

**PETROLEUM
EXPLORATION & PRODUCTION
POLICY
2001**

**GOVERNMENT OF PAKISTAN
Ministry of Petroleum & Natural Resources**

(MAY 2001)

1. INTRODUCTION

Current exploratory effort in Pakistan has varied between 13 and 34 wells per year over the past 5 fiscal years between 1994/95 and 1998/99. This effort has resulted in significant discoveries. Nonetheless, this level of exploration and exploration commitments is not adequate to achieve the stated policy objective of the Government of Pakistan (GOP), which is to minimize the oil import bill through import substitution and thus ease pressure on balance of payments. It is believed that a major portion of the use of imported fuel oil in industrial and power sectors can be replaced by gas. Indigenous oil production has also registered downward trend which needs not only to be arrested but also reversed.

Gas supply and demand projections indicate that the recent discoveries can replace most imported fuel oil by 2005, but thereafter production from existing reserves will decline and by the year 2010 gas supplies would be insufficient to meet increased domestic, commercial, industrial and power generation requirements. There is also a requirement for major infrastructure development in the coming decade in order to transport the additional gas supply expected from new discoveries.

Clear mechanisms for gas pricing and infrastructure development are required to stimulate the necessary investment. In addition, adjustment in the fiscal system is also considered necessary in order to make the same competitive with the incentives available elsewhere. A number of procedural bottlenecks have also been identified which need to be removed for creating favourable investment climate in Pakistan. Therefore, the present Government has undertaken extensive review of policy terms in consultation with the petroleum industry in order to offer incentives, which are attractive relative to petroleum investment opportunities elsewhere. Such incentives are expected to create an investor friendly climate and attract exploration investment in the country.

2. PROCEDURAL AND REGULATORY MEASURES

2.1.1 Expeditious Disposal of Applications

The existing procedure for expeditious disposal of applications for grant of exploration licences through competitive bidding which has proven to be successful during the last six years will continue.

- i) Procedure for clearances by Provincial Governments and security agencies through a predefined "White and Green Area Map" will continue. No area clearance would be required for concession blocks falling inside white/green areas.
- ii) The existing Block Award Process through competitive bidding (Annexure I) will continue. Process is based on Model Agreements, which have received prior approval of Government. This will however not apply to Government to Government arrangements.
- iii) Petroleum Concession Agreements (PCAs) or Production Sharing Agreements (PSAs) based on approved Models will be executed with the final approval of the Minister for Petroleum and Natural Resources.
- iv) All applications for Exploration Licences will be decided within 60 days. Applications, which are contested, may take up to 120 days but no more.
- v) The Government will accept parent company guarantees from companies of international repute and bank guarantees from others. The Government will also consider accepting the deposits in escrow accounts on a case to case basis. For the locally incorporated companies, the GOP may consider suitable proposals for security against default, which can include a lien on their assets and /or oil and gas production.
- vi) The Negotiation Cell in the Directorate General of Petroleum Concessions (DGPC) (Annexure II) will continue to function for expeditious disposal of applications.

2.1.2 Operations in Balochistan and other Areas

- i) A high-level Committee under the chairmanship of the Minister for Interior with Governor Balochistan and Minister for Petroleum and Natural Resources as members is reviewing the operational and security problems in Balochistan in consultation with the

stakeholders. Final recommendations of this committee will be separately submitted to the Government in due course.

- ii) The law and order situation in and around the producing fields in Balochistan will be improved for sustaining optimum production.

2.1.3 Holding Company

The 100% GOP owned Holding Company (Government Holdings (Private) Ltd.) as outlined in Annexure-III will continue to look after the GOP's working interests in various joint ventures and will remain independent of the GOP's regulatory functions. The potential GOP participation in new joint ventures will be handled through this company subject to Section 2.1.4 (i) below.

2.1.4 Incentives for Exploration and Production Companies incorporated in Pakistan

There is a need to develop a strong indigenous base in Exploration and Production sector to minimize foreign exchange outlays. Therefore, following incentives are being offered to E&P Companies incorporated in Pakistan, which pay dividends and receive payments for petroleum sold in Pak Rupees.

- i) Such E&P companies will be encouraged to establish joint ventures with foreign companies as well as operate exploration blocks with 100% ownership. In joint ventures where such local company(ies) holds at least the required minimum Pakistani working interest on a full participation basis, there would be no direct GOP participation through Government Holdings (Private) Limited (GHPL). The required minimum Pakistani working interest will be 15% for Zone I, 20% for Zone II and 25% for Zone III. Such companies will contribute their share of expenditure in Pak Rupees for required minimum Pakistani interest. However, if such E&P companies subsequently intend to reduce their working interest below the required minimum Pakistani working interest, GHPL will have the right to unconditional assignment of the remaining interest on full participation basis. Such assignment shall be at no cost to GHPL which shall participate on a point forward basis from the date of participation as per the Joint Operating Agreement (JOA).
- ii) Where insufficient interest is expressed by E&P companies incorporated in Pakistan with respect to the minimum required Pakistani working interest, GHPL shall have the option to “make up” the remaining interest on a full participation basis.

- iii) The foreign E&P companies shall be deemed to have fulfilled their obligation with respect to the minimum Pakistani participation if Pakistani Incorporated Companies and/or GHPL do not take any interest fully or partially.
- iv) Consortia of foreign companies not meeting the minimum required Pakistani working interest can still be granted an exploration licence provided such companies advertise in the press within 15 days of the grant, inviting Pakistani Incorporated Companies to participate in the joint venture on the full participation basis under standard JOA. The Pakistani Incorporated Companies shall have the option to participate in the joint venture within 30 days and another 30 days for GHPL to “make up” for any difference between the interest taken up by the Pakistani Incorporated Companies and the minimum required Pakistani working interest.
- v) Local E&P companies will, on a case to case basis, be entitled during the exploration phase to receive foreign exchange against payment in Pak Rupees to meet their day to day obligations under Permits, Licences and PCAs. After Commercial Discovery, local E&P companies would be paid upto 30% of their sale proceeds in foreign currency to meet their day to day operational requirements. For project financing after Commercial Discovery, local E&P companies will be required to make their own foreign exchange arrangements.

2.1.5 Pipeline construction and operation

E&P companies operating in Pakistan will be allowed to construct and operate pipelines for local requirements and for exports of their share of petroleum which shall be regulated by the concerned regulator in accordance with applicable laws, rules and regulations based on an open-access regime. The E&P Companies constructing such pipelines may be allowed priority access based on a firm utilization plan.

2.1.6 Gas Allocation and Sale

- i) E&P companies operating in Pakistan will be allowed to contract with gas transmission and distribution companies and third parties, other than residential and commercial consumers, for the sale of their share of gas in Pakistan at negotiated, prices in accordance with applicable laws, rules and regulations.
- ii) Subject to the considerations of internal requirements and national emergencies, E&P companies will be allowed to export their share of crude oil and condensate as well as their share of gas based on export licences to be granted by the concerned regulator. For the purpose of

the grant of such export licenses for gas, the export volumes will be determined in accordance with "L15" concept provided a fair market value for such gas is realized at the export point. Under the "L15" concept the gas reserves that exceed the net proven gas reserves in Pakistan including the firm import commitments vis-à-vis the projected gas demand for next fifteen years can be considered for export. Once gas has been dedicated for exports, licenses for such export volumes shall not be subsequently revoked.

- iii) If the foreign E&P Companies sell gas to third parties in Pakistan and want to remit sale proceeds in foreign currency abroad, GOP shall allow these companies to freely remit a "guaranteed percentage" of their sale proceeds provided the prices are equal to or less than 67.5%, 72.5% or 77.5% for Zone-III, Zone-II and Zone-I respectively of C & F price of a basket of imported Arabian/Persian Gulf Crude Oils (Marker Price) with following floor and ceiling:

Floor and ceiling will be US\$ 10/barrel and US\$ 36/barrel of C&F price, respectively with following discounts:

- ?? Over US\$10/barrel and upto US\$16/barrel :
100% of Marker Price
- ?? Over US\$16/barrel and upto US\$21/barrel:
Plus 50% of incremental Marker Price
- ?? Over US\$21/barrel and upto US\$26/barrel:
Plus 30% of incremental Marker Price; and
- ?? Over and above US\$26/barrel upto the ceiling
Plus 20% of incremental Marker Price.

The "guaranteed percentage" shall be 75% of the total gross revenues from any Lease in Zone I, 70% of the total gross revenues from any Lease in Zone II and 65% of the total gross revenues from any Lease in Zone III. The remaining gross income in Rupees can be used to pay royalties, taxes and any other payments to the Government as well as to meet local operating costs.

