



**MINISTRY OF COMMERCE, INDUSTRY AND TOURISM**

**MODEL  
PRODUCTION SHARING CONTRACT**

Nicosia, February 2007

# MODEL PRODUCTION SHARING CONTRACT

(FEBRUARY 2007)

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

**BETWEEN**

THE REPUBLIC OF CYPRUS (hereinafter referred to as the "Republic"), represented for purposes of this Contract by THE MINISTER OF COMMERCE, INDUSTRY AND TOURISM of the REPUBLIC OF CYPRUS (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 corporation 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**, all Hydrocarbons existing within the territory of the Republic of Cyprus, including the continental shelf and the exclusive economic zone, are national resources owned by the Republic of Cyprus; and

**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; and

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

**WHEREAS**, in accordance with the Hydrocarbons (Prospecting, Exploration and Exploitation) Law No. 4(I) of 2007 and regulations made thereunder, agreements in the form of Production Sharing Contracts may be entered into between the Republic and the Contractor;

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

## ARTICLE 1

### SCOPE AND DEFINITIONS

#### 1.1. Scope

This Contract is a Production Sharing Contract, the scope 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.

The Contractor shall:

- (a) be responsible to the Minister for the execution of the Hydrocarbons Operations in accordance with the provisions of this Contract, and is hereby appointed and constituted as the exclusive entity to conduct Hydrocarbons Operations in the Contract Area for the term hereof;
- (b) provide all necessary capital, machinery, equipment, technology and personnel necessary for the conduct of Hydrocarbons Operations;
- (c) bear the risk of Hydrocarbons Costs required in carrying out Hydrocarbons Operations and shall therefore have an economic interest in the rapid development of the Hydrocarbons deposits in the Contract Area.

The Hydrocarbons Costs shall be recoverable as provided in Article 8; provided that if there is no Commercial Discovery in the Contract Area during the term of this Contract or if the production achieved from this Contract is not enough to recover all the Hydrocarbons Costs incurred by the Contractor, the Contractor shall bear its own losses.

During the term of this Contract the total production achieved from this Contract shall be shared between the Parties in accordance with the provisions of Article 8.

The Minister shall be responsible for supervising the Hydrocarbons Operations performed by the Contractor under this Contract, in accordance with the provisions thereof.

#### 1.2. Definitions

In this Contract, words importing the singular include the plural and vice versa, and except where the context otherwise indicates, shall have the meanings 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 of Cyprus, shall have the meanings set forth in the said law and regulations.

**“Affiliated Company”** or **“Affiliate”** of any specified Person 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.

**“Annual Budget”** means the estimate of the costs of all items included in an Annual Work Programme.

**“Annual Work Programme”** means an itemized statement of the Hydrocarbons Operations to be carried out during a Calendar Year in the Contract Area as set forth in Article 4.

**“Appraisal Area”** means an area within the Contract Area encompassing the geographical extent of a Discovery subject to an appraisal work programme and corresponding budget, as determined in accordance with the provisions of Article 5.2.

**“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.

**“Calendar Year”** or **“Year”** means a period of twelve (12) months commencing January 1st and ending on the following December 31st, according to the Gregorian Calendar.

**“Commercial Field”** or **“Field”** 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 5.3, 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 Hydrocarbons industry practice. A Field may consist of 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.

**“Contract Area”** means the geographic territory of the Republic of Cyprus, which is the subject of this Contract, after deduction of relinquishments provided in Article 2. Such Contract Area is described in Annex "A" and delineated in Annex "B" attached hereto and incorporated herein.

**“Contract Year”** means a period of twelve (12) consecutive months, beginning on the Effective Date or on any anniversary thereof.

**“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, crude mineral oil, asphalt and ozokerites and the liquid hydrocarbons known as condensate and Natural Gas liquids obtained from Natural Gas by condensation or extraction.

**“Delivery Point”** means the F.O.B. Hydrocarbons loading point at the export terminal or any other point in the Republic of Cyprus which may be agreed upon by the Parties.

**“Development and Production Expenditures”** means direct expenditures 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 Field, 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.

**“Discovery”** means an occurrence of Hydrocarbons recovered at the surface which was not previously known to have existed and which is measurable by conventional Hydrocarbons industry practices.

**“Dollar”** means dollar of the United States of America.

**“Effective Date”** means the date of the execution of this Contract by the Parties, as defined in Article 24.

**“Exploitation Area”** means an area within the Contract Area encompassing the geographical extent of a Commercial Field subject to a development and production plan, as determined in accordance with the provisions of Article 5.6.

**“Exploitation Licence”** means an Exploitation Licence granted to the Contractor with respect to a Commercial Field under this Contract pursuant to Article 5.

**“Exploration Expenditures”** means direct expenditures on Exploration Operations and overhead expenses made in connection with exploration of the Contract Area. 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 the Exploration Licence granted to the Contractor with respect to the initial Contract Area and the initial exploration period provided in Article 2.

**“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.

**“Foreign Exchange”** means currency acceptable to the Parties other than that of the Republic of Cyprus.

**“Hydrocarbons”** means crude oil and/or natural gas.

**“Hydrocarbons Costs”** 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 marketing of Hydrocarbons from the Contract Area but excluding any storage, transportation or processing beyond the Delivery Point.

**“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.

**“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.

**“Person”** means any individual, corporation, co-operative, partnership, joint venture, association, trust, estate, public body, unincorporated organization of government or any agency or political subdivision thereof.

**“Quarter”** means a period of three (3) consecutive months beginning January 1st, April 1st, July 1st or October 1st and ending March 31st, June 30th, September 30th or December 31st, respectively.

**“Regulations”** means the regulations issued under the Law.

**“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.

**“Territory of the Republic of Cyprus”** includes the territorial waters, the continental shelf and the exclusive economic zone.

**“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.

## ARTICLE 2

### EXPLORATION PERIOD AND RELINQUISHMENTS

- 2.1. The Contractor is authorized under this Contract to conduct Hydrocarbons Exploration Operations within the Contract Area during an initial exploration period of \_\_\_\_ ( ) Contract Years.
- 2.2. In the event the Contractor has fulfilled its exploration work obligations set forth in Article 3 with respect to the current term of the exploration period, the Contractor shall have the right to be granted two renewals of the exploration period for successive terms of \_\_\_\_ ( ) Contract Years and \_\_\_\_ ( ) Contract Years respectively.

