall be calculated at the end of that quarter and shall be equal to the weighted average of the prices obtained by the Contractor and the Republic for Crude Oil sold to third parties during the Quarter, on an Arm's Length basis, adjusted to reflect the variances in quality, grade, as well as F.O.B. delivery terms and conditions of payment; provided that the quantities so sold to third parties during the Quarter represents at least thirty per cent (30%) of the total quantities of Crude Oil obtained from all the Fields under this Contract and sold during said Quarter.

9.3 In the event such sale to third parties are not made during the Quarter in question, or represent less than thirty per cent (30%) of the total quantities of Crude Oil obtained from all the Fields under this Contract and sold during said Quarter, the Market Price shall be determined by comparison with the "Current International Market Price", during the Quarter in question, of Crude Oils produced in the Republic of Cyprus and the neighboring producing countries, taking into account the variances in quality, grade, transportation and payment conditions.

The term "Current International Market Price" means the price which permits the Crude Oil sold to reach, at the treatment or consumption places, a competitive price equivalent to that of Crude Oils of same quality coming from other regions and delivered under comparable commercial conditions, including quantities as well as destination and utilization of such Crude Oils, taking into account the market conditions and the type of contracts.

9.4 The following transactions shall, inter alia, be excluded from the calculation of the Market Price:

- a) sales in which the buyer is an Affiliated Company of the seller as well as sales between entities constituting the Contractor;
- b) sales in which the buyer has any direct or indirect relationship or common interest with the Contractor which could reasonably influence the sales price;

c) sales in exchange for other than payment in freely convertible currencies and sales fully or partially made for reasons other than the usual economic incentives involved in Crude Oil sales on the international market, such as exchange contracts, sales from government to government or to government agencies.

**9.5** A committee headed by the Minister or his authorized representative and consisting of representatives from the Republic and representatives from the Contractor shall meet upon request from its president in order to establish in accordance with the provision of this Article 9 the Market Price of the Crude Oil produced, which shall apply to the preceding Quarter. The Contractor shall provide evidence to the committee that the sales of Crude Oil are Arm's Length Sales. The decisions of the committee shall be taken unanimously.

In the event no decision is taken by the committee within thirty (30) days after the end of the Quarter in question, the Market Price of the Crude Oil produced shall be determined by a worldwide recognized expert appointed in accordance with the Rules of Technical expertise of the International Chamber of Commerce. The expert shall establish the price in accordance with the provisions of this Article 9 within twenty (20) days from his appointment. The determination of the expert shall be final and binding on the Republic and the Contractor. The expertise cost shall be shared equally by the Parties.

**9.6** Pending the determination of the price, the Market Price provisionally applicable to a Quarter shall be the Market Price of the preceding Quarter. Any necessary adjustment shall be made no later than thirty (30) days after the determination of the Market Price for the Quarter in question.

**9.7** The Contractor shall make any and all gas sales agreements, including all the terms and conditions contained therein or related thereto together with any pertaining annexes or appendices, concluded for the sale of Natural Gas extracted in accordance with the provisions of this Contract, available to the Minister and shall ensure that the gas sales agreements contain provisions to this effect.

**9.8** The price of Natural Gas shall be the actual price obtained at the Delivery Point (which may take into account quantities to be sold, quality, geographic location of markets to be supplied as well as costs of production, transportation and distribution of Natural Gas from the Delivery Point to the relevant market, in accordance with standard practice in the international gas industry). The Minister shall have the right to review and approve Natural Gas sales contracts.

**10 MEASUREMENT**

- 10.1** Hydrocarbons used for internal consumption for Hydrocarbons Operations, flared, produced and saved and sold from the Contract Area shall be measured by methods and appliances and in accordance with the provisions of Regulation 20 of the Regulations.

## **11 WORK PROGRAMMES AND BUDGETS**

- 11.1** No later than forty-five (45) days prior to the beginning of each Calendar Year, and, for the first Calendar Year, no later than two (2) months after the Effective Date, the Contractor shall prepare and submit for approval by the Minister a detailed itemized annual Work Programme, along with the corresponding annual Budget for the Contract Area, setting forth the Hydrocarbons Operations the Contractor proposes to carry out during the ensuing Calendar Year.
- 11.2** Each annual Work Programme and corresponding annual Budget shall be broken down into the various Exploration Operations and, as the case may be, the Appraisal with respect to each Appraisal Area, and the Development and Production Operations with respect to each Exploitation Area.
- 11.3** The Minister may propose amendments or modifications to the annual Work Programme and corresponding annual Budget by notice to the Contractor, including all justifications deemed necessary, within sixty (60) days following receipt of said Work Programme. In such a case, the Minister and the Contractor shall meet as soon as possible to review the requested amendments or modifications and establish by mutual agreement the annual Work Programme and corresponding annual Budget in final form, in accordance with best international petroleum industry practice. The date of approval of the annual Work Programme and corresponding annual Budget shall be the date of the above-mentioned mutual agreement.
- 11.4** Failing notice by the Minister to the Contractor of his wish to amend or modify the annual Work Programme and corresponding annual Budget within the abovementioned period of sixty (60) days, said Work Programme and Budget shall be deemed approved by the Minister upon the expiry date of said period.
- 11.5** It is acknowledged by the Minister and the Contractor that the results acquired as the work progresses or certain changes in circumstances may justify modifications to the annual Work Programme, in accordance with best international petroleum industry practice.
- 11.6** In that case, after notification to the Minister, the Contractor may make such modifications provided the basic objectives of the annual Work Programme are not modified.
- 11.7** In any case, the expenditures incurred for purposes of such modifications shall not exceed the initial Annual Budget approved by the Minister by more than five *percent* (5%) without his written consent.

## 12 DECOMMISSIONING

- 12.1** No later than six (6) years prior to the anticipated date of Decommissioning of a Field or as soon as possible prior to the termination of, or relinquishment of part of, any Exploitation Area, the Contractor shall in accordance with applicable law submit to the Minister for his approval the relevant Decommissioning Plan including the estimated decommissioning expenditures.
- 12.2** The Minister may request amendments or modifications to the above-mentioned Decommissioning Plan, by notice to the Contractor including all the justifications deemed necessary, within ninety (90) days following receipt of said plan. In such a case, the Minister and the Contractor shall meet as soon as possible to review the requested amendments or modifications and establish by mutual agreement the plan in final form, in accordance with best international petroleum industry practice. The date of approval of the plan shall be the date of the above-mentioned mutual agreement.
- 12.3** The Decommissioning Plan shall be revised and resubmitted to the Minister for his approval at such times as are reasonable having regard to the likelihood that the Decommissioning Plan, including estimated decommissioning expenditures thereunder, may need to be revised.
- 12.4** In order to secure the implementation of the Decommissioning Plan, the Contractor shall be required to establish a reserve fund, as from the approval of the Development and Production Plan. Such fund shall be deposited in an escrow account in a bank acceptable to the Minister. Such annual provisions shall be deemed to be Hydrocarbons Costs and recoverable pursuant to Article 0.
- 12.5** In the event that the actual Decommissioning Costs exceed the total accumulated provisions, the remaining balance of the abandonment costs shall be borne exclusively by the Contractor. In the event that actual abandonment costs are lower than the total accumulated provisions, the remaining balance of the reserve fund shall be vested in the Republic.

## **13 CONTRACTOR'S GENERAL RIGHTS AND OBLIGATIONS**

### **13.1 Contractor's general rights**

For the effective execution of Hydrocarbon Operations under this Contract, the Contractor shall have the right to freely access and operate within the Contract Area, as well as any facilities associated with Hydrocarbon Operations wherever they may be located; perform or cause to be performed any infrastructure work required for carrying out, under normal economic conditions, the Hydrocarbons Operations and related activities, such as transportation and storage of equipment and substances extracted, establishment of equipment of telecommunications and lines of communication, as well as production and supply of energy required for the Hydrocarbons Operations.

The works set forth in this Article 13.1 shall be the subject of an application filed with the Minister, specifying the location of said works and the contemplated use thereof. All relevant laws, regulations and procedures in force shall be applicable.

**13.2** Subject to the provisions of Articles 26 and 28, the Contractor may freely select its suppliers and subcontractors.

**13.3** The entry, residence, circulation, employment and repatriation of persons and their families and property for the employees of the Contractor and its subcontractors shall be according to the legislation applicable in the Republic.

### **13.4 Contractor's general obligations**

**13.5** The Contractor shall supply all the necessary funds and purchase or rent all the equipment and materials required for the performance of the Hydrocarbons Operations. It shall also supply all the technical expertise, including the use of the foreign personnel required for the performance of the Work Programmes. The Contractor shall be responsible for the preparation and implementation of the Work Programmes which shall be performed in the most appropriate way in accordance with Article 11 of this Contract and best international petroleum industry practice.

- 13.6** Within three (3) months following the Effective Date, the Contractor shall open an office in the Republic of Cyprus and keep it during the term of this Contract. Said office shall include in particular a representative authorized to conduct the Hydrocarbons Operations to whom any notice under this Contract may be served.
- 13.7** The Contractor shall conduct the Hydrocarbons Operations provided under this Contract diligently and in accordance with applicable law and best international petroleum industry practice.
- 13.8** The Contractor shall provide working conditions, living accommodations on offshore installations, and access to medical attention and nursing care for all personnel employed by it or its subcontractors in Hydrocarbons Operations in accordance with applicable law and best international petroleum industry practice.
- 13.9** If, after the Effective Date, other Persons are granted permits or licenses within the Contract Area concerning the exploration and production of any minerals or substances other than Hydrocarbons, the Contractor shall use its best efforts to avoid obstruction or interference with such licensees' operations within the Contract Area and the Minister shall use his best efforts to ensure that operations of third parties do not obstruct the Contractor's Hydrocarbons Operations within the Contract Area.
- 13.10** In the exercise of its right to build, perform, work and maintain all facilities necessary for purposes of this Contract, the Contractor shall not occupy land located within less than fifty (50) meters from any building, used for religious purposes or not, burial place, enclosing wall, yard and garden, house, group of dwellings, village, urban centre, well, water point, reservoir, street, road, pipeline, works of public interest, infrastructure works, tourist areas, unless prior authorization by the Minister has been granted. The Contractor shall repair any damage caused during such work.