- iv) At the request of E&P Companies, GOP shall purchase their share of pipeline specification gas through a nominated buyer which is effectively controlled by it in acceptable daily, monthly and yearly volumes to meet the internal demand in an economical manner. The delivery point shall be the nearest transmission system (Delivery Point). GOP shall pay, as per the existing guidelines, the Policy Price for gas at the Delivery Point adjusted for the floor and discounts as provided for in Section 2.2.2 (iv) together with gas transmission tariff as provided in Section 2.1.6 (v). In addition, the same "guaranteed percentage" for foreign exchange remittance as contained in sub-section (iii) above will apply to such sales.

- v) Where a government nominated buyer agrees in principle to purchase gas pursuant to Section 2.1.6 (iv) above, the gas producer shall construct and operate the gas pipeline connecting the field to the Delivery Point for which transmission tariff will be payable as approved by the concerned regulator in accordance applicable law, rules and regulations. Furthermore, the gas producer can arrange for the construction and operation of the connecting gas pipeline through an independent third party for which the producer will invite sealed bids on BOOT basis. At the request of the producer, the buyer nominated by GOP for purchase of the gas can also consider the laying of such pipeline from field gate to the nearest transmission system at its own cost. In the latter two cases, the delivery point of gas will be field gate and transportation tariff payable to the third party or the buyer nominated by GOP as the case may be, will also be determined by the concerned regulator. If an inter-connecting pipeline is proposed to be constructed by a third party or the buyer, the producer will be required to confirm the requisite gas supply volumes, pressures, reserves and other technical parameters on standard supply term contract basis for a period of not less than fifteen years. However, whether a connecting pipeline is constructed and operated by a producer, a third party or a government nominated entity, such a pipeline shall be regulated pursuant to the provisions of Section 2.1.5, unless the concerned regulator decides that the pipeline shall be a non-regulated pipeline.
- vi) Consumer gas prices will be adjusted biannually to synchronize with the changes in the producer prices.

2.1.7 Term of Exploration Licences and area relinquishments

The initial term of an Exploration Licence with total area not exceeding 2,500 square kilometers (unless otherwise allowed by GOP) will be increased to five years divided in two phases of three and two years each. This will be followed by two renewals of two years each. The minimum work commitment for phase-I will be determined through competitive bidding as per procedure outlined in Section 2.1.1 of this Policy. During phase-II and subsequent renewals the E&P companies will be required to commit the drilling of at least one exploration well during each phase and renewal period. E&P companies will however be required to make relinquishments of the licenced areas, as per schedule given below:

At the end of phase-I (3 years): 30% of the original area,
At the end of phase-II (2 years): 20% of the original area, and
At the end of first renewal (2 years): 10% of the original area.

2.1.8 Improvement of Prospectivity

In addition to the exploratory effort envisaged through the private sector, the GOP has also devised an approach for acceleration of oil and gas exploration through basin studies, geological/geochemical studies, seismic surveys etc. in order to achieve a break-through success in prospectivity and to improve the data bank. The GOP would institute the aforementioned programmes directly, on a multi-client basis, through service contractors or with assistance from multilateral donor agencies where possible. HDIP may participate in such studies.

2.2 ECONOMIC TERMS

A. ON-SHORE AREAS

An economic package has been defined and fixed for Zone I, II & III (Annexure IV) of on-shore areas, on the basis of prospectivity and corresponding financial and economic parameters. The geological zones have been demarcated in on the basis of the following:

- Zone I West Balochistan, Pashin and Potowar Basins
- Zone II Kirthar, East Balochistan, Punjab platform and Suleman Basins
- Zone III Lower Indus basin

The economic package will be reviewed from time to time in the light of additional information and may be subsequently adjusted to maintain international competitiveness.

2.2.1 GOP Working Interest

There will no longer be an obligatory “carry” for Government or GHPL. GHPL may only participate on a full participation basis as outlined in Section 2.1.4 above.

2.2.2 Producer Pricing

- i) **Crude Oil:** The Producer Policy Price for crude oil delivered at the refinery gate shall be based on the C&F price of a comparable crude oil or a basket of Arabian/Persian Gulf crude oils plus or minus a quality differential between the comparable crude oil / a basket of crude oils and the local crude oil. No other adjustment or discount will apply.
- ii) **Condensate:** The Producer Policy Price for condensate will be the FOB price of internationally quoted comparable

condensate delivered at the refinery gate. No other adjustment or discount will apply.

- iii) **Non-Associated Gas:** Subject to Section 2.1.6(iv), the Producer Policy Price for non-associated gas of acceptable pipeline quality specifications will be indexed at 67.5%, 72.5% or 77.5% (for Zone III, Zone II and Zone I respectively) of C&F price of a basket of imported Arabian/Persian Gulf Crude Oils (Marker Price). This basket will reflect the actual mix of imported crude oils in the previous Six months (January to June and July to December) as notified by the Ministry of Petroleum and Natural Resources. Transportation tariff for non-associated gas deliveries at transmission system will be payable separately as envisaged in Section 2.1.6 above.

For purchases by GOP nominated buyer pursuant to Section 2.1.6. (iv), the following floor, ceiling and price discount arrangements will apply with respect to the non-associated gas Policy Price:

Floor and ceiling will be US\$ 10/barrel and US\$ 36/barrel of C&F price, respectively with following discounts:

- ?? Over US\$10/barrel and upto US\$16/barrel :
100% of Marker Price
- ?? Over US\$16/barrel and upto US\$21/barrel:
Plus 50% of incremental Marker Price
- ?? Over US\$21/barrel and upto US\$26/barrel:
Plus 30% of incremental Marker Price; and
- ?? Over and above US\$26/barrel and upto the ceiling
Plus 20% of incremental Marker Price.

The floor and inflection points may be reviewed by GOP every 5 years for appropriate adjustments keeping in view the then prevailing conditions.

- iv) **Associated Gas:** The producer price for associated gas shall be equal to the price of non-associated gas in the respective Zones.
- v) **Liquefied Petroleum Gas (LPG):** For new projects, the LPG price will be determined by the market under a deregulated regime.
- vi) **Fixed Return Formulae:** Application of fixed return formulae to the industry will be progressively changed to

market related formulae after giving due consideration to relevant factors.

- vii) **Policy framework for Non-Associated Gas/ Associated Gas under existing PCAs:** The policy framework for purchase of the non-associated/associated gas by GOP from the new discoveries under the existing Petroleum Concession Agreements, is contained in Annexure-V.

2.2.3 Royalty & Income Tax, Windfall price levy

- (i) Royalty will be payable at rate of 12.5% of the fair market value at the field gate. In order to determine the value at the field gate, gas transport costs shall be taken into consideration on the basis of tariffs approved by the concerned regulator, regardless of whether the pipeline is regulated or not.
- (ii) Tax on income will payable at the rate of 40% of profit or gains in accordance with the Fifth Schedule of the Income Tax Ordinance, 1979. However, royalties will be treated as expense for the purpose of determination of income tax liability.
- (iii) A provision will be made for windfall levy on crude oil/condensate using the following formula:

$$\begin{aligned} \text{Windfall Price Share} &= \\ &0.5 (\text{Production}-\text{Royalty}) \times (\text{Market Price}-\text{Base Price}) \\ \text{WPS} &= 0.5 (P-R) \times (V-B) \end{aligned}$$

The base price will be \$ 30 per bbl, which will escalate at \$ 0.25 per barrel per year. Windfall price is based on 50% of the differential between the market price and base price.

2.2.4 Import Duties, Taxes and Fees

Incentives in respect of Import Duties/Taxes and Fees for the E&P companies and the “service companies” are set out in SRO 367 (I)/94

2.2.5 Production Bonuses

- i) Production bonuses will be payable on a Concession Area basis, as under:

AMOUNT (US \$)	CUMULATIVE PRODUCTION (MMBOE)
500,000	On Commencement of Commercial Production
1,000,000	30
1,500,000	60
3,000,000	80
5,000,000	100

Notwithstanding the above, where on Concession Area basis the discovered fields have recoverable reserves of less than 5 MMBOE and in the case of Potowar and other frontier areas in Zone I & II (as designated by GOP) if the recoverable reserves are less than 10 MMBOE, first production bonus will not be payable on commencement of production.

- ii) Local E&P companies will pay their share of production bonuses in Pakistan Rupees.
- iii) The GHPL will not pay the Production Bonuses, as long as GOP is the majority shareholder of this company.
- iv) Production Bonuses will be expended on infrastructural development in and around the respective Concession Areas.