For each such renewal, the Contractor shall file through the Minister an application with the Council of Ministers, no later than two (2) months prior to the expiry of the current term of the exploration period. The renewal shall be granted in writing by the Council of Ministers.

- 2.3. If, upon expiry of the second renewal of the exploration period provided in Article 2.2, an appraisal work programme with respect to a Discovery, as set forth in Article 5, is actually under progress, the Contractor shall obtain, upon application with respect to the Appraisal Area related to said Discovery, the extension of the exploration period for the duration necessary to complete the appraisal work, which shall not, however, exceed six (6) months.

In such a case, the Contractor shall file an application for the above-mentioned extension of the exploration period through the Minister with the Council of Ministers at least two (2) months prior to the expiry of the second renewal of the exploration period, and the Contractor shall have fulfilled all its exploration work obligations set forth in Article 3 with respect to that period. The extension shall be granted by the Council of Ministers.

- 2.4. The Contractor undertakes to relinquish to the Republic at least twenty-five percent (25%) of the initial area of the Contract Area upon each renewal of the exploration period so that it shall keep no more than seventy-five percent (75%) of the initial area of the Contract Area during the first renewal of the exploration period, and no more than fifty percent (50%) of the initial area of the Contract Area during the second renewal of the exploration period.
- 2.5. For purposes of Article 2.4. :
- (a) The area already relinquished under Article 2.6, the areas subject to Article 2.3 and the areas of natural gas discovery (Appraisal Areas) subject to Article 13.1(b), if any, and the Exploitation Areas shall be deducted from the areas to be relinquished;
  - (b) The Contractor shall have the right to define the size, shape and location of the portion of the Contract Area which it intends to keep. However, the relinquished



portion shall constitute a limited number of perimeters of a simple geometric shape, delimited by North-South and East-West lines or by natural boundaries;

- (c) The application for renewal shall be accompanied with a map specifying the Contract Area kept by the Contractor along with a report specifying the work performed on the relinquished areas since the Effective Date and the results obtained therefrom.

- 2.6. The Contractor may at any time notify the Minister, with at least three (3) months' prior notice, that it relinquishes its rights on all or part of the Contract Area.

In the event of relinquishment in part, the provisions of Article 2.5 shall apply to the relinquished area.

In any event, any voluntary relinquishment during the exploration period shall not reduce the exploration work obligations set forth in Article 3 for such exploration period, nor the amount of the corresponding guarantee.

- 2.7. Upon expiry of the second renewal of the exploration period provided in Article 2.2, subject to the provisions of Article 2.3, the Contractor shall relinquish the remaining area of the Contract Area, except the areas designated as Exploitation Areas and the Appraisal Areas related to a Natural Gas discovery referred to in Article 13.1(b), if any.
- 2.8. No relinquishment made in accordance with this Article 2 shall relieve the Contractor of the obligation to pay surface fees accrued, or making payments due and payable as a result of exploration and development activities conducted prior to the date of relinquishment.

## ARTICLE 3

### EXPLORATION WORK OBLIGATIONS

- 3.1. During the initial term of the exploration period of \_\_\_\_ ( ) Contract Years provided in Article 2.1, the Contractor shall:
- (a) carry out at least \_\_\_\_ ( ) kilometres of seismic survey; shooting shall commence within \_\_\_\_ ( ) months from the Effective Date; and
  - (b) evaluate, integrate and map all seismic data related to the Contract Area;
  - (c) drill at least \_\_\_\_ ( ) exploratory wells; the first well shall commence within \_\_\_\_ ( ) months from the Effective Date.
- 3.2. During the first renewal of the exploration period of \_\_\_\_ ( ) Contract Years provided in Article 2.2, the Contractor shall:
- (a) carry out at least \_\_\_\_ ( ) kilometres of seismic survey;
  - (b) evaluate, integrate and map all seismic data related to the Contract Area;
  - (c) drill at least \_\_\_\_ ( ) exploratory wells.
- 3.3. During the second renewal of the exploration period of \_\_\_\_ ( ) Contract Years provided in Article 2.2, the Contractor shall:
- (a) carry out at least \_\_\_\_ ( ) kilometres of seismic survey;
  - (b) evaluate, integrate and map all seismic data related to the Contract Area;
  - (c) drill at least \_\_\_\_ ( ) exploratory wells.
- 3.4. 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.

- 3.5. If either during the initial term of the exploration period or during the first renewal of the exploration period provided in Articles 2.1 and 2.2 respectively, the Contractor drills a number of exploratory wells greater than the minimum drilling obligations specified for said period in Articles 3.1 and 3.2 respectively, 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 exploratory well shall be drilled during each renewal of the exploration period.

For purposes of Article 3.1 to 3.5, appraisal Wells drilled under an appraisal work programme 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 exploratory Well.

- 3.6. 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 minimum exploration work obligations for the initial term of the exploration period provided in Article 3.1. 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 European Economic Area, 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 renewal of the exploration period, the Contractor shall also provide a similar guarantee guaranteeing the minimum work obligations for that 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) Dollars \_\_\_\_ ( ) per km of seismic survey to be performed;
- (b) Dollars \_\_\_\_ ( ) million per exploratory well to be drilled.

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 minimum exploration work obligations for the current term of the exploration period, as valued in accordance with the provisions of the foregoing paragraph.

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 in this Article 3, the Minister shall have the right to call for the guarantee as a compensation for the non-performance of the 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 3 of 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 the exploration period, subject to applying therefor in the appropriate manner.

## ARTICLE 4

### ANNUAL WORK PROGRAMMES

- 4.1. 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.

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 operations with respect to each Appraisal Area, and the development and production operations with respect to each Exploitation Area.

- 4.2. 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 thirty (30) days following receipt of said 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 good 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.

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 above-mentioned period of thirty (30) days, said Programme and Budget shall be deemed approved by the Minister upon the expiry date of said period.

In any case, each operation included in the Annual Work Programme shall be diligently performed by the Contractor.

- 4.3. 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 good international petroleum industry practice.

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.

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 ten percent (10%) without his written consent.

## ARTICLE 5

### APPRAISAL OF A DISCOVERY AND DEVELOPMENT AND PRODUCTION PERIOD

- 5.1. If the Contractor discovers Hydrocarbons within the Contract Area, it shall notify the Minister in writing thereof as soon as possible. This notice shall include all relevant information on the Discovery and particulars on any testing programme which the Contractor shall carry out, in accordance with good international petroleum industry practice, to contribute to the evaluation of the Hydrocarbons shows encountered during drilling.

