

ABSTRACT OF
EXPLORATION AND PRODUCTION SHARING CONTRACT
FOR
HYDROCARBONS EXPLORATION,
DEVELOPMENT AND PRODUCTION

AMU DARYA BASIN OIL TENDER OF 2011

The following is a summary of the main features of the Amu Darya Basin Exploration and Production Sharing Contract (the “EPSC”) entered into pursuant to the Amu Darya Basin Oil Tender of 2011.

I. Parties

The EPSC has been made and entered into as of the day in which the EPSC is approved by the Council of Ministers (the “Effective Date”), by and between the Ministry of Mines of the Government of the Islamic Republic of Afghanistan (hereinafter referred to as the “Ministry”), and CNPCI Watan Energy Afghanistan Ltd. (CNPCIW) (hereinafter referred to as the “Contractor”), a limited liability company duly organized and existing under the laws of the Islamic Republic of Afghanistan. The Contractor is a joint venture between China National Petroleum Corporation International, an international oil company, and Watan Oil and Gas Ltd., an Afghan company.

II. Contract Area

The Contract Area is comprised of the Kashkari Block, the Bazarkhami Block and the Zamarudsay Block. The Blocks are in Saripul and Faryab Provinces.

There are five (5) Designated Fields within the three (3) Blocks. The Kashkari Field, the Aq Darya Field and the Angot Field are within the Kashkari Block. The Bazarkhami Field is within the Bazarkhami Block. The Zamarudsay Field is within the Zamarudsay Block.

III. Duration

The EPSC includes an Exploration Phase and a Development and Production Phase.

The Exploration Phase consists of an Initial Exploration Period of four and one-half (4.5) years from the Effective Date. The Contractor has the option to extend twice for a period of two (2) years each time, provided it has satisfied the Minimum Exploration Programme (see Section IV) and posted a US\$ 15 million Financial Guarantee (see Section VIII).

The Development and Production Phase to each Field begins with a declared Commercial Discovery and lasts up to twenty-five (25) years from the date the Discovery was made. There is a potential ten (10) year extension. For Designated Fields, the twenty-five (25) year term commences on the Effective Date of the EPSC. For new Fields the twenty-five (25) year term commences on the date of Discovery.

IV. Minimum Exploration Programme

During the four-year Initial Exploration Period and each subsequent two-year extension, the Contractor is required to carry out the following minimum work commitments:

- (a) Shoot one hundred (100) km of 2D seismic surveys for each Block (or 3D equivalent), and
- (b) Drill three (3) exploration wells anywhere in the Contract Area outside a Field.

V. Minimum Production Requirements for Designated Fields

The Contractor is required to meet the following minimum cumulative production requirements from each of the Designated Fields during the Contract Years indicated under either Option 1 or Option 2. These are cumulative production requirements, not annual production requirements, for example, if the Contractor produces 100,000 barrels from the Angot Field by the end of Year 1, then it is required to produce a minimum of 150,000 barrels in Year 2, but if the Contractor produces 120,000 barrels from the Angot Field in Year 1, then it is only required to produce a minimum of 130,000 barrels in Year 2.

Option 1

Designated Field	Cumulative Production (thousand barrels of Liquid Hydrocarbons)				
	Contract Year 1	Contract Year 2	Contract Year 3	Contract Year 4	Contract Year 5
Kashkari Field	50	1400	3000	5000	7000
Angot Field	100	250	400	500	600
Aq Darya Field	0	0	500	1500	2700
Bazarkhami Field	0	0	0	100	200
Zamarudsay Field	0	0	0	300	1800

Option 2

Designated Field	Cumulative Production (thousand barrels of Liquid Hydrocarbons)				
	Contract Year 1	Contract Year 2	Contract Year 3	Contract Year 4	Contract Year 5
Kashkari Field	0	1400	3000	5000	7000
Angot Field	100	250	400	500	600
Aq Darya Field	50	1050	2250	3500	4700
Bazarkhami Field	0	0	0	100	200
Zamarudsay Field	0	0	0	300	1800

The Contractor shall notify the Ministry in writing of its election of either Option 1 or Option 2 not later than six (6) months following the Effective Date. Liquid Hydrocarbons produced during production testing shall not be counted toward satisfaction of the minimum cumulative production requirements.