2.2.6 Conversion incentives.

- i) All E&P Companies can propose to GOP on a case to case basis for conversion of their existing exploration licences and applicable PCAs to the new terms prior to the end of 2001 without any change in the effective date provided they: (a) agree to accept the same corresponding licence year of the increased license term pursuant to Section 2.1.7; (b) agree to voluntarily relinquish an additional 20% of the original contract area or upto 40% of the remaining exploration area whichever is smaller (Such relinquishment will be in addition to the mandatory relinquishments required under the PCA); (c) agree to an additional expenditure commitment on new exploration activities (Seismic & Exploration Wells) of \$ 3000 per square kilometer during a period of three years (such expenditure shall be in addition to the minimum work programmes committed under the respective PCAs); (d) provide guarantees acceptable to the GOP for such additional expenditure commitments; and (e) Where the minimum Pakistani working interest is not held by a Pakistani Incorporated Company or GHPL, the foreign

E&P company shall make a public offer as provided for in Section 2.1.4. (iv) above.

- ii) The conversion policy will be applicable to the licences in which no discovery has been made and will be adopted as a package except that the existing participation interest of GHPL will remain unchanged.

2.3.7 Local Employment, Training and Social Welfare

Local employment, training and social welfare obligations will be applicable as per Annexure VII.

B. OFFSHORE AREAS

The economic package for this zone has been prepared based on production sharing arrangement as detailed in Annexure VIII. A geological Zone 'O' to cover offshore areas has been defined as shown in Attachment I of Annexure VIII. This offshore package will apply to all new grants in offshore areas. E&P companies who hold exploration licenses in off-shore areas and are presently governed by Zone I terms, can apply to GOP for conversion to production sharing arrangement as per criteria laid down in Attachment-II of Annexure VIII. Otherwise they will continue to be governed by Zone I terms as per PCAs. This offshore package will apply to E&P companies who are granted Exploration Licences during a period of 5 years from the enforcement of this new package.

3. MISCELLANEOUS

3.1 BLOCK SYSTEM

A new block system based on latitudes and longitudes as indicated in Annexure IX hereof will be followed for grants and relinquishments.

3.2 ENERGY CONSERVATION, ENVIRONMENT AND SAFETY CONTROL

- a. Incentives in respect of Import Duties, Taxes, Licence/Authorization Fees in respect of E&P companies are set out in Annexure VI.
- b. New environmental and safety regulations shall be applicable to all companies.
- c. A standing task force has been established to address the problems of the oil and gas companies and to oversee and coordinate safety hazards at the oil/gas fields and other oil and gas installations.

3.3 REGULATORY AUTHORITIES

The relevant Regulatory Authority shall notify the CBR from time to time of the list of machinery, equipment, materials, accessories, specialized vehicles, spares, chemicals and consumables required to be imported by the petroleum sector. This list will be subject to amendments by additions and deletions from time to time as considered appropriate by the relevant Regulatory Authority. Whether a specific item falls within the list shall be decided by the relevant Regulatory Authority.

Note: For the purposes of these incentives the Regulatory Authorities have always been specified in Petroleum Policy, 1994/1997.

3.4 CONTINGENCY PLANS

In view of the petroleum sector's lack of flexibility to adjust to crises situations due to infrastructural constraints, alternative plans/fall back positions will be formulated. A study will be undertaken to conceive all possible adverse situations the petroleum sector may face and to formulate appropriate contingency plans for all key sectors. These plans will be integrated to provide necessary alternatives to the GOP.

3.5 DATABASE

The existing upstream and downstream data base in the Ministry of Petroleum and Natural Resources will be strengthened to undertake quantitative analysis and to simulate real life problems and to answer "what if" questions.

3.6 OTHER MEASURES

- i) The Operator of a Joint Venture will chair the meetings of the Operating, Technical and Finance Committees.
- ii) The Petroleum industry will conduct a comprehensive review of outdated laws and make recommendations to GOP for appropriate amendments as soon as possible.
- iii) The industry will conduct a comprehensive review of existing procedures in order to improve efficiencies and recommendations will be presented to GOP for consideration within a period of six months.
- iv) DGPC is authorized to allow export of data for primary processing.
- v) The system of Security Clearances of expatriates has been streamlined. The companies shall provide the relevant particulars of the expatriates, schedule of visit and the area(s) to be visited to Ministry of Petroleum and Natural for onward transmission to the agencies concerned. The Government will issue a temporary clearance for a period of three months. Such cases will be placed before the relevant Committee for final approval.
- vi) Declaration of a Discovery as commercial in the on-shore areas can be accepted even on the basis of one well, subject to justification and the relevant rules.
- vii) When an E&P Company makes a significant gas discovery, the joint venture will be allowed, in accordance with the relevant rules, to retain petroleum rights under the exploration licence for a period of upto five years with respect to the area of discovery if there is no market and/or if the gas transportation infrastructure is inadequate. Before the end of five years, the joint venture will be required to submit a development plan and the application for grant of a Development and Production Lease with an assessment of market potential and a plan for infrastructure development.
- viii) License holders can be permitted to undertake early production schemes before finalization and approval of the development plan. Early production schemes will be allowed during the appraisal phase and can become part of a phased development plan provided there is no adverse effect on the revenues of GOP as applicable to a lease and the companies inter-alia comply with the requisite royalty, tax, rentals, production bonus and training/social welfare commitments.

- ix) Government, through appropriate institutions, will prepare and update the energy plan for the country on an annual basis.

3.7 IMPLEMENTATION OF POLICY

The implementation of this policy will be coordinated by a Committee comprising the following:

- a. Minister for Petroleum & Natural Resources Chairman
- b. Secretary, Planning & Development Member
- c. Secretary, Finance Division Member
- d. Secretary, Petroleum & Natural Resources Member/Secretary

4. APPLICABILITY AND EFFECT OF THE POLICY

- i) This policy supersedes the 1991 Petroleum Policy, the 1993 Petroleum Exploration and Production Policy, the 1994 Petroleum Policy and the 1997 Petroleum Policy to the extent applicable to E&P Sector only, without effecting the rights that may have accrued under the superseded policies.
- ii) These incentives shall apply to E&P companies who sign PCAs/PSAs after the announcement of this Policy or who are allowed by GOP to convert to new terms as per Section 2.2.6 and Attachment II of Annexure VIII.
- iii) Zone '0' package for offshore will be effective from 1st January 2001.
- iv) In addition to the protection of the Policy under Regulation of Mines and Oilfields and Mineral Development (Government Control) Act, 1948 and the Economic Reforms Act, 1992, it will be ensured that the agreements executed by the companies, are implemented by all the Ministries and Departments of GOP.
- v) As a result of this policy, required changes in applicable Laws, Rules, and Regulations will be carried out promptly by the concerned Ministries and Departments of GOP.

BLOCK AWARD PROCESS

It is a prerequisite for this Block Award Process that the standard Model Agreements are followed by all applicants. The new process will be as follows:

- (a) A company can apply for a block in accordance with the laid down grid system and the rules without the Work Programme.
- (b) Offers will be invited through the press within 15 days thereafter from interested E&P companies.
- (c) The first applicant company and any other company wishing to compete for a block will have 30 days to submit sealed bids specifying the Work Programme and the related minimum financial obligation in US Dollars. The GOP reserves the right to seek a bid bond of an appropriate value. All the economic terms and conditions will remain fixed as defined in this Policy, unless relaxed by the GOP.
- (d) Bids will be opened in public and the winner decided on the basis of the best Work Programme and related financial commitment offered. The first Applicant Company in Zone O& I may be given the opportunity to match the best Work Programme and financial obligation. This however, cannot be claimed as a matter of right. If no competing bids are received, the first applicant company can be considered for award in accordance with the rules provided the company has the technical and financial standing and offers a reasonable Work Programme commensurate with the prospectivity of the area.
- (e) Applications submitted by OGDCL will also be subject to the same process.
- (f) If a company applies for a Reconnaissance Permit and another for an Exploration Licence, preference shall clearly be given to the applicant for the Exploration Licence in accordance with the rules.

**INVITATION TO BID FOR GRANT OF
PETROLEUM EXPLORATION RIGHTS
(Block No. _____)**

Applications are invited for grant of Petroleum rights over the Exploration Block No. _____ (technical name) (_____ - common name) in accordance with the provisions of the Pakistan Petroleum (Exploration and Production) Rules, ____/ Offshore E&P Rules____ and the Petroleum Exploration & Production Policy, 2001.

2. Applicants are required to submit their Work Programme and related minimum financial obligations under a sealed cover to DGPC, presently located at 1019, Pak Plaza, Fazal-e-Haq Road, Blue Area, Islamabad by _____ (time) _____ (date).
3. The sealed bids will be opened publicly at _____ (time) on _____ (date) in DGPC offices.
4. DGPC will select the successful bidders on the basis of the best Work Programme and related minimum financial obligations consistent with the Rules and the Petroleum Exploration & Production Policy.
5. DGPC reserves the right to accept or reject any application without assigning any reason.
6. The successful bidder will be notified in writing by the DGPC by no later than _____ (date).