Within thirty (30) days following the date of suspension or abandonment of the Discovery Well, the Contractor shall submit to the Minister a report giving all the information associated with the Discovery, including the results of the tests, and specifying the recommendations of the Contractor with respect to the appraisal of the Discovery.

- 5.2. If the Contractor considers that the Discovery merits appraisal, it shall diligently submit to the Minister a detailed appraisal work programme and the estimated corresponding budget, no later than six (6) months following the date on which the Discovery has been notified as set forth in Article 5.1.

This appraisal work programme shall specify the presumed extension of said Discovery, which area shall be designated as Appraisal Area. This work programme shall also include all seismic, drilling, testing and appraisal operations necessary to carry out an appropriate evaluation of the Discovery.

The Contractor shall then diligently undertake the appraisal work in compliance with said programme, it being understood that the provisions of Article 4.3 shall apply to said programme.

The duration of the appraisal work programme shall not exceed \_\_\_\_ (\_\_) months, unless as otherwise agreed in writing by the Minister and, in any event, it shall not exceed the remaining term of the exploration period defined in Article 2.

- 5.3. Within three (3) months following completion of the appraisal work programme and no later than thirty (30) days prior to the expiry of the second renewal of the exploration period defined in Article 2.2, including any extension thereof in accordance with the provisions of Article 2.3, the Contractor shall submit to the Minister a detailed report giving all the technical and economic information associated with the Hydrocarbons Discovery so appraised and which shall establish, in the Contractor's opinion, whether said Discovery is a Commercial Field.

Such report shall include, *inter alia*, the following information: geological and petrophysical characteristics of the Discovery; estimated delimitation of the Discovery; results of the drill stem tests and production tests performed; preliminary economic study with respect to the exploitation of the Discovery.

- 5.4. For the purposes of Article 5.3, the Contractor shall make a determination as to whether a discovery is a Commercial Field on the basis of whether that discovery can be produced commercially after consideration of all pertinent operating and financial data collected during the performance of the appraisal work programme and otherwise, 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.
- 5.5. Any quantity of Hydrocarbons produced from a Discovery before it is declared as Commercial Field, if it is not used for the Hydrocarbons Operations or lost, shall be subject to the provisions of Articles 8 and 9.
- 5.6. If the Contractor deems the Discovery to be a Commercial Field, it shall submit for approval to the Minister, within three (3) months following the remittance of the report referred to in Article 5.3, and no later than thirty (30) days prior to the expiry of the second renewal of the exploration period defined in Article 2.2, including any extension thereof in accordance with the provisions of Article 2.3, a development and production plan including the following items:
- (a) a description and map of the estimated extent of the exploitation area of the field, which shall encompass as closely as possible the geographical extent of the field within the Contract Area, as demonstrated by the available seismic and well data and all the technical materials in support of such delineation. After approval by the Minister, the retained area will be designated as Exploitation Area;
  - (b) all information and data pertaining to the characteristics of the field, 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 rates of flow, 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 reservoirs and fluids contained therein, as well as all evaluations, interpretations and analyses of such data;
  - (c) 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;
  - (d) the description of the work, facilities and services required for the development and production of the field, including, *inter alia*, drilling schedules, number of wells, well spacing, facilities required for the production, processing, storage, transportation, sale and other disposal of Hydrocarbons to be extracted from the field, and any other related activities.

Proposals relating to facilities shall provide for the optimal use of existing or planned facilities.

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 generally accepted practices in the petroleum industry and comply with the Regulations;

- (e) the environmental impact assessment required under Section 11 of the Law;
- (f) the programme and time-schedule for the performance of such work, including the estimated date of the commencement of hydrocarbons production;
- (g) a detailed forecast of the development capital expenditures, operating costs and sales revenues and the anticipated type and source of financing; as well as an economic study which demonstrates the commercial nature of the Field;
- (h) particulars of feasible alternatives, if any, considered by the Contractor for the development and production of the Field;
- (i) the outlines of the abandonment plan and preliminary estimates of the abandonment costs;
- (j) full information as to the Contractor's current financial status, technical competence and experience;
- (k) such other matters as the Minister may reasonably require.

The Minister may propose amendments or modifications to the above-mentioned development and production plan, as well as to the requested Exploitation Area, 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 good international petroleum industry practice. The date of approval of the plan shall be the date of the above-mentioned mutual agreement.

Failing notice by the Minister to the Contractor of his wish to amend or modify the plan within the above-mentioned period of thirty (30) days, said plan shall be deemed approved by the Minister upon the expiry date of said period.

When the results obtained during development work justify some modifications to the development and production plan, said plan may be modified by using the same procedure as that provided for above as regards the initial approval thereof.

The Exploitation Licence with respect to the Commercial Field shall be granted by the Council of Ministers to the Contractor after the approval by the Minister of the development and production plan, for the approved Exploitation Area and the duration specified in Article 5.11.

- 5.7. If the Contractor discovers more than one Commercial Field in the Contract Area, each of them shall be the object of a separate Exploitation Area and development and production plan as well as environmental impact assessment study. The number of Exploitation Areas in the Contract Area is not limited.



- 5.8. If during work performed after approval of the development and production plan, it appears that the extent of the Field is larger than the Exploitation Area designated pursuant to Article 5.6, the Minister shall grant the Contractor the additional area, provided that such area is an integral part of the Contract Area then in force and provided that the Contractor provides the technical evidence of the extension so requested.
- 5.9. In the event a Field extends beyond the boundaries of the Contract Area in force, the Minister may require the Contractor to exploit said Field in association with the Contractor of the adjacent area in accordance with the provisions of Regulation 21.

In the event no agreement is reached pursuant to said provisions, the matter shall be subject to expert determination under Article 22.6.

- 5.10. The Contractor shall commence development operations within six (6) months after the date of approval of the development and production plan set forth in Article 5.6 and shall pursue said operations diligently.

The Contractor undertakes to perform the development and production operations in accordance with good international petroleum industry practice, and the provisions of the Regulations.

- 5.11. The duration of the development and production period during which the Contractor is authorized to produce a Field is set at twenty-five (25) years from the date of approval of the development and production plan related to said Field.

Upon expiry of the initial development and production period defined above, 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 development and production period and provided that it can demonstrate that a commercial production from the corresponding Field is still possible after the initial development and production period.

