In accordance with Act on the Exploration and Production of Hydrocarbons, Decision of Government of Republic of Croatia on Commencement and Publication of Tendering for Exploration and Production of Hydrocarbons on the Adriatic Sea, Decision of Government of Republic of Croatia on Tendering Procedural Rules for Exploration and Production of Hydrocarbons on the Adriatic Sea, Decision of Government of Republic of Croatia on Content, Terms and Conditions and Selection Criteria in the Tender for Exploration and Production of Hydrocarbons on the Adriatic Sea

THE REPUBLIC OF CROATIA

Government of the Republic of Croatia

announces

1st OFFSHORE LICENSING ROUND FOR LICENCES FOR THE EXPLORATION AND PRODUCTION OF HYDROCARBONS

This Tender Guidance is provided for assisting the potential applicants in preparing and submitting their applications in the 1st licensing round for licences for the exploration and production of hydrocarbons in the Adriatic Sea.

The tender notice published in the Official Journal of the European Union and media is an abbreviated version hereof made for information purposes only. In case of any discrepancy between the notices published in the Official Journal of the European Union and the Official Gazette of the Republic of Croatia, the provisions published in the Official Gazette of the Republic Croatia shall prevail.

All the relevant information, documents and notices concerning this tender are available on the website of the Ministry of Economy at www.mingo.hr and Croatian Hydrocarbons Agency at www.azu.hr.
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1 DEFINITIONS

The following terms of this Tender Guidance shall have the meaning assigned to them below:

Agency means Croatian Hydrocarbons Agency.

Agreement means the production sharing agreement to be signed by the Selected Applicant following the Licence issuance and pursuant to the template of the model production sharing agreement provided in Annex 8 to this Tender Guidance.

Applicant means a Participant who submits an Application.

Applicant’s Representative means a person appointed by an Applicant (or the Operator, where the Applicant is a Consortium) under Applicant’s corporate documents or a power of attorney to act on behalf of the Applicant to carry out some specific activities in this Licensing Round.

Application means the set of information and documents submitted by the Applicant to the Ministry in the form and manner prescribed by this Tender Guidance and within the Application Deadline.

Application Deadline means the 03 November 2014 at 14:00 local time.

Application Validity Period means the period during which an Application must remain valid, pursuant to Clause 3.2.2 of this Tender Guidance.

Bid Guarantee means the guarantee required to be provided by the Selected Applicant, pursuant to Clause 3.5 of this Tender Guidance.

Block means an area open to exploration and production operations as described in Annex 3.

Consortium means an Applicant that is a joint venture among two or more business organizations.

Consortium Member means an entity that is a member in a Consortium.

Expert Committee means the Committee established under Article 12 of the Law, with the authority to examine and evaluate Applications.

GoC means the Government of the Republic of Croatia.

Law means the Act on the Exploration and Production of Hydrocarbons (Official Gazette of the Republic of Croatia nos. 94/2013 and 14/2014), and as amended from time to time.

Licensee the Applicant that was issued a Licence.

Licensing Round means the process to select an Applicant for each Block being undertaken pursuant to this Tender Guidance.

Ministry means the Ministry of Economy.
1st Offshore Licensing Round  
Tender Guidance  
Republic of Croatia

**Operator** the party responsible for carrying out all Investor obligations at the Block.

**Participant** means legal entity engaged in petroleum operations or an affiliate thereof who considers submitting an Application.

**Selected Applicant** means an Applicant selected to sign an Agreement with respect to a Block.

**Tender Guidance** means this Tender Guidance to apply for 1st Croatian offshore licences for the exploration and production of hydrocarbons.

Any other term used in this Tender Guidance, which has not been assigned a specific meaning, has the meaning assigned to it by the Law, the regulations or otherwise as the context may require.

# 2 INTRODUCTION

## 2.1 Issuer

In accordance with the Law on Exploration and Production of Hydrocarbons, the Republic of Croatia represented by Ministry of Economy hereby announces the Tender Guidance to apply for licences for the exploration and production of hydrocarbons for the offshore of Croatia and provides this Tender Guidance.

This Tender Guidance is issued by the Ministry.

## 2.2 Licensing Round

The area offered for Licensing Round is on the offshore part of the Adriatic Sea that belongs to the Republic of Croatia as part of its continental shelf. Licences shall be granted to Selected Applicants to carry out exploration on Blocks on the basis of competitive Applications under the terms and conditions provided herein.

Exploration areas subject to Licensing Round are described in Annex 3 to this Tender Guidance. The area consists of 29 exploration Blocks. The detailed segregation of the area into Blocks is indicated in Annex 3 to this Tender Guidance.

The announcement, procedure and other matters relevant in this Licensing Round as well as the overall hydrocarbon exploration and production activities in the Republic of Croatia are governed by the Law and other applicable regulations.

Only Applications conforming to this Tender Guidance and received not later than 14:00 (local time) on the 03 November 2014 shall be taken into account.

## 2.3 Legal Notice

Neither the Republic of Croatia, the Ministry, the Agency nor any of its agents, representatives, advisors or consultants, makes, will make, or will be deemed to have made, any representation or warranty, express or implied, as to the accuracy, reliability or completeness of the information contained herein or any information otherwise provided, whether orally or in writing, other than such representations or warranties expressly stated as such in a definitive contractual agreement executed between the Republic of Croatia and the Selected Applicant. Neither the receipt of this Tender Guidance, nor any information contained herein or supplied herewith or subsequently communicated to any person, whether orally or in writing, in connection with Applications or any other proposed business involving the Republic of Croatia, the Ministry, the Agency or its representatives, advisors, or consultants, shall constitute, or be interpreted as constituting, the giving of financial, legal, technical or other advice. Neither the Republic of Croatia, the Ministry, the
Agency nor any of its agents, representatives, advisors or consultants, shall be held liable or responsible to any Participant for any cost or expense incurred in responding to this Tender Guidance or in any investigation or transaction, whether or not consummated, which may follow. This Tender Guidance does not purport to contain all of the information that an interested party may need or desire to make an investment decision. Participants should conduct their own investigations and analysis of the information set forth in this Tender Guidance and other information which may be needed. By downloading the Tender Guidance, the Participant confirms understanding with these terms.