Director General,
Petroleum Concessions

NEGOTIATION CELL

DGPC staffing and resources will be augmented. In order to meet the deadlines, a separate negotiating cell headed by Director General, Petroleum Concessions will be constituted on a full time basis and will comprise:

- (a) Legal Advisor,
- (b) Petroleum Economist,
- (c) Petroleum Explorationist.

It has been decided to finance these positions through training budgets under PCAs/PSAs with E&P companies. The Ministry of Petroleum & Natural Resources will select and appoint the appropriate professionals on contract basis.

**FRAMEWORK OF THE GOVERNMENT HOLDINGS
(PRIVATE) LIMITED**

A Holding Company 100% owned by the GOP has been created for managing the working interests of the GOP in this sector. In addition this company will assume the GOP's working interest in new PCAs and Production Sharing Agreements (PSAs). Such a company will, however, not operate like OGDCL.

The Holding Company will receive all the revenues from the present state holdings and from future discoveries.

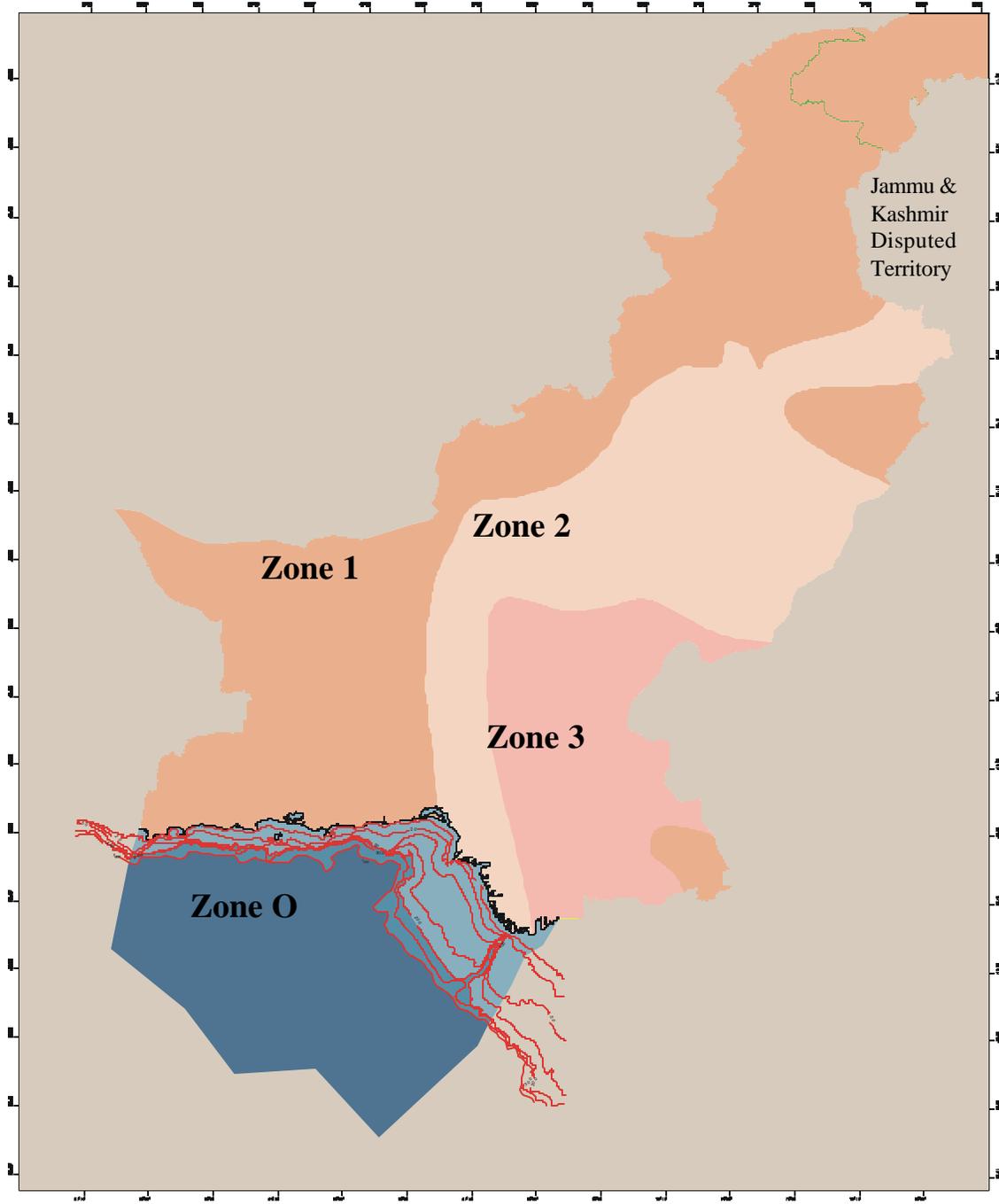
The technical nature of the business warrants that the Holding Company be manned by highly qualified and competent industry experts. The framework will be as follows:

Composition of the Board of the Holding Company:

- (a) Chairman/Chief Executive: He should be a Pakistani professional with extensive industry experience and should be appointed for a fixed tenure by the GOP.
- (b) Finance Director: He should be a competent petroleum economist/financial expert and appointed for a fixed tenure by the GOP.
- (c) Technical Director: He should be a competent industry professional with relevant experience appointed by the GOP for a fixed tenure.
- (d) Non Executive Directors shall not be from the regulatory authority.

All investment decisions by the company will be based on sound financial and economic criteria.

**ZONAL AREA MAP
(On-shore)**



POLICY FRAMEWORK FOR PURCHASE OF GAS
UNDER THE EXISTING PETROLEUM CONCESSION AGREEMENTS

The GOP will offer to purchase the non-associated/associated gas from the new discoveries under the existing Petroleum Concession Agreements provided there is sufficient internal demand and there are no infrastructural constraints subject to the following package:

- i) The producer gas price for non-associated/associated gas of acceptable pipeline quality specifications will be indexed at 67.5%, 72.5% or 77.5% (for Zone III, Zone II and Zone I respectively as defined in Petroleum Policies, 1994/97) of C&F price of a basket of imported Arabian/Persian Gulf Crude Oils (Marker Price). This basket will reflect the actual mix of imported crude oils in the previous Six months (January to June and July to December) as notified by the Ministry of Petroleum and Natural Resources. Following floor, ceiling and price discount arrangements will apply with respect to the non-associated gas Policy Price:

Floor and ceiling will be US\$ 10/barrel and US\$ 36/barrel of C&F price, respectively with following discounts:

- ?? Over US\$10/barrel and upto US\$15/barrel : 100% of Marker Price
- ?? Over US\$15/barrel and upto US\$20/barrel : Plus 50% of incremental Marker Price
- ?? Over US\$20/barrel and upto US\$25/barrel : Plus 30% of incremental Marker Price; and
- ?? Over and above US\$25/barrel and above : Plus 20% of incremental Marker Price.

- ii) The above gas-pricing framework will remain applicable for four years from the date of signing of a Gas Sales Agreement (GSA).
- iii) After four years of the signing of the GSA, the inflection points beyond US \$ 15 will be increased by US \$ 1 to revise the applicable slabs as US\$ 10-16-21-26.
- iv) Some payments to the foreign producing companies/joint ventures will be made in Pak Rupees.
- v) Delivery of gas from new fields can be either at field-gate or the nearest transmission system as may be mutually agreed between GOP and the respective producer.
- vi) The producers may assist the gas utilities in financing the new infrastructure required through commercial arrangements.

GOVERNMENT OF PAKISTAN
MINISTRY OF FINANCE, REVENUE AND ECONOMIC AFFAIRS
(REVENUE DIVISION)

Islamabad, the 7th August, 2004.