## **14 SALE AND PURCHASE OF THE REPUBLIC'S PROFIT OIL AND PROFIT GAS**

### **14.1 Sale of the Republic's Profit Oil and Profit Gas**

Upon the Minister's prior notice of at least ninety (90) days, the Contractor shall provide, free of charge, sales and marketing assistance to the Minister for the sale of all or part of the quantities of Profit Oil and Profit Gas to which the Republic is entitled hereunder.

### **14.2 Obligation to purchase the Republic's Profit Oil and Profit Gas**

The Minister or any Person authorized by the Minister therefor shall have the right to require the Contractor to purchase any part of the Republic's share of Profit Oil and Profit Gas under normal commercial terms and conditions in the international petroleum industry and at the market price, as determined in accordance with Article 9 for Crude Oil and Natural Gas respectively, in force at the time the Hydrocarbons in question are lifted.

The right referred to in the preceding paragraph shall be exercised in accordance with the following rules:

- a) no later than six (6) Months prior to the start of a Quarter, the Minister shall give written notice to the Contractor that he requires the Contractor to purchase a specified quantity of Hydrocarbons to be lifted rateably over a period of two (2) consecutive Quarters;
- b) the Contractor's obligation to purchase Hydrocarbons from the Republic will continue *mutatis mutandis* from Quarter to Quarter after the initial two (2) consecutive Quarters until and unless the Minister gives the Contractor written notice of termination which, subject to the above mentioned minimum period, shall take effect six (6) months after the end of the Quarter in which such written notice was given.

**15 SUPPLY TO THE DOMESTIC MARKET**

- 15.1** The Contractor, if requested in writing, is obligated to sell to the Republic a portion of the Contractor's share of Profit Oil and Profit Gas for the domestic consumption of the Republic at a price to be agreed between the Contractor and the Minister or any Person authorized by the Minister therefor.
- 15.2** In case of war or imminent expectation of war or grave national emergency, the Minister may requisition all or a part of the Hydrocarbons produced from the Contract Area and require the Contractor to increase such production to the extent required. In such event, the price to be paid by the Republic for the Hydrocarbons shall be the value determined in accordance with Article 9 of this Contract and payment shall be made within thirty (30) days after delivery in Euro at a bank outside of the Republic designated by the Contractor.
- 15.3** In the event of any requisition as provided above, the Republic shall indemnify the Contractor in full for the period, during which the requisition is maintained, including all reasonable damages, if any, which result from such requisition.

**16 INTERNAL CONTROL**

- 16.1** The Contractor is obliged to comply with the Law, the Regulations and individual administrative decisions issued by virtue of the Law as well as with all other legislation at any time in force in the Republic through the implementation of necessary systematic measures.
- 16.2** The Contractor shall see to it that anyone performing work for him, either personally, through employees or through contractors or subcontractors, shall comply with the provisions of Article 16.1.

**17 DATA AND INFORMATION**

- 17.1** The Contractor shall have the right to use and have access to all geological, geophysical, drilling, well production, well location maps and other information held by the Minister related to the Contract Area and areas adjacent to the Contract Area in consideration of the payment of the required fees.
- 17.2** The Contractor shall promptly provide the Minister, free of cost, with all data obtained as a result of Hydrocarbons Operations under this Contract including seismic data, geological, geophysical, geochemical, petrophysical, engineering, well logs, maps, magnetic tapes, cores, cuttings and production data as well as all interpretative and derivative data, including reports, analyses, interpretations and evaluations prepared in respect of Hydrocarbons Operations.
- 17.3** The Minister shall have title to all original data and information resulting from Hydrocarbons Operations under this Contract, including but not limited to geological, geophysical, petrophysical and engineering data; well logs and completion status reports; and any other data that the Contractor or anyone acting on its behalf may compile or obtain during the term of this Contract. The Contractor is entitled to retain and use a copy of all such data, subject to the provisions of this Article 17.
- 17.4** The Contractor acknowledges the proprietary rights of the Minister in all data and information referred to in this Article 17 and agrees to treat all such data and information as confidential and to comply with applicable law with respect to the storage and any transport or export out of the Republic of any such data and information.
- 17.5** The Contractor may disclose such information to its employees to the extent required for efficient conduct of Hydrocarbons Operations, provided such individuals have signed an undertaking relating to the confidentiality of the same information as part of their employment contract or to affiliates and consultants, or to bona fide prospective assignees of rights under this Contract or to banks or financial institutions from which finance is sought, provided that the Contractor obtains from such entities, prior to disclosure, a written confidentiality undertaking. In the case of disclosure to prospective assignees, any disclosure of such information shall require the prior written consent of the Minister, which consent shall not be unreasonably withheld.
- 17.6** The Contractor may disclose information as and to the extent required by a regulatory or judicial authority having proper jurisdiction over the Contractor, provided that the Minister is first notified of such disclosure and of the information so disclosed.

**17.7** The Contractor's obligation of confidentiality under this Article shall be of a continuing nature and shall not be cancelled by the expiration, suspension or termination of this Contract.

**18 BOOKS, ACCOUNTS AND AUDITS**

**18.1** The Contractor shall maintain its records and books in accordance with the provisions of applicable companies and taxation legislation and the regulations thereof, in force in the Republic from time to time, and the Accounting Procedure attached hereto as Annex C.

**18.2** Records and books shall be maintained in the English language and expressed in Euros. They shall be supported by detailed documents demonstrating the expenses and receipts of the Contractor under this Contract.

Such records and books shall be used, *inter alia*, to determine the Contractor's gross income, Hydrocarbons Costs and net profits and to establish the Contractor's tax return. They shall include the Contractor's accounts showing the sales of Hydrocarbons under this Contract.

**18.3** The originals of the records and books referred to in Article 18.1 shall be kept at the Contractor's office in the Republic of Cyprus. As from the date the Contractor has declared the first Commercial Discovery in the Contract Area, said records and books shall be maintained in the Republic of Cyprus.

Within ninety (90) days after the expiry of a Calendar Year, the Contractor shall submit to the Minister detailed accounts showing the Hydrocarbons Costs which the Contractor has incurred during said past Calendar Year. The accounts shall be certified by an independent external auditor acceptable to the Parties, who is authorized to carry out the statutory audit of annual and consolidated accounts in accordance with the provisions of Law No. 42(I)/2009 as amended from time to time or any law replacing the above.

After notifying the Contractor in writing, the Minister may cause to be examined and audited the records and books relating to Hydrocarbons Operations and any sale of Hydrocarbons produced in accordance with this contract by experts of his election or by agents of the Republic. The Minister will have a period of seven (7) years from the end of a given Calendar Year to perform such examinations or audits with respect to said Year and notify his objections to the Contractor for any contradictions or errors found during such examinations or audits. The Contractor will provide the Minister with its explanations the soonest possible and in any case not later than the end of the following month.

The Contractor shall provide any necessary assistance to the persons designated by the Minister for that purpose and facilitate their performance.

**19 REPORTING**

- 19.1** Without prejudice to reporting obligations existing under the applicable legislation, the Contractor shall regularly inform the Minister of the performance of Hydrocarbons Operations and immediately of the accidents or dangerous occurrences which have occurred, if any.
- 19.2** Notices and reports shall be provided by the Contractor to the Minister in accordance with Regulation 23 of the Regulations. Additionally, the Contractor would be required to have documented management systems in place based on best international practice for health, safety and environmental management, as well as for normal day to day operations. These should be made available for review by the Minister. The reporting requirements to the Minister should be consistent with best international practices.

**20 INSPECTIONS**

- 20.1** Hydrocarbons Operations shall be subject to supervision by authorized officers. Pursuant to Section 19 of the Law, the authorized officers shall have the right, inter alia, to supervise Hydrocarbons Operations and to inspect the facilities, equipment, materials, records and books relating to Hydrocarbons Operations, provided that such inspection shall not unduly delay the proper conduct of said Operations.
- 20.2** For purposes of permitting the exercise of the above-mentioned rights, the Contractor shall provide the authorized officers with reasonable assistance regarding transportation and accommodation..

## 21 ASSIGNMENT AND CHANGE OF CONTROL

### 21.1 Assignment

- a) No assignment or other dealing by the Contractor with respect to this Contract shall be of any force or effect without prior approval in writing by the Council of Ministers given in accordance with Section 27 of the Law.
- b) Paragraph 21.1(a) includes any assignment, transfer, conveyance, novation, merger, encumbering or other dealing in any manner whatsoever or howsoever (whether legally, beneficially or otherwise, and whether conditionally or not) by the Contractor or any one of the entities constituting the Contractor (hereinafter "the Entities") with respect to:
  - i. this Contract, or all or any part of its rights, interests, benefits, obligations and liabilities under it;
  - ii. Hydrocarbons which has not then been, but might be, recovered in the Contract Area, or any proceeds of sale of such Hydrocarbons; and
  - iii. anything whereby this Contract, that Hydrocarbons or any of those rights, interests and benefits would, but for this Article 21.1, be held for the benefit of, or be exercisable by or for the benefit of, any other person.
- c) Paragraph 21.1(a) does not apply to an agreement for the sale of Crude Oil under which the price therefor is payable (or such Crude Oil is exchanged for other Hydrocarbons) after title thereto has passed to the Contractor.
- d) If, notwithstanding Paragraphs 21.1(a) and (b), any assignment or other dealing is effective under the laws of the Republic, or any other place without that consent, the Minister may terminate this Contract.
- e) For the purposes of the foregoing, encumbrance includes any mortgage, charge, pledge, hypothecation, lien, assignment by way of security, title retention, option, right to acquire, right of pre-emption, right of set off, counterclaim, trust arrangement, overriding royalty, net profits interest, or any other security, preferential right, equity or restriction, any agreement to give or to create any of the foregoing and any transaction which, in legal terms, is not a secured borrowing but which has an economic or financial effect similar to that of a secured borrowing.