- 5.12. The Contractor undertakes to perform at its own expense and financial risk all Hydrocarbons Operations useful and necessary for placing the Field in exploitation and production, in accordance with the development and production plan approved.
- 5.13. The Contractor may at any time relinquish its rights on any Exploitation Area subject to a six (6) month's prior notice to the Minister, provided it has fulfilled all its contractual obligations under this Contract.
- 5.14. 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 Article 19.
- 5.15. For the duration of the exploration period, the Minister may, with at least six 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 Field within eighteen (18) months after completion of appraisal work with respect to said Discovery.

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.

## **ARTICLE 6**

### **CONTRACTOR'S OBLIGATIONS RELATING TO THE CONDUCT OF HYDROCARBONS OPERATIONS**

- 6.1. 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 Annual Work Programmes. The Contractor shall be responsible for the preparation and implementation of the Annual Work Programmes which shall be performed in the most appropriate way in accordance with good international petroleum industry practice.
- 6.2. Where the Contractor consists of several entities, it shall, upon the Effective Date, provide the Minister with a copy of the joint operating agreement which binds the entities constituting the Contractor, while specifying the name of the entity appointed as "Operator" which shall be responsible for the conduct of Hydrocarbons Operations.
- 6.3. 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.
- 6.4. The Contractor shall conduct the Hydrocarbons Operations provided under this Contract diligently and in accordance with good international petroleum industry practice, and the provisions of the Regulations.
- 6.5. 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 good international petroleum industry practice.
- 6.6. If, after the Effective Date, other Persons are granted permits or licences within the Contract Area concerning the exploration and production of any minerals or other substances other than Crude Oil or Natural Gas, the Contractor shall use its best efforts to avoid obstruction or interference with such licensees' operations within the Contract Area. The Ministry shall use its best efforts to ensure that operations of third parties do not obstruct the Contractor's Hydrocarbons Operations within the Contract Area.
- 6.7. 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.

- 6.8. The Contractor and its sub-contractors undertake to give preference to Cypriot and European Union enterprises and goods, under equivalent conditions in terms of price, quantity, quality, conditions of payment and delivery time.

The Contractor and its sub-contractors undertake to issue calls for bids to Cypriot and foreign candidates for supply, construction or services contracts the value of which exceeds two hundred thousand (200,000) Euros, it being understood that the Contractor shall not unduly break down said contracts into components.

A copy of such contracts shall be provided to the Minister upon execution thereof.

- 6.9. 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.

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.

- 6.10. From the commencement of the Hydrocarbons Operations, the Contractor shall assure priority employment for Cypriot and European Union 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.

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 European Union personnel and a plan for training and improving such personnel in order to achieve progressively greater participation of Cypriot and European Union personnel in the Hydrocarbons Operations.

- 6.11. The Contractor shall also contribute to the training and improving of the professional skills of the civil servants of the Ministry of Commerce, Industry and Tourism, 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.

- 6.12. Hydrocarbons Operations shall be subject to supervision by authorised representatives of the Minister. Pursuant to Section 21 of the Law, the authorised representatives of the Minister 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.

For purposes of permitting the exercise of the above-mentioned rights, the Contractor shall provide the representatives of the Minister with reasonable assistance regarding transportation and accommodation, and transportation and accommodation costs

directly related to supervision and inspection shall be borne by the Contractor. Said costs shall be deemed to be Hydrocarbons Costs and recoverable pursuant to the provisions of Article 8.2.

- 6.13. The Contractor shall regularly inform the Minister of the performance of Hydrocarbons Operations and promptly of the accidents which have occurred, if any.

Notices and reports shall be provided by the Contractor to the Minister in accordance with the provisions of the Regulations.

- 6.14. The Contractor shall forthwith notify the Minister of any discovery of mineral substances made during the performance of Hydrocarbons Operations.

## **ARTICLE 7**

### **CONTRACTOR'S RIGHTS RELATING TO THE CONDUCT OF HYDROCARBONS OPERATIONS**

- 7.1. The Contractor shall have the exclusive right to perform the Hydrocarbons Operations within the Contract Area, provided such Operations are in accordance with the terms and conditions of this Contract, as well as with the laws and regulations of the Republic of Cyprus, and provided they are performed in accordance with good international petroleum industry practice.
- 7.2. For purposes of performing the Hydrocarbons Operations, the Contractor shall have the right to 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.
- 7.3. The works set forth in Article 7.2 shall be the subject of an application filed with the Minister, specifying the location of said works and the contemplated use thereof. The relevant regulations and procedures in force shall be applicable.
- 7.4. Subject to the provisions of Articles 6.8, 6.9 and 14, the Contractor may freely select its suppliers and subcontractors and shall benefit from the Customs regime provided in Article 14.
- 7.5. Unless as otherwise provided herein, no restriction shall be placed on the entry, residence, free circulation, employment and repatriation of persons and their families and property for the employees of the Contractor and its subcontractors, provided that the Contractor and its subcontractors comply with the labour legislation and regulations as well as social laws in force or which may be enacted in the Republic of Cyprus and applicable to any industrial sector.

The Minister shall facilitate the issuing to the Contractor and its sub-contractors of any administrative authorization, which may be required in connection with the Hydrocarbons Operations performed under this Contract.

## ARTICLE 8

### RECOVERY OF HYDROCARBONS COSTS, PRODUCTION SHARING AND MARKETING OF PRODUCTION

#### Recovery of Hydrocarbons Costs

- 8.1. The Contractor shall be entitled to recover its Hydrocarbons Costs out of the sales proceeds or other disposition of Crude Oil and Natural Gas produced and saved hereunder and not used in Hydrocarbons Operations (hereinafter referred to as "Available Oil" and respectively as "Available Gas"), to the extent permitted under the provisions of Article 8.2.
- 8.2. For purposes of recovery of its Hydrocarbons Costs, the Contractor may freely retain each Calendar Year a portion of the Available Oil (hereinafter referred to as "Cost Oil") and a portion of the Available Gas (hereinafter referred to as "Cost Gas") in no event greater than \_\_\_\_ percent (\_\_\_\_%) of the Available Oil and \_\_\_\_ percent (\_\_\_\_%) of the Available Gas, or only any lesser percentage which would be necessary and sufficient.

The value of Cost Oil and Cost Gas shall be determined in accordance with the provisions of Article 10.

To the extent that in a Calendar Year outstanding recoverable Hydrocarbons Costs exceed the value of Cost Oil and Cost Gas 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.