Applicants, with the submission of their Applications, shall be considered to be aware of all relevant laws and regulations of the Republic of Croatia that could in any manner influence or designate the activities resulting from the Tender Guidance, Licence and Agreement. A non-exhaustive list of relevant Croatian laws is provided in Annex 1 to this Tender Guidance.

2.4 Background

2.4.1 Legal Framework

The Licensing Round will be conducted on the basis that Selected Applicants are granted a Licence and enter into the Agreement with the GoC. The Law and the Agreement outline the following framework that will apply to the exploration and production of hydrocarbons.

**Licence, Agreement and Concession**

Exploration and production of hydrocarbons in offshore areas covered by this Tender Guidance requires a Licence and an Agreement. A Licence is granted to the Selected Applicant in this process for a maximum period of 30 (thirty) years which comprises the exploration and production period commencing on the effective date of the Agreement.

Licensee will conclude an Agreement with the GoC in accordance with the content of the Licence within three months following the Licence issuing date. The Agreement shall be consistent with Licence and specify all the rights and liabilities of the parties in performing the mining works as well as other rights and liabilities stated in the Licence.

Licensee shall have the right to hydrocarbon exploration and to a direct grant of a concession upon development plan approval in case of a commercial discovery provided that it fulfilled all contractual commitments.

**Exploration Period**

The total exploration period is five years extendable for a six month period a maximum of two times, with justification following an investor proposal. This Licensing Round requires Applicants to make proposals on the basis of a first exploration phase of three years and a second phase of two years.

Licensee shall, at the end of the first exploration phase relinquish 25% of the original Block area. At the end of the second exploration phase the Licensee shall relinquish the remaining portion of the Block area, unless the area is subject to further development in accordance with the Agreement, in which case the development area shall be outlined pursuant to Licensee's proposal, and the remaining parts shall be relinquished.

**Licence Content**

The Licence will outline the following:

- Scope of the Licence and all authorized activities which the Licensee is to undertake when conducting mining works,
- The right to a direct grant of a concession in case of declaration of a commercial discovery and proper observance of all contractual commitments,
Block coordinates of the exploration area,
The period of Licence validity and potential for extension,
Identification of the Agreement as the production sharing agreement and its main terms and conditions to be concluded pursuant to the Licence,
The obligation of the Licensee to conform to environmental protection and any other special conditions.

Production Period
Licensee shall be granted a concession if a commercial discovery has been declared and all the contractual obligations have been properly met.

When the exploration period expires, and if the requirements for direct grant of a concession have been met, the production period shall start and continue until the Licence expiry date.

The production period may be extended by the GoC pursuant to an application of the investor made at least 12 (twelve) months prior to expiry of the Licence. In this case, the Licence is also extended.

Agreement Stabilisation
Where any legislative change in Croatia substantially alters the economic or commercial provisions of the Licence, Agreement or other essential interests of the parties, the parties thereto will renegotiate the Licence and/or Agreement to reinstate the former balance of economic interests that existed prior to the substantial alteration and which are consistent with the provisions of the Licence and the Agreement. Changes to acts and regulations governing labour relations, protection of nature and environment, protection of human health, occupational safety, protection of people and safety of assets, conservation of mineral wealth and safety of the mining works will not qualify as a substantial alteration of interests.

2.4.2 Delimitation of Maritime Boundaries
The Republic of Croatia has entered into the following agreements regarding its maritime boundary delimitation:

Italy
Maritime boundary - delimitation of the continental shelf between Italy and former Yugoslavia was established in 1968 by the Agreement between Italy and Yugoslavia concerning the delimitation of the continental shelf between the two countries in the Adriatic Sea, 8 January 1968 and Osimo Treaty from 1975.

Bosnia and Herzegovina
Treaty on the State Border between the Republic of Croatia and Bosnia and Herzegovina, 30 July 1999

Montenegro

Slovenia
Sea boarder with Slovenia is currently under arbitration procedure.

3 APPLICATION PROCEDURE
The Applicant shall bear all costs and expenses entailed in the preparation and submission of its Application. Regardless of the final outcome of the Licensing Round, the GoC shall in no event be responsible or liable for any such costs and expenses incurred by any Applicant.
Applications must conform to the administrative requirements as well as the minimum formal requirements, minimum technical requirements and minimum financial requirements as described below.

3.1 Administrative Requirements

Language

The official language of this Licensing Round is Croatian. Participants are provided with English language version of this Tender Guidance and are free to communicate with the Agency in either English or Croatian. Agency shall provide all official communication drafts in the language of enquiry, either English or Croatian with English translation.

An Applicant shall submit either Croatian Application, or an English language version of the Application together with a certified translation into Croatian language, both elements making the Application as defined in this Tender Guidance. All translations made into Croatian language in the Application must be certified.

Requests for Clarifications, Modifications

Questions regarding this Tender Guidance (including clarification or modifications requests) can be made by email to the Agency address offshore@azu.hr.

Questions shall be submitted no later than thirty days prior to the Application Deadline. Responses to all questions shall be provided at the latest fifteen days prior to the Application Deadline. Some responses may change the terms and conditions of this Tender Guidance.

Issuer may modify this Tender Guidance at any time up to fifteen days before the Application Deadline. Modifications shall apply after being made available on www.azu.hr and shall constitute an integral part of the Tender Guidance.

Timeframe

The starting date of the Licensing Round is 2 April 2014. The closing date of the Licensing Round is 03 November 2014 at 14:00 local time.