## 21.2 Change of Control

- a) No change of control or change in any of the Factors Constituting Control of the Contractor or any one of the Entities can be of any force or effect with respect to this Contract, except with the consent of the Council of Ministers.
- b) Any changes of the Factors Constituting Control of the Contractor or of any one of the Entities shall promptly be reported by the Contractor to the Council of Ministers through the Minister. The Minister may at any time inquire about the Factors Constituting Control of the Contractor or any Entity.
- c) For the purpose of this Article, "Factors Constituting Control" means:
  - i. protocols, agreements or contracts binding the Contractor or the Entity with another contractor or Entity or with third parties and relating to the conduct of operations and management of their companies, to the sharing of expenditures and profit, or to the sharing and disposal of products and, if such companies are liquidated, to the distribution of assets;
  - ii. Provisions of the Contractor's or the Entity's articles of incorporation and by-laws relating to the head office, the right attached to capital stock, the majority required in annual meetings;
  - iii. The list and nationality of any physical or legal person which holds more than five percent (5%) of the Contractor's or the Entity's capital stock; and
  - iv. Generally, any transaction the result of which is to make one or more physical or legal persons gain or lose a controlling interest in the operations and management of the Contractor or the Entity.
- d) If there is a change in the Factors Constituting Control except with the consent of the Council of Ministers, the Minister may serve notice on the Contractor within thirty (30) days after the Contractor has advised the Minister in reasonable detail of the change in control, that this Contract shall be terminated unless such a further change in control of the Contractor or the Entity as is specified in the notice takes place within the period specified in the notice.
- e) Paragraph 21.2(d) does not apply if the change in control is the direct result of an acquisition of shares or other securities listed on a recognised stock exchange.
- f) For the purposes of paragraph 21.2(a), "change of control" includes a Person ceasing to be in control (whether or not another Person becomes

in control), and a Person obtaining control (whether or not another Person was in control).

**22 LIFTING/DISPOSAL**

- 22.1** Subject to this Contract, the Contractor may lift, dispose of and export from the Republic its share of Hydrocarbons and retain the proceeds from the sale or other disposition of that share. It shall also have the right to proceed with the separation of liquids from all Natural Gas produced, transport, store as well as sell on the local market or export its share of liquid Hydrocarbons so separated, which will be considered as Crude Oil for purposes of sharing thereof between the Parties under Article 8.
- 22.2** The Contractor and the Minister shall, from time to time, make such agreements between them as are reasonably necessary, in accordance with best international petroleum industry practice for the separate lifting of their shares of Hydrocarbons.
- 22.3** Each of the Parties (and as for the Contractor, each Entity constituting it) shall have the right to proceed separately to the commercialization, lifting and export of the Hydrocarbons to which it is entitled to under this Agreement.
- 22.4** Twelve (12) months prior to the scheduled initial export of Crude Oil or Natural Gas as the case may be, from each Field, the Contractor shall submit to the Minister for approval proposed procedures and related operating regulations covering the scheduling, storage and lifting of Crude Oil and Natural Gas produced from the Field. The procedures and regulations shall be consistent with the terms of this Contract and shall comprise the subjects necessary for efficient and equitable operations including, but not limited to, rights of the Parties, notification time, maximum and minimum quantities, duration of storage, scheduling, conservation, spillage, liabilities of the Parties, throughput fees and penalties, over and underlifting, safety and emergency procedures and any other matters that may be agreed between the Parties.
- 22.5** In any event, the agreed lifting procedures and regulations, as provided in the previous paragraph, shall always comply with applicable law.
- 22.6** In the case of more than one Commercial Discovery in the Contract Area or more than one quality of Crude Oil in a Field, the Minister and Contractor shall, unless they mutually agree that the Crude Oils should be commingled, lift from each Commercial Discovery Crude Oil qualities in proportion to their respective total liftings from the Contract Area. Natural Gas deriving from more than one Commercial Discovery in the Contract Area shall to the extent feasible be lifted and transported in one commingled stream.

**23 CONSERVATION OF HYDROCARBONS AND PREVENTION OF LOSS**

- 23.1** The Contractor shall adopt all those measures which are necessary and appropriate and consistent with the best available technology to prevent loss or waste of Hydrocarbons above or under the ground in any form during Hydrocarbon Operations, gathering and distribution, storage or transportation operations.
- 23.2** Production of Hydrocarbons shall take place in such a manner that as much as possible of the Hydrocarbons in place in each individual Hydrocarbons deposit, or in several deposits in combination, will be produced. The production shall take place in accordance with prudent technical and sound economic principles and in such a manner that waste of Hydrocarbons or reservoir energy is avoided. The Contractor shall carry out continuous evaluation of production strategy and technical solutions and shall take the necessary measures in order to achieve this.
- 23.3** Hydrocarbons shall not be produced from multiple independent Hydrocarbons productive zones simultaneously through one string of tubing, except with the prior approval of the Minister.
- 23.4** In the event the Contractor should not consider the exploitation of the excess of Natural Gas as justified and if the Minister, at any time, would wish to utilize it, the Minister shall notify the Contractor thereof, in which event:
- (i) the Contractor shall make available to the Republic free of charge at the Crude Oil and Natural Gas separation facilities all of the excess that the Minister wishes to lift;
  - (ii) the Republic shall be responsible for the gathering, treatment, compression and transportation of that excess from the above-mentioned separation facilities, and shall bear any additional costs related thereto;
  - (iii) the construction of the facilities necessary for the operations referred to in paragraph (ii) above, together with the lifting of that excess by the Republic, shall be carried out in accordance with best international petroleum industry practice and in such a manner as not to hinder the production, lifting and transportation of Crude Oil by the Contractor.
- 23.5** Any excess of Associated Natural Gas which would not be utilized under Article 7 shall be re-injected by the Contractor. However, the Contractor shall have the right to flare said gas in accordance with best international petroleum industry practice, provided that the Contractor furnishes the Minister with a report demonstrating that said gas cannot be economically utilized to improve the rate of recovery of Crude Oil by means of reinjection, and provided, further, that the Minister approves said flaring, which approval shall not be unreasonably withheld.

**24 OWNERSHIP AND TRANSFER OF ASSETS UPON TERMINATION**

- 24.1** The Contractor shall be the owner of the assets, whether movable or immovable, which it has acquired for purposes of Hydrocarbons Operations, subject to the following provisions.
- 24.2** Upon termination, relinquishment or cancellation of this Contract, whatever the reason therefor, with respect to all or part of the Contract Area, the assets belonging to the Contractor and necessary for Hydrocarbons Operations in the relinquished area shall become the ownership of the Republic, free of charge, unless it is the intent that they shall be used by the Contractor for purposes of exploitation of other Fields located in the Republic. Such transfer of ownership shall cause, as the case may be, the automatic cancellation of any surety or security concerning those assets or which those assets constitute.
- 24.3** If the Minister decides not to use said assets, he shall have the right to require the Contractor to remove them at the latter's expense, it being understood that the abandonment operations shall be carried out by the Contractor in accordance with best international petroleum industry practice, and in accordance with the time schedule and conditions defined in the Decommissioning Plan which will have been approved pursuant to Article 12.
- 24.4** The Contractor shall take all necessary measures in order to free the said assets from any charge and liability and settle any V.A.T. that may become due under the provisions of the V.A.T. legislation in force.

**25 EMPLOYMENT AND TRAINING**

- 25.1** From the commencement of the Hydrocarbons Operations, the Contractor shall assure priority employment for Cypriot and EEA personnel and contribute to the training of those personnel in order to allow them access to any position of skilled worker, foreman, executive and manager.
- 25.2** For that purpose the Contractor shall establish at the end of each Calendar Year in agreement with the Minister a plan for recruiting Cypriot and EEA personnel and a plan for training and improving such personnel residing in Cyprus, in order to achieve progressively greater participation of Cypriot and EEA personnel in the Hydrocarbons Operations.
- 25.3** The Contractor shall also contribute to the training and improving of the professional skills of the civil servants of the Republic or anyone else nominated by the Minister, in accordance with a plan established in agreement with the Minister at the end of each Calendar Year. For that purpose:
- a) during the term of the exploration period, the Contractor shall allocate to said plan or, at the Minister's election, place at the disposal of the Minister for implementing said plan, a minimum amount of ( ) Euros per year.
  - b) from the date of first declaration of a Commercial Field within the Contract Area, said amount shall be increased to ( ) Euros per year.

**26 LOCAL GOODS AND SERVICES**

- 26.1** The Contractor and its sub-contractors undertake to give preference to Cypriot and EEA enterprises and goods, under equivalent conditions in terms of price, quantity, quality, conditions of payment and delivery time.
- 26.2** The Contractor and its sub-contractors undertake to issue calls for bids to Cypriot and foreign candidates for supply, construction or services contracts that exceeds the values applicable from time to time in accordance with the rules on public procurement applicable in the Republic, it being understood that the Contractor shall not unduly break down said contracts into components.
- 26.3** A copy of such contracts shall be provided to the Minister upon execution thereof.
- 26.4** The Contractor and its sub-contractors undertake to give preference, under equivalent economic conditions, to the purchase of goods required by the Hydrocarbons Operations versus the renting thereof or any other kind of leasing.
- 26.5** For that purpose, the Contractor shall specify in the annual Work Programmes all the leasing contracts the value of which exceeds fifty thousand (50,000) Euros.

**27 RESEACH AND DEVELOPMENT**

- 27.1** The Contractor shall prepare and submit to the Minister for approval a detailed plan on proposed Research and Development activities for the coming Calendar Year and 5 years ahead.
- 27.2** The Contractor and its sub-contractors undertake to give preference to Cypriot and EEA enterprises for the implementation of Article 27.

