

Αριθμός 190

ΟΙ ΠΕΡΙ ΥΔΡΟΓΟΝΑΝΘΡΑΚΩΝ (ΑΝΑΖΗΤΗΣΗ, ΕΡΕΥΝΑ ΚΑΙ ΕΚΜΕΤΑΛΛΕΥΣΗ) ΚΑΝΟΝΙΣΜΟΙ ΤΟΥ 2007 ΕΩΣ 2014

Γνωστοποίηση δυνάμει του Κανονισμού 5(2)

Με την παρούσα γνωστοποιείται ότι ο Υπουργός Ενέργειας, Εμπορίου, Βιομηχανίας και Τουρισμού, ασκώντας τις εξουσίες που χορηγούνται σε αυτόν δυνάμει του Κανονισμού 5(2) των περί Υδρογονανθράκων (Αναζήτηση, Έρευνας και Εκμετάλλευση) Κανονισμών του 2007 έως 2014, εκδίδει το πιο κάτω πρότυπο Συμβόλαιο Έρευνας και Αναλογικού Καταμερισμού Παραγωγής, στη βάση του οποίου στο εξής θα συνάπτονται τα Συμβόλαια μεταξύ της Κυπριακής Δημοκρατίας και προσώπων στα οποία το Υπουργικό Συμβούλιο θα παραχωρεί Άδεια Έρευνας και Εκμετάλλευσης υδρογονανθράκων δυνάμει του άρθρου 5(1) των περί Υδρογονανθράκων (Αναζήτηση, Έρευνα και Εκμετάλλευση) Νόμων του 2007 έως 2015.

Έγινε στις 9 Ιουνίου 2016.

**MODEL
EXPLORATION AND PRODUCTION SHARING CONTRACT**

REPUBLIC OF CYPRUS

MINISTRY OF ENERGY, COMMERCE, INDUSTRY AND TOURISM

[NICOSIA, 02 JUNE 2016]

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THE PRESENT CONTRACT WAS MADE ON THE

BETWEEN

THE REPUBLIC OF CYPRUS (hereinafter referred to as the "Republic"), represented for the purposes of this Contract by the Minister of Energy, Commerce, Industry and Tourism of the Republic (hereinafter referred to as the "Minister"), by the powers vested to him pursuant to the decision of the Council of Ministers No., dated.....

AND

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

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

WITNESSETH:

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

WHEREAS, the Council of Ministers of the Republic by virtue of the Hydrocarbons (Prospection, Exploration and Exploitation) Law of 2007 has the authority, following a submission of an application, to grant an authorization for Hydrocarbons Operations;

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

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

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

1 INTERPRETATION

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

“Affiliated Company”	means (i) a company or other entity directly or indirectly Controlling or Controlled by any company or other entity comprising the Contractor or (ii) a company or other legal entity which is directly or indirectly Controlling or Controlled by a company or any other entity that itself directly or indirectly has Control of any company or other entity comprising the Contractor.
“Annex”	means any and all of the annexes: (a) Annex A - Description of the Original Contract Area; (b) Annex B - Map of the Original Contract Area; (c) Annex C - Accounting Procedure; (d) Annex D-Exploration Work Obligations; (e) Annex E - Form of Bank Guarantee; (f) Annex F- Form of Parent Company Financial and Performance Guarantee.
“Applicable Environmental Legislation”	means all relevant environmental, health and safety legislation, whether primary or secondary, national, European Union or international, applicable from time to time in the Republic, and includes laws, regulations, orders, rulings and opinions of any competent authority.
“Appraisal”	means all work carried out by the Contractor sub-sequent to a Discovery of Hydrocarbons for the purpose of delineating one or more Hydrocarbons reservoirs to which that Discovery relates in terms of thickness and lateral extent and in order to further define the quantity of recoverable Hydrocarbons therein, and all activities related thereto.
“Appraisal Area”	means a geographical area within the Contract Area, encompassing the presumed extension of a Discovery subject to an Appraisal Work Programme pursuant to the provisions of Article 4.6.
“ Appraisal Work Programme”	means the detailed work programme for Appraisal operations to be submitted, approved and carried out as set out in Article 4.6.
“Arm’s Length Sales”	means sales of Hydrocarbons in freely convertible currencies between sellers and buyers having no direct or indirect relationship or common interest whatsoever with each other that could reasonably influence the sales price, excluding sales involving barter, sales from government to government and other transactions motivated in whole or in part by considerations other than the usual economic incentives involved in hydrocarbons sales on the international market.
“Associated Natural Gas”	means Natural Gas which exists in a hydrocarbon reservoir in solution with Crude Oil or which is or could be produced in association with Crude Oil.
“Available Gas”	means Natural Gas produced and saved hereunder and not used in Hydrocarbons Operations.
“Available Hydrocarbons”	means Available Oil and Available Gas.
“Available Oil”	means Crude Oil produced and saved hereunder and not used in Hydrocarbons Operations.

“Barrel”	means a quantity or unit of Crude Oil equal to 158.9874 litres (forty-two [42] United States gallons) at a temperature of 15.56 degrees centigrade (sixty [60] degrees Fahrenheit) under one atmosphere of pressure.
“Budget”	means the estimate of the costs of all items included in a Work Programme.
“Calendar Year”	means a period of twelve (12) months commencing January 1st and ending on the following December 31st, according to the Gregorian Calendar.
“Commercial Discovery”	means a Discovery that, in the judgment of the Contractor, can be produced commercially after consideration of all pertinent operating and financial data collected during the performance of the Appraisal Work Programme and otherwise, as provided in Article 4.6, including, but not limited to Crude Oil or Natural Gas reserves, sustainable production levels and other relevant technical and economic factors, according to Good International Petroleum Industry Practice.
“Contract”	means this Exploration and Production Sharing Contract and pertaining Annexes, as may be amended from time to time.
“Contract Area”	means the geographical area which is subject to this Contract, after any relinquishment, surrender or extension made from time to time pursuant to the terms of this Contract.
“Contractor”	means any entity designated as such in the preamble hereof and its successors and permitted assigns, or, in the event the Contractor comprises more than one entity, all of such entities collectively and their respective successors and permitted assigns.
“Contract Year”	means a period of twelve (12) months commencing on the Effective Date, or on any anniversary of it, and ending on the calendar day immediately before the next anniversary thereof.
“Control”	when used with respect to any specified company or other entity, means the power to direct, administer and dictate policies of such company or other entity, through the ownership of a percentage of such company or other entity'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. Without limiting the generality of the foregoing, the ability to control an entity is presumed to exist if a second entity or group of entities acting in concert holds or can direct the exercise of at least forty per cent (40%) of the rights to select or direct the management of such first entity, and no third party or group holds or can direct the exercise of a greater percentage of such rights.
“Cost Gas”	means the portion of the Available Gas as set out in accordance with Article 6 that the Contractor may freely retain each Calendar Year for the purposes of recovery of its Hydrocarbons Costs.
“Cost Hydrocarbons”	means Cost Oil and Cost Gas.
“Cost Oil”	means the portion of the Available Oil as set out in accordance with Article 6 that the Contractor may freely retain each Calendar Year for the purposes of recovery of its Hydrocarbons Costs.

“Council of Ministers”	means the Council of Ministers of the Republic.
“Crude Oil”	means unrefined hydrocarbons which are produced at the wellhead in liquid state at a temperature of 15°C and pressure of 1 Atmosphere and the liquid hydrocarbons known as condensate and Natural Gas liquids obtained from Natural Gas by condensation or extraction.
“Decommissioning”	means, in respect of the Contract Area, to abandon, decommission, transfer, remove and/or dispose of structures, facilities, installations, pipelines equipment and other property, and other works, used in Hydrocarbons Operations in the area, to clean up the area and make it good and safe, and to protect the environment.
“Decommissioning Cost”	has the meaning given in Article 10.
“Decommissioning Plan”	means a plan of works, and an estimate of expenditures therefor, for Decommissioning, including environmental, engineering and feasibility studies in support of the plan.
“Delivery Point”	means the point or points, within or outside the Contract Area, at which Hydrocarbons reach the outlet flange of the delivery facility in the Republic or such other point or points which may be agreed by the Minister and the Contractor, as specified in the approved Development and Production Plan.
“Development”	<p>means the planning, construction and installation of facilities needed for production of Hydrocarbons, including but not limited to:</p> <p>(i) all the operations and activities under the Contract with respect to the drilling of Wells other than Exploration Wells and Appraisal Wells, the deepening, plugging, completing and equipping of such Wells, together with the design, construction and installation of such equipment, pipeline or lines, installations, production units and all other systems relating to such Wells as may be necessary in conformity with prevailing Good International Petroleum Industry Practice, including Good International Petroleum Industry Environmental Practice;</p> <p>(ii) all operations and activities relative to the servicing and maintenance of pipelines, lines, installations, production units and all related activities for production and management of Wells.</p>
“Development Expenditures”	means those expenditures described in Article 2.4 of the Accounting Procedure attached hereto as Annex C.
“Development and Production Operations”	means all operations other than Exploration Operations conducted to facilitate the extraction and the production of Crude Oil and Natural Gas.
“Development and Production Plan”	means a plan for the Development and Production of Hydrocarbons in the Exploitation Area as determined in accordance with Article 5 in this Contract.
“Discovery”	means an occurrence of Hydrocarbons recovered at the surface which was not previously known to have existed and which is measurable by conventional petroleum industry practices.
“Discovery Well”	means an Exploration Well that hits a Discovery.
“EEA”	means the European Economic Area created by the Agreement on the European Economic Area signed in Porto on 2 May 1992, adjusted by the Protocol signed in Brussels on 17 March 1993.

“Effective Date”	means the date of execution of this Contract by the Parties, as set out in Article 36.
“Exploitation Area”	means a geographical area within the Contract Area, encompassing the extent of a Commercial Discovery which is subject to a Development and Production Plan pursuant to Article 5.1.1.
“Exploitation Licence”	means an authorization granted by the Council of Ministers and providing its holder with the rights set forth in Article 14(3) of the Law.
“Exploitation Period”	means a period of twenty five (25) Contract Years running from the Council of Ministers’ approval of an authorization for exploitation or, if such period is extended, for such additional time as is set out in the authorization until the expiry of such extended period.
“Exploration”	means any and all operations conducted for the purpose of making a Discovery, including but not limited to: any activities necessary to commence operations; any topographical, hydrographical, geological, geophysical, aerial and other surveys and activities (including interpretations, analyses and related studies) to investigate the subsurface for the location of Hydrocarbons; drilling of shot holes, core holes and stratigraphic test holes; spud, drilling, testing, coring, logging and equipping of Exploration Wells or Appraisal Wells; procurement of such material, equipment, machinery, items and supplies as may be required or expedient for the foregoing activities; and all auxiliary operations and activities required or expedient for the better conduct or result of the foregoing activities.
“Exploration Expenditures”	means those expenditures described in Article 2.2 of the Accounting Procedure attached hereto as Annex C.
“Exploration Licence”	means an authorization granted by the Council of Ministers and providing its holder with the rights set forth in Article 14(2) of the Law.
“Exploration Period”	means the period commencing on the Effective Date and ending at the expiry of the Initial Licensing Period, of the First Renewal Period, or of the Second Renewal Period or of any extensions granted in accordance with the provisions of this Contract, as the case may be.
“Exploration Phase”	means any of the Initial Licensing Period, the First Renewal Period and the Second Renewal Period including any extensions thereof, as the case may be.
“Exploration Well”	means any Well drilled for the purpose of confirming a structure or a separate geological feature in which no Discovery has previously been made by the Contractor.
“Exploration Work Obligations”	means the work obligations specified for each Exploration Phase as set out in Annex D.
“Exploration Operations”	includes, without limitation, geological studies, geophysical studies, aerial mapping, investigations relating to the subsurface geology, stratigraphic test drilling, Exploration Wells, and related activities such as drill site preparation, surveying and all work necessarily connected therewith, that is conducted in connection with exploration for Crude Oil and/or Natural Gas.
“Field”	means a Hydrocarbons reservoir or multiple Hydrocarbons reservoirs all grouped on or related to the same individual geological structural features or stratigraphic conditions.
“First Renewal Period”	means a period of time running from the expiry of the Initial Licensing Period and for a period of two (2) Contract Years

thereafter.

“Good International Petroleum Industry Environmental Practice”

means petroleum industry environmental practices and procedures generally required, or generally accepted as prudent practice, in the United Kingdom or Norway, under the technical circumstances in question.

“Good International Petroleum Industry Practice”

means all those uses and practices that are, at the time and under the technical circumstances in question, generally accepted in the international petroleum industry as being good, prudent, safe, economical, diligent, environmentally sound and efficient in exploring for, developing, producing, processing and transporting Hydrocarbons. They should reflect standards of service and technology that are economically appropriate to the operations in question and should be applied using standards in all matters that are no less rigorous than those in use by the Operator in other global operations.

“Hydrocarbons”

means any kind of petroleum products in solid, liquid or gaseous state, including crude oil or natural gasoline, natural hydrocarbon gases as well as all related minerals or substances of any kind extracted together therewith.

“Hydrocarbons Cost”

means expenditures made and obligations incurred by the Contractor in carrying out Hydrocarbons Operations hereunder, determined in accordance with the Accounting Procedure attached hereto as Annex C.

“Hydrocarbons Operations”

means Exploration Operations, Development and Production Operations and all other related activities carried out under this Contract, including the lifting of Hydrocarbons from the Contract Area but excluding any storage, transportation or processing beyond the Delivery Point(s).

“Initial Licensing Period”

means a period of time running from the Effective Date and for a period of three (3) Contract Years thereafter.

“Law”

means the Hydrocarbons (Prospection, Exploration and Exploitation) Law, No. 4 (I) of 2007, as may be amended from time to time, or any successor law.

“Minister”

means the Minister of the Republic from time to time responsible for Hydrocarbons.

“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.

“Non-Associated Natural Gas”

means Natural Gas other than Associated Natural Gas.

“Original Contract Area”

means the geographical area that is described in Annex A and delineated on the map attached as Annex B.

“Operator”

means the Contractor, or, if the Contractor is comprised of several entities, the entity appointed pursuant to Article 3 to serve as operator with responsibility for carrying out Hydrocarbons Operations in the Contract Area in accordance with the provisions of this Contract.

“Operating Expenditures”

means those expenditures described in Article 2.5 of the Accounting Procedure attached hereto as Annex C.

“Production”

means all operations relating to the extraction, processing, storage and disposal of Hydrocarbons, excluding any transportation, storage or other operation beyond the

Delivery Point.