VI. Royalty and Allocation of Production

The first 15% of Hydrocarbons produced and saved from the Contract Area in any month will be allocated to the Ministry as the Royalty. After payment of the Royalty, the Contractor will be entitled to recover Hydrocarbons Operations Expenditures. Hydrocarbons produced from the Designated Fields cannot be used to pay the Contractor's Hydrocarbons Operations Expenditures incurred outside the Designated Fields.

Profit oil, after payment of the Royalty and recovery of Hydrocarbons Operations Expenditures, will be shared between the Ministry and the Contractor according to the following sliding scale formula:

If $R \leq 1$	then	$P = 0\%$
If $1 < R \leq 1.3$	then	$P = 50\%$
If $1.3 < R \leq 2.5$	then	$P = 70\% - [(2.5 - R) / (2.5 - 1.3)] \times 20\%$
If $R > 2.5$	then	$P = 70\%$

In the above formula:

“P” means the Ministry’s percentage share of Net Hydrocarbons, valued at the applicable Formula Price; and

“R” means the cumulative Gross Contractor Revenues up to the end of the Month immediately preceding the Month in question, divided by the cumulative Hydrocarbons Operations Expenditures incurred up to the end of the Month immediately preceding the Month in question.

The Ministry’s share of profit oil is initially fifty percent (50%). When the value of cumulative production after Royalty exceeds one hundred thirty percent (130%) of cumulative operating and capital costs, the Ministry’s share will increase on a sliding scale until the value of cumulative production after Royalty is two hundred fifty percent (250%) of cumulative operating and capital costs, at which point the Ministry’s share of profit oil becomes seventy percent (70%).

The Ministry may elect to take some or all of its Royalty oil or profit oil share in kind. In such event, the Ministry shall provide the Contractor with notice of its election at least six (6) months prior to the commencement of the year in question.

The Ministry may also elect to take, out of the Contractor’s share of oil, such quantity as the Ministry may require to satisfy internal consumption requirements in Afghanistan. In such event, the Ministry shall provide the Contractor with notice of its election at least six (6) months prior to the commencement of the year in question. The Ministry shall reimburse the Contractor for such quantity at the Formula Price.

VII. Formula Price

The Formula Price is the basis for determining the sharing of profit oil, the price of Liquid Hydrocarbons allocated to the Ministry and deemed sold to the Contractor, and the price of Liquid Hydrocarbons purchased by the Ministry from the Contractor.

$$P = U + (B-U) * (1 + 0.15139 * A_{P-B} - 0.1434 * S_{P-B}) - T - D$$

Where:

- P* is the price of the Liquid Hydrocarbons produced and delivered to the Delivery Point (US\$ per Barrel);
- U* is the average of the Platt's Prices of Urals crude oil for the Month in question (US\$ per Barrel);
- B* is the average of the Platt's Prices of Dated Brent crude oil for the Month in question (US\$ per Barrel);
- A_{P-B}* is the difference between the API degrees of the Liquid Hydrocarbons produced and 38.3 degrees;
- S_{P-B}* is the difference between the percentage of sulphur content of the Liquid Hydrocarbons produced and 0.4 percent;
- T* is the deemed transport cost of the Liquid Hydrocarbons produced (US\$ per Barrel); and
- D* is the amount of the initial production discount (if any) on the price of the Liquid Hydrocarbons produced (US\$ per Barrel).

The Formula Price is based on two widely-traded marker crudes: Dated Brent crude (*B*) and Urals crude (*U*). Adjustments are based on gravity (*A_{P-B}*), sulphur (*S_{P-B}*), and transportation costs (*T*). For the first four years, transportation costs (*T*) are set at US\$ 5.00 per Barrel for Liquid Hydrocarbons produced from the Bazarkhami and Kashkari Blocks and US\$ 7.00 per Barrel for Liquid Hydrocarbons produced from the Zamarudsay Block. Thereafter, the parties will adjust the transportation costs every two (2) years. Initial Production Discounts (*D*) are set at (i) US\$ 20.00 per Barrel for each Barrel of Liquid Hydrocarbons produced during the first Contract Year, (ii) US\$ 10.00 per Barrel for each Barrel of Liquid Hydrocarbons produced during the second Contract Year, and (iii) US\$ 0.00 per Barrel for each Barrel of Liquid Hydrocarbons produced thereafter.