<table>
<thead>
<tr>
<th>Tentative Bid Round Schedule</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 April 2014</td>
</tr>
<tr>
<td>Licensing Round launch</td>
</tr>
<tr>
<td>03 November 2014 14:00 local time</td>
</tr>
<tr>
<td>Application Deadline</td>
</tr>
<tr>
<td>03 December 2014</td>
</tr>
<tr>
<td>Licence granting deadline</td>
</tr>
<tr>
<td>03 March 2015</td>
</tr>
<tr>
<td>Agreement execution deadline</td>
</tr>
</tbody>
</table>

3.1.1 Exclusion from Participation

A Participant and/or Applicant shall be excluded from participation in the Licensing Round if:

(a) It attempts either personally or by someone else's help to influence in any way the opinion of the Expert Committee, the Ministry and Agency or of any of its members or of any other public person or officer in exercising the duties/powers vested in it/him under the law and regulations.

(b) It has pursued and has come in possession of classified information or documents regarding the Licensing Round acting against the law.
(c) It is directly or indirectly involved in any act of corruption, bribing, offering commission or giving gratuity to anyone with the intention of influencing the GoC or its representatives in its/their evaluation of Applications or designation of the Selected Applicant.

(d) It has unsettled debts relating to public levies, unpaid fees for production of mineral raw materials, unpaid fees for production of forests and/or forest land or agricultural land for the purpose of production of mineral raw materials or relating to illegal exploration and production of mineral raw materials, and which have unmet liabilities in rehabilitation and protection of the nature and environment; or it has been founded or co-founded by a natural person or legal entity that has unsettled debts as defined above.

Applicants that are Croatian residents demonstrate this requirement with the following:

- certificate of the Tax Administration on non-existence of debts demonstrating that an Applicant has no unsettled debts relating to public levies in the Republic of Croatia;
- certificate of the State Inspector’s Office proving that the Applicant has not been caught in illegal exploration and/or production of mineral raw materials. If an Applicant has explored and/or exploited mineral raw materials on an illegal basis, they shall submit a valid evidence that the Republic of Croatia has been compensated for the damage. Valid evidence shall also include a concluded settlement under the condition that the party has met its commitments laid down in the settlement;
- certificate of the ministry competent for mining and the ministry competent for financial affairs which proves that an Applicant has no unsettled debts relating to the fee for production of mineral raw materials in the Republic of Croatia;
- certificate of the body competent for the state property management as a legal person with public authorities demonstrating that an Applicant has no unsettled debts relating to production of forests and/or forest land or agricultural land for the purpose of production of mineral raw materials in the Republic of Croatia;
- certificate of the ministry competent for nature and environmental protection proving that an Applicant has no unsettled debts referring to unmet commitments with regard to rehabilitation and protection of nature and the environment.

Applicants that are EU residents demonstrate this requirement with appropriate certificates issued by the relevant authority of the respective EU country of residence.

If the country concerned does not issue the documents or certificates referred to in the above paragraph, a declaration or oath may be made by the Applicant before a judicial or administrative authority, or a notary or a competent professional or trade body in that regard.

3.2 Formal Requirements for Participation

3.2.1 Application Fee

Applicants are required to submit payment equivalent to of Euro Five Thousand (EUR 5,000.00) payable in Croatian Kuna (HRK) according to middle exchange rate as listed by the Croatian National Bank on the payment day, into the bank account of Agency, IBAN: HR40 2340 0091 1106 4097 3, SWIFT: PBZGHR2X. Application must contain the certificate of payment thereof.

3.2.2 Validity of Applications

Applications must be unconditional and remain valid for a period of 180 days starting from the day following the Application Deadline binding the Applicants to accept the Licence at any time during that period.

The Ministry may request, by written notice, the Applicants to extend the Application Validity Period for a specified period of time, at least ten days prior to the expiry of the Application Validity Period.
3.2.3 Submission of Applications

Applications must be delivered in a sealed envelope marked:

(a) With the name and full address of the Applicant (where the Applicant is a Consortium, the name and the address of the Operator) and

(b) With the following phrase above the recipient address:

“PONUDA ZA DOZVOLU ZA ISTRAŽIVANJE I EKSPLOATACIJU - NE OTVARATI”

and delivered to the following address:

Ministry of Economy – Mining Sector
Ulica grada Vukovara 78
HR-10000 Zagreb
Republic of Croatia

no later than the 03 November 2014 14:00 local time.

Submission of Applications may be either by hand or by mail/courier. An acknowledgment of submission will be given to the Applicant only upon receipt of the Application by hand. Applicants submitting via courier are advised to mark the required information on the sealed envelope or box inside the courier pouch or box, to ensure that shipment is not accidentally open before due time due to limited freedom in designating the courier shipments on the outside.

Applications shall be submitted, typed or written in indelible ink and shall contain no interlineations, erasures or overwriting except as necessary to correct errors made by the Applicant, in which case such corrections shall be initialed by the Applicant's Representative. All material contained in the Application should be preferably at A4 size paper for ease of handling, although A3 size paper may be accepted, folded in A4 size, if necessary.

All Applications shall be securely bound and shall include one (1) original (hard copy) marked as ORIGINAL and seven (7) copies (true photocopies of the original hard copy) marked as COPY, each bound separately. In addition, one (1) electronic copy (on CD-ROM, DVD-ROM or thumb drive or other electronic means) of the Technical and Financial Proposal shall be included, provided that it comes in a format compatible with the Ministry's own systems, which include Microsoft Office, Microsoft Internet Explorer and Adobe Reader (do not have password-protection or encryption).

A submitted Application may only be amended before the Application Deadline by submitting the overriding Application compliant with all the requirements.

3.2.4 Application Form

The Application shall start with the Application letter (in the form provided in Annex 6) completed and signed in original by the Applicant's Representative, along with documents evidencing the authority of the signatory.