**28 IMPORT AND EXPORT FROM A THIRD COUNTRY AND TRANSFER FROM / TO ANOTHER MEMBER STATE OF THE EUROPEAN UNION**

- 28.1** The Contractor shall have the right to import to the Republic from a third country or transfer from a member state of the European Union, in its own name or on behalf of its subcontractors, all the goods, materials, machinery, equipment, spare parts and consumable directly necessary for the proper conduct of the Hydrocarbons Operations according to the provisions of the European Union legislation and the national V.A.T. and customs and excise legislation in force.
- 28.2** It is understood that the Contractor and its subcontractors agree to effect the aforesaid imports only to the extent the materials and equipment are not available in the Republic in equivalent conditions of price, quantity, quality, conditions of payment and delivery term.
- 28.3** The foreign employees and their families assigned to work in the Republic for the account of the Contractor or its subcontractors shall have the right to import to the Republic from a third country or transfer from another member state of the European Union their personal property according to the provisions of the European Union legislation and the national V.A.T. and customs and excise legislation in force.
- 28.4** Subject to the provisions of Article 29.3, the Contractor, its clients and their carriers shall have the right to freely export the quantities of Hydrocarbons to which the Contractor is entitled under the terms of this Contract at the export point selected for that purpose, at any time, free of any duties and taxes, after having deducted all the deliveries made to the Republic, subject to the provisions of the V.A.T. and Customs and Excise legislation. However, the Contractor agrees at the Minister's request not to sell Hydrocarbons produced from the Contract Area to an entity that is effectively controlled by countries declared hostile to the Republic or nationals of such countries.

**29 TAXATION**

**29.1** The Contractor and its subcontractors shall comply with the applicable taxation laws and regulations of the Republic as well as with any European Union tax rules applicable from time to time in the Republic.

**29.2** The agreements for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to income and capital, which the Republic has concluded and agreed, as well as the various international conventions which the Republic has adopted and/or to which it has acceded will also be applicable.

### **30 SURFACE FEES AND BONUSES**

**30.1** The Contractor shall pay the Republic the following surface fees:

- a) Twenty five (25) Euros per square kilometer of Contract Area annually during the initial terms of the exploration period;
- b) Thirty (30) Euros per square kilometer of Contract Area annually during the first renewal for the exploration period;
- c) Thirty five (35) Euros per square kilometer of Contract Area annually during the second renewal of the exploration period and any extension thereof as provides for in Article 6.2;
- d) In addition to fees paid in respect of paragraphs (a), (b) and (c) above, five hundred (500) Euros per square kilometer of Exploitation Area annually during the term of exploitation of each Exploitation Area.

For the Year in which this Contract is executed, the surface fee set forth in paragraph (a) above shall be prorated from the Effective Date through December 31st of said Year, and shall be paid within thirty (30) calendar days after the Effective Date.

For succeeding Years the surface fees set forth in paragraphs (a), (b) and (c) above shall be paid in advance, thirty (30) calendar days before the beginning of each Calendar Year.

For the Year in which an Exploitation License is granted for a given area, the surface fee set forth in paragraph (d) shall be prorated from the date of granting said Exploitation License through December 31st of said Year.

The basis of computation of said surface fees shall be the surface of the Contract Area and, where applicable, of the Exploitation Areas, kept by the Contractor on the date of payment of said surface rentals.

In the event of surface relinquishment during a Calendar Year or in the event of Force Majeure, the Contractor shall have no right to be reimbursed for the surface fees already paid.

**30.2** The Contractor shall pay the Republic the following amounts as bonus:

- a) \_\_\_\_\_ (\_\_\_\_\_) Euros as signature bonus within thirty (30) days after the Effective Date;

b) \_\_\_\_\_ (\_\_\_\_\_) Euros after daily production from the Contract Area averages \_\_\_\_\_ (\_\_\_\_\_) barrels per day and/or averages \_\_\_\_\_ (\_\_\_\_\_) million standard cubic feet of gas per day, whichever is applicable, for a period of sixty (60) consecutive days;

c) \_\_\_\_\_ (\_\_\_\_\_) Euros after daily production from the Contract Area averages \_\_\_\_\_ (\_\_\_\_\_) barrels per day and/or averages \_\_\_\_\_ (\_\_\_\_\_) million standard cubic feet of gas per day, whichever is applicable, for a period of sixty (60) consecutive days;

Such payments shall be made within thirty (30) calendar days following the last day of the respective sixty (60) calendar day's period.

**30.3** The surface fees and bonuses required under this Article 30 shall not be included in the Hydrocarbons Costs for purposes of cost recovery under Article 8.1.

## **31 PAYMENTS**

### **31.1 Fees**

The Contractors shall pay to the Republic fees and other payments as provided for in this Contract and in the Law, in accordance with the laws of the Republic.

### **31.2 Payment Mechanism**

All payments that the Contractor shall make to the Republic under this Contract shall be made to the:

Central bank of Cyprus

80 Kennedy Avenue

1076 Nicosia, Cyprus

Account name: Government Central Account

Account number: 6001010

IBAN: CY16 0010 0001 0000 0000 0600 1010

Note: "Care of the Ministry of Commerce, Industry and Tourism, Hydrocarbons Activities"

All payments under this Contract shall be made in Euros, unless otherwise agreed, and within thirty (30) Calendar Days after the end of the month in which the obligation to make the payment is incurred.

### **31.3 Late Payment**

Any amount not paid in full when due shall bear interest, compounded on a monthly basis, at a rate per annum equal to one (1) month term, LIBOR (London Interbank Offer Rate) for Euro deposits, as published in London by the Financial Times current from day to day, plus five (5) percentage points, on and from the due date for payment until the amount, together with interest thereon, is paid in full.

### **31.4 Minimum Payment**

If this Contract is terminated for any reason before the end of the third (3rd) Contract Year, the Contractor shall, on such termination, pay, to the Minister, those fees and payments which it would have so paid if termination had not occurred until the end of the third (3rd) Contract Year.

**32 LIABILITY AND INSURANCE**

- 32.1** The Contractor shall indemnify and compensate any person, including the Republic, for any damage or loss which the Contractor, its employees or subcontractors and their employees may cause to the person, the property or the rights of other persons, caused by or resulting from Hydrocarbons Operations, including any environmental damage.
- 32.2** The Contractor shall indemnify, defend and hold harmless the Republic against all claims, losses or damage whatsoever caused by or resulting from Hydrocarbons Operations.
- 32.3** The Contractor shall take out and maintain in force, and cause to be taken out and maintained in force by its subcontractors, all insurances with respect to Hydrocarbons Operations, of the type and for such amounts customarily used in the international Hydrocarbons industry, including, inter alia, third party liability insurances and insurances to cover damage to property and environment, without prejudice to such insurances as may be required under the legislation of the Republic.
- 32.4** The Contractor shall provide the Minister with the certificates proving the subscription and maintenance of the above-mentioned insurances. The Minister shall approve the said insurance policies for exclusions and verify the financial capacity of Insurers. The Minister shall have the right to require amendments to the said insurance policies in order to secure the compliance with the requirements pursuant to this Article.
- 32.5** Where the Contractor consists of several entities, the obligations and responsibilities of those entities under this Contract shall be joint and several.
- 32.6** Each entity constituting the Contractor which is a subsidiary of another legal person, shall submit to the Minister for approval an undertaking where its ultimate parent-company is guaranteeing the proper performance of the obligations arising from this Contract.

### **33 FORCE MAJEURE**

#### **33.1 Force majeure relief**

Any obligation or condition arising from this Contract which either Party is prevented from performing whether in whole or part, except with respect to the payments such Party is liable to, shall not be considered as a breach of this Contract if said non-performance is caused by a case of Force Majeure, provided, however, that there is a direct cause-and-effect relationship between the non-performance and the case of Force Majeure invoked.

For purposes of this Contract, cases of Force Majeure are considered to include all events which are unforeseeable, irresistible and beyond the control of the Party which invokes it, such as earthquake, riot, insurrection, civil disturbances, acts of war or acts attributable to war. The intent of the Parties is that the term Force Majeure shall be interpreted in accordance with the principles and practice of international law.

#### **33.2 Procedure**

Where either Party considers it is prevented from performing any of its obligations due to a case of Force Majeure, it shall immediately notify the other Party thereof, stating the grounds for establishing such case of Force Majeure, and it shall, in agreement with the other Party, take all necessary and useful action to assure the resumption of the obligations affected by the case of Force Majeure upon termination of that case of Force Majeure.

The obligations other than those affected by the case of Force Majeure shall continue to be performed in accordance with the provisions of this Contract.

#### **33.3 Extension of time**

If the performance of any of the obligations of this Contract is delayed due to a case of Force Majeure, the duration of the resulting delay together with such time period as may be required for the repair of any damage caused by the case of Force Majeure, shall be added to the term of this Contract.

**34 TERMINATION OF THE CONTRACT**

**34.1** This Contract may be terminated by the Minister and the license pertaining to the Contract Area revoked by the Council of Ministers, without compensation, under one of the following occurrences:

- a) material breach or recurrent breach by the Contractor of the provisions of the Law and/or the Regulations and/or the provisions of this Contract;
- b) delay exceeding three (3) months incurred by the Contractor with respect to a payment due to the Republic;
- c) disruption of development work with respect to a Field during six (6) consecutive months;
- d) after commencement of production from a Field, disruption of production for at least six (6) months or repetitive disruption of production, decided without the Minister's consent;
- e) failure of the Contractor to comply, within the prescribed time period, with an arbitration award rendered in accordance with the provisions of Article 36; or
- f) bankruptcy, composition with creditors or liquidation of assets of the Contractor or its parent-company or any entity constituting the Contractor, as the case may be.

**34.2** Except with respect to the occurrence set forth in paragraph 34.1.(f) above, the Minister shall pronounce the forfeiture provided for in Article 34.1. only after having served formal notice on the Contractor, by registered mail with acknowledgement of receipt, to remedy the breach in question within three (3) months (or within six (6) months with respect to the occurrences set forth in paragraphs 34.1.(c) and 34.1.(d) above) from the date of receipt of such notice.

**34.3** Should the Contractor fail to comply with such prescription within the prescribed time period, the Minister may pronounce *ipso jure* the termination of this Contract.

**34.4** Any disruption of production for a period of at least six (6) months, or any repetitive disruption of production, decided by the Contractor without the Minister's consent may give rise to the termination of this Contract in accordance with the provisions of this Article 34.