NOTIFICATION
(CUSTOMS/SALES TAX)

S.R.O. 678 (1)/2004. - In exercise of the powers conferred by section 19 of the Customs Act, 1969 (IV of 1969), and clause (a) of sub-section (2) of section 3 of the Sales Tax Act, 1990, and in supersession of its Notification No. S.R.O. 448(1)/2004, dated the 12th June, 2004, the Federal Government is pleased to exempt, —

- (1) machinery, equipment, materials, specialized vehicles or vessels, picks-ups (4x4), helicopters, aircraft, accessories, spares, chemicals and consumables, as are not manufactured locally, imported by the Exploration and Production (E&P) Companies, their contractors, sub-contractors and service companies, from customs-duty in excess of five per cent ad valorem leviable under the First Schedule to the Custom's Act, 1969 (IV of 1969), and the whole of sales tax leviable under the Sales Tax Act, 1990, on their import and subsequent supply, subject to the conditions specified under the caption "CONDITIONS WITH REFERENCE TO CLAUSES (1) AND (2)";
- (2) machinery and equipment, as are not manufactured locally, imported by companies other than Exploration and Production Companies, from custom duty in excess of five per cent ad valorem leviable under the First Schedule to the Customs Act, 1969 (IV of 1969), subject to the conditions specified under the caption "CONDITIONS WITH REFERENCE TO CLAUSES (1) AND (2)";
- (3) goods as mentioned in CLAUSES (1) and (2) above, as are manufactured locally, imported by Exploration and Production Companies, their contractors, sub-contractors and service companies, other petroleum and public sector companies as is in excess of ten per cent ad valorem leviable under the First Schedule to the Customs Act, 1969 (IV of 1969), except X-mass trees, wellhead and integral components and parts thereof which shall be exempted from so much of the customs-duty as is in excess of fifteen per cent ad valorem: imported by E&P Companies their contractors, sub-contractors and service companies, provided that goods imported by public sector companies shall be subject to provisions of Notification No. S.R.O. 827(I)/2001, dated the 3rd December, 2001, except for projects wherein an investor or multinational company has a blocking vote. Components and parts of wellhead and X-mass tree if imported for their otherwise utilization will be allowed on payment of 10% customs duty on the basis of certification of respective E&P Company. However, items not manufactured locally shall remain subject to 5% customs duty. All items failing under this

serial No. (3) shall also be exempt from whole of the sales tax if these are plant, machinery, equipment and proprietary spares of parent equipment not manufactured locally.

- (4) raw materials and components, as are not manufactured locally, and are imported for use in the manufacture of goods specified in clauses (1) and (2), to be supplied to the petroleum sector companies as specified in the said Notification from whole of customs duty leviable under the First Schedule to the Customs Act, 1969 (1V of 1969), subject to the conditions specified under the, caption "CONDITIONS WITH REFERENCE TO CLAUSE (4)".

CONDITIONS WITH REFERENCE TO CLAUSES (1) AND (2).

- (i) Only such goods shall be entitled to the exemption under this notification as have been certified, for clause (1), by an E&P Company, and for clause (2), by a company other than an E&P company, for its own use or its contractors, sub-contractors and service-companies for its projects of oil and gas exploration and production, refinery, oil and gas pipeline, liquefied petroleum gas (LPG), compressed natural gas (CNG), petroleum terminals, energy conservation, environment and safety controls:
 - (ii) the exemption available to E&P companies shall be admissible only to such E&P companies who hold permits, or licences, or leases or concession or production sharing agreement and who enter into supplemental agreements with Government of Pakistan;
 - (iii) the importers shall maintain an account of all imports alongwith the relevant record as prescribed by the Customs Rules, 2001 and Sales Tax Act, 1990;
- (iv) in the event a dispute arises whether any item is entitled to exemption under this notification, the item will be immediately released by the Customs Department against a corporate guarantee valid for a period of nine months, extendable by the concerned Collector of Customs on time to time basis. A certificate from the relevant Regulatory Authority that the item is covered under this notification shall be given due consideration by the Customs Department towards finally resolving the dispute. Disputes regarding the local manufacturing only shall be resolved through the Engineering Development Board;
- (v) in the event that an emergency condition occurs in connection with operations by a petroleum sector company which seriously endangers life or property of the operations of the project, the relevant Regulatory Authority shall declare an emergency and the operating company shall be allowed to import any item or items considered necessary by the said company to deal with the emergency under intimation to the Regulatory Authority without fulfilling such formalities as are likely to cause delay. Payment of duties and taxes, if any will be paid upfront based on the calculations by the respective E&P Company of the declared value. Such payment can be made at the time of clearance in cash or by opening a current account with customs or by pay order or by a cheque issued by the respective E&P company.

(vi) items imported at concessionary rates which become surplus, scrap, junk, obsolete or otherwise shall be disposed of in the following manner, namely:-

- (a) in the event an item other than vehicles, is sold to another company in the petroleum sector no import duties shall be levied or charged. Otherwise, it shall be sold through a public tender and duties shall be recovered at the rate of ten per cent ad valorem of the sale proceeds;
- (b) for vehicles there would be a minimum retention period of five years after which the vehicles may be disposed of in the manner provided in (a) above except that the full rate of import duties, net of any import duties already paid, shall be charged subject to an adjustment of depreciation at the rate of two per cent per month up to a maximum of twenty four months;
- (c) for vehicles can be surrendered at any time to the Government of Pakistan without payment of any import duties under intimation to the Central Board of Revenue; and

(d) items imported on payment of 5% customs duty ad valorem or above, which have been rendered scrap, with change in their physical status, composition or condition, and PCT classification, will be dealt with as scrap and shall be chargeable to customs-duties and sales tax accordingly, at standard rates;

(vii) all petroleum sector companies, corporations and organizations including their contractors and sub-contractors and service companies shall be entitled to import machinery, equipment, helicopters, aircrafts, drilling bits, drilling and seismic (on shore or off shore) vessels, drilling rigs, specialized vehicles which fall under PCT heading 87.05 including accessories and spares that are part of such vehicles and vessels for the purpose of construction, erection, exploration and production of petroleum projects on an import-cum-export basis without payment of duties and taxes against a corporate guarantee valid for a period of two years equal to the value of import duties and taxes exempted, extendable by the Collector of Customs on time to time basis, if the importer has a definite contract. Should the goods etc., not be exported on the expiry of the project or transferred with the approval of the Collector of Customs to another petroleum project, or the period of stay has been extended by the Collector of Customs, then the company or their contractors or sub-contractors or service companies, as the case may be, shall be liable to pay duties and taxes chargeable at the time of import as per clauses (1), (2) and (3) above.

(viii) each importer or E&P company shall develop a software within a period of one year from the date of issuance of said Notification and shall establish an online

connection with the customs authorities for regulating the imports made under this notification.

- (ix) any item imported under this notification may be exported for replacement or otherwise, repair, modification or renovation and may be re-imported by paying concessionary duty and taxes only as per serial (1) on the actual cost of repair, renovation or modification of the respective item(s)

CONDITIONS WITH REFERENCE TO CLAUSE (4) ABOVE

- (i) The manufacturer has suitable in-house facilities and registration with the Sales Tax Department for manufacture of such goods or the importer-cum-manufacturer is in possession of a firm contract for the manufacture of such goods with any other manufacturer having suitable in-house facilities and registered with Sales Tax Department for the manufacture of such goods;
- (ii) the manufacturer-cum-importer shall furnish to the Collector of Customs and Collector of Sales Tax the list of such goods that he is manufacturing or intends to manufacture along with the details of raw materials and components required for the manufacture of each item and the total annual requirement of all such inputs;
- (iii) the input output ratios of items to be manufactured and total annual requirement of raw materials and components is determined by Directorate of Input Output Co-efficient Organization, or any other person, association or agency authorized by the Central Board of Revenue and a certificate of annual requirement issued by such designated or authorized person to the relevant Collector under intimation to the Central Board of Revenue;
- (iv) the clearance of inputs shall be allowed through a customs Collectorate nearest to the manufacturing unit;
- (v) the manufacturer-cum-importer shall, at the time of import of raw materials and components make a written declaration, on the goods declaration to the effect that the raw materials and components have been imported for manufacturing of goods to be supplied to the petroleum sector companies as specified in condition (i) under the caption "CONDITIONS WITH REFERENCE TO CLAUSES (1) AND (2);
- (vi) the manufacturer cum importer shall maintain record of the inputs and the goods manufactured out of them in such form as may be prescribed by the Central Board of Revenue or required under any other law in force by the CBR;
- (vii) the manufacturer cum importer shall communicate to the concerned Collector of Customs in writing about the consumption of imported goods within one month of consumption. In case of non-consumption within one hundred eighty days, the

importer shall pay the customs-duty and other taxes involved or shall give plausible reasons to the Collector of Customs and seek extension for a reasonable period;

- (viii) in case the manufacturer-cum-importer does not provide information regarding consumption or otherwise of the imported goods within a period of one hundred eighty days of import or such extended period as allowed by the Collector or if otherwise deemed necessary, the records of importer cum manufacturer shall be audited by the Duty Suspension Audit Organization (DSAO) or by any other person duly appointed by the Collector. If upon audit consumption of goods is not found satisfactory the Collector of Customs shall initiate proceedings for the recovery of leviable customs duty and other taxes besides penal action under the relevant provisions of laws in force; and
- (ix) the importer-cum-manufacturer of goods shall furnish a certificate from the incharge of the concerned project to the effect that the machinery has been supplied to them and duly installed.

Explanation.1. The expression "not manufactured locally" shall mean the goods, which are not included in the list of locally manufactured goods, specified in the General Order, issued by the Central Board of Revenue.

Explanation.2. Used and refurbished machinery, equipment, materials, specialized vehicles or vessels, their components and parts importable under this notification will be subject to the provisions of Import Trade and Procedures Order in effect.