"Production Expenditures"	means those expenditures described in Article 2.5 of the Accounting Procedure attached hereto as Annex C.
"Profit Gas"	means the remaining Available Gas, after the Contractor has taken the Cost Gas pursuant to the provisions of Article 6.1.
"Profit Hydrocarbons"	means Profit Oil and Profit Gas.
"Profit Oil"	means the remaining Available Oil, after the Contractor has taken the Cost Oil pursuant to the provisions of Article 6.1.
"Quarter"	means a period of three (3) consecutive months beginning January 1 st , April 1 st , July 1 st or October 1 st and ending March 31 st , June 30 th , September 30 th or December 31 st , respectively.
"Regulations"	means the Hydrocarbons (Prospection, Exploration and Exploitation) Regulations, Regulatory Administrative Act 51 of 2007, as may be amended from time to time, and any other regulations issued under the Law.
"Second Renewal Period"	means a period of time running from the expiry of the First Renewal Period and for a period of two (2) Contract Years thereafter.
"Significant Gas Discovery"	means a Discovery of Non-Associated Natural Gas which has tested significant flow rates of Natural Gas from one or more hydrocarbon reservoirs, which in the opinion of the Contractor could be declared a Commercial Discovery in the future, provided a commercially viable market is ascertained, either as a standalone development, or as a combined development of contingent resources and future exploration prospects.
"Territory"	means the land territory, the internal waters, the territorial waters, the continental shelf and the exclusive economic zone of the Republic.
"Well"	means any opening in the ground or seabed made or being made by drilling or boring, or in any other manner, for the purpose of discovering, appraising and/or producing Crude Oil or Natural Gas, or for the injection of any fluid into a hydrocarbon reservoir, other than a seismic hole or a structure test hole or stratigraphic test hole.
"Work Programme"	means a statement itemizing the Hydrocarbons Operations to be carried out pursuant to this Contract during any Calendar Year or part thereof.

2 SCOPE

- 2.1** This Contract is an exploration and production sharing contract, the object of which is the Exploration, Appraisal, Development and Production of Hydrocarbons in the Contract Area and the supply of required infrastructure within and outside of the Contract Area up to the Delivery Point, all at the Contractor's sole risk and expense.
- 2.2** The Contractor is hereby granted the exclusive right to conduct Hydrocarbons Operations in the Contract Area during the term hereof and shall be responsible to the Republic for the execution of such Hydrocarbons Operations in accordance with the provisions of this Contract and of the laws and regulations in force in the Republic.
- 2.3** The Contractor shall provide all capital, machinery, equipment, technology and personnel necessary for the conduct of the Hydrocarbons Operations and shall bear the risk of Hydrocarbons Costs required in carrying out the Hydrocarbons Operations.
- 2.4** Where the Contractor consists of several entities, all of said entities shall be jointly and severally liable for all obligations and liabilities of the Contractor under this Contract, save as expressly otherwise provided thereunder. In such event, a copy of the joint operating agreement binding said entities and establishing their respective rights and obligations in relation to the conduct of Hydrocarbons Operations under this Contract shall be provided to the Minister, together with any amendment thereto, within thirty (30) days from the date of execution thereof. The joint operating agreement shall comply with the provisions of the Law, Regulations and this Contract. Nothing in the joint operating agreement shall be deemed to amend or override the obligations of the Contractor under the Contract.
- 2.5** The Hydrocarbons Costs shall be recoverable by the Contractor as provided in Article 6, 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 sufficient to recover all the Hydrocarbons Costs incurred by the Contractor, the Contractor shall bear the unrecovered Hydrocarbons Costs.
- 2.6** During the term of this Contract, the production achieved from this Contract shall be shared between the Parties in accordance with the provisions of Article 6.
- 2.7** The work to be done by the Contractor shall be subject to the general inspection, supervision and review of the Minister and other authorities of the Republic in accordance with this Contract and of the laws and regulations in force in the Republic.

3 OPERATOR AND COORDINATION COMMITTEE

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

For all purposes of this Contract, the Operator shall represent the Contractor and the Minister may deal with the Operator as the entity representing all entities constituting the Contractor. The Operator shall be subject to all of the specific obligations provided for in this Contract and in the Law and Regulations and shall have the exclusive control and administration of the Hydrocarbons Operations.

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

- 3.2** The initial Operator responsible for the conduct of the Hydrocarbons Operations on behalf of the Contractor is _____.
- 3.3** Any change in Operator shall be subject to the prior approval of the Council of Ministers.
- 3.4** Within one hundred and eighty (180) days from the Effective Date, the initial Operator shall establish an office in the Republic. The Operator shall thereafter and throughout the term of this Contract retain an office in the Republic, headed by an authorized representative to whom any notice to the Contractor under this Contract may be served.
- 3.5** Where the Minister reasonably determines that an Operator is no longer competent to be an Operator, the Minister may, by written notice to the Operator and the entities constituting the Contractor, request that a new Operator shall be proposed. The Contractor must then within thirty (30) days designate a new Operator who shall be subject to the approval of the Council of Ministers. Such approval may not to be unreasonably withheld. If the Contractor does not designate a new Operator or if a designated Operator is not approved, the Council of Ministers may, by written notice to the Operator and the entities constituting the Contractor, revoke the authorization and terminate this Contract in accordance with the provisions of Article 31.
- 3.6** Within sixty (60) days after the Effective Date, the Republic and the Contractor shall form a Coordination Committee consisting of not more than three (3) members appointed by the Council of Ministers and not more than three (3) members appointed by the Contractor, including at least one representative of the Operator. The purpose of this

Coordination Committee is to provide a forum for communication and cooperation between the Contractor and the Republic and to allow the Contractor to seek the advice, recommendations and assistance of the Republic in the conduct of the Hydrocarbons Operations. The Committee shall review present and future Hydrocarbons Operations and report jointly to the Minister and the Contractor.

- 3.7** The Coordination Committee shall meet twice every Calendar Year or as otherwise agreed by the Minister and the Operator at such locations as may be agreed by the Operator and the Minister. No meeting of the Coordination Committee shall be held unless two (2) members each appointed by the Contractor and the Republic are present.
- 3.8** The Contractor shall appoint the first chairperson of the Coordination Committee who shall hold office until the second anniversary of the Effective Date. Thereafter, the Minister and the Contractor shall have the alternating right to nominate a chairperson of the Coordination Committee who shall hold office for a period of two (2) years. The individual appointed as the chairperson shall be one (1) of the six (6) members of the Coordination Committee.
- 3.9** The Coordination Committee may by unanimous consent form sub-committees at such times and for such periods as it considers necessary to advise it on matters that it deems appropriate.
- 3.10** The Contractor and the Republic will each bear any travel and lodging costs of their respective Coordination Committee members as well as their respective costs, which shall not be included in the Hydrocarbons Costs.

4 EXPLORATION

4.1 Authorization to conduct Exploration Operations

- 4.1.1 The Contractor is authorized, subject to the provisions of this Contract, to conduct Exploration Operations within the Contract Area for an Initial Licensing Period of three (3) Years from the Effective Date.
- 4.1.2 If during the Initial Licensing Period the Contractor has fulfilled, or is deemed to have fulfilled pursuant to Article 4.2.9(ii), the Exploration Work Obligations for such Exploration Phase as defined in Annex D, the authorization to conduct Exploration Operations shall, at the Contractor's request, in accordance with Article 4.3, be renewed for a First Renewal Period of two (2) Contract Years.
- 4.1.3 If during the First Renewal Period the Contractor has fulfilled, or is deemed to have fulfilled pursuant to Article 4.2.9(ii), the Exploration Work Obligations for such Exploration Phase as defined in Annex D, the authorization to conduct Exploration Operations shall, at the Contractor's request, in accordance with Article 4.3, be renewed for a Second Renewal Period of two (2) Contract Years.

4.2 Exploration Work Obligations

- 4.2.1 The Contractor shall, during each Exploration Phase, carry out the Exploration Work Obligations set out in Annex D.
- 4.2.2 Each of the Exploration Wells provided in the Exploration Work Obligations shall be drilled to the minimum contractual depth specified in Annex D, or to a lesser depth if the continuation of drilling performed in accordance with Good International Petroleum Industry Practice is prevented for any of the following reasons:
- (i) basement is encountered at a lesser depth than the minimum contractual depth;
 - (ii) continuation of drilling presents an obvious danger due to the existence of abnormal formation pressure;
 - (iii) rock formations are encountered the hardness of which prevents, in practice, the continuation of drilling by the use of appropriate equipment; or
 - (iv) Hydrocarbons formations are encountered the crossing of which requires, for their protection, the laying of casings preventing the minimum contractual depth from being reached.
- 4.2.3 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 shall be deemed to have been drilled to the above mentioned minimum contractual depth. The preceding sentence shall be without prejudice to the right of the Contractor to suspend drilling, having obtained the prior approval of the Minister, if such suspension is required under Good International Petroleum Industry Practice.
- 4.2.4 If the number of Exploration Wells drilled by the Contractor during the Initial Licensing Period or the First Renewal Period exceeds the number of wells provided for in the Exploration Work Obligation for the Exploration Phase in question, as specified in Annex D, the number of additional Exploration Wells drilled during such Exploration Phase may be carried forward and treated as a credit towards the Exploration Wells contained in the Exploration Work Obligation for the following Exploration Phase.
- 4.2.5 For purposes of Article 4.2.4, Appraisal Wells drilled under an Appraisal Work Programme with respect to a Discovery shall not be considered as Exploration Wells, and, in the event of a Hydrocarbons Discovery, only the Discovery Well shall be deemed to be an Exploration Well.
- 4.2.6 Upon the Effective Date, the Contractor shall provide to the Minister an irrevocable bank guarantee payable to the Permanent Secretary, Ministry of Energy, Commerce, Industry and Tourism, guaranteeing its Exploration Work Obligations for the Initial Licensing Period, for an amount determined as provided in Article 4.2.8. The bank guarantee shall be in form and content substantially as set forth in Annex E. The bank guarantee shall be issued by a bank licenced to operate in any of the following countries: the Republic of Cyprus, any member state of the European Union, any country of the EEA, any country that had signed the Government Procurement Agreement (GPA) and any country that had signed and ratified Association Agreements or Bilateral Agreements with the European Union or the Republic of Cyprus and has the right to do so, according to the legislation of those countries.
- 4.2.7 Any renewal of an authorization to explore in accordance with Article 4.3, shall be conditional upon the provision by the Contractor to the Minister of a similar guarantee, guaranteeing the Exploration Work Obligations for that renewal for an amount calculated in accordance with the provisions of Article 4.2.8, which has to be submitted within thirty (30) days from the date of renewal.
- 4.2.8 The amount of each guarantee shall be equal to twenty per cent (20%) of the total estimated costs of the Exploration Work Obligations of the relevant Exploration Phase, calculated by using the unit costs set forth as follows:
- (i) _____ (____) Euros per kilometre of 2D seismic survey to be performed;

(ii) _____ (____) Euros per square kilometre of 3D seismic survey to be performed;

(iii) _____ (____) million Euros per Exploration Well to be drilled.

4.2.9 If, upon expiry of the Initial Licencing Period or of the First Renewal Period the Contractor has failed to fulfil the applicable Exploration Work Obligations for the Exploration Phase in question, the Minister shall have the right to:

(i) call on the guarantee as compensation for the non-performance of the Exploration Work Obligations and this Contract and the Exploration Licence shall terminate and the Contractor shall have no further liability for failure to perform the Exploration Work Obligations in question; or

(ii) give the option to the Contractor to pay the Republic eighty per cent (80%) of the total estimated costs of the unfulfilled Exploration Work Obligations within of the relevant Exploration Phase, calculated by using the unit costs per outstanding line-kilometre of 2D seismic survey, per outstanding square kilometre of 3D seismic survey and per outstanding Exploration Well as set forth in 4.2.8 above. If the Contractor exercises this option, and after the payment is received by the Minister, the Contractor shall be deemed to have fulfilled its Exploration Work Obligations for the relevant Exploration Phase under this Contract.

4.2.10 If, upon expiry of the Second Renewal Period, complete surrender or termination of the Contract, the Contractor has failed to fulfil the applicable Exploration Work Obligations for the Exploration Phase in question, the Minister shall call on the guarantee as compensation for the non-performance of the Exploration Work Obligations and this Contract and the Exploration Licence shall terminate and the Contractor shall have no further liability for failure to perform the Exploration Work Obligations in question.

4.3 Renewal of authorization to conduct Explorations Operations

4.3.1 The requests referred to in Articles 4.1.2 and 4.1.3 shall be made in writing to the Minister at least sixty (60) days prior to the expiration of the then current Exploration Phase, and shall be granted by decision of the Council of Ministers. If no request for renewal is made as provided above, this Contract shall terminate at the end of the then current Exploration Phase and the Exploration Licence shall be automatically cancelled.

4.3.2 The application for renewal shall be accompanied with a map specifying the Contract Area retained by the Contractor, determined in accordance with the provisions of Article 4.4, together with a report specifying the work performed on the area to be relinquished in accordance with Article 4.4.1 since the Effective Date and the results obtained therefrom.

4.3.3 Any renewal shall be granted in writing by the Minister, after approval by the Council of Ministers, and its validity shall be conditional upon the delivery to the Minister of the bank guarantee provided under Article 4.2.

4.4 Relinquishments

4.4.1 The Contractor shall, by written notice to the Minister:

(i) at the end of the Initial Licensing Period relinquish not less than twenty five percent (25%) of the Original Contract Area;

(ii) at the end of the First Renewal Period relinquish an additional portion of the Contract Area not less than twenty five percent (25%) of the Original Contract Area;

(iii) at the end of the Second Renewal Period relinquish the remaining portion of the Contract Area.

4.4.2 Notwithstanding Article 4.4.1 above, the Contractor shall not be required to relinquish any part of the Contract Area which has been made subject to an Appraisal Area or an Exploitation Area.

4.4.3 The Contractor may at any time with at least two (2) months' prior written notice to the Minister relinquish all or part of the Contract Area. Any area so relinquished will be credited against the next relinquishment obligation of the Contractor under Article 4.4.1.

Any such voluntary relinquishment of part of the Contract Area during the Exploration Period shall not reduce the Exploration Work Obligations set forth in Annex D, nor the amount of the corresponding guarantee.

4.4.4 The Contractor shall propose the size, shape and location of the portion of the Contract Area which it intends to relinquish pursuant to the provisions of this Contract.

4.4.5 The notice submitted by the Contractor in accordance with Article 4.4.1 or 4.4.3 shall be accompanied by a description of the area to be relinquished with pertaining map of the area.

4.4.6 The area to be relinquished by the Contractor pursuant to the provisions of this Contract shall be contiguous and delimited by meridians and parallels of latitude expressed in whole minutes of a degree, all of sufficient size and convenient shape to enable Hydrocarbons Operations to be conducted thereon.