Only Application letter shall be required in original. All other documents may be printouts of scanned documents or photocopies. However, all officially issued supporting documents must show proper legalization (for example apostille form) official for use in the Republic of Croatia in such copy.

An Applicant may include in its Application such additional information that is not required by the Tender Guidance at its discretion.

Applications shall be treated as confidential if so designated.

The Expert Committee may, at its discretion, request from the Applicant a clarification of its
Application or delivery of an original document that was provided as a copy. Applicants must ensure they can fully comply with such request at the latest within ten (10) days as of the dispatch thereof.

The Application shall continue with financial and legal capacity documentation and technical capacity and HSE documentation.

3.3 Financial and Legal Requirements

The Applicant (and each Consortium Member, where the Applicant is a Consortium) shall be a legal entity, duly authorized, existing and registered in good standing under the laws of its country of incorporation or establishment and domicile. Only Applicants with the necessary financial capacity and operating competence can be considered for the granting of a Licence.

Where the Applicant is a Consortium the following shall apply:

(a) each Consortium Member shall have joint and several liability for the obligations of the Applicant pursuant to this Licensing Round and its Application;

(b) all Applications shall indicate the registered name, principal address or place of business, place of incorporation and registered number of incorporation of each Consortium Member;

(c) one Consortium Member must be nominated as the Operator. The remaining Consortium Members shall each appoint the Operator as authorized to be responsible for all dealings with the GoC for the purpose of this Licensing Round and its Application;

(d) Applicants shall include in their Applications satisfactory evidence as to the validity and effectiveness of the nominated Operator of the Consortium.

Application shall contain certificates or equivalent documentation issued by the competent authorities of its country of origin or of establishment, as appropriate, not older than three months before Application Deadline, certifying that the Applicant does not fall within the following grounds:

a) is bankrupt or is being wound up, whose affairs are being administered by the Court, who has entered into an arrangement with creditors, has suspended business activities;

b) is the subject of proceedings for a declaration of bankruptcy, for an order for compulsory winding up or administration by the Court or for an arrangement with creditors;

c) has been convicted of an offence concerning its professional activity by a judgment which has the force of res judicata;

d) has committed an act of professional misconduct in the course of its business or profession;

e) has made false statements or misrepresentations in providing any information required under the Law, or has failed to provide such information.

Failure to submit such certificates or equivalent documentation shall result in the forfeiture of all of the Applicant’s rights regarding this Licensing Round.

If the country concerned does not issue the documents or certificates referred to in the above paragraph, a declaration or oath may be made by the Applicant before a judicial or administrative authority, or a notary or a competent professional or trade body, in the country in which he is established.

Financial and Legal Capacity Documentation

The financial capacity documentation shall demonstrate the Applicant's financial ability to finance hydrocarbons exploration and production activities, and also the manner in which exploration and development activities shall be financed, if the Application is successful.
This part shall include the financial structure of the Applicant and its parent company, if any, including annual reports, audited balance sheets and profit and loss statements for the past three years, and any reports which the Applicant or its parent company may have filed to competent authorities responsible for securities regulation during that period.

The legal capacity documentation shall provide information on the Applicant's legal structure. It shall include the Applicant's place of registration or incorporation, its principal place of business, its board of directors, its capital structure and the control structure, the legal form of Applicant, including information concerning the relationship of the Applicant with its parent company and/or group, if any, and other affiliates.

Where the Applicant is a Consortium, all relevant information shall be provided for each Consortium Member.

3.4 Technical Requirements

The technical capacity documentation shall demonstrate the Applicant's experience in oil and gas exploration and production activities. Having regard to the areas subject to Applications, specific attention will be paid to relevant experience of the Applicant with respect to offshore areas, deep offshore areas, environmentally sensitive areas, oil and gas development and production, conduct of operations as an Operator where applicable for the Operator.

The Applicant shall provide detailed information on current world exploration and production operations, including annual reports, and levels of production and exploration and production investments for the last three years.

The Applicant shall, with respect to any of the jurisdictions in which it has operated over the last ten years, disclose details of any fines or other punitive measures issued by any regulatory body with respect to environmental damage, rehabilitation and protection of nature and the environment concerning any of the Applicant's activities. The Applicant shall also disclose any unsettled debts relating to public levies, unpaid fees for production of mineral raw materials, unpaid fees for production of forests and/or forest land or agricultural land for the purpose of production of mineral raw materials or relating to illegal exploration and production of mineral raw materials.

Where the Applicant is a Consortium, all relevant information shall be provided for each Consortium Member.

Technical Capacity and HSE Documentation

The technical capacity and HSE documentation for the Block shall include (in the form provided in Annex 5 to this Tender Guidance, where applicable):

- A description of the concept and approach for the execution of the exploration work.
- The minimum exploration work for each exploration sub-period.
- A short environmental notice stating the possible impact that the exploration and production activities will have on the environment and ways of its effective handling.
- An overview of the Applicant's plans and organisation in Croatia per the time of submitting the application with regard to HSE functions.
- The signature bonus.
- An economic impact analysis for the Applicant's proposed activities.

3.5 Bid Guarantee

Applicants are obliged to provide a guarantee of serious intent/bid bond in support of their bids in Croatian Kuna of an amount equivalent to Euros Five Hundred Thousand (EUR 500,000.00). Bid Guarantee is forfeitable if the Applicant waives its Application within the Application Validity Period,
submits false information, fails to submit originals or certified copies of the requested documents, refuses to accept the Licence and/or sign the Agreement or rather if the Applicant fails to deliver Agreement's performance guarantee once due.

Bid Guarantee shall be provided in the form of a bank guarantee substantially pursuant to the template provided in the Annex 7 to this Tender Guidance and issued by the first class bank acceptable to the Ministry. The security shall be unconditional and be valid at least until the Application Validity Period last day. Bid Guarantee shall be returned to the Selected Applicant upon delivery of the Agreement's performance guarantee. The Bid Guarantee shall be returned to all other Applicants following Application Validity Period expiry.