**34.5** For the duration of the exploration period, the Minister may, with at least six (6) months' prior notice, request the Contractor to relinquish immediately without any compensation all its rights over the area encompassing a Discovery, including Hydrocarbons which may be produced from said Discovery, if the Contractor:

- a) has not submitted an appraisal work programme with respect to said Discovery within twelve (12) months following the date on which said Discovery has been notified to the Minister; or
- b) does not declare the Discovery as a Commercial Discovery within eighteen (18) months after completion of appraisal work with respect to said Discovery.

**34.6** The Minister may then perform or cause to be performed any appraisal, development, production, treatment, transportation and marketing work with respect to said Discovery, without any compensation to the Contractor; provided, however, it shall not cause prejudice to the performance of the Hydrocarbons Operations by the Contractor in the remaining part of the Contract Area.

**34.7** Any dispute as to whether any ground exists to justify the termination of this Contract pronounced by the Minister due to the forfeiture may be subject to arbitration in accordance with the provisions of Article 36. In that event, the Contract shall remain in force until the execution of the arbitration award by the Parties.

**35 GOVERNING LAW**

**35.1** This Contract and all Hydrocarbons Operations carried out under this Contract shall be governed by the legislation in force at any time in the Republic.

**35.2** The Contractor shall be subject at any time to the legislation in force in the Republic.

## **36 DISPUTE SETTLEMENT**

### **36.1 Amicable settlement**

In the event of any difference or disagreement or dispute (hereinafter referred to as the “dispute”) between the Republic and the Contractor regarding the interpretation or implementation of any provisions of this Contract, the Parties shall first attempt to resolve that dispute amicably through negotiations which shall not exceed a period of sixty (60) days after the receipt by one Party of a notice from the other Party of the existence of such a dispute.

### **36.2 Expert determination**

In the event of failure of the Parties to reach an amicable settlement within the aforesaid period of sixty (60) days, the Parties shall, within ten (10) days, by mutual agreement, request an expert to provide his expert decision on the dispute. Failing such agreement, any one of the Parties may request the International Centre for Technical Expertise of the International Chamber of Commerce to appoint such expert in accordance with its Rules for Technical Expertise.

The expert shall render his decision no later than one hundred and twenty (120) days after his or her appointment. The Parties agree to cooperate fully in the conduct of such expert determination and to provide the expert with all necessary information to make a fully informed decision in an expeditious manner.

The expert’s decision shall be final and binding upon the Parties unless the Parties refer the dispute to arbitration pursuant to Article 36.3 within sixty (60) days of the date on which the expert’s decision is received by the Parties by double-registered letter or by courier.

The expert expenses and fees shall be paid as determined in the decision of the expert.

### **36.3 Arbitration**

If the dispute is not resolved through amicable settlement or expert determination within the period set out in Articles 36.1 and 36.2 above or if one of the Parties wishes to challenge the decision reached by the expert pursuant to Article 36.2, the dispute shall be referred to arbitration. The dispute shall be submitted to the International Centre for Settlement of Investment Disputes (ICSID) upon request by one or both Parties, and shall be tried and decided in accordance with the rules set

forth by the Convention on the Settlement of Investment Disputes between States and Nationals of other States.

The seat of arbitration shall be Nicosia, Republic of Cyprus. The language used during the arbitration proceedings shall be the English language and the applicable law shall be the laws of the Republic of Cyprus.

The arbitral tribunal shall consist of three (3) arbitrators.

The arbitration award shall be final and binding on the Parties and immediately enforceable.

A request to arbitration shall give the right to either Party to apply to the arbitral tribunal for the suspension of the contractual provisions concerning the subject matter of the dispute, but all other rights and obligations of the Parties under this Contract shall not be suspended.

The arbitration expenses shall be borne equally by the Parties, subject to the award of the tribunal regarding the sharing thereof. In the event a Party does not pay all or part of its share of the arbitration expenses, the arbitration process shall not be suspended and the settlement of payment shall be included in the arbitration award.

### **37 IMPLEMENTATION OF THE CONTRACT/MISCELLANEOUS**

**37.1** The Parties hereby agree to cooperate in any possible manner to achieve the objectives of this Contract.

**37.2** The Minister shall, when specifically requested by the Contractor, assist the Contractor in obtaining permits, licenses and access rights necessary for the requirements of the Hydrocarbons Operations, and in dealing with Government authorities of the Republic.

**37.3** All reasonable expenses incurred in the assistance provided by the Minister pursuant to this Article 37 shall be reimbursed by the Contractor.

**37.4** Any consent, notice and other communications required or given under this Contract shall be deemed given when delivered in writing either by hand in person or through registered mail, courier service or fax transmission confirmed by a letter and after acknowledgement of receipt by the addressee, to the addresses indicated below:

- To the Minister:

The Hon. Minister

Ministry of Commerce, Industry and Tourism

1421 Nicosia

Cyprus

- To the Contractor:

The Minister or the Contractor may at any time change their authorized representative, or modify the addresses mentioned in this Article 37.4, subject to at least ten (10) days' prior notice.

**37.5** Any waiver of the Republic concerning the execution of an obligation of the Contractor shall be in writing and signed by the Minister, and no waiver shall be considered as a precedent if the Republic does not exercise any of the rights which it is entitled to under this Contract.

**37.6** The headings in this Contract are inserted for purposes of convenience and reference and in no event shall define, restrict or describe the scope or object of the Contract or of any of its clauses.

**38 GUARANTEES**

- 38.1** As a condition precedent to the effectiveness of this Contract, upon the Effective Date, the Contractor shall provide an irrevocable bank guarantee, payable to The Permanent Secretary, Ministry of Commerce, Industry and Tourism, guaranteeing its Exploration Work Obligations for the Initial Licensing Period. The bank guarantee shall be issued by a bank licensed to operate in any of the following countries: the Republic of Cyprus, any member state of the European Union, any country of the EEA, any country that had signed the Government Procurement Agreement (GPA) and any country that had signed and ratified Association Agreements or Bilateral Agreements with the European Union or the Republic of Cyprus and has the right to do so, according to the legislation of those countries.
- 38.2** a) The amount of the guarantee shall be calculated by using the unit costs per km of seismic survey and per exploratory well set forth as follows:
- i. Euros \_\_\_\_\_ (\_\_\_\_\_) per km of seismic survey to be performed;
  - ii. Euros \_\_\_\_\_ (\_\_\_\_\_) million per exploratory well to be drilled.
- b) Three (3) months after completion of a seismic survey or an exploratory well drilled to the minimum contractual depth, the above mentioned guarantee shall be adjusted in such a manner as to guarantee the outstanding balance of the Exploration Work Obligations for the current Exploration Phase, as valued in accordance with the provisions of the foregoing paragraph.
- 38.3** In the event of a renewal of an authorization to explore, the Contractor shall also provide a similar guarantee guaranteeing the Exploration Work Obligations for that renewal. The amount of the said guarantee shall be calculated in accordance with the provisions of Article [38.2(a)]. If, upon expiry of the Initial Licensing Period or any renewal or extension thereof, or in the event of whole relinquishment or termination of the Contract, the exploration work has not reached the applicable Exploration Work Obligations, the Minister shall have the right to call for the guarantee as compensation for the non-performance of the Exploration Work Obligations entered into by the Contractor.
- 38.4** After the payment has been made, the Contractor shall be deemed to have fulfilled its Exploration Work Obligations for the relevant Exploration Phase under this Contract. The Contractor may, except in the event of termination of the Exploration Period due to a material breach of this Contract, continue to benefit from the provisions of said Contract and obtain the renewal of an authorization to explore, subject to applying therefor in the appropriate manner.

**39 AMENDMENTS/RENEGOTIATION**

**39.1** This Contract may be amended or modified only in writing and by mutual agreement of the Parties and with the approval of the Council of Ministers.

**40      EFFECTIVE DATE**

This Contract shall become effective as of the Effective Date upon execution of this Contract by each Party, and this Contract shall be binding for each Party. Prior to being executed by the Parties, the Contract shall be approved by the Council of Ministers, and a copy of such approval in a form reasonably satisfactory to Contactor shall be provided to the Contractor simultaneously with the execution of this Contract.

**In witness whereof, the parties hereto have caused this Contract to be executed in ... three (3) originals in the English language, each page having been signed with initials by the two Parties.**

**ANNEX A: DESCRIPTION OF THE ORIGINAL CONTRACT AREA**

**ANNEX B: MAP OF THE ORIGINAL CONTRACT AREA**

**ANNEX C: ACCOUNTING AND FINANCIAL PROCEDURE**

**ANNEX D: EXPLORATION WORK OBLIGATIONS**

**ANNEX E: PERFORMANCE GUARANTEE**

**ANNEX A: DESCRIPTION OF THE ORIGINAL CONTRACT AREA**

**ANNEX B: MAP OF THE ORIGINAL CONTRACT AREA**

## ANNEX C

Attached to and made an integral part of this Contract between the Republic of Cyprus and the Contractor.

**ACCOUNTING AND FINANCIAL PROCEDURE****ARTICLE 1  
GENERAL PROVISIONS****1.1 Purpose**

The purpose of this accounting procedure is to establish the manner in which the Hydrocarbons Costs will be classified and determined, and the Contractor's books and accounts will be prepared and maintained.

**1.2 Interpretation**

The definitions contained in Article 1 of the Contract shall apply to this accounting procedure and shall have the same meaning when used herein.

In the event of any inconsistency or conflict between the provisions of this accounting procedure and the provisions of the Contract, then the provisions of the Contract shall prevail.

**1.3 Accounting Records**

The Contractor shall maintain complete accounts, books and records, on an accrual basis, of all costs, expenses and revenues of, or relating to, Hydrocarbons Operations in accordance with generally accepted accounting procedures and standards of the international petroleum industry and in accordance with the charts of accounts approved under the following paragraph.

Within sixty (60) days after the Effective Date, the Contractor shall submit to the Minister for approval an outline of charts of accounts, books, records and reports to be used for the purposes of this accounting procedure and for reporting to the Minister thereon.