#### Production Sharing

- 8.3.1 The remaining Available Oil, after the Contractor has taken the Cost Oil pursuant to the provisions of Article 8.2 (hereinafter referred to as "Profit Oil") shall be shared between the Republic and the Contractor according to Crude Oil production tiers and according to Crude Oil price as follows:

Crude Oil production tier (in Barrels per day)	Crude Oil price (in Dollars per Barrel)		
	Range 1	Range 2	Range 3
	Republic's Share in Profit Oil (%)	Republic's Share in Profit Oil (%)	Republic's Share in Profit Oil (%)
less than .....			
from ..... to less than .....			
from ..... to less than .....			
from ..... to less than .....			
greater than .....			

Where:

- (a) Range 1 refers to Crude Oil price less than \_\_\_\_ [P1] Dollars per Barrel.
- (b) Range 2 refers to Crude Oil price equal to or greater than \_\_\_\_ [P1] Dollars per Barrel but less than \_\_\_\_ [P2] Dollars per Barrel.
- (c) Range 3 refers to Crude Oil price equal to or greater than \_\_\_\_ [P2] Dollars per Barrel.

The Contractor's share in Profit Oil shall be 100% minus the Republic's share in Profit Oil specified in the above table.

- 8.3.2 The remaining Available Gas, after the Contractor has taken the Cost Gas pursuant to the provisions of Article 8.2 (hereinafter referred to as "Profit Gas") shall be shared between the Republic and the Contractor according to Natural Gas production tiers as follows:

Natural Gas production tier (in thousand cubic feet per day)	Republic's Share in Profit Gas (%)
less than .....	
from ..... to less than .....	
from ..... to less than .....	
from ..... to less than .....	
greater than .....	

The Contractor's share in Profit Gas shall be 100% minus the Republic's share in Profit Gas specified in the above table.

- 8.4. (a) The Crude Oil and Natural Gas production mentioned in the tables under article 8.3 shall be the average daily production rate calculated for each Calendar month by dividing the volume of Available Oil and Available Gas produced from the Contract Area during that month by the number of production days in such month.
- (b) The Crude Oil price mentioned in the table under Article 8.3.1 shall be valued pursuant to the provisions of Article 10.
- 8.5. The Contractor, if so directed by the Minister, shall be obligated to market all Crude Oil and Natural Gas produced and saved from the Contract Area subject to the provisions hereinafter set forth.
- 8.6. Except as provided in Article 8.10, 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.
- 8.7. Title to Cost Oil and Cost Gas and the Contractor's share of Profit Oil and of Profit Gas shall pass to the Contractor at the Delivery Point.



- 8.8. If the Republic elects to take any of its share of Profit Oil in kind, the Minister shall so notify the Contractor in writing not less than ninety (90) days prior to the commencement of any given Semester specifying the quantity that the Republic elects to take in kind, such notice to be effective for the next succeeding Semester and all Semesters thereafter until the Minister notifies the Contractor otherwise in accordance with this Article;

Provided, however, that such election shall not interfere with the proper performance of any Crude Oil sales agreement for Crude Oil produced within the Contract Area that the Contractor has executed prior to the notice of such election. Failure to give such notice shall be conclusively deemed to evidence the election not to take in kind. Any sale of the Republic's share of Profit Oil shall not be for a term of more than one Calendar Year without the Minister's consent in writing.

- 8.9. If the Minister elects not to take and receive in kind the Republic's share of Profit Oil, the Minister may direct the Contractor to market or itself buy the Republic's share of Profit Oil, whichever the Contractor shall elect to do;

Provided, however, that the price paid to the Republic for its share of Profit Oil shall not be less than the market price determined in accordance with Article 10. The Contractor shall pay the Republic for its share of Profit Oil for each Calendar month, such payment to be made within thirty (30) calendar days following the date of each lifting.

- 8.10. In addition to the Republic's share of Profit Oil in accordance with the terms of this Contract, the Contractor is obligated to sell to the Republic, if requested in writing, a portion of Contractor's share of Profit Oil for the domestic consumption of the country, provided that the price paid by the Republic shall not be less than the market price determined in accordance with Article 10.

## **ARTICLE 9**

### **TAXATION**

- 9.1. The Contractor and its subcontractors shall comply with the applicable taxation laws and regulations thereof in force in the Republic of Cyprus. The agreements for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to income and capital, which the Republic of Cyprus has concluded and agreed, as well as the various international conventions which the Republic of Cyprus has adopted and/or signed will also be applicable.
- 9.2. However under the provisions of this Production Sharing Contract, the applicable corporate tax shall be deemed to be included in the Republic's share of Profit Oil. Therefore the portion of Available Oil which the Contractor is entitled to, pursuant to the provisions of Article 8, shall be net of corporate tax.

## ARTICLE 10

### VALUATION OF CRUDE OIL AND NATURAL GAS

- 10.1. 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 Dollars 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.

- 10.2. 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 that 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 that Quarter represent 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.
- 10.3. In the event such sales 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 neighbouring 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.

- 10.4. 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 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.
- 10.5. A committee headed by the Minister or his designated deputy 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 10 the Market Price of the Crude Oil produced, which shall apply to the preceding Quarter. 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 10 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 costs shall be shared equally by the Parties.

- 10.6. 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.
- 10.7 The value of Natural Gas to be considered under this Contract shall be determined pursuant to the provisions of Article 13.3.
- 10.8. The Contractor shall measure all Hydrocarbons produced and saved under this Contract in accordance with the provisions of Regulation 20 of the Regulations.

## ARTICLE 11

### SURFACE FEES AND BONUS

11.1. The Contractor shall pay the Republic the following surface fees:

- (a) Ten (10) Euros per square kilometre of Contract Area annually during the initial term of the exploration period;
- (b) Fifteen (15) Euros per square kilometre of Contract Area annually during the first renewal of the exploration period;
- (c) Twenty (20) Euros per square kilometre of Contract Area annually during the second renewal of the exploration period and any extension thereof as provided for in Article 2.3;
- (d) in addition to fees paid in respect of paragraphs (a), (b) and (c) above, two hundred (200) Euros per square kilometre 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 Licence is granted for a given area, the surface fee set forth in paragraph (d) shall be prorated from the date of granting said Exploitation Licence through December 31st of said Year.

For succeeding Years the surface fee set forth in paragraph (d) shall be paid in advance, thirty (30) calendar days before the beginning of each Calendar 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.

11.2. 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 for a period of sixty (60) consecutive  
days;

(c) \_\_\_\_\_ (\_\_\_\_\_) Euros after daily production from the Contract Area averages  
\_\_\_\_\_ (\_\_\_\_\_) barrels per day 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 days' period.