- 4.4.7 The Council of Ministers shall approve the shape and size of the Contract Area that will remain after relinquishment, and may, when particular reasons so warrant, exempt from the requirement that the areas are to be contiguous, or from the requirement that the area be delimited in whole minutes of a degree.
- 4.4.8 If the Contractor does not relinquish a portion of the Contract Area at the time and in the manner required by Article 4.4.1, all of the Contract Area shall be deemed relinquished at the end of the Contract Year concerned.
- 4.4.9 At the expiration of the Exploration Period, the Contractor shall surrender the whole of the remaining surface of the Contract Area, except for Exploitation Areas.
- 4.4.10 Within sixty (60) days after the end of each Exploration Phase, the Contractor shall deliver to the Minister (i) a report specifying the work carried out in the surrendered areas from the Effective Date, (ii) all seismic and other data obtained with respect to the surrendered areas, and (iii) a technical evaluation of the surrendered areas performed by the Contractor, in each case to the extent not previously delivered to the Minister.

4.5 Discovery

- 4.5.1 In the event of a Discovery of Hydrocarbons in the Contract Area, the Contractor shall promptly inform the Minister in writing thereof. The notice shall include all relevant information on the Discovery and particulars on any testing programme which the Contractor intends to carry out, in accordance with Good International Petroleum Industry Practice, to contribute to the evaluation of the Hydrocarbons encountered during drilling.
- 4.5.2 Not later than thirty (30) days after the temporary plugging or abandonment of the Discovery Well, the Contractor shall submit to the Minister a report providing all available information relating to said discovery, including, but not limited to:
- (i) the results of the drilling of the Discovery Well;
 - (ii) the results of any tests being made of the Discovery Well;
 - (iii) a preliminary classification of the Discovery as Crude Oil or Natural Gas; and
 - (iv) a recommendation with respect to any Appraisal to be made of the Discovery.
- 4.5.3 If the Contractor notifies the Minister that the Discovery does not merit Appraisal, and does not provide a valid justification to retain the area covering the Discovery, the Minister shall have the option, on three (3) months written notice, to require the Contractor to immediately relinquish the area of the Discovery which shall:
- (i) comprise the vertical projection to the surface of the geological structure on which the Discovery Well was drilled; and
 - (ii) be determined based on geophysical and other technical information obtained from the Discovery.

4.6 Appraisal

- 4.6.1 If the Contractor notifies the Minister that the Discovery merits Appraisal, it shall no later than four (4) months following the submission of the report referred to in Article 4.5.2 diligently submit to the Minister for approval a detailed Appraisal Work Programme and the estimated corresponding Budget.
- 4.6.2 The Appraisal Work Programme and corresponding Budget shall:
- (i) specify in reasonable detail the Appraisal work which shall include all seismic, drilling, testing and other Appraisal operations necessary to carry out an appropriate evaluation of the Discovery according to Good International Petroleum Industry Practice, together with the estimated cost of these works;
 - (ii) specify the time frame within which the Contractor shall commence and complete the programme (the "Appraisal Period"), provided that the Appraisal Period shall (a) not exceed twenty four (24) months and (b) be within the Exploration Period, as such period may be extended in accordance with Article 4.6.3;
 - (iii) specify the presumed extension of said Discovery which shall not exceed the area encompassing the geological structure or feature and a reasonable margin surrounding such structure or feature proposed to be the Appraisal Area; and
 - (iv) be subject, mutatis mutandis, to the provisions of Article 9 in respect of their approval and performance, including, but not limited to, the definition of the Appraisal Area and the Appraisal Period.
- 4.6.3 If upon expiry of the Second Renewal Period an Appraisal Work Programme with respect to a Discovery is actually under progress, the Contractor may obtain, upon an application to the Minister, with respect to the Appraisal Area related to said Discovery, the extension of the Exploration Period for a period of time necessary to complete the relevant Appraisal operations. Such extension shall not exceed a period of six (6) months if the Appraisal Work Programme relates to Crude Oil and not exceed a period of twenty-four (24) months if the Appraisal Work Programme relates to Natural Gas. The Council of Ministers shall decide on the extension sought.

- 4.6.4 The Contractor shall diligently carry out the approved Appraisal Work Programme and within the time frame specified therein.
- 4.6.5 As soon as practical after the completion of the Appraisal Work Programme, and no later than the expiration of the Appraisal Period, the Contractor shall submit to the Minister a comprehensive evaluation report giving all the then available information relating to the Discovery and the Appraisal thereof, including all technical and economic information which shall establish, in the Contractor's opinion, whether said Discovery is a Commercial Discovery. Such evaluation report shall include, but not be limited to, geological conditions such as structural configuration, physical properties and extent of reservoir rocks, pressure, volume and temperature analysis of the reservoir fluid, fluid characteristics including gravity and composition of liquid and gaseous hydrocarbons, sulphur percentage, sediment and water percentage, and product yield pattern, production forecasts (per Well and per Field) and estimates of reserves, projected delivery rate and pressure, quality specifications and other relevant technical and economic factors. In the event the Appraisal relates to a Gas Discovery, the provisions of Article 24.1 shall apply.
- 4.6.6 In the event the Discovery subject to the Appraisal Work Programme referred to in Article 4.6.5 is a Discovery of Non-Associated Natural Gas which the Contractor considers to be a Significant Gas Discovery, the Contractor may, upon application to the Minister and approval by the Council of Ministers, obtain an extension of the Appraisal Period of up to twenty four (24) months as from the expiry of the initial Appraisal Period established pursuant to Article 4.2 in respect of the Appraisal Area, for the purposes of establishing a commercially viable market as provided in Article 24.1.3 and submitting its evaluation report pursuant to Article 4.6.5. The application for any such extension shall be submitted no later than three (3) months before the expiry of the initial Appraisal Period. In the event the proposed Appraisal Period extension extends beyond the expiry of the Second Renewal Period, the Exploration Period shall be extended, by decision of the Council of Ministers, to cover the extended Appraisal Period.
- 4.6.7 If the Contractor, in its report provided pursuant to Article 4.6.5 or 4.6.6, considers that the Discovery is not a Commercial Discovery, the Minister, with the approval of the Council of Ministers may, with a three (3) months' prior written notice, require the Contractor to relinquish its rights over the Appraisal Area related to said Discovery, provided that the Contractor's rights over an Appraisal Area shall in any event automatically terminate upon expiry of the Exploration Period if no Commercial Discovery has been declared by the Contractor by the end of the Exploration Period.
- 4.6.8 Where the Council of Ministers makes use of the right provided in Article 4.6.7, the Contractor shall forfeit its rights on all Hydrocarbons which could be produced from said Discovery, and the Republic may then carry out, or cause to be carried out, all the appraisal, development, production, treatment, transportation and marketing work relating to that Discovery, without any compensation to the Contractor, provided, however, that said work shall not cause prejudice to the performance of the Hydrocarbons Operations by the Contractor.
- 4.6.9 Any quantity of Hydrocarbons produced from a Discovery prior to it being declared as a Commercial Discovery, if it is not used for the Hydrocarbons Operations or lost, shall be subject to the provisions of Article 6.
- 4.6.10 If no Commercial Discovery has been declared by the Contractor by the end of the Exploration Period, this Contract shall terminate.

5 DEVELOPMENT AND PRODUCTION

- 5.1** If the Contractor in its report under Article 4.6.5 considers that a Discovery is a Commercial Discovery, it shall submit to the Minister, within six (6) months following the date of submission of said report, an application for an Exploitation Licence accompanied by a detailed Development and Production Plan for the Field relating to said Discovery, specifying *inter alia*:
- (i) the planned delimitation of the Exploitation Area applied for by the Contractor, so that it covers the area defined by the seismic closure(s) of the Field concerned, together with all the technical justifications with respect to the extent of said Field;
 - (ii) an estimate of the Crude Oil and/or Natural Gas reserves, their classification as proved, probable and possible according to international reserve classification practices, together with a study on the methods of recovery;
 - (iii) the projected maximum economic efficient rate of production (MER) and expected annual production levels for Crude Oil and/or Natural Gas;
 - (iv) the projected valuation of Crude Oil and Natural Gas to be produced;
 - (v) the proposed Delivery Point(s) for Crude Oil and/or Natural Gas;
 - (vi) the procedures for measuring production of Hydrocarbons at the Delivery Point(s);
 - (vii) item by item description of the facilities, equipment and work necessary for production, such as the number of development Wells, the number of platforms, pipelines, production, processing, storage and loading facilities together with their specifications;
 - (viii) as applicable, a marketing plan for Natural Gas, which may include the Contractor's proposal to structure the project as an integrated or segmented gas project (including gathering, treating, and conditioning of Natural Gas for sale), accompanied by letters of intent from potential purchasers or other documents supporting the existence of a commercially viable market, including certainty of offtake;
 - (ix) an estimated schedule for plan implementation and the projected date of production start-up;
 - (x) estimates of all capital expenditures and operating costs, including necessary infrastructure;
 - (xi) an environmental impact assessment study and an environmental impact management plan prepared in accordance with Applicable Environmental Legislation and Good International Petroleum Industry Environmental Practice;
 - (xii) a provisional Decommissioning Plan, including an estimate of the Decommissioning Costs; and
 - (xiii) as applicable, a study on the location, design, and costing of any pipeline facilities required for the transportation of Natural Gas beyond the Delivery Point to the point of export or use, together with possible financing options.
- 5.2** The Development and Production Plan submitted by the Contractor shall be subject to the approval of the Council of Ministers, which approval shall not be unreasonably withheld. Within ninety (90) days after the submission of said plan, the Minister, in consultation with other competent authorities of the Republic, may propose revisions or modifications to the Contractor's initially proposed plan by notifying the Contractor of the substance of, and its justification for, the proposed revision(s) or modification(s). In that event, the Minister and the Contractor shall meet as soon as possible in order to consider the proposed revisions or modifications in light of Good International Petroleum Industry Practice. Promptly after the aforesaid meeting, the Contractor shall submit to the Minister a second proposed plan including any mutually agreed revisions or modifications. The Minister shall notify the Contractor of the Council of Ministers' approval or disapproval of the second proposed plan within sixty (60) days of the date of submission of said plan.
- Should the Minister fail to notify the Contractor of a request for revision or modification of the initially proposed plan, or of the second plan or of the Council of Ministers' approval of the initially proposed plan, or of the second plan, within the above-mentioned ninety (90) day or sixty (60) day period (as the case may be), the plan submitted by the Contractor shall be deemed to be approved at the expiration of said period.
- 5.3** The Contractor may not begin construction under a Development and Production Plan approved or deemed approved by the Council of Ministers until it has received all approvals required under Applicable Environmental Legislation, which approvals shall not be unreasonably withheld or delayed.
- 5.4** Upon a showing of reasonable technical justification for delay and a showing that the delay could not reasonably have been avoided by the Contractor in the exercise of reasonable diligence, the Contractor may request and shall receive an extension of up to twelve (12) months in the date for delivery of its proposed Development and Production Plan under Article 5.1. If the Contractor fails to deliver its proposed Development and Production Plan within the time required under this Article 5, taking into account any extension granted under this Article 5.4, the Minister may require by notice to the

Contractor that unless the Contractor has delivered its proposed Development and Production Plan within thirty (30) days after the date the Contractor receives such notice, the Contractor will be deemed to have surrendered all its rights in respect of the Appraisal Area without any compensation for the Contractor, and the Contractor will forfeit all its rights on Hydrocarbons which could be produced from said discovery.

- 5.5** Within thirty (30) days from the date of approval or deemed approval of a Development and Production Plan, the Council of Ministers shall grant to the Contractor an Exploitation Licence covering the related Exploitation Area.

If the Contractor makes commercial discoveries of several Fields in the Contract Area, each such discovery shall give rise to an Exploitation Licence each corresponding to an Exploitation Area. The number of Exploitation Licences and related Exploitation Areas within the Contract Area shall not be limited.

- 5.6** If in the course of work carried out after the grant of an Exploitation Licence, it appears that the area defined by the seismic closure(s) of the Field concerned is larger than originally estimated pursuant to Article 5.1, the Council of Ministers shall grant to the Contractor, as part of the Exploitation Licence already granted, an additional area so that the entirety of said Field is included in the Exploitation Area, provided, however, that the Contractor supplies the Minister, together with its application with the technical evidence of the extension so required and provided, further, that the above mentioned extension is an integral part of the Contract Area as defined at the time of said application.

- 5.7** Where a Field extends beyond the boundaries of the Contract Area, the Minister may, in accordance with Regulation 21 of the Regulations, require the Contractor to exploit said Field in association with the rights holder of the adjacent area under the provisions of a unitization agreement. If the Field extends beyond the Territory of the Republic, the exploitation of the said Field shall be governed by the relevant international agreements.

- 5.8** The duration of an Exploitation Licence during which the Contractor is authorized to carry out the exploitation of the Field covered by such licence is set at twenty-five (25) years from the date upon which such licence is granted.

If upon expiration of the Exploitation Period of twenty-five (25) years above-defined a commercial exploitation of the Field remains possible, the Council of Ministers may, at the Contractor's request submitted to the Minister at least twelve (12) months prior to said expiration, extend the term of the Exploitation Licence by an additional period of no more than ten (10) years, provided that the Contractor has fulfilled all its obligations during the current Exploitation Period.

- 5.9** The Contractor shall commence development work including the detailed engineering and design work, in accordance with the Development and Production Plan, but in no event later than six (6) months after approval thereof and shall thereafter continue it with maximum diligence. Development Wells shall be spaced in a manner so as to ensure, in accordance with Good International Petroleum Industry Practice, the maximum economic recovery of the Hydrocarbons contained in the Field in question. During the Exploitation Licence, the Contractor shall carry out enhanced recovery studies and use such recovery processes if they may lead to an increase in Hydrocarbons recovery rate under economic conditions.

- 5.10** The Contractor shall produce Crude Oil from each Field at the maximum economic efficient rate ("MER") in accordance with Good International Petroleum Industry Practice. The Minister and the Contractor shall establish the initial MER in conjunction with the adoption of the Development and Production Plan. The MER shall be reviewed annually at the time of submission of the annual Work Programme by the Contractor pursuant to Article 9 and revised, if necessary, by mutual agreement.

- 5.11** No later than September 30 of each Calendar Year following the start of commercial production, the Contractor shall, prepare and furnish to the Minister for approval a forecast statement setting forth by Quarters the total quantity of Crude Oil (by quality, grade and gravity) and Natural Gas that the Contractor estimates can be produced, saved and transported hereunder during the next following Calendar Year together with estimates, if available, of reserves of Hydrocarbons, broken into "proved" and "proved plus probable". The Contractor shall endeavour to produce in each Calendar Year the forecast quantity.