Notwithstanding the generality of the foregoing, the Contractor shall submit to the Minister, at regular intervals, statements relating to the Hydrocarbons Operations, with

respect to production, value of production and pricing, Hydrocarbons Costs, production sharing, annual budget, final end-of-year statement.

#### **1.4 Language and Units of Account, Currency Exchange**

Unless otherwise agreed, the accounting records and all reports to the Minister shall be in English.

The accounting records will be in Euros. Any amount incurred in this currency shall be recorded in this currency. Any amount incurred in another currency shall be converted into Euros at the exchange rate set on the day the cost is incurred or the revenue is realized at a time and by a bank designated by the Minister.

A separate record shall be kept of the exchange rates used in conversion.

Exchange gains or losses will be respectively credited or charged to the accounting records, provided that they have been actually incurred in connection with the Hydrocarbons Operations.

#### **1.5 Revision of the Accounting Procedure**

By mutual agreement between the Minister and the Contractor, this accounting procedure may be revised from time to time by a document in writing executed by the Parties.

## **ARTICLE 2 CLASSIFICATION OF HYDROCARBONS COSTS**

### **2.1 Principles of Classification**

The Hydrocarbons Costs shall be classified in accordance with the purpose for which such expenditures are made, and under the categories defined in this Article 2. Such classification shall be used in each Work Programme and Budget. The records shall be maintained in such a way as to enable proper allocation to each Field with respect to each Exploitation Area.

### **2.2 Exploration Expenditures**

Exploration Expenditures are those costs, whether of a capital or operating nature, which directly relate to Exploration for Hydrocarbons incurred under the Contract, including costs of:

- a) Surveys, including labor, material and services, used in aerial, geophysical, geochemical, geological and seismic surveys and core hole drilling, including desk studies and interpretation of survey data.
- b) Drilling Wells, including labor, material and services, provided such Wells are not completed as producing Wells.
- c) Facilities used solely in support of the performance of activities mentioned in paragraphs (a) and (b).

### **2.3 Appraisal Expenditures**

Appraisal Expenditures are those Exploration Expenditures which directly relate to the Appraisal of a Hydrocarbons Discovery.

### **2.4 Development and Production Expenditures**

Development and Production Expenditures are those costs of a capital nature which directly relate to the Development and Production of a Field with respect to an Exploitation Area under the Contract, including costs of:

- a) Drilling Wells, including labor, material and services, provided such Wells are completed as producing Wells or as injection Wells.
- b) Facilities used in support of the performance of activities mentioned in paragraph (a)
- c) Production facilities including offshore platforms, wellhead production tubing, pumps, flow lines, gathering equipment, delivery lines, treatment facilities, storage facilities, export terminal and piers, enhanced recovery facilities.
- d) Pipelines and related facilities for transporting Hydrocarbons produced in the Contract Area to the Delivery Point.
- e) Engineering and design studies for facilities mentioned in paragraph (c) and (d).

### **2.5 Operating Expenditures**

Operating Expenditures are, with respect to an Exploitation Area and after the start of commercial production therefrom, those costs of an operating nature which directly relate to the development and production thereof.

## **2.6 Apportionment**

Where any cost or receipt relates only partially to the performance of the Hydrocarbons Operations under the Contract, only such portion of the cost or receipt which relates to the performance of the Hydrocarbons Operations under the Contract shall be allocated to the Hydrocarbons Costs or assessed as a receipt in the accounting records.

Where any cost or receipt relate to more than one of Exploration, Appraisal, Development and Production, and Operation Expenditures, or to more than one Exploitation Area, the cost or receipt shall be apportioned in an equitable manner, with all supporting elements.

### **ARTICLE 3 ALLOWABLE HYDROCARBONS COSTS FOR COST RECOVERY**

The following costs and expenses incurred by the Contactor for the purposes of the Contract, shall be classified in accordance with the provisions of Article 2 of this accounting procedure, and shall be included as Hydrocarbons Costs allowed for cost recovery under Article 8.1 of the Contract, subject as otherwise provided in the Contract and in Article 3.17 of this accounting procedure.

#### **3.1 Surface Rights**

All direct costs necessary for the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the purpose of the Contract, excluding the surface fees paid to the Republic referred to in Article 30 of the Contract.

#### **3.2 Labor and Associated Labor Costs**

a) Contractor's locally recruited employees based in Cyprus:

Cost of all locally recruited employees who are directly engaged in the conduct of Hydrocarbons Operations in the Republic of Cyprus.

Such costs shall include the costs of employee benefits and state benefits for employees and levies imposed on the Contractor as an employer, transportation

and relocation costs within Cyprus of such employee and such members of the employee's family (limited to spouse and dependent children) as required by law or customary practice in Cyprus.

If such employees are also engaged in activities other than the Hydrocarbons Operations, in addition, the cost of such employees shall be apportioned on a time sheet basis according to sound and acceptable accounting principles.

b) Assigned personnel:

Costs of salaries and wages including bonuses of the Contractor's employees directly and necessarily engaged in the conduct of the Hydrocarbons Operations, whether temporarily or permanently assigned, irrespective of the location of such employees, it being understood that, in the case of those personnel only a portion of whose time is wholly dedicated to the Hydrocarbons Operations under the Contract, only that pro-rata portion of applicable salaries, wages, and other costs as delineated in paragraphs 3.2(c), (d), (e), (f) and (g) below, shall be charged and the basis of such pro-rata allocation shall be specified.

- c) The Contractor's costs regarding holiday, vacation, sickness and disability benefits and living and housing and other customary allowances applicable to the salaries and wages chargeable under paragraph 3.2(b) above.
- d) Expenses or contributions made pursuant to assessments or obligations imposed under the laws of the Republic which are applicable to the Contractor's cost of salaries and wages chargeable under paragraph 3.2(b) above.
- e) The Contractor's cost of established plans for employees group life insurance, hospitalization, pension, stock purchases, savings, bonus, and other benefit plans of a like nature customarily granted to the Contractor's employees, provided however that such costs are in accordance with generally accepted standards in the international petroleum industry, applicable to salaries and wages chargeable to the Hydrocarbons Operations under paragraph 3.2(b) above.
- f) Reasonable transportation and travel expenses of employees of the Contractor, including those made for travel and relocation of the expatriate employees, including their families and personal effects, assigned to Cyprus whose salaries and wages are chargeable to the Hydrocarbons Operations under paragraph 3.2(b) above.

Actual transportation expenses of expatriate personnel transferred to the Hydrocarbons Operations from their country of origin shall be charged to the Hydrocarbons Operations. Transportation expense of personnel transferred from

the Hydrocarbons Operations to a country other than the country of their origin shall not be charged to the Hydrocarbons Operations.

Transportation cost as used in this Article shall mean the cost of freight and passenger services, meals, hotels, insurance and other expenditures related to vacation and transfer travel and authorized under the Contractor's standard personnel policies. The Contractor shall ensure that all expenditures related to transportation costs are equitably allocated to the activities which have benefited from the personnel concerned.

- g) Reasonable personal expenses of personnel whose salaries and wages are chargeable to the Hydrocarbons Operations under paragraph 3.2(b) above and for which expenses such personnel are reimbursed under the Contractor's standard personnel policies. In the event such expenses are not wholly attributable to the Hydrocarbons Operations, the Hydrocarbons Operations shall be charged with only the applicable portion thereof, which shall be determined on an equitable basis.

### **3.3 Transportation and Employee Relocation Costs**

The Cost of transportation of employees, equipment, material, supplies other than as provided in Article 3.2 of this Accounting Procedure necessary for the conduct of the Hydrocarbons Operations under the Contract along with other related costs, including duties, customs fees, unloading charges, dock fees, and inland and ocean freight charges.

### **3.4 Charges for Services**

#### **a) Third Parties**

The actual costs of contract services, services of professional consultants, utilities, and other services necessary for the conduct of the Hydrocarbons Operations performed by third parties other than an Affiliate of the Contractor.

#### **b) Affiliates of the Contractor**

##### **(i) Professional and Administrative Services Expenses:**

Cost of professional and administrative services provided by Affiliates of the Contractor for the direct benefit of the Hydrocarbons Operations, including services provided by the production, exploration, legal, financial, insurance, accounting and computer services divisions other than those covered by paragraph 3.4(b)(ii) below or Article 3.6 and 3.8(b) below, which the Contractor may use in lieu of having its own employees.

Charges shall reflect the cost of providing their services and shall not include any element of profit and shall be no less favorable than similar charges for other operations carried on by the Contractor and its Affiliates. The chargeout rate shall include all costs incidental to the employment of such personnel.

Where the work is performed outside the home office base of such personnel, the daily rate shall be charged from the date such personnel leave the home office base where they usually work up to their return thereto, including days which are not working days in the location where the work is performed, excluding any holiday entitlements derived by such personnel from their employment at their home office base.

(ii) Scientific or Technical Personnel:

Cost of scientific or technical personnel services provided by any Affiliate of the Contractor for the direct benefit of the Hydrocarbons Operations, which cost shall be charged on a cost of service basis and shall not include any element of profit. Unless the work to be done by such personnel is covered by an approved annual Work Programme and Budget, the Contractor shall not authorize work by such personnel.

(iii) Equipment and Facilities:

Use of equipment and facilities owned and furnished by the Contractor's Affiliates, at rates commensurate with the cost of ownership and operation; provided, however, that such rates shall not exceed those currently prevailing for the supply of like equipment and facilities on comparable terms in the area where the Hydrocarbons operations are being conducted. The equipment and facilities referred to herein shall exclude major investment items such as, but not limited to, drilling rigs, producing platform, oil treating facilities, oil and gas loading and transportation systems, storage and terminal facilities and other major facilities, rates for which shall be subject to separate agreement with the Minister.

### **3.5 Communications**

Cost of acquiring, leasing installing, operating, repairing and maintaining communication systems including radio and microwave facilities between the Contract Area and the Contractor's nearest base facility.