4 EVALUATION OF APPLICATIONS

4.1 Evaluation Criteria

Without prejudice to the application of the provisions regarding national security of Article 2(2) of Directive 94/22/EC, and in accordance with Article 15(5) of the Law, the criteria which shall be used when granting licences for the prospection, exploration and production of hydrocarbons, shall be:

(a) the technical, financial and professional ability of the Applicants;
(b) the ways in which the Applicant intends to carry out the activities that are the subject of the Licence;
(c) the overall quality of the submitted tender;
(d) the financial consideration that the Applicant is offering in order to obtain the Licence; and,
(e) any lack of efficiency and responsibility that the Applicant has shown under any previous licence or authorisation of any form in any country.

In addition, the Expert Committee will also consider the proposals of the Applicants regarding the protection of public safety, public health, security of transport, protection of the environment, protection of biological resources and of national treasures possessing artistic, historic or archaeological value, safety of installations and workers and planned management of hydrocarbon resources.

4.2 Evaluation Mark Scheme

The summary basis of the mark scheme for the selection criteria in section 4.1(b) and (d) above is the following:

<table>
<thead>
<tr>
<th>Items for Evaluation</th>
<th>Mark (Up To)</th>
<th>Weight (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial exploration phase (3 years)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2D Seismic survey</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>3D Seismic survey</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Exploration well</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Other Survey</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Second exploration phase (2 years)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3D Seismic survey</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Exploration well</td>
<td>70</td>
<td></td>
</tr>
</tbody>
</table>

12/39
Other Surveys include but are not limited to: Gravity-Magnetic (API) Magneto-Telluric (MT) in stations, Transient Electro Magnetic (TEM) in stations, Geochemical Surveys, Bathymetric, Seabed Sampling, Satellite Gravity Survey/Data Access, Environmental Baseline Survey and Environmental Impact Assessment).

The format for Applications which requires a detailed explanation of the information above is outlined in Annex 5.

4.3 Evaluation Process

After the Application Deadline, the Expert Committee shall commence the procedure for the evaluation of Applications. If the Expert Committee deems that the information before it is inadequate or incomplete, it may request from the Applicant or a third person any additional information it deems necessary, as well as the carrying out of inspections or obtaining the opinion of, or reports by, consultants or other experts.

If and when the Expert Committee considers that the information that is before it is sufficient, it examines the Application, makes the final ranking of eligible Applications and submits a proposal to the GoC for a decision to issue the Licence to the Selected Applicant, which is the Applicant ranking first. Ministry issues the Licence, notifies the Selected Applicant thereof and invites the Selected Applicant to negotiate and execute the Agreement. Should the Selected Applicant fail to appear or successfully close the Agreement negotiations, Licence shall be revoked and granted to the second eligible Applicant that applied for the Block.

All Applicants shall be notified of the Application outcome as soon as GoC makes a decision to issue the Licence to the Selected Applicant.
1. Regulations on Exploration and Production of Hydrocarbon
   a) Act on Exploration and Production of Hydrocarbons (Zakon o istraživanju i eksploataciji ugljikovodika) – Official Gazette 94/13; Amendments - Official Gazette 14/14;
   b) Mining Act (Zakon o rudarstvu) – Official Gazette 56/13; Amendments - Official Gazette 14/14;
   c) Act on Establishment of the Hydrocarbon Agency (Zakon o osnivanju Agencije za ugljikovodike) - Official Gazette 14/14;
   d) Decree on Fees for exploration and production of hydrocarbons (Uredba o naknadama za istraživanje i ekslopataciju ugljikovodika) – Official Gazette 37/14;
   e) Decree on main technical requirements on safety and security of offshore exploration and production of hydrocarbons in the Republic of Croatia (Pravilnik o bitnim tehničkim zahtjevima, sigurnosti i zaštićenju istraživanja i ekslopatacije ugljikovodika iz podmorja Republike Hrvatske) - Official Gazette 52/10.

2. Environmental Regulations
   a) Environmental Protection Act (Zakon o zaštiti okoliša) - Official Gazette 80/13 and 153/13;
   b) Act on the Natural Resources Protection (Zakon o zaštiti prirode) - Official Gazette 80/13;
   c) Decree on Environmental Impact Assessment (Uredba o procjeni utjecaja zahvata na okoliš) - Official Gazette 64/08; Amendments – Official Gazette 67/09 and 80/13;
   d) Decree on assessing the acceptability of plans, programs and projects for the ecological network (Pravilnik o ocjeni prihvatljivosti plana, programa i zahvata za ekološku mrežu) – Official Gazette 118/09.

3. Maritime Regulations
   a) Maritime Act (Pomorski zakonik) - Official Gazette 181/04, Amendments – Official Gazette 76/07, 146/08, 61/11 and 56/13;
   b) Decree on the conditions and methods of maintaining order in ports and other parts of internal waters and territorial sea of the Republic of Croatia (Pravilnik o uvjetima i načinu održavanja reda u lukama i na ostalim dijelovima unutarnjih morskih voda i teritorijalnog mora Republike Hrvatske) – Official Gazette 90/05, Amendments – Official Gazette 10/08, 155/08, 127/10 and 80/12.

4. Construction Regulations
   a) Construction Act (Zakon o gradnji) - Official Gazette 153/13;
   b) Decree on determining the structure and other interventions in the area of state and local (regional) importance (Uredba o određivanju građevina i drugih zahvata u prostoru državnog i područnog (regionalnog) značaja) – Official Gazette 37/14.