- 5.12** Interruption for a consecutive period of at least six (6) months without the consent of the Minister of production from a Field which has commenced commercial production may give rise to the withdrawal of the Exploitation Licence concerned. For the purposes of the preceding sentence, production is not considered to be interrupted by work such as maintenance, repairs and overhauls, so long as such work, including the planning and contracting therefore, is being performed in accordance with the Development and Production Plan and with Good International Petroleum Industry Practice.

- 5.13** The Contractor may, at any time, fully or partially surrender any Exploitation Licence by giving at least one hundred and eighty days (180) days prior notice. Any such surrender shall be subject to the provisions of Article 10.

- 5.14** This Contract shall terminate upon expiration, surrender or withdrawal of the Exploitation Licence granted to the Contractor hereunder.

6 RECOVERY OF HYDROCARBONS COSTS AND PRODUCTION SHARING

6.1 Recovery of Hydrocarbons Costs

- 6.1.1 Any Available Oil and/or any Available Gas produced from the Hydrocarbons Operations shall be shared between the Parties as set out in this Article 6, and the Contractor shall be entitled to take and receive and freely export its entitlement of Cost Hydrocarbons and of Profit Hydrocarbons.
- 6.1.2 For purposes of recovery of its Hydrocarbons Costs, the Contractor may freely take each Calendar Year as Cost Hydrocarbons up to _____percent (____ %) of the Available Oil and of the Available Gas respectively, or only such lesser percentage which would be necessary and sufficient to recover Hydrocarbons Costs remaining unrecovered.
- 6.1.3 The value of Cost Oil and Cost Gas shall be determined in accordance with the provisions of Article 7.
- 6.1.4 To the extent that in a Calendar Year outstanding recoverable Hydrocarbons Costs exceed the equivalent of the value of Cost Hydrocarbons for such Calendar Year, the excess shall be carried forward for recovery in the next succeeding Calendar Year or Calendar Years until fully recovered, or until termination of this Contract, where such termination occurs earlier, whatever the reason thereof. No unrecovered Hydrocarbons Costs can be recovered by the Contractor after such termination.

6.2 Production Sharing

- 6.2.1 The quantity of produced Hydrocarbons remaining after the Contractor has taken from the Available Hydrocarbons the portion permitted under Article 6.1 to be allocated to the recovery of Hydrocarbons Costs shall be shared between the Republic and the Contractor in accordance with this Article.
- 6.2.2 To determine the percentage share of Profit Oil and/or Profit Gas to which the Parties are entitled, the "R" Factor shall be calculated each Quarter as follows:

$$R = X / Y$$

where:

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

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

For the purpose of this Article 6.2.2:

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

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

"Cumulative Capital Expenditures" means all Development Expenditures, all Production Expenditures of a capital nature (excluding Operating Expenditures) and all Exploration Expenditures in respect of the Original Contract Area, actually incurred by the Contractor from the Effective Date until the end of the Quarter preceding the relevant Quarter.

- 6.2.3 The share of Profit Hydrocarbons to which the Contractor shall be entitled is equal to the relevant percentage according to the value of the "R" factor as indicated in the table below:

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

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

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

6.3 Calculations

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

7 VALUATION

- 7.1** The value of Crude Oil to be considered under this Contract shall be the F.O.B. Market Price at the Delivery Point expressed in US 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 Market Price shall be established for each grade of Crude Oil or for each Crude Oil blend, if any.

- 7.2** 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 volume-weighted average of the prices obtained by the Contractor and the Republic for Crude Oil sold to third parties during that Quarter, in Arm's Length Sales, 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 in Arm's Length Sales 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.

- 7.3** In the event no such Arm's Length Sales are made during the Quarter in question, or such Arm's Length Sales 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 as the fair market value of such sales. Such fair market value 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, gravity, delivery conditions and terms of payment, and any other relevant 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.

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

- (i) sales in which the buyer is an Affiliated Company of the seller, as well as sales between entities constituting the Contractor; provided however that upon approval by the Minister Arm's Length Sales by the marketing Affiliated Companies of the Contractor may be included;
- (ii) sales in which the buyer has any direct or indirect relationship or common interest with the Contractor which could reasonably influence the sales price;
- (iii) 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.

- 7.5** A committee presided by the Minister or his authorized representative and consisting of representatives from the Republic and representatives from the Contractor shall meet upon request from its president in order to establish in accordance with the provision of this Article 7 the Market Price of the Crude Oil produced, which shall apply to the preceding Quarter. The Contractor and the Minister shall provide evidence to the committee that the sales of Crude Oil are Arm's Length Sales. The decisions of the committee shall be taken unanimously.

In the event no decision is taken by the committee within thirty (30) days after the end of the Quarter in question, the Market Price of the Crude Oil produced shall be determined by a worldwide recognized expert appointed in accordance within the Rules of Technical expertise of the International Centre of Expertise of the International Chamber of Commerce. The expert shall establish the price in accordance with the provisions of this Article 7 within thirty (30) days from his appointment. The determination of the expert shall be final and binding on the Republic and the Contractor. The expertise cost shall be shared equally by the Parties.

- 7.6** 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.

- 7.7** The price of Natural Gas shall be calculated in accordance with Article 24.3.2 of this Contract.

8 MEASUREMENT

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

9 WORK PROGRAMMES AND BUDGETS

- 9.1** No later than ninety (90) days prior to the beginning of each Calendar Year, and, for the first Calendar Year, no later than thirty (30) days 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 and the budgeted cost of each identified component of such Hydrocarbons Operations.
- 9.2** Each annual Work Programme and corresponding annual Budget shall be broken down into the various Exploration Operations and, as the case may be, the Appraisal with respect to each Appraisal Area, and the Development and Production Operations with respect to each Exploitation Area.
- 9.3** The Minister may propose amendments or modifications to the annual Work Programme and corresponding annual Budget by notice to the Contractor, including all justifications deemed necessary, within ninety (90) days, or in respect of the first Calendar Year, within forty five (45) days, following receipt of said Work Programme. In such a case, the Minister and the Contractor shall meet as soon as possible to review the requested amendments or modifications and establish by mutual agreement the annual Work Programme and corresponding annual Budget in final form, in accordance with 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.
- 9.4** Failing notice by the Minister to the Contractor of his wish to amend or modify the annual Work Programme and corresponding annual Budget within the period specified in Article 9.3, said Work Programme and Budget shall be deemed approved by the Minister upon the expiry date of said period.
- 9.5** The Contractor may not spend more than one hundred and ten percent (110%) of the amount originally allocated to any line item in an approved annual Work Programme Budget, or more than one hundred and five percent (105%) of the total amount set forth in an approved annual Work Programme Budget, without an appropriate amendment to the approved annual Work Programme and the related Budget, unless the increased expenditure:
- (i) is required to respond to health, safety or environmental protection concerns or to mitigate the adverse effects of a force majeure event; or
 - (ii) is in performance of an approved item in the annual Work Programme and is caused by circumstances reasonably beyond the Contractor's control; or
 - (iii) is otherwise approved by the Minister. In respect of any increased expenditure which is not justified by any of the circumstances provided in clauses (i) and (ii), the Minister may after giving the Contractor an opportunity to be heard determine that all or some portion of the excess expenditure is not a recoverable Hydrocarbons Cost.
- 9.6** Whenever the Contractor desires to make changes to an approved (or deemed approved) annual Work Programme and/or the related Budget not permitted under clause (i) or (ii) of Article 9.5, it shall submit the proposed changes and their justification to the Minister. If the Minister fails to object to the proposed changes within twenty-one (21) days, the changes shall be deemed approved by the Minister.

10 DECOMMISSIONING

- 10.1** No later than six (6) years prior to the anticipated date of Decommissioning of a Field, or when such Field has reached fifty per cent (50%) of productive capacity, whichever first occurs, the Contractor shall, in accordance with Applicable Environmental Legislation and Good International Petroleum Industry Environmental Practice, submit to the Minister for approval by the Minister and the competent authorities a proposed Decommissioning Plan, together with a related Budget including the estimated decommissioning expenditures. The proposed Decommissioning Plan shall include proposals for: (i) the dismantlement of the production facilities, and (ii) the continued use of the facilities following the Contractor's estimated date of abandonment.
- 10.2** The Minister may request amendments or modifications to the above-mentioned Decommissioning Plan, by notice to the Contractor including all the justifications deemed necessary, within ninety (90) days following receipt of said plan. In such a case, the Minister and the Contractor shall meet as soon as possible to review the requested amendments or modifications and establish by mutual agreement the plan in final form, in accordance with Good International Petroleum Industry Practice. The date of approval of the plan shall be the date of the above-mentioned mutual agreement.
- 10.3** Within ninety (90) days of approval of said Decommissioning Plan and selection of an abandonment proposal by the Minister, the Contractor shall establish a decommissioning fund to be held in an interest-bearing escrow account with an escrow agent approved by the Minister and the Contractor (hereinafter called the "Decommissioning Fund"). The account shall be established at an international bank of good financial standing and a long term debt rating of not less than "AA" by Standard & Poor's Corporation or "Aa2" by Moody's Investor Service or a comparable rating by another mutually agreed rating service. The same Decommissioning Fund shall receive the funds for all Fields.
- 10.4** As from the establishment of the Decommissioning Fund, the Contractor will pay into the account a per unit of production assessment for each Field calculated by dividing the Decommissioning Fund related to the Decommissioning proposal selected by the Minister by the estimated units of production to be produced between the approval date and the anticipated date of Decommissioning. All monies paid into the Decommissioning Fund shall be recoverable as Hydrocarbons Costs.
- 10.5** If it is anticipated by the Contractor that there shall not be sufficient funds in the Decommissioning Fund to fully decommission and abandon all of the Fields, the Contractor shall request that the funding of the Decommissioning Fund be increased. Such request may not be unreasonably denied by the Minister.
- 10.6** The Decommissioning Fund shall be used solely for the purposes of paying Hydrocarbons Costs for Decommissioning operations. No Party shall mortgage, pledge, encumber or otherwise use such Decommissioning Fund for any purpose whatsoever except as expressly provided herein.
- 10.7** Following full Decommissioning of all of the Fields, or transfer to the Republic of the facilities thereof for continued use by the Republic, any portion of the Decommissioning Fund which is not required for the Decommissioning Plans and which has been recovered as Hydrocarbons Costs shall be transferred to the Republic. If the Decommissioning Fund is insufficient to complete the approved Decommissioning Plan, then the Contractor shall pay all such additional costs required under the approved Decommissioning Plan for such completion.

11 CONTRACTOR'S GENERAL RIGHTS AND OBLIGATIONS

11.1 Contractor's general rights

- 11.1.1 The Contractor shall have the right to conduct Hydrocarbons Operations, which shall include the right to freely access and operate within the Contract Area, as well as any facilities associated with Hydrocarbons Operations wherever they may be located; and 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.

The works set forth in this Article 11.1.1 shall be the subject of an application filed with the Minister, specifying the location of said works and the contemplated use thereof, and shall be subject to such approvals as are required under the relevant laws, regulations and procedures applicable in the Republic.

- 11.1.2 In the performance of the Hydrocarbons Operations, the Contractor shall have the right to use qualified subcontractors in accordance with Good International Petroleum Industry Practice, provided that no such subcontracting shall relieve the Contractor of any of its obligations or liabilities under this Contract, and that the acts and omissions of any such subcontractor shall be deemed the acts and omissions of the Contractor. Subject to the provisions of Article 23, the Contractor may freely select its suppliers and subcontractors.
- 11.1.3 The entry, residence, circulation, employment and repatriation of persons and their families and property for the employees of the Contractor and its subcontractors shall be according to the laws and regulations applicable in the Republic.

11.2 Contractor's general obligations

- 11.2.1 The Contractor shall provide all the necessary funds, equipment, facilities and materials required for the performance of the Hydrocarbons Operations. It shall also supply all the technical expertise, including the use of the foreign personnel required for the performance of the Work Programmes. The Contractor shall be responsible for the preparation and implementation of the Work Programmes which shall be performed in the most appropriate way in accordance with Article 9 of this Contract and Good International Petroleum Industry Practice.
- 11.2.2 The Contractor shall conduct the Hydrocarbons Operations provided under this Contract diligently and in accordance with laws and regulations applicable in the Republic and with Good International Petroleum Industry Practice.
- 11.2.3 All works and facilities erected by the Contractor hereunder shall, according to their nature and to the circumstances, be built, placed, signalled, marked, fitted and preserved so as to allow at any time and in safety free passage to navigation, and without prejudice to the foregoing, the Contractor shall, in order to facilitate navigation, install the sound and optical devices approved or required by the competent authorities and Good International Petroleum Industry Practice and maintain them in a manner satisfactory to said authorities.
- 11.2.4 Upon request of the Contractor to the Minister, the Republic will establish in line with applicable legislation, reasonable safety zones surrounding the facilities constructed and used by the Contractor in the conduct of the Hydrocarbons Operations and shall take all reasonable precautions to prohibit within the zones in question the entry of vehicles, vessels or persons, or the conduct of activities or the construction of structures presenting a safety risk or potentially interfering with the Hydrocarbons Operations.
- 11.2.5 In the exercise of its rights to build, carry out work and maintain all facilities necessary for the purposes hereof, the Contractor shall not disturb any existing graveyard or building used for religious purposes, or cause a nuisance to any government or public building, except with the prior written consent of the Minister, and shall make good the damage caused by it in that event.
- 11.2.6 With the goal of achieving safe and reliable operations, the Contractor shall in the conduct of Hydrocarbons Operations establish and implement health and safety management plans in accordance with Applicable Environmental Legislation and with Good International Petroleum Industry Practice, including rules on hygiene and occupational safety, emergency response plans and information procedures for persons present at or residing in the vicinity of the facilities.
- 11.2.7 The Contractor shall establish and implement a program for regular assessments for the purposes of periodically reviewing the health and safety systems and procedures, including actual practice and performance, to verify that the health and safety plans are being implemented in accordance with the policies and standards specified therein. The schedule for such assessments shall be provided to the relevant authorities which shall have the right to participate in such assessments upon reasonable notice given to the Contractor.
- 11.2.8 The Contractor shall establish and enforce rules consistent with Good International Petroleum Industry Practice concerning the control of the use of drugs, alcohol, firearms, ammunition, explosives and weapons.