Explanation.3. For the import of 4x4 single or double cabin pickup a committee will be constituted for giving approval. It will comprise nominees of CBR and Pakistan Petroleum Exploration and Production Companies Association.

[C.No. 1/10/March./2004]

(Muhammad Ramzan)
Additional Secretary

EMPLOYMENT, TRAINING AND SOCIAL WELFARE PROGRAM

EMPLOYMENT AND TRAINING

Training shall be provided to Pakistani employees and GOP officials by foreign and local E&P companies. A minimum expenditure of US Dollars 10,000 per Licence Year during exploration stage till commercial production (Pre-Commercial Production stage) and US Dollars 25,000 per Lease Year during the Post Commercial Production stage will be incurred which will be subject to review from time to time.

Employment programs for Pakistani nationals shall be agreed upon with DGPC on an annual basis, as per guidelines issued from time to time.

WELFARE PROGRAM

The amount of social welfare funds pledged by the companies (local and foreign) in their respective agreements must be utilized to give lasting benefit to the communities. Social welfare projects must be agreed with the local community and the civil administration as per guidelines issued by GOP from time to time.

The following minimum expenditure shall be incurred on welfare projects:

a)	During exploration stage till Commercial Production	US\$ 10,000 per Licence Year for Zone O & 1 and US\$ 20,000 per Licence Year for Zones 2&3
b)	Post Commercial Production date (BOE/d)	Amount/Lease Year (US\$) (For all Zones)
	Less than 2,000	20,000
	2,000 - 5,000	40,000
	5,000 - 10,000	75,000
	10,000 - 50,000	150,000
	More than 50,000	250,000

These amounts will be subject to annual review in accordance with the respective PCAs/PSAs.

Local E&P companies will incur these expenditures in equivalent Rupees.

Note: For offshore areas, under a Production Sharing Agreement the minimum training expenditure has been specified in Annexure VIII.

OFFSHORE PRODUCTION SHARING PACKAGE

This package is available for a limited period of 5 years for all new awards to the E&P Companies (or to the existing concession holders who opt for it). Thereafter Government can review and revise the policy terms for new awards on the basis of the results of petroleum exploration.

FISCAL INCENTIVES

i. **ROYALTIES**

Following Royalty schedule will be followed:

/// First 48 Calendar Months after Commencement of Commercial Production	-	0%	of Value	
/// Calendar Months 49 to 60 inclusive	-	5%		"
/// Calendar Months 61 to 72 inclusive	-	10%		"
/// Calendar Months 73 and greater	-	12.5%		"

ii. **CORPORATE INCOME TAX**

Corporate income tax is capped at 40%

iii. **DEPRECIATION**

The following depreciation rates will apply:

-	On successful exploration wells	25% on Straight Line
-	On facilities and offshore platforms	20% Declining Balance

Carry forward of any unabsorbed depreciation until such depreciation is fully absorbed.

iv. **DIRECT GOVERNMENT PARTICIPATION**

Sliding scale production sharing arrangement instead of direct Government participation.

v. **PRODUCTION SHARING**

The production sharing agreement would be executed by the Contractor with GOVERNMENT HOLDINGS who will be granted the Exploration Licence. This company will therefore initially receive the profit oil and profit gas shares and will be responsible for the management of the production sharing agreements. A provision has been made in the Model PSA for windfall price levy @ 50% beyond specified oil price of US \$ 24 per barrel which will be increased at each Contract Year anniversary by US\$ 0.50 per barrel starting from the Contract Year immediately following the grant of first lease in Contract Area and \$ 2.5 per Million BTU for gas which will be increased at each contract year anniversary by US\$ 0.10 per MMBTU starting from the Contract Year immediately following the grant of first lease in the Contract Area.

vi. **COST LIMIT**

Cost limit is 85% including the royalty of 12.5%. The Contractor can recover 100% of the costs upto a limit of 85% of the gross revenues.

vii. **PROFIT OIL AND PROFIT GAS SPLITS**

The profit split is set on the basis of a sliding scale given below for shallow, Deep and Ultra Deep Grid Areas as shown in Attachment - I. The sliding scale is based on cumulative production permitting a rapid recovery of investments and a higher net present value.

a) **SHALLOW GRID AREA PROFIT OIL/GAS SPLIT FOR WELLS IN SHALLOW GRID AREA i.e. SHALLOWER THAN 4000 METERS AND IN LESS THAN 200 METERS WATER DEPTH**

Cumulative Available Oil/ Available Gas On BOE Basis) from Contract Area (MMBLS)	Government Holdings Share of Profit Oil/Profit Gas in Contract Area		Contractor Share of Profit Oil/Profit Gas in Contract Area	
	<i>Crude Oil/LPG/ Condensate</i>	<i>Natural Gas</i>	<i>Crude Oil/LPG/ Condensate</i>	<i>Natural Gas</i>
0 – 100	20%	10%	80%	90%
> 100 – 200	25%	15%	75%	85%
> 200 – 400	40%	35%	60%	65%
> 400 – 800	60%	50%	40%	50%
> 800 – 1200	70%	70%	30%	30%
> 1200	80%	80%	20%	20%

b) **DEEP GRID AREA PROFIT OIL/GAS SPLIT FOR WELLS IN DEEP GRID AREA i.e. DEEPER THAN 4000 METERS IN SHALLOW GRID AREA AND/OR IN OVER 200 METERS AND LESS THAN 1000 METERS WATER DEPTH**

Cumulative Available Oil/ Available Gas On BOE Basis from Contract Area (MMBLS)	Government Holdings Share of Profit Oil/Profit Gas in Contract Area		Contractor Share of Profit Oil/Profit Gas in Contract Area	
	<i>Crude Oil/LPG/ Condensate</i>	<i>Natural Gas</i>	<i>Crude Oil/LPG/ Condensate</i>	<i>Natural Gas</i>
0 – 200	5%	5%	95%	95%
> 200 – 400	10%	10%	90%	90%
> 400 – 800	25%	25%	75%	75%
> 800 – 1200	35%	35%	65%	65%
> 1200 – 2400	50%	50%	50%	50%
> 2400	70%	70%	30%	30%

c) **ULTRA DEEP GRID AREA PROFIT OIL/GAS SPLIT FOR WELLS IN ULTRA DEEP GRID AREA i.e. IN MORE THAN 1000 METERS WATER DEPTH**

Cumulative Available Oil/ Available Gas On BOE Basis from Contract Area (MMBBLs)	Government Holdings Share of Profit Oil/Profit Gas in Contract Area		Contractor Share of Profit Oil/Profit Gas in Contract Area	
	<i>Crude Oil/LPG/ Condensate</i>	<i>Natural Gas</i>	<i>Crude Oil/LPG/ Condensate</i>	<i>Natural Gas</i>
0 – 300	5%	5%	95%	95%
> 300 – 600	10%	10%	90%	90%
> 600 – 1200	25%	25%	75%	75%
> 1200 – 2400	35%	35%	65%	65%
> 2400 – 3600	45%	45%	55%	55%
> 3600	60%	60%	40%	40%

viii. **PRODUCTION BONUSES**

Production Bonuses will be as follows: -

US\$ 1 million - Within 90 days of start of commercial production

US\$ 2 million - upon reaching 200 million cubic feet per day
Or 33000 BOE

US\$ 5 million - upon reaching 600 million cubic feet per day or
100,000 BOE

ix. **CONVERSION POLICY FOR EXISTING PCAS TO PSA**

A relatively simple and non-discretionary conversion policy has been proposed which would allow all current holders of concessions to convert to the Production Sharing Agreement. (Attachment –II)

x. **WORK UNIT CONCEPT**

For the purpose of smooth discharge of work obligations under the PSA the work programme shall be carried out on the basis of work units (compared to the existing system based on seismic and number of wells).(details given in Attachment -III)

xi. **IMPORT DUTIES AND TAXES**

Duties and taxes on import of equipment and materials shall be 0% for exploration and 3% after the first commercial discovery in the Contract Area as per SRO No.400 (1)/97 dated May 31, 1997.

xii. **MARINE RESEARCH FEE**

A marine research fee will be applicable as per the following schedule:

- US\$ 50,000 per year till first discovery
- US\$ 100,000 per year thereafter till first commercial discovery
- US\$ 250,000 per year during development phase
- US\$ 500,000 per year during production phase.

xiii. **TRAINING CONTRIBUTIONS**

Minimum training fee will be applicable as follows:

US\$ 20,000 per year	-	Exploration phase
US\$100,000 per year	-	Development and Production

xiv. **OIL, GAS, LPG and CONDENSATE PRODUCER PRICE**

The price will be as per GOP Policy **applicable for Zone-I of Onshore areas (as was the case under Petroleum Policy, 1994/1997)** or "Arms' Length Sales Value" which ever is less.