5. Financial Regulations
   a) Corporate Income Tax Act (Zakon o porezu na dobit) - Official Gazette 177/04, Amendments – Official Gazette 90/05, 57/06, 80/10, 22/12, 146/08 and 148/13;
   b) Personal Income Tax Act (Zakon o porezu na dohodak) - Official Gazette 177/04, Amendments – Official Gazette 73/08, 80/10, 114/11, 22/12, 144/12, 43/13, 120/13, 125/13 and 148/13;
6. Custom Regulation


c) Ordinance on the right to exemption from customs duty (Pravilnik o ostvarivanju prava na oslobodenje od carine) - Official Gazette 93/13.

ANNEX 2 ENVIRONMENTAL AND DEVELOPMENT STANDARDS

Development activities must comply with the Ordinance on Key Technical Requirements on Safety and Security of Offshore Exploration and Production of Hydrocarbons in the Republic of Croatia (Pravilnik o bitnim tehničkim zahtjevima, sigurnosti i zaštiti pri istraživanju i eksploataciji ugljikovodika iz podmorja republike hrvatske) – Official Gazette no. 75/09.

Regarding environmental aspects, in addition to the environmental protection measures established by laws of Croatia, other regulations, normative acts and standards and relevant EU regulations, for the purposes of even higher environmental standards than the statutory minimums, the following measures shall be implemented in the course of hydrocarbons operations for the purpose of environmental protection:

- application of technical-technological procedures in line with the best accessible techniques, in all the phases of hydrocarbons operations, for the purpose of achieving a high level of environmental protection;
- prevention of accidents with accident risk assessment and assessment of hazardous substances, their quantities and features, as well as the costs of rehabilitation of accident states;
- assessment of acceptability of intervention with regards to the ecological network and the environment, in accordance with the environmental protection regulations;
- assessment of costs of rehabilitation and remediation in case of a potential accident;
- assessment of harmful effects of planned activities on individual segments of the environment (climate, air, atmosphere, soil, noise, water resources and the sea, flora, fauna, biodiversity, population and the like);
- prevention, reduction or elimination of harmful effects according to individual segments of the environment;
- ensuring rational use of natural resources;
- provision of information to the public in the course of all the hydrocarbons operations and ensuring participation of the public in decision-making.

Agency will develop Strategic Environmental Assessment (SEA), which according to EU Directive 2001/42/EC must be carried out before major energy projects are being developed. This will be accomplished during the licensing round.
ANNEX 3  BLOCK MAP AND COORDINATES

Part of the continental shelf of the Republic of Croatia, covering approximately 36,823 km², has been divided into 29 exploration Blocks.

All investors shall take into consideration international shipping lanes, restricted and protected areas such as tourist zones, archaeological zones, fishing zones and routes in the planning and execution of hydrocarbon operations, in line with Croatian regulations, as well as recommendations received from the relevant institutions which are collected in the process of preparatory work for bidding, as follows:

- Ministry of Construction and Physical Planning, Department of Planning, Department for zoning system, from 20 February 2014,
- Ministry of Environment and Nature Protection, from 27th February 2014,
- Ministry of Maritime Affairs, Transport and Infrastructure, from 10th March 2014,
- Ministry of Defense, from 17th March 2014,
- Ministry of Tourism, from 20 March 2014,
- Ministry of Culture, from 20 March of 2014, and
- Ministry of the Internal Affairs, from 24th March of 2014.

All recommendations are available on www.azu.hr.
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ANNEX 4 SUMMARY OF GEOLOGICAL PROSPECTIVITY

Geological Overview

In the Northwest Peri-Apenninic Foredeep Province the compressional structures were formed from multiple Arcs that were generated during the Messinian to Late Pliocene tectonic phases. Thrust anticlines are the common and typical structural element in both areas. Externally to the front of the Arcs, incipient gentle anticlines were formed. In the foreland area, relatively unaffected by the Pliocene tectonics, stratigraphic and combination traps are associated with the Messinian unconformity or with the up-dip shaling out of sandy beds. Gentle drape anticlines are present in the North Adriatic Homocline, where the Pliocene-Pleistocene succession was deposited onto an eroded Mesozoic carbonate substratum.

![Figure 1 Geological Structure of the Adriatic](image)

The southern Durres basin contains many of the same compressional features. The Periadiatric Depression appears to be a series of sedimentary wedges ahead of thrust fronts. The Dinarides fold belt (east) is separated from the Italian Apennine fold belt (west) by the Adriatic foredeep. The wedges are affected by Messinian and Late Pliocene-Pleistocene deformation (westwards compression) with asymmetric folding and thrusting, either in the continuation, or independent of the Serravallian thrusts, but generally influenced by their reactivation.

In the peripheral zone, monoclines are the main structural elements and are related to paleorelief forms. Anticlinal and synclinal structures are present in the western part of the Periadiatric Depression. They are mainly linear, forming structural ranges with a south-southeast - north-northwest trend.

The Apulian Carbonate Platform represents a midway point between the two thrust sequences. The edge of the platform trends obliquely to the modern marine basin in the Italian Apennine fold belt. Oil and gas fields occur in both thrusted Mesozoic carbonate traps and gas fields also occur in Tertiary reservoirs of the foredeep sequence.

Petroleum Systems

Two distinct hydrocarbon systems exist in the area with each of the two basins being unique. The stratigraphic column below represents the petroleum system for the Southern Durres Basin.
Figure 2 Stratigraphic column for the Southern Durres Basin

Source Rocks

In the Northwest Peri-Apenninic Foredepth Province, biogenic gas accumulations originated from the organic matter in the Pliocene-Pleistocene clays. Total Organic Carbon content, mainly consisting of Type III kerogen vary from 0.1-0.2% in the hemipelagic clays to 0.5-0.6% in the re-sedimented clays associated with the turbiditic deposits.

A minor contribution of thermogenic gas and condensates is locally present along tectonized trends, where intense fracturing allowed the vertical migration from deep Miocene and Mesozoic sources. Middle-Upper Triassic source rocks, deposited in a restricted shallow sea environment and characterised by marine Type II kerogen, generated a large part of the thermogenic oil and gas of the basin.