- 11.3. The surface fees and bonuses required under this Article 11 shall not be included in  
the Hydrocarbons Costs for purposes of cost recovery under Article 8.2.

## ARTICLE 12

### PAYMENTS

- 12.1. All payments that the Contractor shall make to the Republic under this Contract shall be made in Euros 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, with a note ***“Care of the Ministry of Commerce, Industry and Tourism, Hydrocarbons Activities”***.
- 12.2. All payments due to the Contractor shall be made in Euros at a bank to be designated by the Contractor.
- 12.3. Unless otherwise specifically provided herein, any payment required to be made pursuant to this Contract shall be made within thirty (30) calendar days following the end of the month in which the obligation to make such payment occurs.

## ARTICLE 13

### NATURAL GAS

#### 13.1 Non-Associated Natural Gas

- (a) In the event of a Non-Associated Gas Discovery, the Contractor shall diligently engage in discussions with the Minister with a view to determining whether the appraisal and exploitation of said Discovery have a potentially commercial nature.
- (b) If, after the above-mentioned discussions, the Contractor considers that the Non-Associated Natural Gas Discovery merits appraisal, it shall undertake an appraisal work programme with respect to such Discovery in accordance with the provisions of Article 5.

For purposes of assessing the commerciality of the Non-Associated Natural Gas Discovery, the Contractor shall have the right, if it so requests at least two (2) months prior to the expiry of the second renewal of the exploration period set forth in Article 2.2, to be granted the extension of the exploration period with respect to the Appraisal Area related to said Discovery, for a term of two (2) years starting from the expiry of the second renewal of the exploration period.

In addition, the Parties shall jointly assess the possible outlets for the Natural Gas from the Discovery in question, both on the local market and for export, together with the necessary means for its marketing, and they shall consider the possibility of a joint marketing of their shares of production in the event the Natural Gas Discovery would not otherwise be commercially exploitable.

- (c) Following completion of appraisal work, in the event the Parties should jointly decide that the exploitation of that Discovery is justified to supply the local market, or to develop and produce that Natural Gas for export, the Contractor shall submit to the Minister, prior to the expiry of the above-mentioned two (2) years' period, a development and production plan in accordance with the provisions of Article 5.6.

The Contractor shall then proceed with the development and production of that Natural Gas in accordance with the development and production programme submitted and approved by the Minister pursuant to the provisions of Article 5.6, and the provisions of this Contract applicable to Crude Oil shall apply, *mutatis mutandis*, to Natural Gas, unless otherwise specifically provided in this Contract.

- (d) If the Contractor considers that the Non-Associated Natural Gas Discovery does not merit appraisal, the Minister may, with a twelve (12) month's prior notice which may be reduced with the Contractor's consent, require the Contractor to relinquish its rights on the area encompassing said Discovery.

In the same manner, if the Contractor, after completion of appraisal work, considers that the Non-Associated Natural Gas Discovery is not commercial, the Minister may, with a three (3) months' prior notice, require the Contractor to relinquish its rights on the Appraisal Area related to said Discovery.



In both cases, the Contractor shall forfeit its rights on all Hydrocarbons which could be produced from said Discovery, and the Minister 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.

### **13.2 Associated Natural Gas**

- (a) In the event of a commercial Discovery of Crude Oil, the Contractor shall state in the report referred to in Article 5.3 if it considers that the production of Associated Natural Gas is likely to exceed the quantities 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 is capable of being produced in commercial quantities. In the event the Contractor has informed the Minister of such an excess, the Parties shall jointly assess the possible outlets for that excess of Natural Gas, both on the local market and for export (including the possibility of joint marketing of their shares of production of that excess of Natural Gas in the event such excess would not otherwise be commercially exploitable), together with the means necessary for its marketing.

In the event the Parties should decide that the development of the excess of Natural Gas is justified, or in the event the Contractor would wish to develop and produce that excess for export, the Contractor shall indicate in the development and production plan referred to in Article 5.6 the additional facilities necessary for the development and exploitation of that excess and its estimate of the costs related thereto.

The Contractor shall then proceed with the development and exploitation of that excess in accordance with the development and production plan submitted and approved by the Minister pursuant to the provisions of Article 5.6, and the provisions of this Contract applicable to Crude Oil shall apply, *mutatis mutandis*, to the excess of Natural Gas, unless otherwise specifically provided in this Contract.

A similar procedure shall be applicable if the sale or marketing of Associated Natural Gas is decided during the exploitation of a Field.

- (b) 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 or part 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 good international petroleum industry practice and in such a manner as not to hinder the production, lifting and transportation of Crude Oil by the Contractor.

- (c) Any excess of Associated Natural Gas which would not be utilized under Articles 13.2(a) and 13.2(b), shall be reinjected by the Contractor. However, the Contractor shall have the right to flare said gas in accordance with good 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.

### **13.3 Provisions common to Associated and Non-Associated Gas**

- (a) The Contractor shall have the right to dispose of its share of production of Natural Gas, in accordance with the provisions of this Contract. 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.
- (b) For purposes of this Contract, the Natural Gas Market price shall be equal to :
  - (i) with respect to Natural Gas export sales to Third Parties, the price obtained from purchasers;
  - (ii) with respect to sales on the local market of Natural Gas as a fuel, such price as the Minister, or the national entity that the Republic would set up for the distribution of Natural Gas on the local market, and the Contractor would mutually agree upon.
- (c) For purposes of Article 11.2, the quantities of available Natural Gas, after deduction of the quantities used for the requirements of the Hydrocarbons Operations, reinjected or flared, shall be expressed in a number of Barrels of Crude Oil such as one hundred and sixty five (165) cubic meters of Natural Gas as measured at the temperature of 15°C and at the atmospheric pressure of 1.01325 bar are deemed to be equal to one Barrel of Crude Oil, unless otherwise agreed upon by the Parties.

## **ARTICLE 14**

### **IMPORT AND EXPORT FROM A THIRD COUNTRY AND TRANSFER FROM / TO ANOTHER MEMBER STATE OF THE E.U.**

- 14.1. The Contractor shall have the right to import to the Republic of Cyprus from a third country or transfer from a member state of the E.U., 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.

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 of Cyprus in equivalent conditions of price, quantity, quality, conditions of payment and delivery term.