xv. **EXPLORATION PERIOD**

Exploration period will consist of an initial term of 5 years and two subsequent renewals of two-years each, for a total exploration period of 9 years.

xvi. **RETENTION PERIOD**

A maximum retention period of 10 years will be considered on a case by case basis to enable the companies to evaluate commercial aspects of the discovery and to make market arrangements for disposal of discovered gas.

xvii. **TOTAL TERM**

Total term of the Contract will be upto 44 years, which will also cover the retention period and the longer exploration period.

xviii. **BLOCK SYSTEM**

A new block system based on latitudes and longitudes as indicated in Annexure-IX will be followed for grants and relinquishments of all offshore acreage.

xix. **RELINQUISHMENTS**

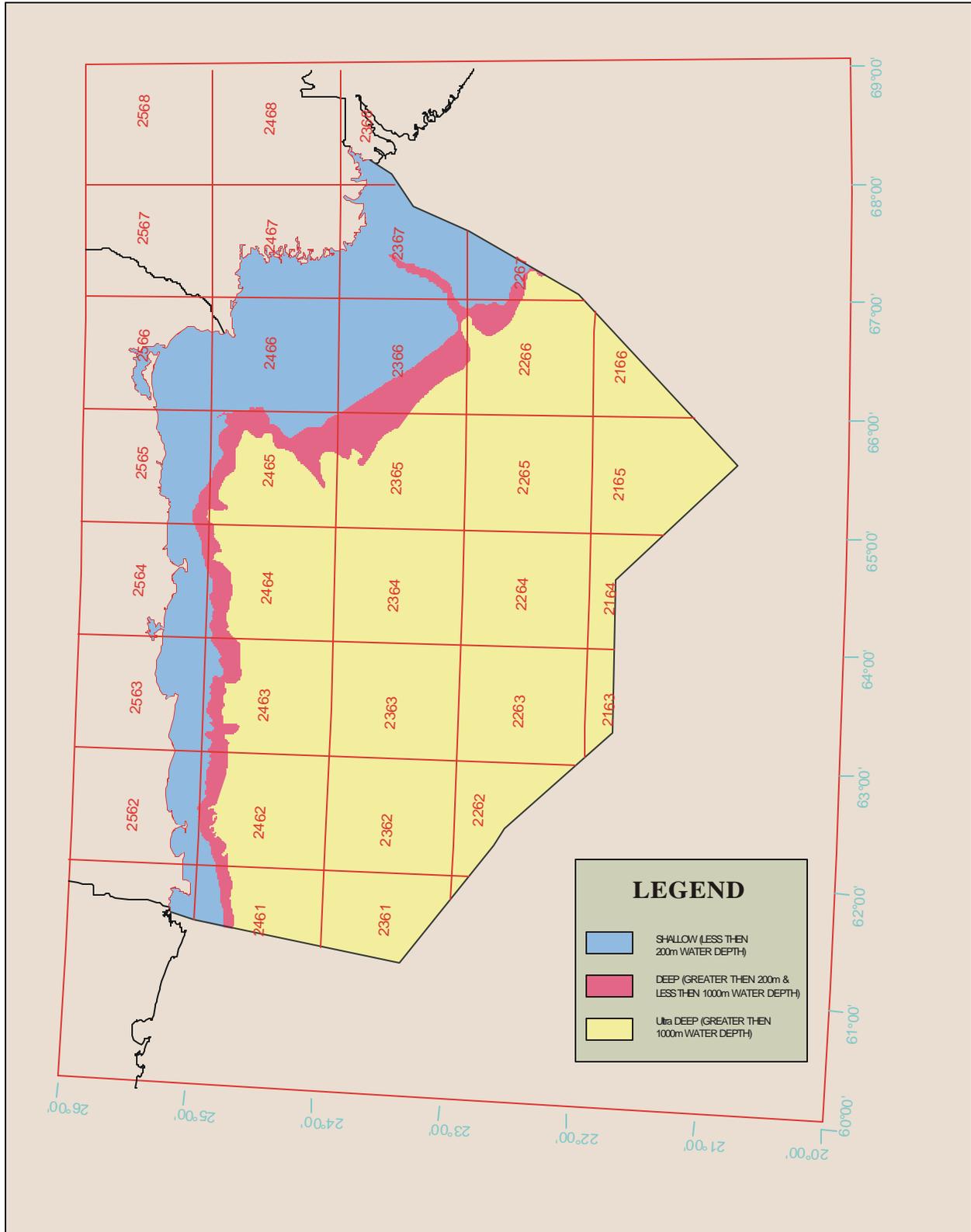
The Contractor has to return 20% of the Original Contract Area prior to the termination of the initial Term, 30% of the Original Contract Area prior to the termination of the first renewal and another 30% of the Original Contract Area prior to the termination of the second renewal.

xx. **RENTALS**

Modest acreage rentals of \$ 50,000 plus \$ 10 per square kilometer will be applied.

Description of Geological Zone "O"

Attachment - 1
Of Annexure - VIII



CONVERSION POLICY OF EXISTING OFFSHORE LICENCES & AGREEMENTS

I. Time for Conversion

Any existing holder of a petroleum right (Holder), in Offshore area under a Petroleum Concession Agreement (PCA) may elect to convert it to a Production Sharing Agreement (PSA) subject to agreement of the Government under the Conversion Policy which would entail the following main principles:

- (1) The Holder must have fulfilled and completed its work obligations for the initial term of the exploration licence at the time of application for conversion.
- (2) A new exploration licence shall be issued to the Government Holdings as per Rules to incorporate the Policy package of Production Sharing system.

The Holder shall execute a Production Sharing Agreement with Government Holdings as per Model and the Rules within 90 days of acceptance of Holder's application by Government without following the normal bidding process. All expenditure incurred in offshore part of an existing Licence will be allowed to be treated as pre-signing Expenditure for the purpose of new Production Sharing Agreement on case to case basis as may be allowed by the President provided such expenditure has not been previously expensed by the Holder and no tax benefit has been availed.

- (3) Upon execution of a Production Sharing Agreement and the issuance of the exploration licence as per Rules, the rights and obligations for offshore area shall be deemed to have been transferred and assumed by the Holder under the new Agreement with effect from the Effective Date giving due consideration to the work and other obligations discharged upto the execution of the Production Sharing Agreement.
- (4) The existing Licence and PCA shall continue to apply to onshore area, which will be re-designated at the time of execution of Production Sharing Agreement for offshore part of the block.

II. Area Selection

Where a Holder elects to convert its existing Licence and PCA, the following provisions shall apply to determine the area contained in the existing Licence (the "Existing Areas ") that are to be included in the Original Contract Area of the PSA:

- (1) Only Sections or part of the sections that are entirely Offshore shall be included in the Original Contract Area.
- (2) If 50% or more of a Section falls within the Existing Areas, all of that Section shall be included in the Original Contract Area. If less than 50% of a Section is within the Existing Areas, that Section shall be excluded from the Original Contract Area.
- (3) If Existing Areas are on a boundary with some other Holder (the "Other Holder"), the division of the area between the two will be decided by the Government in consultation with the parties concerned.
- (4) In order to facilitate the conversion process, Government may prepare a plan for the adjustment of all boundaries of all existing Licences.

III **Conversion of Work Programme**

The Minimum work requirements to be contained in Production Sharing Agreement resulting from the conversion of an existing PCA shall be determined as follows:

- (1) There shall be no Work Unit obligations associated with the Phase One of the Agreement. Prior to conversion, Contractor shall have complied with the work commitment for the Initial Term of its existing Licence and the Concession Agreement.
- (2) The Holder and the DGPC shall determine the number of Work Units required for the remaining Licence period in accordance with the Rules.

(WORK UNITS)
TO BE ANNEXED TO THE
MODEL OFFSHORE PRODUCTION SHARING AGREEMENT

ARTICLE 1

GENERAL PROVISIONS

1.1 Purpose

The purpose of this Annex regarding Work Units is to set out the principles and procedures whereby the work program under Article 3.3 of the Agreement shall be carried out on the basis of Work Units, as per Rules as hereinafter defined.

1.2 Definitions

The definitions of Article I of the Agreement shall apply to this Attachment and have the same meaning except that references herein to Article refer to Articles hereof unless otherwise indicated. In addition, the following terms will have the meaning given below:

- (a) "*Well Depth*" means the well depth measured along the well bore from the rotary table to the total depth. In case the well is a deepening of an existing well, the well depth is measured from the deepest point in the existing well to the new total depth. In case a well is side-tracked, the depth shall not include any depth drilled below the kick off point of the side track, but shall include the redrilled part of the well from the kick off point to the total depth.
- (b) "*Work Unit*" means a unit of work for the purpose of measuring the compliance with the Minimum Work under the Agreement, as set out in more detail in Articles II and III of this Attachment.