### **3.6 Office and Miscellaneous Facilities**

Net cost to the Contractor of establishing, maintaining and operating any office, sub-office, warehouse, housing or other facility in Cyprus directly serving the Hydrocarbons Operations. If any such office, sub-office, warehouse, housing or other facility is used for contract areas other than the Contract Area, the net costs thereof shall be allocated on an equitable basis.

### **3.7 Ecological and Environmental**

- a) Costs incurred in the Contract Area as a result of legislation for archaeological and geophysical surveys relative to identification and protection of cultural sites or resources.
- b) Costs incurred in environmental or ecological surveys required by the Contract or regulatory authorities.
- c) Costs to provide or have available pollution containment and removal equipment.
- d) Costs of actual control and clean-up of oil spill, and of such further responsibilities resulting therefrom as may be required by applicable laws and regulations.

### **3.8 Material Costs**

Costs of materials and supplies, equipment, machines, tools and any other goods of a similar nature used or consumed in the Hydrocarbons Operations subject to the following:

- a) Acquisition:  
Contractor shall only supply or purchase materials for use in the Hydrocarbons Operations that may be used in the foreseeable future. The accumulation of surplus stocks and inventory shall be avoided so far as is reasonably practical and consistent with efficient and economical operations. Inventory levels shall, however, take into account the time lag for replacement, emergency needs, weather conditions affecting operations and similar considerations.
- b) Components of costs, arm's length transactions:  
Except as otherwise provided in paragraph 3.8(d) below, material purchased by the Contractor in arm's length transactions in the open market for use in the Hydrocarbons Operations shall be valued to include invoice price less trade and cash discounts, purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight of port of destination, insurance, taxes, customs duties, consular fees, excise taxes, other

than items chargeable against important materials and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site.

c) Accounting:

Such material costs shall be charged to the accounting records and books based in accordance with the "First in, First out" (FIFO) method;

d) Material purchased from or sold to Affiliates of the Contractor or transferred from other activities of the Contractor to or from the Hydrocarbons Operations shall be valued and charged or credited at the prices specified in paragraphs (i) to (v) below.

(i) New material, including used new material moved from inventory (Condition "A"), shall be valued at the current international net price which shall not exceed the price prevailing in normal arm's length transactions in the open market.

(ii) Used material in good condition (Condition "B"):  
Material which is in sound and serviceable conditions and is suitable for re-use without reconditioning shall be classified as Condition "B" and priced at seventy-five percent (75%) of the current price of new material defined in paragraph (i) above.

(iii) Used material in poor condition (Condition "C"):  
Material which cannot be classified as Condition "B" but which after reconditioning will be further serviceable for its function shall be classified as Condition "C" and priced at not more than fifty percent (50%) of the current price of new material as defined in paragraph (i) above. The cost of reconditioning shall be charged to the reconditioned material provided that the value of Condition "C" material plus the costs of reconditioning does not exceed the value of Condition "B" material.

(iv) Scrap and discard (Condition "D"):  
Material which cannot be classified as Condition "B" or Condition "C" shall be classified as Condition "D" and priced at a value commensurate with its use by the Contractor. If material is not fit for use by the Contractor it shall be disposed of as junk.

(v) Material involving erection costs shall be charged at the applicable conditions percentage of the current knocked-down price of new material as defined in paragraph (i) above.

- (vi) When the use of materials is temporary and its services to the Hydrocarbons Operations does not justify reduction in price as provided for in paragraph (iii) above, such material shall be priced on a basis that will result in a net charge to the accounts under Contract consistent with the value of the service rendered.
- (vii) Premium prices:  
Whenever material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Contractor has no control, the Contractor may charge the Hydrocarbons operations for the required material at the Contractor's actual costs incurred in providing such material, in making it suitable for use, and in moving it to the Contract Area; provided notice in writing is furnished to the Minister of the proposed charge prior to charging the Hydrocarbons Operations for such material and the Minister shall have the right to challenge the transaction on audit.
- (viii) Warranty on material furnished by the Contractor:  
The Contractor does not warrant the material furnished. In case of defective material, credit shall not be passed to the Hydrocarbons Operations until adjustment has been received by the Contractor from the manufacturers of the material or their agents.

### **3.9 Insurance and Losses**

Insurance premiums and costs incurred for insurance pursuant to the Contractor and the legislation, provided that such insurance is customary, affords prudent protection against risk and is at a premium no higher than that charged on a competitive basis by insurance companies which are not Affiliates of the Contractor.

Except in cases of failure to insure where insurance coverage is required pursuant to the Contract, actual casualty losses incurred and connected costs shall be allowable to the extent not made good by insurance. Such costs may include repair and replacement of property in the Contract Area resulting from damages or losses incurred by fire, flood, storm, theft, accident or such other cause.

### **3.10 Legal Expenses**

All reasonable costs and expenses resulting from the handling, investigating, asserting, defending, or settling of any claim or legal action necessary or expedient for the

procuring, perfecting, retention and protection of the Contract Area, and in defending or prosecuting lawsuits involving the Contract Area or any third party claim arising out of the Hydrocarbons Operations under the Contract, or sums paid in respect of legal services necessary for the protection of the joint interest of the Republic and the Contractor shall be allowed.

Such expenditures shall include attorney's fees, court costs, costs of investigation, and procurement of evidence and amounts paid in settlement or satisfaction of any such litigation and claims, provided such costs are not covered elsewhere in this Accounting Procedure. Where legal services are rendered in such matter by salaried or regularly retained lawyers of the Contractor or an Affiliate of the Contractor, such compensation shall be included instead under Article 3.2 or 3.4(b) above as applicable.

All of the above legal expenses shall be allowable with the consent of the Minister.

### **3.11 Claims**

Expenditures made in the settlement or satisfaction of any loss, claim, damage, judgment or other expense arising out of or relating to the Hydrocarbons Operations shall be allowable with the consent of the Minister, except as may otherwise be covered elsewhere in this Accounting Procedure.

### **3.12 General and Administrative Costs**

The general and administrative costs, other than direct charges included in the foregoing paragraphs, allowed to be included as Hydrocarbons Costs under the Contract, shall be determined by a detailed study to be submitted by the Contractor to the Minister for approval.

In any case, the total general and administrative costs shall be limited each Year to a percentage of the total recoverable Hydrocarbons Costs agreed upon between the Contractor and the Minister. Upon the Effective Date such percentage is set at three per cent (3%) for the Exploration Expenditures. Such limit may be reviewed and adjusted from time to time where appropriate, in particular for the Development and Production Expenditures, by mutual agreement in writing between the Minister and the Contractor.

### **3.13 Other Expenditures**

Other reasonable expenditures not covered or dealt with in the foregoing provisions of this Article 3 and not excluded under the provisions of Article 3.15 below, which are

necessarily incurred by the Contractor for the proper, economical and efficient conduct of the Hydrocarbons Operations shall be allowable with the approval of the Minister.

### **3.14 Miscellaneous Proceeds**

The proceeds received by the Contractor, other than for the sale or other disposal of Hydrocarbons from an Exploitation Area, which are directly related to the conduct of the Hydrocarbons Operations, including, but not limited to, the items listed below, shall be credited to the accounting records.

- (a) Proceeds received from the sale or other disposal of Hydrocarbons from production testing activities performed in exploration and appraisal Wells.
- (b) Proceeds received for the disposal, loss or destruction of property, the cost of which is a Hydrocarbons Cost charged to the accounts,
- (c) Proceeds of any insurance or claim or judicial awards in connection with the Hydrocarbons Operations or any assets charged to the accounts under the Contract where such Operations or assets has been insured and the premiums charged to the accounts.
- (d) Proceeds received from the hiring or leasing of property or assets, the cost of which is a Hydrocarbons Cost charged to the accounts.
- (e) Proceeds received from any adjustment made by the suppliers or manufacturers or their agents in connection with a defective material, the cost of which is a Hydrocarbons Cost charged to the accounts.
- (f) Proceeds received from rentals, refunds or other credits which apply to any charge which has been made to the accounts, but excluding any award granted to the Contractor under arbitration or sole expert proceedings referred to in Article 3.15 of this accounting procedure.
- (g) Costs originally charged to the accounts for material subsequently exported from Cyprus or transferred to another member state of the European Union without being used in the Hydrocarbons Operations under the Contract.
- (h) Proceeds received from authorized supplying of information obtained from the Hydrocarbons Operations, the acquisition cost of which has been charged to the accounts.
- (i) Proceeds received for the use of employee amenities, the cost of which has been charged to the accounts.

### **3.15 Duplication of Charges and Credits**

There shall be no duplication of charges and credits.

### **3.16 Expenditures not eligible for cost recovery**

The following costs and expenses shall not be eligible as Hydrocarbons Costs for cost recovery under the Contract:

- (a) The bonus and surface fees referred to in Article 30 of the Contract.
- (b) Any payments made to the Republic for failure to fulfill the Exploration Work Obligations.
- (c) Costs incurred prior to the Effective Date.
- (d) Interest, or any charge or payment in the nature of, in lieu of, or having the commercial effect of, interest related to the financing of the Hydrocarbons Operations.
- (e) Costs incurred in respect of Hydrocarbons after passing the Delivery Point.
- (f) Costs incurred as a result of non-compliance by the Contractor with the legislation or the Contract, including costs incurred as a result of any negligent act or omission or willful misconduct of the Contractor, its agents and subcontractors.
- (g) Payment or compensation to damage under the Contract.
- (h) Costs incurred in respect of arbitration and litigation proceedings under the Contract.
- (i) Costs which are not adequately supported and documented.
- (j) Costs incurred without the consent or approval of the Minister where such consent or approval is required.

## **ARTICLE 4 INVENTORIES**

Inventories of property in use in the Hydrocarbons Operations shall be taken at reasonable intervals but at least once a year with respect to movable assets and once every three (3) years with respect to immovable assets.

The Contractor shall give at least thirty (30) days written notice of its intention to take such inventory and the Minister shall have the right to be represented when such inventory is taken. Contractor shall clearly state the principles upon which valuation of the inventory has been based. The Contractor shall make every effort to provide to the Minister a full report on such inventory within thirty (30) days of the taking of the inventory.