In the Southern Durres basin there organic matter is mainly disseminated in shales, which are encountered throughout the Serravallian-Pliocene section. They appear to contain predominantly gas-prone, terrigenous-derived organic matter, which has generated dry biogenic gas and early thermogenic gas, as well as small quantities of immature condensate.

All dry gas accumulations in Albania and the Falco 1 discovery in the Italian waters are derived from these source rocks.

It is geochemically proven that oil (and associated condensate and gas) accumulations found in the Messinian sandstones have been sourced from the shales of the Carbonatic Series of the underlying Ionian Zone. Oil has migrated from the underlying carbonate reservoirs to the Messinian sandstones through the direct contact with the top of eroded limestones.

Reservoirs

Within the Northwest Peri-Apenninic Foredepth four main reservoirs have been identified:-

- Messinian-Upper Pliocene transgressive sand and gravel reservoirs, unconformably resting on a
Miocene substratum

- Sandy beds in the thick turbiditic Pliocene formations in the eastern Po Plain Upper
- Pliocene-Pleistocene sands in the Adriatic Homocline.
- Sandy intercalations in the Pliocene-Pleistocene Clay Formations.

The main types of hydrocarbon accumulations that have been found in the South Adriatic-Durres Basin are as follows:

- Cretaceous – Mid Eocene shelf edge and platform carbonates
- Oligocene, Lower Pliocene turbidites, Miocene sands
- Pleistocene shallow marine sands
- Middle Triassic sandstones

Seals

In the north, the Santerno clays seal the basal coarse clastics of the Messinian-Pliocene succession. Interbedded clay beds provide the seal in all other reservoirs. It is noted that in some cases these sealing beds may be less than 1 m thick. It has been suggested that gas is actually lost through the seal and replaced by the continuous in situ formation of new biogenic gas.

In the Durres Basin all reservoirs are sealed by intraformational shales/siltstones. Lateral changes from sandy to argillaceous facies also contribute to seal capacity. In some onshore areas biodegraded asphalt residues have plugged outcropping reservoirs and form effective seals.

Plays

Several plays have been identified in the Northern area:

- Asti group of plays, typically with combined stratigraphic-structural traps (Upper Pliocene-Pleistocene): most of the fields are located in the North Adriatic offshore.
- Porto Garibaldi group of plays, typically with combined stratigraphic-structural traps (Lower-Upper Pliocene): some of the major fields in the south eastern Po Plain and in the adjacent North Adriatic offshore.
- Morro d'Oro Stratigraphic-Structural Play: several fields in anticline and stratigraphic traps in the Adriatic Arc onshore and offshore.

Exploration History

Exploration offshore Croatia started in the northern Adriatic in 1968 with the acquisition of 2D seismic data. The most recent discovery was made in 2008 with the Monte Della Crescia gas discovery (Italian Sector).

The region has over 90 producing fields.

- First discovery offshore Ravenna Mare-Punta Marina (1960)
- In 1973 the Ivana gas field was discovered spurring further exploration in the region
- Largest oil discovery offshore - Elsa 1 (1992)
- Largest gas discovery offshore - Porto Garibaldi-Agostino (1968)
- Discovery success rate offshore, (2004-2013 70%) all-time 36.5%
Southern Durres Basin

Exploration in the Southern Durres Basin area has been much reduced due to a lack of data. There are currently 16 discoveries in the area (11 onshore, 5 offshore) with some yet to be fully appraised. Many structures are still unexplored in the central and western part of the basin, where gas-generating conditions are more favourable, increasing the possibilities for new discoveries.

- Porto Corsini group of plays, typically with structural traps (Lower Pliocene) in the Ferrara-Romagna Arc and the adjacent Pedalpine Homocline.
- Cortemaggiore group of plays, typically with structural traps (Messinian-Upper Pliocene): asymmetrical thrust anticline traps in the Emilia Arc.
- Caviaga Stratigraphic-Structural Play (Late Messinian-Lower Pliocene): several large and medium-sized fields in compressive anticline traps along the Cornegliano- Bordolano structural axis.
- The San Salvatore Structural Play is the major oil play of this province. Triassic shelf carbonates of the San Salvatore Dolomite Formation provide the reservoirs of this play which is represented at the Villafortuna field.

Within the Southern Durres Basin there are four main recognised play types, shown in the diagram above:

- Pleistocene and Pliocene sands charged with biogenic gas
- Oligocene turbidites charged with thermogenic gas
- Platform and shelf margin carbonates charged with Triassic oil (Aquila)
- Triassic sandstones charged with Triassic oil
ANNEX 5    APPLICATION GUIDELINES

Format for Submission of Bids for Exploration and Production of Oil and Natural Gas

The Application for a Block should provide the following information in both hard copy and digital format. If needed, attach additional documentation to provide clarity to the Application. In case of a Consortium Application, ensure that all Consortium Members complete the corporate/financial information outlined in Section III below.

I.  APPLICANT COMPANY/CONSORTIUM

(a) APPLICANT OR OPERATOR

<table>
<thead>
<tr>
<th>NAME</th>
<th>PERCENTAGE OF PARTICIPATING INTEREST</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
</tr>
</tbody>
</table>

(b) CO-VENTURERS (if Consortium applies)

<table>
<thead>
<tr>
<th>NAME</th>
<th>PERCENTAGE OF PARTICIPATING INTEREST</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
</tr>
<tr>
<td>...</td>
<td></td>
</tr>
</tbody>
</table>

II.  LIST OF BLOCK(S) APPLIED FOR

<table>
<thead>
<tr>
<th>BLOCK NUMBER</th>
<th>AREA OF THE BLOCK (Sq. Km.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
</tr>
<tr>
<td>...</td>
<td></td>
</tr>
</tbody>
</table>