1.3 Precedence of Documents

In the event of any inconsistency or conflict between the provisions of this Attachment and the provisions of the Agreement, the provisions of the Agreement shall prevail.

1.4 Qualifying Work

The only work that qualifies for Work Units are new 2-D and 3-D seismic surveys and Exploration Wells carried out during the Exploration Period in the Contract Area. Work shall include any seismic surveys for the purpose of locating Exploration Well and Exploration Wells

drilled in Development Areas during the Exploration Period. Any work carried out as an Appraisal Program or as part of the development of a Commercial Discovery shall not qualify for Work Units.

ARTICLE II
VALUE OF WORK UNITS

2.1 Value of Work Units

The value of one Work Units is Ten Thousand (\$10,000) Dollars.

ARTICLE III
EQUIVALENCY OF WORK UNITS

3.1 Equivalency of Work Units

The following equivalency applies in order to equate work that has been carried out with Work Units:

(a) 2-D seismic surveys

One line-kilometer of 2-D seismic surveys which has been acquired, processed, interpreted and mapped 0.1 Work Unit.

(b) 3-D seismic surveys

One square kilometer of 3-D seismic surveys which has been acquired, processed, interpreted and mapped 1.0 Work Unit.

(c) One Exploration Well with a surface location in a Shallow Grid Area which is identified in Attachment I of Annexure VIII:

Well Depth (in meters)	Work Units
1000	300
2000	550
3000	1000
4000	1800
5000	3200
6000	5800
7000	10000

- (d) One Exploration Well with a surface location in a Deep Grid Area which is identified in Attachment I of Annexure VIII:

Well Depth (in meters)	Work Units
1000	500
2000	900
3000	1600
4000	2800
5000	5100
6000	9200
7000 or greater	16000

- (e) One Exploration Well with a surface location in a Ultra-Deep Grid Area which is identified in Attachment I of Annexure VIII:

Well Depth (in meters)	Work Units
1000	700
2000	1300
3000	2200
4000	3600
5000	6400
6000	1200
7000 or greater	21000

3.2 Interpolation

For Well Depths intermediate to the ones indicated in the tables of Article 3.1 (c), 3.1 (d) and 3.1(e), the Work Units shall be determined on the basis of linear interpolation.

ARTICLE IV

MINIMUM WORK UNITS DURING THE EXPLORATION PERIOD

4.1 Minimum Work Units

The minimum Work Units required by the Minimum Work programme will be set out in Article 3.3 of the Agreement with respect to Phase One, Phase Two and Phase Three of the Initial Term and the First and Second Renewal thereof in accordance with the Rules.

4.2 Work which does not Qualify

The following work does not qualify for Work Units:

- (a) work carried out prior to the Effective Date,
- (b) work carried out after the termination of the Exploration Period,
- (c) work carried out outside the Contract Area,
- (d) work which is not carried out in accordance with a work program approved by the Management Committee,
- (e) work which does not qualify as Petroleum Operations under the Agreement.
- (f) any Exploration Wells which are terminated less than 100 metres below the seabed, and
- (g) the portion of any Well Depth for which no well logs were obtained as a result of blow-outs, other accidents or drilling problems.

4.3 **Completion of Work**

The work in order to earn Work Units shall be considered completed where:

- (a) DGPC has received satisfactory proof from the Contractor that the work has been executed in accordance with the Agreement and the Rules, and
- (b) DGPC has received the minimum required information pursuant to the Agreement and the Rules.

4.4 **Value of Work**

The reduction of the irrevocable unconditional bank or the determination of the non performance compensation/liquidated damages pursuant to the agreement, shall be based on the value of the Work Units that have been completed or not completed by the Contractor, irrespective of whether the actual cost of the work has been more or less than the value of the Work Units.

4.5 **Free Selection of Work**

The Contractor is free to define the work that qualifies for Work Units, subject to approval of the work program by the Management Committee.

4.6 **Crediting of Work Units**

Any Work Units executed in excess of the amounts required under the Agreement for each Phase of the Initial Term or the First Renewal can be carried forward to the next period in accordance with the provisions of the Agreement. The value of Work Units which are being transferred to subsequent years shall be adjusted in accordance with Article 2.1 of this Attachment.

4.7 **Non-transferability of Work Units**

Work Units cannot be transferred from one Contract Area to another.

4.8 **Allocation of Work Units**

Where seismic surveys are being carried out jointly by several Contractors in different Contract Areas and/or on open acreage, the Contractor shall only convert to Work Units the work which is carried out inside the Contract Area and shall allocate such work based on the line-kilometres or square kilometres carried out in the Contract Area.

Where a Contractor contributes to or shares in the costs of an Exploration Well drilled outside the Contract Area, the Contractor shall not claim such well or any portion of such well for the earning of Work Units.

BLOCK SYSTEM

Division into Blocks, Grid Areas and Sections

A. (1) Blocks:

- (a) The Offshore/Onshore area will be divided into Blocks.
- (b) Blocks shall be bounded on the east and west sides by successive integer meridians of longitude.
- (c) Blocks shall be bounded on the north and south sides by successive integer parallels of latitude.
- (d) A Block shall be referred to by the degree longitude and latitude of the southwest corner of the Block; for example, the Block with a southwest corner at 25 degrees latitude and 64 degrees longitude would be referred to as Block 2564.

(2) Grid Areas:

- (a) Every Block shall be divided into 144 Grid Areas.
- (b) Grid Areas shall be bounded on the east and west sides by meridians spaced at intervals of five minutes between the east and west boundaries of the Block.
- (c) Grid Areas shall be bounded on the north and south sides by parallels spaced at intervals of five minutes between the north and south boundaries of the Block.
- (d) A Grid Area shall be identified by the letters to which it corresponds in the following diagram:

NW											NE	
L	AI											LI
K	Ak										Kk	
J	Aj								Jj			
I	Ai								Ii			
H	Ah							Hh				
G	Ag						Gg					
F	Af					Ff						
E	Ae				Ee							
D	Ad			Dd								
C	Ac		Cc									
B	Ab	Bb										
A	Aa	Ba	Ca	Da	Ea	Fa	Ga	Ha	Ia	Ja	Ka	La
	a	b	c	d	e	f	g	h	i	j	k	L
S W											SE	

(3) **Sections:**

- (a) Every Grid Area shall be divided into 100 Sections.
- (b) Sections shall be bounded on the east and west sides by meridians spaced at intervals of thirty seconds between the east and west boundaries of the Grid Area.
- (c) Sections shall be bounded on the north and south sides by parallels spaced at intervals of thirty seconds between the north and south boundaries of the Grid Area.
- (d) A Section shall be identified by the number to which it corresponds in the following diagram:

		N W										N E									
9	09																				99
8	08																				88
7	07																				77
6	06																				66
5	05																				55
4	04																				44
3	03																				33
2	02																				22
1	01																				11
0	00																				10 20 30 40 50 60 70 80 90
																					1 2 3 4 5 6 7 8 9
		S W										S E									

(4) **Naming of Agreements, Sections and Wells:**

- (a) An Agreement shall be referred to by the southwest corner of the Block in which the southwest corner of the Original Contract Area of the Agreement is located, separated by a hyphen, followed by the number (by historical signing date) of the Agreement in that Block; for example, the fourth Agreement having its southwest corner in Block 2564 would be referred to as "Production Sharing Agreement 2564-4".
- (b) Sections shall be referred to by specifying the Block, Grid Area and Section number, separated by hyphens, in declining order of size; for example, the Section 81 located in Block 2564, Grid Area Bb would be referred to as "2564-Bb-81".
- (c) A well will be described by the Section location of its wellhead. If there is more than one well drilled from the same Section, each well will be

described by its Section location, separated by a hyphen, followed by the number (by historical spud-in date) of the well in that Section; for example, the first well drilled in Section 2564-Bb-81 will be referred to as "2564-Bb-81.1".

B. (1) Offshore Zones:

The map of the Offshore of Pakistan (Attachment I of Annexure VIII) shows each Grid Area as being either "shallow" (having an average water depth of less than 200 metres) or "deep" (having an average water depth greater than 200 metres) or ultra deep having an average water depth greater than 1000 metres.

(2) Maximum Size:

A Permit may be granted for an Offshore area of any size. A Licence shall not be granted in respect of any area of more than 9600 Sections. A Lease shall not be granted in respect of any area of more than 150 Sections, provided that if Contractor can provide conclusive evidence based on geological and geophysical data that an area of 150 Sections is not sufficient to cover the vertical projection to the surface of the discovered reservoirs, then Government has the discretion to grant a Lease of more than 150 Sections covering the vertical projection to the surface of the discovered reservoirs within the boundaries of the Licence.