11.2.9 Without limitation of the obligations of the Contractor under Applicable Environmental Legislation, the Contractor undertakes to take all the reasonable and practical steps in accordance with Good International Petroleum Industry Environmental Practice, to:

- (i) ensure the protection of water-bearing strata encountered during its work;
- (ii) dispose of any product used in the Hydrocarbons Operations strictly in accordance with Applicable Environmental Legislation, and in the absence of discharge regulations or licensing requirements, in accordance with Good International Petroleum Industry Environmental Practice;
- (iii) avoid losses, spills and unplanned discharges of Hydrocarbons, produced waters, chemicals or any other product used in the Hydrocarbons Operations;
- (iv) take preventive and corrective measures in accordance with Good International Petroleum Industry Environmental Practice to avoid pollution resulting from the conduct of Hydrocarbons Operations and otherwise to protect the environment and living resources; and
- (v) evaluate any pollution, contamination or other unanticipated impact on the environment resulting from Hydrocarbons Operations and consult with the competent environmental authorities of the Republic on the actions to be taken to comply with the provisions of Article 11.2.10.

11.2.10 In the event of pollution damage in relation to Hydrocarbons Operations, the Contractor shall immediately take all prudent and necessary measures in accordance with Applicable Environmental Legislation and Good International Petroleum Industry Environmental Practice to remedy the damages to the environment and all consequential damages suffered and expenses incurred by third parties as a result of the pollution and of any necessary and reasonable corrective measures taken in connection therewith. Any damages, costs and expenses incurred by the Contractor arising out of or related to any claim action or proceeding brought against the Contractor, as well as the cost of any remediation and clean-up work undertaken by the Contractor, on account of any pollution damage shall be included in the Hydrocarbons Costs, unless such damage results from the Contractor's negligence or wilful misconduct.

11.2.11 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 the laws and regulations applicable in the Republic and with Good International Petroleum Industry Practice.

11.2.12 If, after the Effective Date, other persons are granted permits or licences concerning the exploration and production of any minerals or substances other than Hydrocarbons or any other authorised activity under any applicable legislation within the Contract Area, the Contractor shall use its best efforts to avoid obstruction or interference with such licences' operations within the Contract Area and the Minister shall use his best efforts to ensure that operations of third parties do not affect, delay or obstruct the Contractor's Hydrocarbons Operations within the Contract Area.

12 SALE AND PURCHASE OF THE REPUBLIC'S SHARE OF HYDROCARBONS

12.1 Lifting and sale of the Republic's Profit Oil and Profit Gas

Except as provided in Article 12.2, the Republic shall receive its share of Profit Hydrocarbons in kind. Such Hydrocarbons shall be lifted at the Delivery Point using procedures and equipment/vessels consistent with required operational and safety standards as established in a lifting procedure referred to in Article 19. Upon the Minister's prior notice of at least ninety (90) days, the Contractor shall provide, free of charge, sales and marketing assistance to the Minister for the sale of all or part of the quantities of such Hydrocarbons.

12.2 Obligation to purchase the Republic's Profit Oil and Profit Gas

The Republic shall have the right to receive the Republic's share of Hydrocarbons in cash.

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

- (i) no later than six (6) months prior to the start of a Quarter, the Minister shall give written notice to the Contractor that he requires the Contractor to purchase a specified quantity of the Republic's share of Hydrocarbons in cash in the Quarter in question;
- (ii) the Republic's election to take its share in cash will continue *mutatis mutandis* from Quarter to Quarter after the initial Quarter until and unless the Minister gives the Contractor written notice of termination which, subject to the above mentioned minimum period, shall take effect six (6) months after the end of the Quarter in which such written notice was given;
- (iii) the Contractor shall market the Republic's share of Hydrocarbons to be taken in cash for the Quarter concerned, cause said share to be lifted during such Quarter and pay to the Republic within thirty (30) days after the end of the Quarter an amount in cash equal to the quantity of Hydrocarbons corresponding to the Republic's share of Hydrocarbons to be taken in cash multiplied by the Market Price for the Quarter in question, as defined in Article 7 for Crude Oil or, in the case of the Republic's share of Natural Gas, the Market Price defined in Article 24.3 for Natural Gas.

13 SUPPLY TO THE DOMESTIC MARKET

- 13.1** The Contractor, if requested in writing by the Minister upon six (6) months prior notice to the Contractor, is obligated to sell to the Republic a portion of the Contractor's share of Crude Oil for the domestic consumption of the Republic. The Contractor's obligation hereunder shall be in proportion of its share of production to the total production of Crude Oil in the Republic. The price of such Crude Oil shall be the Market Price for the quarter in which the sale occurred as determined pursuant to Article 7 of this Contract.
- 13.2** In case of war or imminent expectation of war or grave national emergency, the Minister may requisition all or a part of the Hydrocarbons produced from the Contract Area and require the Contractor to increase such production to the extent required. In such event, the price to be paid by the Republic for the Hydrocarbons shall be the value determined in accordance with Article 7 of this Contract and payment shall be made within thirty (30) days after delivery at a bank outside of the Republic designated by the Contractor.

14 DATA AND INFORMATION

- 14.1** The Contractor shall have the right to use, and shall have access to, all geological, geophysical, drilling, well production, well location maps and other information held by the Republic related to the Contract Area in consideration of the payment of the required fees.
- 14.2** The Contractor shall promptly provide the Minister, free of cost, with all data obtained as a result of Hydrocarbons Operations under this Contract, including seismic data, geological, geophysical, geochemical, petro-physical, engineering, well logs, maps, magnetic tapes, cores, cuttings and production data, as well as all interpretative and derivative data, including reports, analyses, interpretations and evaluations prepared in respect of Hydrocarbons Operations.
- 14.3** The Republic shall have title to all original data and information resulting from Hydrocarbons Operations under this Contract, including but not limited to geological, geophysical, petro-physical and engineering data, well logs and completion status reports, and any other data that the Contractor or anyone acting on its behalf may compile or obtain during the term of this Contract. The Contractor is entitled to retain and use a copy of all such data, subject to the provisions of this Article 14.
- 14.4** The Contractor acknowledges the proprietary rights of the Republic in all data and information referred to in this Article 14 and agrees to treat all such data and information as confidential and to comply with applicable laws and regulations with respect to the storage and any transport or export out of the Republic of any such data and information.
- 14.5** The Contractor may disclose such information to its employees to the extent required for efficient conduct of Hydrocarbons Operations, provided such individuals have signed or otherwise be subject to an undertaking relating to the confidentiality of the same information as part of their employment contract, or to Affiliates and consultants, or to bona fide prospective assignees of rights under this Contract or to banks or financial institutions from which finance is sought, provided that the Contractor obtains from such entities, prior to disclosure, a written confidentiality undertaking. In the case of disclosure to prospective assignees, any disclosure of such information shall require the prior written consent of the Minister, which consent shall not be unreasonably withheld.
- 14.6** The Contractor may disclose information as and to the extent required by a regulatory or judicial authority having proper jurisdiction over the Contractor, provided that the Minister is first notified of such disclosure and of the information so disclosed.
- 14.7** The Contractor's obligation of confidentiality under this Article shall be of a continuing nature and shall not be cancelled by the expiration, suspension or termination of this Contract, or by any transfer or assignment of interest under this Contract.

15 BOOKS, ACCOUNTS AND AUDITS

15.1 The Contractor shall maintain its records and books in accordance with the provisions of applicable companies' and taxation laws and regulations in force in the Republic from time to time, 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 returns, or in the event the Contractor comprises more than one entity, to establish each of these entities' tax returns. They shall include the Contractor's accounts showing the sales of Hydrocarbons under this Contract.

15.3 The originals or duly certified digital copies of the records and books referred to in Article 15.1 shall be kept at the Contractor's office in the Republic.

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 external auditor acceptable to the Parties, who is authorized to carry out the statutory audit of annual and consolidated accounts in accordance with the provisions of Law No. 42(I)/2009 as amended from time to time or any law replacing the above.

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 and any sale of Hydrocarbons produced in accordance with this Contract by experts of his election or by agents of the Republic. The Minister will have a period of seven (7) Calendar Years from the end of a given Calendar Year to perform such examinations or audits with respect to said Calendar Year and notify his objections to the Contractor for any contradictions or errors found during such examinations or audits. The Contractor shall provide any necessary assistance to the persons designated by the Minister for that purpose and facilitate their performance.

If the Contractor is unable to cause the appropriate information, books or records needed to complete the examination or audit to be available to the auditors in the Republic, the Contractor shall bear both the reasonable travel cost of a reasonable number of auditors to travel to the place where such information, books and records may be obtained and their accommodation costs for a reasonable amount of time necessary to complete their review, and such costs shall not be included in Hydrocarbons Costs.

The Contractor will provide the Minister with its explanations as promptly as possible, but in no event later than forty five (45) days from the date of the Minister's notice of objection.

15.6 If any such examination or audit finally determines that Hydrocarbons Costs have been overstated, or revenue accruing to the Republic under this Contract has been understated, by more than three percent (3%), all costs of the examination or audit shall be borne or reimbursed by the Contractor and no portion of such costs of inspection or audit may be included in the Hydrocarbons Costs. Appropriate adjustments in payments and cumulative recoverable Hydrocarbons Costs shall be made to adjust for all misstatements identified as a result of any such examination or audit.

16 REPORTING

- 16.1** Without prejudice to reporting obligations existing under the laws and regulations applicable in the Republic, the Contractor shall regularly inform the Minister of the performance of Hydrocarbons Operations and immediately of the accidents or dangerous occurrences which have occurred, if any.
- 16.2** Notices and reports shall be provided by the Contractor to the Minister in accordance with Regulation 23 of the Regulations. Additionally, the Contractor shall have documented management systems in place based on Good International Petroleum Industry Environmental Practice for health, safety and environmental management, as well as for normal day-to-day operations. These should be made available for review by the Minister and other competent authorities. The reporting requirements to the Minister shall be consistent with Good International Petroleum Industry Practice.

17 INSPECTIONS

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

18 ASSIGNMENT AND CHANGE OF CONTROL

- 18.1** No assignment, mortgage, pledge or other encumbrances shall be made by any entity participating in the Contractor with respect to this Contract or of any of its rights, interests, benefits and obligations arising under this Contract other than in accordance with the provisions of this Article 18, of Articles 27 and 28 of the Law and of Regulation 12 of the Regulations. Any purported assignment, mortgage, pledge or other encumbrance made in breach of the provisions of this Article shall be null and void.

For purposes of this Article 18, a direct or indirect transfer of Control of an entity participating in the Contractor through a single transaction or series of related transactions (except for a transfer of Control through the transfer of shares in a parent company listed on a stock exchange through the purchase of said shares on such stock exchange) shall be deemed an assignment requiring approval under this Article 18.

- 18.2** Without prejudice to the provisions of Article 18.1, an entity participating in the Contractor shall be entitled to assign all or part of its interest in the Contractor's rights and obligations under this Contract to any entity which:
- (i) has the technical and financial ability commensurate with the responsibilities and obligations which would be imposed on it hereunder;
 - (ii) is not a company or other entity, or is not under the Control of a company, other entity or individual, which at the time of notification of the proposed transaction to the Minister and until the decision of the Council of Ministers required under Article 27 of the Law, is listed on a Government official list of companies and individuals prohibited to do business in Cyprus;
 - (iii) as to the interest assigned, accepts and assumes in a form reasonably satisfactory to the Minister all of the terms and conditions of this Contract and all the obligations of the transferor under this Contract; and
 - (iv) provides the Minister with a parent company guarantee complying with the provisions of Article 35.
- 18.3** Without prejudice to its obligations hereunder, each entity participating in the Contractor may encumber, through a mortgage, pledge or otherwise, its interest in the Contract or any property which is used primarily for Hydrocarbons Operations, for the purpose of security in relation to financing of Hydrocarbons Operations, only if (i) any such encumbrance is by its terms expressly subject to the terms of this Contract and subordinated to the rights of the other entities participating in the Contractor under this Contract, and (ii) a copy of the instrument creating such encumbrance is concurrently provided to the Minister.
- 18.4** Any proposed assignment of rights and obligations arising under this Contract by an entity participating in the Contractor shall require the prior approval of the Council of Ministers.
- 18.5** If an entity participating in the Contractor assigns pursuant to Article 18.2 all or part of its interest in the Contractor's rights and obligations under this Contract, and the assignment has been approved by the Council of Ministers, the assignor shall, to the extent of the interest assigned, be released from all further obligations and liabilities arising under this Contract after the effective date of such assignment. The assignee with the remaining entities participating in the Contractor shall thereafter be jointly and severally liable for the obligations arising from this Contract, except to the extent otherwise provided under this Contract.
- 18.6** Any assignment or transfer pursuant to Article 18.2 shall be subject to tax as and to the extent provided in the taxation laws of the Republic.

19 LIFTING/DISPOSAL

- 19.1** Title to Cost Hydrocarbons and to the Contractor's share of Profit Hydrocarbons shall pass to the Contractor at the Delivery Point.
- 19.2** Subject to this Contract, the Contractor may lift, dispose of and export from the Republic its share of Hydrocarbons and retain the proceeds from the sale or other disposition of that share. It shall also have the right to proceed with the separation of liquids from all Natural Gas produced, transport, store as well as sell on the local market or export its share of liquid Hydrocarbons so separated, which will be considered as Crude Oil for purposes of sharing thereof between the Parties under Article 6.
- 19.3** The Contractor and the Minister shall, from time to time, make such agreements between them as are reasonably necessary, in accordance with Good International Petroleum Industry Practice for the separate lifting of the Contractor's and the Republic's shares of Hydrocarbons.
- 19.4** Each of the Parties (and as for the Contractor, each entity constituting it) shall have the right to proceed separately with the commercialization, lifting and export of the Hydrocarbons to which it is entitled under this Contract.
- 19.5** Twelve (12) months prior to the scheduled initial export of Crude Oil or Natural Gas as the case may be, from each Field, the Contractor shall submit to the Minister for approval a proposed procedure covering the scheduling, storage and lifting of Crude Oil and Natural Gas produced from the Field. The procedure shall be consistent with the terms of this Contract and shall include such provisions as are necessary for efficient and equitable operations including, but not limited to, rights of the Parties, notification time, maximum and minimum quantities, duration of storage, scheduling, conservation, spillage, liabilities of the Parties, throughput fees and penalties, over and under-lifting, safety and emergency procedures and any other matters that may be agreed between the Parties.
- 19.6** In any event, the lifting procedure as provided in the previous paragraph, shall always comply with the laws and regulations applicable in the Republic.
- 19.7** In the case of more than one Commercial Discovery in the Contract Area or more than one quality of Crude Oil in a Field, the Minister and Contractor shall, unless they mutually agree that the Crude Oils should be commingled, lift from each Commercial Discovery Crude Oil qualities in proportion to their respective total liftings from the Contract Area. Natural Gas deriving from more than one Commercial Discovery in the Contract Area shall to the extent feasible be lifted and transported in one commingled stream.