VIII. Guarantees

The Contractor is required to submit a Financial Guarantee, no later than thirty (30) days after the Effective Date, in an amount equal to US\$ 15,000,000 to secure the performance of the Minimum Exploration Programme. The Contractor shall submit a corresponding Financial Guarantee for any extension of the Initial Exploration Period. During the Exploration Phase, the amount of the Financial Guarantee shall be reduced as of the end of each month by the amount actually expended on the Minimum Exploration Programme during that month. If, at the end of the Initial Exploration Period or any extension period, the Contractor has not performed the Minimum Exploration Programme, the Ministry may draw down an amount corresponding to the then-current balance of the Financial Guarantee. If, on termination of the EPSC or relinquishment of the entire Contract Area, whichever occurs first, the Contractor has not completed the Minimum Exploration Programme, the Ministry may draw down an amount corresponding to the then-current balance of the Financial Guarantee.

The ultimate parent entity of the Contractor, CNPCI, is also required to make a General Performance Guarantee. The General Performance Guarantee is unlimited in amount and remains in full force and effect until all obligations of the Contractor are fully discharged.

IX. Relinquishment

During the Exploration Phase, the Contractor must relinquish parts of the original Contract Area as follows:

- (a) after four and one-half (4.5) years, the Contractor shall relinquish at least twenty percent (20%) of the original area of each Block that has not been converted into a Field, but for each Block in which the Contractor has not drilled at least one (1) Exploration Well, the Contractor shall relinquish at least fifty percent (50%) of the original area of such Block that has not been converted into a Field;
- (b) after six and one-half (6.5) years, the Contractor shall relinquish at least an additional twenty percent (20%) of the remaining area of each Block that has not been converted into a Field; but for each Block in which the Contractor has not drilled at least one (1) Exploration Well during the past two (2) years or at least two (2) Exploration Wells during the first four (4) years, the Contractor shall relinquish at least fifty percent (50%) of the remaining area of such Block that has not been converted into a Field; and
- (c) at the end of eight and one-half (8.5) years, the Contractor shall relinquish the remainder of each Block that has not been converted into a Field or has not had a Discovery which is under evaluation for development.

If, at the end of the Exploration Phase, no Commercial Discovery has been made in any part of the Contract Area outside the Designated Fields, the EPSC shall terminate for all parts of the Contract Area other than the Designated Fields.

Areas with a Discovery under exploration may be granted an extension to complete testing and determine whether the area is a Commercial Discovery.

The Contractor is also required to meet the following Initial Commercial Production targets:

- (a) For the Angot Field, twelve (12) months from the Effective Date;
- (b) For the Kashkari Field, (i) twelve (12) months from the Effective Date in the event that the Contractor has elected Option 1 (see Section VI above) or (ii) twenty-four (24) months from the Effective Date in the event the Contractor has elected Option 2;
- (c) For the Aq Darya Field, (i) twenty-four (24) months from the Effective Date in the event that the Contractor has elected Option 1 or (ii) twelve (12) months from the Effective Date in the event the Contractor has elected Option 2;
- (d) For the Bazarkhami Field and the Zamarudsay Field, thirty-six (36) months from the Effective Date; and
- (e) For any new Field, eighteen (18) months in the case of Liquid Hydrocarbons, or sixty (60) months in the case of Non-Associated Gas, from the date of declaration of a Commercial Discovery.

The Contractor must relinquish the area comprising such Field if the above mentioned Initial Commercial Production targets are not met.

X. Governing Law and Dispute Settlement

The EPSC is governed by the laws of the Islamic Republic of Afghanistan. Any dispute arising out of the EPSC, if not settled within forty-five (45) days from the date of the dispute, will be settled by arbitration submitted to the International Centre for Settlement of Investment Disputes, except disputes of a technical nature may be referred to technical experts.