When an assignment of rights under the Contract takes place, the Contractor may, at the request of the assignee, take a special inventory provided that the costs of such inventory are borne by the assignee.

## **ARTICLE 5 COST RECOVERY STATEMENT**

### **5.1 Quarterly Statement**

The Contractor shall prepare a quarterly Cost Recovery Statement containing the following information with respect to the Contract Area, showing the Hydrocarbons Costs as classified pursuant to Article 2 of this accounting procedure and separated for each Field, if any.

- (a) The recoverable Hydrocarbons Costs carried forward from the previous Quarter.
- (b) The recoverable Hydrocarbons Costs for the Quarter in question.
- (c) The Credits under the Contract for the Quarter in question.
- (d) The total recoverable Hydrocarbons Costs for the Quarter in question, equal to the sum of (a) plus (b) less (c).
- (e) The quantity and value of the production of Hydrocarbons taken by the Contractor for cost recovery pursuant to the provisions of Article 8.1 of the Contract in the Quarter in question.
- (f) The amount of Hydrocarbons Costs to be carried forward into the next Quarter.

The quarterly statement shall be submitted to the Minister no later than ten (10) days after the end of each Quarter. In addition, Contractor shall have an audit of Hydrocarbon Costs conducted by its auditors semi-annually and such report shall be

provided to the Ministry. The reasonable costs associated therewith shall be cost-recoverable.

## **5.2 Annual Statement**

The Contractor shall prepare an annual Cost Recovery Statement containing the same information, separated into the Quarters of the Year in question, and showing the cumulative amounts at the opening and closing of the Year in question.

The annual statement shall be submitted to the Minister no later than thirty (30) days after the end of each Year.

## ANNEX D

## EXPLORATION WORK OBLIGATIONS

1. Attached to and made an integral part of this Contract between the Republic of Cyprus and the Contractor.

The definitions contained in Article 1 of the Contract shall apply to this Annex D and shall have the same meaning when used in this Annex D unless otherwise specified herein.

In the event of any inconsistency or conflict between the provisions of this Annex D and the provisions of the Contract, then the provisions of the Contract shall prevail.

The Contractor shall start Exploration Operations within thirty (30) days of the Minister's approval of the Exploration Work Programme and Budget for the first Contract Year.

2. During the Initial Licencing Period of the Exploration Period of \_\_\_\_\_ ( ) Contract Years , the Contractor shall:
  - (a) undertake at least \_\_\_\_\_ ( ) kilometers of seismic survey;
  - (b) perform geological and geophysical studies;
  - (c) evaluate, reprocess, integrate and map all seismic data related to the Contract Area;
  - (d) drill at least \_\_\_\_\_ ( ) Explorations Well(s); and
  - (e) establish a technical database for Exploration Operations

The Contractor shall have a minimum expenditure obligation of [x] Euro (EUR [x] ) for the purpose of the Minimum Work Obligations in the Initial Licensing Period.

3. During the First Renewal Period of the Exploration Period of \_\_\_\_\_ ( ) Contract Years, the Contractor shall:
  - (a) undertake at least \_\_\_\_\_ ( ) kilometers of seismic survey;
  - (b) perform geological and geophysical studies;
  - (c) evaluate, reprocess, integrate and map all seismic data related to the Contract Area;
  - (d) drill at least \_\_\_\_\_ ( ) Exploration Well(s); and

The Contractor shall have a minimum expenditure obligation of [x] Euro (EUR [x] ) for the purpose of the Minimum Work Obligations in the First Renewal Period.

4. During the Second Renewal Period of the Exploration Period of \_\_\_\_\_ ( ) Contract Years, the Contractor shall:

- (a) undertake at least \_\_\_\_\_( ) kilometers of seismic survey;
- (b) perform geological and geophysical studies;
- (c) evaluate, reprocess, integrate and map all seismic data related to the Contract Area;
- (d) drill at least \_\_\_\_\_( ) Exploration Well(s); and

The Contractor shall have a minimum expenditure obligation of [x] Euro (EUR [x] ) for the purpose of the Minimum Work Obligations in the Second Renewal Period.

5. Each exploratory well mentioned above shall be drilled to the minimum contractual depth of \_\_\_\_ ( ) meters, or to a lesser depth if authorized by the Republic or if discontinuing drilling according to good international petroleum industry practice is justified by one of the following reasons:
- (a) basement is encountered at a depth less than the above-mentioned minimum contractual depth;
  - (b) continued drilling is clearly dangerous due to abnormal formation pressure;
  - (c) rock formations are encountered, the hardness of which makes it impractical to continue drilling with appropriate equipment; or
  - (d) Hydrocarbons formations are encountered, requiring the installation of protective casings which prevent reaching the above-mentioned minimum contractual depth.

In any of the above cases, the Contractor shall obtain prior approval of the Minister, prior to discontinuing drilling, which approval shall not be unreasonably withheld, and by this approval, the well in question shall be deemed to have been drilled to the above-mentioned minimum contractual depth.

6. If either during the Initial Licencing Period of the Exploration Period or during the First Renewal Period for the Exploration Period, the Contractor drills a number of Exploratory Wells greater than the Minimum Drilling Obligations specified in Article 5 of this Annex D, for said period, the excess exploration wells may be carried forward to the following period(s), and shall be deducted from the Minimum Drilling Obligations specified for said period(s), provided that at least one Exploration Well shall be drilled during each renewal of the Exploration Period.

For the purpose of Article 5 of this Annex D, appraisal wells drilled under an appraisal work program with respect to a Discovery shall not be considered as exploratory Wells and, in the event of a Hydrocarbons Discovery, only one Well per Discovery shall be deemed to be an Exploration Well.

7. As a conditions precedent to the effectiveness of this Contract, upon the Effective Date, the Contractor shall provide an irrevocable bank guarantee, payable to The

Permanent Secretary, Ministry of Commerce, Industry and Tourism, guaranteeing its minimum Exploration Work Obligations for the Initial Licencing Period of the Exploration Period provided in this Annex D. The bank guarantee shall be issued by a bank licensed to operate in any of the following countries: the Republic of Cyprus, any member state of the European Union, any country of the EEA, any country that had signed the Government Procurement Agreement (GPA) and any other country that had signed and ratified Association Agreements or Bilateral Agreements with the European Union or the Republic of Cyprus and has the right to do so, according to the legislation of those countries.

In the event of a renewal for the Exploration Period, the Contractor shall also provide a similar guarantee guaranteeing the Minimum Work Obligations for the renewal.

The amount of the guarantee shall be calculated by using the unit costs per km of seismic survey and per exploratory well set forth as follows:

- (a) Euro \_\_\_\_ ( ) per km of seismic survey to be performed;
- (b) Euro \_\_\_\_ ( ) million per Exploration Well to be drilled.

Three (3) months after completion of a seismic survey or an Exploration Well drilled to the minimum contractual depth, the above-mentioned guarantee shall be adjusted in such a manner as to guarantee the outstanding balance of the minimum Exploration Work Obligations for the current term of the Exploration Period.

If, upon expiry of the initial term of the Exploration Period or any renewal or extension thereof, or in the event of whole relinquishment or termination of the Contract, the exploration work has not reached the minimum obligations prescribed this Annex D, the Minister shall have the right to call for the guarantee as a compensation for the non-performance of work commitments entered into by the Contractor.

After the payment has been made, the Contractor shall be deemed to have fulfilled its minimum Exploration Work Obligations under Article 5 of the Contract. The Contractor may, except in the event of termination of the exploration period due to a material breach of the Contract, continue to benefit from the provisions of said Contract and obtain the renewal of the Exploration Period, subject to applying therefor in the appropriate manner.

## ANNEX E

## PERFORMANCE GUARANTEE

The Hon. Minister  
 Ministry of Commerce, Industry and Tourism  
 1421 Nicosia  
 CYPRUS

Our Letter of Guarantee No. ....

In consideration of your having contracted by way of an Exploration and Production Sharing Contract dated..... (hereinafter called "the Contract") with ....., a company formed and existing in accordance with the Laws of ..... (hereinafter called "the Contractor") for the execution of the minimum work obligations ("The Obligations") as identified in accordance Article ... of the Contract, the value of which for purposes of this Guarantee is calculated in accordance with Article ... of the Contract at € ..... (in words: ..... Euro) and since it being a condition of the Contract that a performance Guarantee of .....% of the total amount envisaged to be spent with respect to Applicable Term of the Exploration Period (as determined by the Contract) (the "Applicable Term") be established.

We, the undersigned bank, waiving all objections and defences under the aforesaid Contract, hereby irrevocably, unconditionally and independently guarantee to pay to you without delay on first written demand any amount claimed by you up to the extent of € ..... (in words: .....Euro) against your written declaration that the Contractor has refused or failed to perform the obligations with respect to the Applicable Term as set out in Article 3 of the Contract, in accordance with its provisions.

It is understood that any change, modification, addition or amendment, which may be made to the Terms and Conditions of the Contract or to the payment to be made on account thereof or any extension of the time of performance of the works or any composition or settlement shall not in any way release us from our irrevocable and unconditional continuing liability hereunder and we hereby expressly waive our right to consent to our to receive notice or any such change, modification, addition, composition, settlement or forbearance.

This Performance Guarantee for the Obligations with respect to the Applicable Term is unconditional and irrevocable and will be discharged not later than thirty (30) days following the date of completion of such Obligations ("Expiry"), as the same may be extended, as provided for in Article ..., and in any event upon issue of the Exploitation Licence as provided for under the Contract, by which date we must have received any provided for under the Contract, by which date we must have received any claim by hand delivery or by registered mail or by cable.

All stamp duty payable to the Republic of Cyprus under this Guarantee, shall be borne by the Contractor without reference and/or recourse to the Republic.

This Guarantee shall be construed in accordance with and governed by the Laws of the Republic of Cyprus.

It is understood that you will return this guarantee to us on expiry or settlement of the total amount to be claimed hereunder; and in any event this guarantee will expire on ..... when the Minister shall return this Guarantee to the Contractor upon completion of the Obligations with respect to the Applicable Term.

.....  
(Date)

.....  
(Signature)