20 CONSERVATION OF HYDROCARBONS AND PREVENTION OF LOSS

- 20.1** The Contractor shall adopt all those measures which are necessary and appropriate and consistent with the best available technology to prevent loss or waste of Hydrocarbons above or under the ground in any form during Hydrocarbons Operations, gathering and distribution, storage or transportation operations.
- 20.2** Production of Hydrocarbons shall take place in such a manner that as much as possible of the Hydrocarbons in place in each individual Hydrocarbons reservoir, or in several reservoirs in combination, will be produced. The production shall take place in accordance with prudent technical and sound economic principles and in such a manner that waste of Hydrocarbons or reservoir energy is avoided. The Contractor shall carry out continuous evaluation of production strategy and technical solutions and shall take the necessary measures in order to achieve this.
- 20.3** Hydrocarbons shall not be produced from multiple independent Hydrocarbons productive zones simultaneously through one string of tubing, except with the prior approval of the Minister.

21 OWNERSHIP AND TRANSFER OF ASSETS UPON TERMINATION

- 21.1** 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.
- 21.2** Upon termination, relinquishment or cancellation of this Contract, whatever the reason therefor, with respect to all or part of the Contract Area, or at the end of exploitation of a Field, the Republic shall have the right to acquire at no cost the ownership of all assets, movable and immovable, belonging to the Contractor, used for the requirements of the Hydrocarbons Operations carried out in the area so surrendered, and located in the Republic either inside or outside the Contract Area in their then existing condition. This right extends, without limitation, to all Wells and their equipment, all other offshore equipment and facilities, buildings, warehouses, docks, lands, offices, plants, machinery and equipment, bases, harbours, wharfs, jetties, buoys, platforms, pipelines, roads, bridges, railroads and other facilities. If the Republic exercises such right, it shall, subject to any applicable third party rights, receive: (i) title to all such assets owned by the Contractor and (ii) the rights to all leased property then held and used by the Contractor in the conduct of Hydrocarbons Operations located in the Republic either inside or outside the Contract Area not then readily available in the marketplace on comparable terms and conditions and material to the continued conduct of Hydrocarbons Operations with respect to the Contract Area to permit the Republic or a successor contractor to continue the use thereof on normal commercial terms and conditions for the balance of the related lease term.
- 21.3** If the Republic has no use of said assets, the Minister shall require the Contractor to remove them at the latter's expense, it being understood that the Decommissioning 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 Decommissioning Plan approved in accordance with Article 10.
- 21.4** The Contractor shall take all necessary measures in order to free the said assets so acquired by the Republic under Article 21.2 from any charge and liability and settle any Value Added Tax (V.A.T.) that may become due under the provisions of the V.A.T. legislation in force.

22 EMPLOYMENT AND TRAINING

- 22.1** From the commencement of the Hydrocarbons Operations, the Contractor shall give preference to the employment of competent and suitably qualified Cypriot and EEA nationals and contribute to the training of those personnel in order to allow them access to any position of skilled worker, foreman, executive and manager.
- 22.2** For the better implementation of Article 22.1, the Contractor shall establish at the end of each Calendar Year in agreement with the Minister a plan for recruiting Cypriot and EEA personnel and a plan for training and improving such personnel residing in Cyprus, in order to achieve progressively greater participation of Cypriot and EEA personnel in the Hydrocarbons Operations.
- 22.3** As from the commencement of the Hydrocarbons Operations, the Contractor shall also contribute to the training and improving of the professional skills of the civil servants of the Republic or other candidates nominated by the Minister, including the acquisition of the necessary equipment, in accordance with a plan established in agreement with the Minister for each Calendar Year. For that purpose, the Contractor shall allocate to said plan or, at the Minister's election, place at the disposal of the Minister for implementing said plan:
- (i) During the term of the Exploration Period, a minimum amount of _____ (_____) Euros per Calendar Year;
 - (ii) During the term of the Exploitation Period, a minimum amount of _____ (_____) Euros per Calendar Year.

23 LOCAL GOODS AND SERVICES

- 23.1** The Contractor shall give, and shall cause its sub-contractors to give, preference to Cypriot and EEA enterprises and goods, if conditions in terms of price, quantity, quality, conditions of payment and delivery time are similar to those from other countries or other sources.
- 23.2** When purchasing goods and services related to Hydrocarbons Operations, the Contractor must organize its procurement practices, and shall cause its subcontractors to organize their procurement practices, to give meaningful opportunities to bid for contracts to those entitled to preference pursuant to this Article 23.
- 23.3** The Contractor shall prepare and submit annually to the Minister a report setting forth the manner in which the Contractor has complied with the requirements of this Article 23.
- 23.4** The Contractor undertakes to give preference, and to cause its sub-contractors 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.
- 23.5** For that purpose, the Contractor shall specify in the annual Work Programmes all the leasing contracts the value of which exceeds fifty thousand (50,000) Euros.

24 NATURAL GAS

24.1 Non-Associated Natural Gas

24.1.1 In relation to any Appraisal Work Programme relating to a Discovery of Non-Associated Natural Gas, the Minister and the Contractor shall establish a consultative gas committee ("Gas Committee") which shall have the following responsibilities:

- (i) to evaluate the possible outlets for Non-Associated Natural Gas, both on the local market and for export, together with the necessary means for its marketing;
- (ii) to evaluate the merits of an integrated value chain approach to Natural Gas commercialization;
- (iii) to determine whether joint marketing of their shares of Non-Associated Natural Gas production may be justified or if marketing of individual shares should be implemented;
- (iv) to define the methodology for calculating the Natural Gas Market Price in accordance with Article 24.3.2(ii);
- (v) to ensure the coordination of the Natural Gas project value chain; and
- (vi) to facilitate the project's evaluation and implementation.

24.1.2 Governance of the Gas Committee shall be conducted using the same principles in Article 3 that govern the Coordination Committee, except that the Contractor shall appoint the permanent chairperson of the Gas Committee.

24.1.3 If, despite their reasonable endeavours during the Appraisal Period, the Gas Committee is unable to define a commercially viable market for the exploitation of the Non-Associated Natural Gas Discovery, the Contractor may obtain an extension of the Exploration Period of the Non-Associated Natural Gas discovery in accordance with Article 4.6.6 to allow the definition of a commercially viable market, either as a stand-alone development, or as a combined development of contingent resources and future exploration prospects.

24.1.4 Following completion of Appraisal work for the Non-Associated Natural Gas Discovery, if the Parties should jointly decide that the exploitation of the Non-Associated Natural Gas Discovery is justified to supply the local market, or in the event the Contractor should decide to develop and produce Natural Gas for export, the provisions of Articles 4.6.5 and 5 shall apply.

24.1.5 The Contractor shall then have the right and the obligation to proceed with the development and production of that Natural Gas in accordance with the approved Development and Production Plan contemplated by Article 5 and the provisions of this Contract applicable to Crude Oil shall apply, *mutatis mutandis*, to Natural Gas, unless otherwise specifically provided in this Article.

24.1.6 If the Contractor, fails at the end of the Appraisal Period including any extensions thereto, to submit to the Minister a proposed Development and Production Plan in accordance with Article 5, the Contractor's rights to all Non-Associated Natural Gas which could be produced from said discovery, with respect to the Appraisal Area encompassing said discovery shall automatically terminate, and the Republic may then carry out, or cause to be carried out, all the appraisal, development, production, processing, transportation and marketing work relating to that discovery, without any compensation for the Contractor.

24.2 Associated Natural Gas

24.2.1 If there is a Commercial Discovery of Crude Oil, the Contractor shall state in the report to the Minister referred to in Article 4.6.5 whether 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 field or platform use), and if it considers that such excess is capable of being produced in commercial quantities. If the Contractor shall have informed the Minister of such an excess, the Parties shall jointly evaluate the possible outlets for that excess Associated Natural Gas, both on the local market and for export (including the possibility of joint marketing), together with the means necessary for its marketing.

If the Parties agree that the development of the excess Associated Natural Gas is justified, or if the Contractor wishes to develop and produce that excess Associated Natural Gas, the Contractor shall indicate in the Development and Production Plan referred to in Article 5 the additional facilities necessary for the development and exploitation of that excess and estimate the costs related thereto.

The Contractor shall then have the right to proceed with the development and production of that excess in accordance with the Development and Production Plan approved by Council of Ministers under the terms provided by Article 5, and the provisions of the Contract applicable to Crude Oil shall apply, *mutatis mutandis*, to the excess of Natural Gas, unless otherwise specifically provided by this Article 24.

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

24.2.2 If the Contractor does not consider that the development of excess Associated Natural Gas is justified pursuant to Article 24.2.1 or if the Contractor does not wish to participate in the development of excess Associated Natural Gas, and if the Republic wishes to utilize such excess Associated Natural Gas, the Minister shall notify the Contractor thereof, in which event:

- (i) The Contractor shall put such excess Associated Natural Gas at the disposal of the Republic free of charge at the Crude Oil and Associated Natural Gas separation facilities;
- (ii) The Republic shall be responsible for all the costs for the gathering, processing, compressing and transporting of the excess Associated Natural Gas from the Contractor's above mentioned separation facilities, and shall bear any additional costs and liabilities related thereto;
- (iii) The design, placement and construction of the Republic's facilities referred to above, together with the lifting of that excess by the Republic, shall be carried out in accordance with Good International Petroleum Industry Practice, subject to the requirement that such work or the operation of such facilities will not adversely affect (other than on a short term temporary basis attributable to the construction or placing of such facilities) the production, lifting and transportation of Crude Oil by the Contractor;
- (iv) Any excess of Associated Natural Gas which is not utilized under Article 24.2.1 and this Article 24.2.2 shall be reinjected by the Contractor. However, the Contractor may be authorized to flare said gas in accordance with Good International Petroleum Industry Practice, subject to the authorization of the Minister and under the conditions provided in the Applicable Environmental Legislation.

24.3 Provisions common to Associated and Non-Associated Gas

24.3.1 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 by Contractor, and to transport, store as well as sell on the local market or for export its share of liquid Hydrocarbons so separated which will be considered as Crude Oil for the purposes of the sharing between the Republic and the Contractor under Article 6.

24.3.2 For the purposes of this Contract, the Market Price for Natural Gas shall be equal to:

- (i) With respect to Natural Gas export sales, the invoiced price, netted back to the Delivery Point, obtained by the Contractor for Natural Gas in Arm's Length Sales to third parties, or absent Arm's Length Sales, the value at which such Natural Gas could be sold on similar terms, at similar times and at a similar location by parties in Arm's Length Sales.
- (ii) With respect to Natural Gas sales transactions on the domestic market, a Natural Gas sales price determined on the basis of a formula which shall be mutually agreed between the Republic and the Contractor using the following considerations:
 - publicly available information regarding international market prices of natural gas similar in quality to the gas to be valued;
 - the market destination of the Natural Gas;
 - the price of alternative fuels to Natural Gas at the final destination;
 - ancillary costs required to produce and market gas, such as gathering, treating or processing costs, distribution costs or taxes;
 - an assumption of sound marketing practices;
 - an assumption of efficient operations;
 - provision for an economic return commensurate with that of international gas development projects; and
 - any other relevant considerations.

24.3.3 When required by the Minister pursuant to Article 12.2, the Contractor shall market the Republic's share of Profit Gas, except as provided in respect of Associated Natural Gas in Article 24.2.2.

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

- 25.1** The Contractor and its subcontractors shall have the right to import into the Republic from a third country or transfer from a member state of the European Union, all the goods, materials, machinery, equipment, spare parts and consumable directly necessary for the proper conduct of the Hydrocarbons Operations according to the provisions of the European Union legislation and the V.A.T. and customs and excise legislation in force in the Republic.
- 25.2** It is understood that the Contractor and its subcontractors shall effect the aforesaid imports only to the extent the goods, materials, machinery, equipment, spare parts and consumable are not available in the Republic in equivalent conditions of price, quantity, quality, conditions of payment and delivery term.
- 25.3** The foreign employees and their families assigned to work into the Republic for the account of the Contractor or its subcontractors shall have the right to import to the Republic from a third country or transfer from another member state of the European Union their personal property according to the provisions of the European Union legislation and the V.A.T. and customs and excise legislation in force in the Republic.
- 25.4** Subject to the provisions of Article 13, the Contractor, its clients and their carriers shall have the right to freely export the quantities of Hydrocarbons to which the Contractor is entitled under the terms of this Contract at the export point selected for that purpose, at any time, free of any duties and taxes, subject to the provisions of the V.A.T. and customs and excise legislation in force in the Republic. However, the Contractor agrees at the Minister's request not to sell Hydrocarbons produced from the Contract Area to any entity that is effectively controlled by countries declared hostile to the Republic or by individuals or other entities which in the opinion of the Council of Ministers may constitute a threat to the national security or interests of the Republic.

26 TAXATION

- 26.1** Each entity comprising the Contractor and the subcontractors of the Contractor shall comply with the applicable taxation laws and regulations of the Republic, including any European Union tax rules applicable from time to time in the Republic.
- 26.2** The agreements for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to income and capital, which the Republic has concluded and agreed, as well as the various international conventions which the Republic has adopted and/or to which it has acceded will also be applicable.
- 26.3** Each entity comprising the Contractor shall be individually subject to the corporate tax applicable under the tax laws and regulations of the Republic.
- 26.4** The corporate tax applicable to Contractor shall be included in the Republic's share of Profit Hydrocarbons and shall be paid by the Republic on behalf of the Contractor.
- 26.5** Upon request of the Contractor, the Republic shall furnish to Contractor the proper official receipts evidencing the payment of each entity's income tax in the Republic for each tax year. Such receipts shall be issued by the proper tax authorities.

27 SURFACE FEES AND BONUSES

27.1 The Contractor shall pay the Republic the following surface fees:

- (i) Twenty-five (25) Euros per square kilometre of the Contract Area annually during the Initial Licensing Period;
- (ii) Thirty (30) Euros per square kilometre of the Contract Area annually during the First Renewal Period;
- (iii) Thirty-five (35) Euros per square kilometre of the Contract Area annually during the Second Renewal Period and any extension of the Exploration Period as provided for in Article 4.6;
- (iv) Five hundred (500) Euros per square kilometre of the Exploitation Area annually during the term of each Exploitation Licence.