The foreign employees and their families assigned to work in the Republic of Cyprus for the account of the Contractor or its subcontractors shall have the right to import to the Republic of Cyprus from a third country or transfer from another member state of the E.U. their personal property according to the provisions of the E.U. legislation and the national V.A.T. and Customs and Excise Legislation in force.

- 14.2. The Contractor and its subcontractors, for their own account and for the account of the persons mentioned in Article 14.1, shall have the right to re-export from the Republic of Cyprus, at any time and free of any taxes and duties, all the items imported according to Article 14.1, except the items the ownership of which is transferred to the Republic in accordance with Article 18.
- 14.3. Subject to the provisions of Article 8.10, the Contractor, its clients and their carriers shall have the right to freely export the quantities of Cost Oil and share of Profit Oil 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. legislation. However, the Contractor agrees at the Minister's request not to sell Hydrocarbons produced from the Contract Area to countries declared hostile to the Republic of Cyprus.

## ARTICLE 15

### BOOKS, ACCOUNTS AND AUDITS

- 15.1. The Contractor shall maintain its records and books in accordance with the provisions of the Assessment and Collection of Taxes legislation, as amended, and the regulations thereof in force in the Republic of Cyprus and the Accounting Procedure attached hereto as Annex C.
- 15.2. 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.

For information purposes, the profit and loss accounts and balance sheets shall also be maintained in the official currency of the Republic of Cyprus.

- 15.3. The originals of the records and books referred to in Article 15.1 shall be kept at the Contractor's registered office in the Republic of Cyprus. As from the date the Contractor has declared the first Commercial Field in the Contract Area, said records and books shall be maintained in the Republic of Cyprus.
- 15.4. 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 outside accountant acceptable to the Parties, who holds a practising certificate in accordance with the Cyprus Company Law Cap. 113 as amended.
- 15.5. After notifying the Contractor in writing, the Minister may cause to be examined and audited the records and books relating to Hydrocarbons Operations by experts of its election or by its own agents. 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 its objections to the Contractor for any contradictions or errors found during such examinations or audits. The Contractor will notify the Minister his 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. Reasonable audit expenses shall be reimbursed by the Contractor to the Republic and shall be considered as Hydrocarbons Costs and recoverable under the provisions of Article 8.2.

## **ARTICLE 16**

### **TRANSFER, ASSIGNMENT AND CHANGE IN CONTROL AND OPERATORSHIP**

- 16.1. The rights and obligations arising from this Contract shall not be transferred or assigned, in whole or part, by any entity constituting the Contractor without prior approval in writing of the Minister, as provided in Section 27 of the Law.
- 16.2. The Minister may at any time inquire about the Factors Constituting Control of any entity constituting the Contractor.

Any change in the Factors Constituting Control of any entity constituting the Contractor shall be promptly reported to the Minister.

For purposes of this Article, "Factors Constituting Control" means:

- Protocols, agreements or contracts binding a Contractor with another Contractor 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;
  - Provisions of the Contractor's articles of incorporation and by-laws relating to the head office, the rights attached to capital stock, the majority required in annual general meetings;
  - The list and nationalities of any physical or legal person which holds more than ten percent (10%) of the Contractor's capital stock;
  - And 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.
- 16.3. Where the Contractor consists of several entities, it shall notify the Minister of any change to the joint operating agreement which binds the entities constituting the Contractor.

Any change in the Operator shall be subject to approval of the Minister.

## ARTICLE 17

### LIABILITY AND INSURANCE

- 17.1. 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.

The Contractor shall indemnify, defend and hold harmless the Republic against all claims, losses or damage whatsoever caused by or resulting from Hydrocarbons Operations.

- 17.2. 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 of Cyprus.

The Contractor shall provide the Minister with the certificates justifying the subscription and maintenance of the above-mentioned insurances.

- 17.3. Where the Contractor consists of several entities, the obligations and responsibilities of those entities under this Contract shall be joint and several, except their obligations relating to the corporate income tax.
- 17.4. Each entity constituting the Contractor which is a subsidiary of another body corporate, shall submit to the Minister for approval an undertaking its ultimate parent-company guaranteeing the proper performance of the obligations arising from this Contract.

## **ARTICLE 18**

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

- 18.1. 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.
- 18.2. 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 of Cyprus. 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.

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 good international petroleum industry practice, and in accordance with the time schedule and conditions defined in the abandonment plan which will have been approved pursuant to Article 18.3.

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.

- 18.3. No later than six (6) years prior to the anticipated date of abandonment of a Field or termination of, or relinquishment of part of, any Exploitation Area, the Contractor shall submit to the Minister for its approval the relevant abandonment plan including the estimated abandonment costs, pursuant to Regulation 16.

The Minister may propose amendments or modifications to the above-mentioned abandonment 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 good international petroleum industry practice. The date of approval of the plan shall be the date of the above-mentioned mutual agreement.

In order to secure the implementation of the abandonment plan, the Contractor shall be required to establish a reserve fund, as from the approval of the abandonment plan. Such fund shall be deposited in an escrow account in a bank acceptable to the Minister. The total amount and the annual provisions shall be mutually agreed and included in the approved abandonment plan. Such annual provisions shall be deemed to be Hydrocarbons Costs and recoverable pursuant to Article 8.2.

In the event that the actual abandonment 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 shared between the Republic and the Contractor pursuant to Article 8.3.



## ARTICLE 19

### TERMINATION OF THE CONTRACT

19.1. This Contract may be terminated by the Minister, 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 22; or
- (f) bankruptcy, composition with creditors or liquidation of assets of the Contractor or its parent-company.

19.2. Except with respect to the occurrence set forth in paragraph (f) above, the Minister shall pronounce the forfeiture provided for in Article 19.1. 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 (c) and (d) above) from the date of receipt of such notice.

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.

Any dispute as to whether any ground exists to justify the termination of the Contract pronounced by the Minister due to the forfeiture may be subject to arbitration in accordance with the provisions of Article 22. In that event, the Contract shall remain in force until the execution of the arbitration award by the Parties.

## **ARTICLE 20**

### **APPLICABLE LAW**

- 20.1. This Contract and the Hydrocarbons Operations carried out under said Contract shall be governed by the legislation in force in the Republic of Cyprus.
- 20.2. The Contractor shall be subject at any time to the legislation in force in the Republic of Cyprus.

## **ARTICLE 21**

### **FORCE MAJEURE**

- 21.1. 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.
- 21.2. 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.
- 21.3. 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.
- 21.4. If the performance of any of the obligations of the 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.

## **ARTICLE 22**

### **CONSULTATION, EXPERT DETERMINATION AND ARBITRATION**

- 22.1. In the event of any dispute between the Republic and the Contractor regarding the interpretation or performance of any provisions of this Contract, the Parties shall make their best efforts to settle such dispute amicably through consultation.
- 22.2. If, within three (3) months from the date of notice of such dispute, the Parties have not reached amicable settlement, the dispute shall be submitted, upon request of the most diligent Party, to the International Centre for Settlement of Investment Disputes (ICSID) in order to be settled by arbitration in accordance with the rules set forth by the Convention on the Settlement of Investment disputes between States and Nationals of other States.
- 22.3. 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 as well as the practice of international law applicable on the subject matter.

The arbitration tribunal shall consist of three (3) arbitrators. No arbitrator shall be a national of the countries to which either Party belongs.

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

The arbitration expenses shall be borne equally by the Parties, subject to the decision 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.

- 22.4. The Parties shall conform to any measure of conservation prescribed or recommended by the arbitration tribunal.
- 22.5. A request to arbitration shall give rise to 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.
- 22.6. In the event of any difficulty arising from the execution of this Contract, the Parties hereby agree, prior to any arbitration or failing to reach amicable settlement, to request an expert to provide assistance for the amicable settlement of such dispute. Such expert shall be appointed by mutual agreement between the Parties or, failing such agreement, by the International Centre for Technical Expertise of the International Chamber of Commerce, in accordance with its Rules for Technical Expertise. The expert expenses and fees shall be shared equally by the Parties.

## ARTICLE 23

### IMPLEMENTATION OF THE CONTRACT

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

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 of Cyprus.

- 23.2 All reasonable expenses incurred in the assistance provided by the Minister pursuant to this Article 23 shall be reimbursed by the Contractor.

- 23.3. 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:

- 23.4. The Minister or the Contractor may at any time change their authorized representative, or modify the addresses mentioned in Article 23.3, subject to at least ten (10) days' prior notice.
- 23.5. This Contract may be amended or modified only in writing and by mutual agreement of the Parties.
- 23.6. 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.

- 23.7. 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.
- 23.8. Annexes A, B and C attached hereto are an integral part of this Contract.

## ARTICLE 24

### EFFECTIVE DATE

This Contract shall become effective upon the date on which it is approved by the Council of Ministers, such date herein referred to as the Effective Date, and this Contract shall then be binding for the Parties.

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 initialled by the two Parties.

Nicosia, \_\_\_\_\_

Signed for and on behalf of  
THE REPUBLIC OF CYPRUS  
The Minister of  
Commerce, Industry and Tourism

Signed for and on behalf of

\_\_\_\_\_

\_\_\_\_\_

## **ANNEX A**

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

### **CONTRACT AREA**

Upon the Effective Date, the initial Contract Area covers an area deemed equal to approximately \_\_\_\_\_ (\_\_\_\_) square kilometres.

Said Contract Area is described on the map provided in Annex B.

The points \_\_\_\_\_ indicated on said map are defined below, by reference to the Greenwich meridian, through their geographic coordinates:



## **ANNEX B**

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

### **MAP OF THE CONTRACT AREA**

## **ANNEX C**

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

### **ACCOUNTING 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 realised 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 purposes for which such expenditures are made, and under the categories defined in this Article 2. Such classification shall be used in each Annual 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 labour, 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 labour, 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 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 labour, 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 relates to more than one of Exploration, Appraisal, Development and Production, and Operating 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 Contractor 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 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 purposes of the Contract, excluding the surface fees paid to the Republic referred to in Article 11.1 of the Contract.

#### **3.2. Labour and Associated Labour Costs**

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

Costs 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 member's 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 Cyprus 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, hospitalisation, 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 expenses 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 service, 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, materials, 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**

For purposes of this Article 3.4, Affiliates which are not wholly owned by the Contractor or the Contractor's ultimate parent company shall be considered third parties.

(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 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 paragraphs 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 favourable 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 authorise 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 platforms, 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 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 cleanup of oil spill, and of such further responsibilities resulting therefrom as may be required by applicable laws and regulations.

### **3.8. Material Costs**

Cost 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 imported materials and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site. Where an Affiliate of the Contractor has arranged the purchase, and coordinated the forwarding and expediting effort, a fee equal to four percent (4%) of the value of the materials shall be added to the cost of the materials purchased.

- (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 arms length transactions in the open market.
  - (ii) Used material in good condition (Condition "B"):  
Material which is in sound and serviceable condition 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 cost 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 condition percentage of the current knocked-down price of new material as defined in paragraph (i) above.
  - (vi) When the use of material 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 the 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 cost 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. Rentals, Duties and Other Assessments**

All rentals, levies, charges, fees, contributions and any other charges of every kind and nature levied by any governmental authority in connection with the Hydrocarbons Operations under the Contract and paid directly by the Contractor, save where the contrary is effectively provided in the Contract or in this Accounting Procedure.

### **3.10. Insurance and Losses**

Insurance premiums and costs incurred for insurance pursuant to the Contract 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.

### **3.11. 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 allowable.

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 matters 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.

### **3.12. Claims**

Expenditures made in the settlement or satisfaction of any loss, claim, damage, judgement 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.

### **3.13. Training Costs**

All costs and expenses incurred by the Contractor in the training of its employees engaged in the Hydrocarbons Operations under the Contract and such other training as required under Article 6.11 of the Contract.

### **3.14. 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.

### **3.15. 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 3.17 below, which are necessarily incurred by the Contractor for the proper, economical and efficient conduct of the Hydrocarbons Operations shall be allowable with the consent of the Minister.

### **3.16. Miscellaneous Proceeds**

The proceeds received by the Contractor, other 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 3.17 of this Accounting Procedure.
- (g) Costs originally charged to the accounts for material subsequently exported from Cyprus 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.

### **3.17. Duplication of Charges and Credits**

There shall be no duplication of charges and credits.

### **3.18. 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 11 of the Contract.
- (b) Any payments made to the Republic for failure to fulfil the minimum exploration work obligations pursuant to Article 3 of the Contract.
- (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 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 wilful misconduct of the Contractor, its agents and sub-contractors.
- (g) Payment of 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. 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 8.2 of the Contract in the Quarter in question.
- (f) The amount of Hydrocarbons Costs to be carried forward into the next

The quarterly statement shall be submitted to the Minister no later than ten (10) days after the end of each Quarter.

## **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.