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

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

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

27.2 The Contractor shall pay the Republic the following amounts as bonuses:

- (i) _____ (_____) Euros as signature bonus within thirty (30) days after the Effective Date;
- (ii) _____ (_____) Euros after daily production from the Contract Area averages _____ (_____) barrels per day and/or averages _____ (_____) million standard cubic feet of gas per day, whichever is applicable, for a period of sixty (60) consecutive days;
- (iii) _____ (_____) Euros after daily production from the Contract Area averages _____ (_____) barrels per day and/or averages _____ (_____) million standard cubic feet of gas per day, whichever is applicable, for a period of sixty (60) consecutive days.

The payments under paragraphs (ii) and (iii) above shall be made within thirty (30) calendar days following the last day of the respective sixty (60) calendar days' period.

27.3 The surface fees and bonuses provided under this Article 27 shall not be included in the Hydrocarbons Costs for purposes of cost recovery under Article 6.1.

28 PAYMENTS

28.1 Fees

The Contractor shall pay to the Republic the fees and other payments provided for in this Contract and in the Law, in accordance with the laws and regulations applicable in the Republic.

28.2 Payment Mechanism

All payments that the Contractor shall make to the Republic under this Contract shall be made to the following account, or to such other account of the Republic as the Minister may notify the Contractor in writing:

Bank: Central Bank of Cyprus
80 Kennedy Avenue
1076 Nicosia, CYPRUS

Account Name: Government General Account

Account Number: 6001010

IBAN: CY16 0010 0001 0000 0000 0600 1010

Bank SWIFT code: CBCYCY2NACC

All payments under this Contract shall be made on the due date in Euros, unless otherwise agreed.

Payment instructions to the Bank:

Please remit the amount payable to the CENTRAL BANK OF CYPRUS (SWIFT Code CBCYCY2NACC) the amount of (.....) EUROS through TARGET 2 or CEPA for the credit of the Government General Account, Account no. 6001010, IBAN CY16001000010000000006001010, in favour of the Ministry of Energy, Commerce, Industry and Tourism (hydrocarbon activities).

28.3 Late Payment

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

28.4 Minimum Payment

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

29 LIABILITY AND INSURANCE

- 29.1** The Contractor shall, in accordance with the law of the Republic, be liable 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.
- 29.2** The Contractor shall indemnify, defend and hold harmless the Republic against all claims, losses or damage caused by or resulting from Hydrocarbons Operations.
- 29.3** The Contractor shall take out and maintain in force, and cause to be taken out and maintained in force by its subcontractors, all insurances with respect to Hydrocarbons Operations, of the type and for such amounts customarily used in the international petroleum 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 laws and regulations applicable in the Republic. The Contractor will have the right to self-insure or underwrite any or all of the insurances provided above through one or more insurance Affiliated Companies, provided that the security and credit worthiness of such self-insurance or insurance arrangements are reasonably satisfactory to the Minister.
- 29.4** The Contractor shall provide the Minister with the certificates proving the subscription and maintenance of the above-mentioned insurances. The competent authorities of the Republic shall approve the said insurance policies for exclusions and verify the financial capacity of insurers. Said authorities shall have the right to require amendments to the said insurance policies, including amendments to exclusions, in order to secure the compliance with the requirements provided in this Article.

30 FORCE MAJEURE

30.1 Force majeure relief

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

For purposes of this Contract, the term "Force Majeure" shall include all events which are unforeseeable, irresistible and beyond the control of the Party which invokes it, such as earthquakes and other natural disasters, riots, embargoes, acts of terrorism, insurrections, 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.

30.2 Procedure

Where either Party considers it is prevented from performing any of its obligations due to a case of Force Majeure, it shall immediately notify the other Party thereof, giving full particulars of the Force Majeure event, the obligations affected thereby, the estimated duration thereof, and the time required to cure the consequences of the Force Majeure. A Party claiming Force Majeure shall take all necessary and useful steps with all reasonable dispatch to ensure the prompt resumption of the performance of the concerned obligations.

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

30.3 Extension of time

If the performance of any of the obligations of this Contract is delayed due to 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.

31 TERMINATION OF THE CONTRACT

31.1 This Contract may be terminated and the licence pertaining to the Contract Area revoked by the Council of Ministers, without compensation, under one of the following occurrences:

- (i) 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;
- (ii) delay exceeding thirty (30) days in the payment of any amount due by the Contractor to the Republic;
- (iii) cessation of Development work with respect to a Field during six (6) consecutive months for reasons not justified by Good International Petroleum Industry Practice;
- (iv) after commencement of production from a Field, interruption of production for at least six (6) months or repetitive disruption of production, decided without the Minister's consent for reasons not justified by Good International Petroleum Industry Practice;
- (v) failure of the Contractor to comply, within the prescribed time period, with an arbitration award rendered in accordance with the provisions of Article 33; or
- (vi) bankruptcy, composition with creditors or liquidation of assets of the Contractor or its parent-company or any entity constituting the Contractor, as the case may be.

31.2 With respect to the occurrences set forth in paragraph 31.1(i) through (v) above, the Council of Ministers shall pronounce the forfeiture provided for in Article 31.1 only after having served formal notice on the Contractor, by registered mail with acknowledgement of receipt, to remedy the breach in question within two (2) months from the date of receipt of such notice. With respect to the occurrence specified in paragraph 31.1(vi) above and without prejudice to Article 18, where the Contractor comprises more than one entity and at least one of such entities does not experience an occurrence described in said paragraph (hereinafter a "default"), the Council of Ministers shall pronounce the forfeiture only if such entities have not advised the Minister of their intention to acquire the interest of the entity experiencing the default within two (2) months from the date of notice from the Minister sent to the entities not experiencing the default by registered mail with acknowledgment of receipt. In case where one of the entities experiencing an occurrence described in paragraph 31.1(vi) above is the Operator, one remaining entity, intending or not to acquire the interest of the said entity, must have and be able to prove the technical and financial ability commensurate with the responsibilities and obligations and wish to serve as Operator with the responsibility for carrying out Hydrocarbons Operations in the Contract Area in accordance with the provisions of this Contract, for the Council of Ministers to examine the possibility for any one of the remaining entity or entities to acquire the interest of the defaulting entity as per the process described in Article 18.

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

31.4 Any dispute as to whether any ground exists to justify the termination of this Contract pronounced by the Council of Ministers may be subject to arbitration in accordance with the provisions of Article 33. In that event, the Contract shall remain in force until the arbitration award shall have been rendered.

32 GOVERNING LAW

- 32.1** This Contract and all Hydrocarbons Operations carried out under this Contract shall be governed by the laws and regulations in force at any time in the Republic.
- 32.2** The Contractor shall be subject at any time to the laws and regulations in force in the Republic.

33 DISPUTE SETTLEMENT

33.1 Amicable settlement

In the event of any difference or disagreement or dispute (hereinafter referred to as the “dispute”) between the Republic and the Contractor arising out or in connection with this Contract, other than disputes regarding the Market Price of Crude Oil which shall be settled in accordance with Article 7, the Parties shall first attempt to resolve that dispute amicably through negotiations within a period of sixty (60) days after the receipt by one Party of a notice from the other Party of the existence of such a dispute.

33.2 Arbitration

If the dispute is not resolved through amicable settlement within the period set out in Article 33.1, either the Republic or the Contractor may, by notice to the other, commence arbitration under this Article 33 with respect to the dispute which shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce (ICC).

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

Unless the Parties agree to nominate a sole arbitrator, the arbitral tribunal shall consist of three (3) arbitrators appointed in accordance with the ICC Rules of Arbitration.

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

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

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

The above provisions are without prejudice to the right of the Parties to refer any dispute to a sole expert appointed by mutual agreement for determination in accordance with mutually agreed terms of reference.

33.3 Waiver of Sovereign Immunity

The Republic hereby waives any sovereign immunity it may have to the extent any article or articles of this agreement are interpreted to restrict its immunity.

34 IMPLEMENTATION OF THE CONTRACT/MISCELLANEOUS

34.1 The Parties hereby agree to cooperate in good faith to achieve the objectives of this Contract.

34.2 The Minister shall, when specifically requested by the Contractor, assist the Contractor in obtaining permits, licences and access rights necessary for the requirements of the Hydrocarbons Operations, and in dealing with Government authorities of the Republic. All reasonable expenses incurred in the assistance provided by the Republic pursuant to this Article 34.2 shall be reimbursed by the Contractor to the Republic.

34.3 All notices, including requests, applications, approvals, or other communications authorized or required between the Parties by any provision of this Contract shall be in writing and delivered by hand, by fax, by electronic mail, by postage prepaid registered mail, by prepaid internationally recognized courier service or by any other means of communication agreed upon in writing by the Parties. Notice by fax or electronic mail is valid under this Contract only to fax numbers or electronic addresses set forth below.

-All notices to the Republic and to the Minister shall be addressed as follows:

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

Fax: _____

Email: _____

-All notices to the Contractor shall be addressed as follows:

Fax: _____

Email: _____

The Minister or the Contractor may at any time modify the addresses mentioned in this Article 34.3 subject to at least ten (10) days' prior notice.

34.4 The non-exercise or partial exercise by a Party of any of its rights under the terms of this Contract shall not in any case constitute a waiver of that right.

34.5 This Contract including its Annexes represents the entire agreement between the Parties on the subject matter thereof and shall from the Effective Date supersede all previous oral and written negotiations and agreements between the Parties.

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

34.7 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.

35 PARENT COMPANY FINANCIAL AND PERFORMANCE GUARANTEE

In addition to the guarantee required under the provisions of Articles 4.2.6 and 4.2.7, each entity comprising the Contractor shall provide adequate security for the performance of the Contractor's obligations under this Contract throughout the term thereof. The adequate security shall be in the form of an irrevocable guarantee as provided in Annex F to this Contract, from the ultimate parent company of such entity or from a wholly-owned subsidiary of the ultimate parent of such entity that meets financial standards acceptable to the Minister. Such guarantee shall be provided simultaneously with the execution of this Contract, and, in the event of any assignment, as prescribed in Article 18.2.

36 EFFECTIVE DATE

This Contract shall become effective and binding on the Parties on the date of its execution by the Parties (the "Effective Date"). Prior to being executed by the Parties, the Contract shall be approved by the Council of Ministers, and a copy of such approval in a form reasonably satisfactory to the Contractor shall be provided to the Contractor simultaneously with the execution of this Contract.

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

ANNEXES

ANNEX A: DESCRIPTION OF THE ORIGINAL CONTRACT AREA

ANNEX B: MAP OF THE ORIGINAL CONTRACT AREA

ANNEX C: ACCOUNTING PROCEDURE

ANNEX D: EXPLORATION WORK OBLIGATIONS

ANNEX E: FORM OF BANK GUARANTEE

ANNEX F: FORM OF PARENT COMPANY FINANCIAL AND PERFORMANCE GUARANTEE

ANNEX A:

DESCRIPTION OF THE ORIGINAL CONTRACT AREA

ANNEX B:

MAP OF THE ORIGINAL CONTRACT AREA

ANNEX C**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 the accounting rules applicable in the Republic, supplemented as necessary and to the extent consistent therewith, by 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.

All documents, books records and statements, together with documents supporting the expenses incurred such as invoices, receipts and contracts, shall be kept in the Republic or as otherwise determined by this Contract in order to be provided at the request of the competent authorities of the Republic.

1.4 Language and Units of Account, Currency Exchange

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

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

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

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

1.5 Revision of this Accounting Procedure

This Accounting Procedure may be revised or supplemented from time to time by written agreement executed by the Parties. The Parties agree that if any provision of the Accounting Procedure proves inequitable to either Party, such provision shall be modified in good faith by the Parties.

ARTICLE 2 CLASSIFICATION OF HYDROCARBONS COSTS

2.1 Principles of Classification

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

2.2 Exploration Expenditures

Exploration Expenditures are those costs of a capital 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 the Appraisal of a Hydrocarbons Discovery.

2.4 Development Expenditures

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

- a) Drilling Wells, including labour, material and services.
- 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 Production Expenditures

Production Expenditures are those costs, whether of a capital nature or operating nature as defined below which directly relate to the Production of a Field with respect to an Exploitation Area under the Contract:

Capital Expenditures include 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).

Operating Expenditures include those costs of an operating nature which directly relate to the Production of a Field with respect to an Exploitation Area under the Contract and as of the start of commercial production.

2.6 Decommissioning Expenditures

Decommissioning Expenditures are those costs which directly relate to the Decommissioning Operations of a Field with respect to an Exploitation Area under the Contract.

2.7 Apportionment

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

Where any cost or receipt relate to more than one of Exploration, Appraisal, Development, Production, and Decommissioning 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 6.1 of the Contract, subject as otherwise provided in the Contract and in Article 3.18 of this Accounting Procedure.

3.1 Surface Rights

All direct costs necessary for the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the purpose of the Contract, excluding the surface fees paid to the Republic referred to in Article 27 of the Contract.

3.2 Labour and Associated Labour Costs

a) Contractor's locally recruited employees based in the Republic:

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

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

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. The Contractor will provide at the end of each year the organigram of all the employees including those directly engaged in the conduct of Hydrocarbons Operations of the Contractor or, in the event there is a joint operating agreement between the entities comprising the Contractor, of the Operator, in the Republic.

b) Assigned personnel:

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

c) The Contractor's costs regarding holiday, vacation, sickness and disability benefits and living and housing and other customary allowances applicable to the salaries and wages chargeable under paragraph 3.2(b) above.

d) Expenses or contributions made pursuant to assessments or obligations imposed under the laws of the Republic which are applicable to the Contractor's cost of salaries and wages chargeable under paragraph 3.2(b) above.

e) The Contractor's cost of established plans for employees group life insurance, hospitalization, pension, stock purchases, savings, bonus, and other benefit plans of a like nature customarily granted to the Contractor's employees, provided however that such costs are in accordance with generally accepted standards in the international petroleum industry, applicable to salaries and wages chargeable to the Hydrocarbons Operations under paragraph 3.2(b) above.

f) Reasonable transportation and travel expenses of employees of the Contractor, including those made for travel and relocation of the expatriate employees, including their families and personal effects, assigned to the Republic whose salaries and wages are chargeable to the Hydrocarbons Operations under paragraph 3.2(b) above.

Actual transportation expenses of expatriate personnel transferred to the Hydrocarbons Operations from their country of origin shall be charged to the Hydrocarbons Operations. Transportation expense of personnel transferred from the Hydrocarbons Operations to a country other than the country of their origin shall not be charged to the Hydrocarbons Operations.

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

g) Reasonable personal expenses of personnel whose salaries and wages are chargeable to the Hydrocarbons Operations under paragraph 3.2(b) above and for which expenses such personnel are reimbursed under the Contractor's standard personnel policies. In the event such expenses are not wholly attributable to the Hydrocarbons Operations, the

Hydrocarbons Operations shall be charged with only the applicable portion thereof, which shall be determined on an equitable basis.

3.3 Transportation and Employee Relocation Costs

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

3.4 Charges for Services

a) Third Parties

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

b) Affiliates of the Contractor

(i) Professional and Administrative Services Expenses:

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

Charges shall reflect the cost of providing their services and shall not include any element of profit and shall be no less favourable than similar charges for other operations carried on by the Contractor and its Affiliates. The charge-out 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 in (i) and (ii) above is covered by an approved annual Work Programme and Budget, the Contractor shall not authorize work by such personnel.

(iii) Equipment and Facilities:

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

3.5 Communications

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

3.6 Office and Miscellaneous Facilities

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

3.7 Ecological and Environmental

- a) Costs incurred in the Contract Area as a result of legislation for archaeological and geophysical surveys relative to identification and protection of cultural sites or resources.
- b) Costs incurred in environmental or ecological surveys required by the Contract or regulatory authorities.
- c) Costs to provide or have available pollution containment and removal equipment.

- d) Costs of actual control and clean-up of oil spill, and of such further responsibilities resulting therefrom as may be required by applicable laws and regulations.

3.8 Material Costs

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

a) Acquisition:

Contractor shall only supply or purchase materials for use in the Hydrocarbons Operations that may be used in the foreseeable future. The accumulation of surplus stocks and inventory shall be avoided so far as is reasonably practical and consistent with efficient and economical operations. Inventory levels shall, however, take into account the time lag for replacement, emergency needs, weather conditions affecting operations and similar considerations.

b) Components of costs, arm's length transactions:

Except as otherwise provided in paragraph 3.8(d) below, material purchased by the Contractor in arm's length transactions in the open market for use in the Hydrocarbons Operations shall be valued to include invoice price less trade and cash discounts, purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight of port of destination, insurance, taxes, customs duties, consular fees, excise taxes, other than items chargeable against important materials and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site.

c) Accounting:

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

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

- (i) New material, including used new material moved from inventory (Condition "A"), shall be valued at the current international net price which shall not exceed the price prevailing in normal arm's length transactions in the open market.
- (ii) Used material in good condition (Condition "B"):
Material which is in sound and serviceable conditions and is suitable for re-use without reconditioning shall be classified as Condition "B" and priced at seventy-five percent (75%) of the current price of new material defined in paragraph (i) above.
- (iii) Used material in poor condition (Condition "C"):
Material which cannot be classified as Condition "B" but which after reconditioning will be further serviceable for its function shall be classified as Condition "C" and priced at not more than fifty percent (50%) of the current price of new material as defined in paragraph (i) above. The cost of reconditioning shall be charged to the reconditioned material provided that the value of Condition "C" material plus the costs of reconditioning does not exceed the value of Condition "B" material.
- (iv) Scrap and discard (Condition "D"):
Material which cannot be classified as Condition "B" or Condition "C" shall be classified as Condition "D" and priced at a value commensurate with its use by the Contractor. If material is not fit for use by the Contractor it shall be disposed of as junk.
- (v) Material involving erection costs shall be charged at the applicable conditions percentage of the current knocked-down price of new material as defined in paragraph (i) above.
- (vi) When the use of materials is temporary and its services to the Hydrocarbons Operations does not justify reduction in price as provided for in paragraph (iii) above, such material shall be priced on a basis that will result in a net charge to the accounts under Contract consistent with the value of the service rendered.
- (vii) Premium prices:
Whenever material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Contractor has no control, the Contractor may charge the Hydrocarbons operations for the required material at the Contractor's actual costs incurred in providing such material, in making it suitable for use, and in moving it to the Contract Area; provided notice in writing is furnished to the Minister of the proposed charge prior to charging the Hydrocarbons Operations for such material and the Minister shall have the right to challenge the transaction on audit.
- (viii) Warranty on material furnished by the Contractor:

The Contractor does not warrant the material furnished. In case of defective material, credit shall not be passed to the Hydrocarbons Operations until adjustment has been received by the Contractor from the manufacturers of the material or their agents.

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

Except in cases of failure to insure where insurance coverage is required pursuant to the Contract, actual casualty losses incurred and connected costs, including insurance deductibles, 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 allowed.

Such expenditures shall include attorney's fees, court costs, costs of investigation, and procurement of evidence and amounts paid in settlement or satisfaction of any such litigation and claims, provided such costs are not covered elsewhere in this Accounting Procedure. Where legal services are rendered in such matter by salaried or regularly retained lawyers of the Contractor or an Affiliated Company 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, judgment or other expense arising out of or relating to the Hydrocarbons Operations shall be allowable with the consent of the Minister, except as may otherwise be covered elsewhere in this Accounting Procedure.

3.13 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 Articles 22.1 and 22.2 of the Contract.

3.14 General and Administrative Costs

The general and administrative costs, other than direct charges included in the foregoing paragraphs, chargeable as Hydrocarbons Costs under this Article, represent the cost of general assistance and support services provided by the Operator. No cost or expenditure included under this Article shall be included or duplicated in other charges. The charges under this Article are not subject to audit other than to verify that the overhead percentages are applied correctly to the expenditure basis.

The expenditures used to calculate the monthly indirect charge shall not include the indirect charge (calculated either as a percentage of expenditures or as a minimum monthly charge), rentals on surface fees, guarantee deposits, pipeline tariffs, bonuses paid in accordance with the Contract, expenditures associated with major construction projects for which a separate indirect charge is established hereunder, payments to third parties in settlement of claims, and other similar items.

The aggregate year-to-date indirect charges shall be a percentage of the year-to-date expenses charged as Hydrocarbons Costs, calculated on the following scale:

- (a) during the exploration period,
 - \$0 to \$5,000,000 of expenditures = 3%
 - next \$10,000,000 of expenditures = 2.5%

- excess above \$15,000,000 of expenditures = 1.5%

(b) during the exploitation (development and production) period:

- Development expenditures = 1.5%

The development phase for each Field will be deemed to cease at the completion of the scope of the initial development operations in the development and production plan approved by the Minister. The development overhead rate shall also apply to satellite or deeper horizon developments in the approved development and production plan, but not the subject of the initial development.

- Production expenditures = 1%

For the avoidance of doubt, development and production operations may be ongoing at the same time at different places within the Contract Area. In such cases, different areas within the Contract Area will attract different overhead rates based on the type of operations ongoing.

As to major projects which include the engineering, construction and installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset required for Hydrocarbons Operations (such as, but not limited to, pipelines, gas reprocessing and processing plants, final loading and terminalling facilities, and dismantling for decommissioning of platforms and related facilities, but excluding drilling and workovers) when the estimated cost of each project amounts to more than tenbillion Dollars (US\$10,000,000,000), a separate and lower indirect charge for such project shall be approved by the Minister at the time of approval of the project in lieu of the amount provided under paragraph (b) above.

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

3.16 Miscellaneous Proceeds

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

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

3.17 Duplication of Charges and Credits

There shall be no duplication of charges and credits.

3.18 Expenditures not eligible for cost recovery

The expenses which are not directly necessary for the performance of the Hydrocarbons Operations and the expenses excluded by the provisions of the Contract or this Accounting Procedure are excluded from the Hydrocarbons Costs allowed for cost recovery. Such expenses shall include in particular:

- (a) the bonus and surface fees referred to in Article 27 of the Contract;
- (b) any payments made to the Republic for failure to fulfil the Exploration Work Obligations;
- (c) expenses incurred prior to the Effective Date;
- (d) interest, or any charge or payment in the nature of, in lieu of, or having the commercial effect of, interest related to the financing of the Hydrocarbons Operations;
- (e) expenses incurred in obtaining, furnishing and maintaining the guarantees under the Contract;
- (f) expenses incurred in respect of Hydrocarbons after passing the Delivery Point, such as transportation and marketing costs;
- (g) expenses incurred as a result of non-compliance by the Contractor with the laws and regulations of the Republic or the Contract, including costs incurred as a result of any negligent act or omission or wilful misconduct of the Contractor, its agents and subcontractors;
- (h) payment or compensation to damage under the Contract;
- (i) funds for training and improving of the professional skills of the civil servants of the Republic or any other candidates nominated by the Minister as per Article 22.3 of the Contract;
- (j) audit costs incurred by the Contractor in relation to audits carried out under the joint operating agreement amongst entities participating in the Contractor;
- (k) expenses incurred in connection with meetings and studies carried out in the context of such joint operating agreement or coordination committee as applicable if the purpose of such meeting or studies is not related to the proper conduct of the Hydrocarbons Operations;
- (l) expenses incurred in respect of arbitration and litigation proceedings under the Contract;
- (m) expenses which are not adequately supported and documented;
- (n) foreign exchange losses; and
- (o) expenses 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 five (5) years with respect to immovable assets.

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

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

ARTICLE 5
COST RECOVERY STATEMENT

5.1 Quarterly Statement

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

- (a) The recoverable Hydrocarbons Costs carried forward from the previous Quarter.
- (b) The recoverable Hydrocarbons Costs for the Quarter in question.
- (c) The credits under the Contract for the Quarter in question.
- (d) The total recoverable Hydrocarbons Costs for the Quarter in question, equal to the sum of (a) plus (b) less (c).
- (e) The quantity and value of the production of Hydrocarbons taken by the Contractor for cost recovery pursuant to the provisions of Article 6.1 of the Contract in the Quarter in question.
- (f) The amount of Hydrocarbons Costs to be carried forward into the next Quarter.

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

5.2 Annual Statement

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

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

ANNEX D**EXPLORATION WORK OBLIGATIONS**

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

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

2. During the Initial Licensing Period of _____ () Contract Years, the Contractor shall:

- (a) perform at least _____ () kilometres of 2D seismic survey;
- (b) perform at least _____ () square kilometres of 3D seismic survey;
- (c) drill at least _____ () Exploration Well(s); and
- (d) perform the following geological and geophysical studies: _____

3. During the First Renewal Period of _____ () Contract Years, the Contractor shall:

- (a) perform at least _____ () kilometres of 2D seismic survey;
- (b) perform at least _____ () square kilometres of 3D seismic survey;
- (c) drill at least _____ () Exploration Well(s); and
- (d) perform the following geological and geophysical studies: _____

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

- (a) perform at least _____ () kilometres of 2D seismic survey;
- (b) perform at least _____ () square kilometres of 3D seismic survey;
- (c) drill at least _____ () Exploration Well(s); and
- (d) perform the following geological and geophysical studies: _____

5. Each Exploration Well mentioned above shall be drilled to the minimum contractual depth of _____ () metres, after deduction of the water depth, or to a lesser depth if authorized by the Minister or if discontinuing drilling according to Good International Petroleum Industry Practice is justified by one of the reasons specified in Article 4.2.2 of the Contract.

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

6. If either during the Initial Licensing Period or during the First Renewal Period, the Contractor drills a number of Exploration Wells greater than the minimum drilling obligations specified in Article 5 of this Annex D, for said period, the provisions of Article 4.2.4 of the Contract shall apply.

ANNEX E**FORM OF BANK GUARANTEE**

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

Our Letter of Guarantee No.:

In consideration of your having contracted by way of an Exploration and Production Sharing Contract dated..... (hereinafter called "the Contract") with _____, a company formed and existing in accordance with the laws of _____ (hereinafter called "the Contractor") for the execution of the minimum work obligations (the "Obligations") of the _____ Period (the "Applicable Term") as identified in accordance with Article _____ of Annex D of the Contract, the value of which for purposes of this Guarantee is calculated in accordance with Article 4.2.8 of the Contract at € _____ (in words: _____ Euro) and since it being a condition of the Contract that a bank guarantee be established.

We, the undersigned bank, waiving all objections and defences under the aforesaid Contract, hereby irrevocably, unconditionally and independently guarantee to pay to you without delay on first written demand any amount claimed by you up to the extent of € _____ (in words: _____ Euros) against your written declaration that the Contractor has failed to perform the Obligations with respect to the Applicable Term as set out in Annex D of the Contract, in accordance with its provisions and has failed to make the payment to the Republic of Cyprus as provided in Article 4.2.9 of the Contract.

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

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

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

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

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

.....
(Date)

.....
(Signature)

ANNEX F

FORM OF PARENT COMPANY FINANCIAL AND PERFORMANCE GUARANTEE

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

Our financial & performance guarantee

In consideration of the Republic of Cyprus (hereinafter "the Republic") having contracted by way of an Exploration and Production Sharing Contract dated _____ (hereinafter called "the Contract") with _____, a company formed and existing in accordance with the laws of _____ (hereinafter called "the Affiliate") and in accordance with Article 35 of the Contract requiring a parent company guarantee.

We, the undersigned company, a company formed and existing in accordance with the laws of _____ and having its registered office at _____ (hereinafter called "the Guarantor"), hereby represent that we are the direct/ indirect owner of 100% of the share capital of the Affiliate.

Waiving all objections and defences under the aforesaid Contract, the Guarantor hereby irrevocably, unconditionally and independently guarantees to the Republic that it will make available or cause to be made available to the Affiliate all financial, technical and other resources required to ensure that the Affiliate can carry out its obligations as set forth in the Contract.

The Guarantor hereby further unconditionally and irrevocably guarantees to the Republic the due and punctual compliance by the Affiliate of its obligations under the Contract, other than those that have been timely paid or performed.

The Guarantor hereby undertakes to the Republic that if the Affiliate shall in any respect fail to perform its obligations under the Contract or commits a breach of such obligations, then the Guarantor shall fulfil or cause to be fulfilled the said obligation in place of the Affiliate, and will indemnify the Republic against all losses, damages, costs and expenses which may result directly from such failure to perform or breach on the part of the Affiliate.

This guarantee is a continuing guarantee and accordingly shall remain in full force and effect until all obligations, duties, liabilities and undertakings of the Affiliate now or hereafter to be carried out or performed by the Affiliate under the Contract shall have been satisfied or performed in full.

The Guarantor shall have sixty (60) days from the date of written demand by the Republic to the Affiliate, with a copy to the Guarantor, to make payment in full to the Republic or to perform the obligation.

All notices, demand and other communications to the Guarantor hereunder shall be in writing and shall be deemed given when delivered by hand, by fax, by electronic mail, by postage prepaid registered mail, by prepaid internationally recognized courier service or by any other means of communication agreed upon in writing by the Parties.

- All notices to the Republic and to the Minister shall be addressed as follows:

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

Fax: _____

Email: _____

- All notices to the Contractor shall be addressed as follows:

Fax: _____

Email: _____

The Republic or the Guarantor may at any time modify the addresses mentioned above, subject to at least ten (10) days' prior notice.

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

.....
(Date)

.....
(Signature)