III.  CORPORATE INFORMATION

All Applicants should provide this information. In the case of an Application from a Consortium, each Consortium Member should provide this information separately.
<table>
<thead>
<tr>
<th>Parameters</th>
<th>Information required</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) The company's legal name</td>
<td>:</td>
</tr>
<tr>
<td>(b) In case of a Consortium, Operator’s legal name</td>
<td>:</td>
</tr>
</tbody>
</table>
| (c) Place of incorporation or registration                               | Place
|                                                                           | State
|                                                                           | Country
|                                                                           | Zip
| (d) Applicant’s Representative                                           | Name
|                                                                           | Designation
|                                                                           | Address
|                                                                           | Tel.
|                                                                           | E-mail
| (e) Name and address of Chairman of Board of Directors                    | Name
|                                                                           | Address
|                                                                           | Tel.
|                                                                           | E-mail
| (f) The name and address of the Chief Executive                            | Name
|                                                                           | Designation
|                                                                           | Address
|                                                                           | Tel.
|                                                                           | E-mail
<p>| (g) Structure and details of the group, if any, to which the Applicant belongs including information on affiliates / parent company | :                   |</p>
<table>
<thead>
<tr>
<th>Parameters</th>
<th>Information required</th>
</tr>
</thead>
<tbody>
<tr>
<td>(h)</td>
<td>If a parent company financial and performance guarantee is proposed to be furnished, then please indicate percentage share-holding of the parent company in the Applicant company and the status of the parent company in the group structure :</td>
</tr>
<tr>
<td>(i)</td>
<td>The business activities of the Applicant :</td>
</tr>
</tbody>
</table>
| (j)        | Name and address of the ultimate parent company (where applicable) Name  
Address  
Tel.  
E-mail |
<p>| (k)*       | Is exploration and production activity included in the Memorandum and Articles of Association of the company? (Please provide a Certificate of Incorporation and a copy of the Memorandum and Articles of Association as applicable) : Yes/No |
| (l)*       | The Applicant should submit its annual report including the audited balance sheets and profit &amp; loss statements along with the schedule of notes forming part of the balance sheet for the last three years. In the case of parent company guarantee, this information should be provided for the parent company also. : |
| (m)        | The operatorship experience of parent and affiliated Companies in the E&amp;P sector in the last 10 years and separately operatorship experience in deep water areas (beyond 400 metre bathymetry) : |
| (n)        | Name of countries in which the Applicant, its affiliates and parent company have been active in E&amp;P operations in the last 10 years : |
| (o)        | Number of total corporate employees of the Applicant : |
| (p)        | Number of permanent employees engaged in petroleum exploration and production : |
| (q)*       | Details of judgments, administrative decisions, arbitral awards against Applicant or Consortium Members or any corporate member of the group of companies to which the Applicant belongs in the past 10 years. Please specify the nature of the case. : |</p>
<table>
<thead>
<tr>
<th>Parameters</th>
<th>Information required</th>
</tr>
</thead>
<tbody>
<tr>
<td>(r) Details of any anticipated material events, risks, activities or plans which shall have significant impact either positively or negatively on the Applicant's ability to perform its obligations in Croatia under the Agreement</td>
<td>:</td>
</tr>
<tr>
<td>(s) Has the Applicant previously worked in Croatia? If yes, provide details</td>
<td>:</td>
</tr>
<tr>
<td>(t) Details of termination of or withdrawal from any earlier E&amp;P agreement in Croatia by the Applicant or any member company of the bidding Consortium</td>
<td>:</td>
</tr>
</tbody>
</table>

* If Applicant bids for more than one Block, only two sets of documents as mentioned above in items (k), (l) and (q) respectively shall suffice. However, against other Block bids, the Applicant should clearly mention the availability of the two sets of documents with reference to the particular Block to establish linkage for evaluation purposes.

IV. DETAILS OF OPERATING EXPERIENCE, TO ASSESS TECHNICAL CAPABILITY OF THE PROPOSED OPERATOR

The following information of the Applicant/proposed Operator for a Block is required to be furnished in the bid:

Name of the Applicant (the proposed Operator):

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Information required</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Experience in exploration and / or Production (No. of years)</td>
<td>Number of consecutive years of experience in exploration and / or development and/or production activities as operator. Additional information to be provided on no of years of operatorship experience in deep waters (beyond 400 metre bathymetry)</td>
</tr>
<tr>
<td>ii) Average Accretion of Proved &amp; Probable reserves (2P) during last 5 years</td>
<td>Details should be provided for the last 5 years in Table 1 of the addendum to this annex</td>
</tr>
<tr>
<td>iii) Acreage holding (in sq.km.)</td>
<td>Total acreage holding by country with information separately on acreages held (in sq.km.) beyond 400 metre bathymetry</td>
</tr>
<tr>
<td>iv) Average Annual production of hydrocarbons* (MMboe) for last 5 years</td>
<td>Figures for last 5 years along with annual average should be provided in Table 2 of the addendum to this annex</td>
</tr>
<tr>
<td>v) Geological evaluation</td>
<td>This assessment shall be made by an Expert Committee based upon, inter-alia, your geological model, understanding of the petroleum system and consistency of the work programme proposed with</td>
</tr>
</tbody>
</table>
Parameters | Information required
---|---
| the geological model.

vi) Experience of permanent key personnel in exploration and production operations | Provide information on the experience of key technical permanent personnel for the period of 10 years, including assignment on various projects.

\* O+OEG = Oil + Oil equivalent of Gas: Apply a conversion of 1 barrel of oil = 6000 cubic feet of gas

Note:

a) Acreage holding, operatorship experience, annual accretion / average annual accretion of Proved & Probable reserves (2P) and annual production / average annual production of the designated operator company shall be certified by the CEO of the company.
b) The accretion of proved and probable reserves (2P) and annual production shall be considered for the designated Operator for all its reserves and production but with particular regard to its reserves beyond 400m bathymetry and current production.

V. INFORMATION OF FINANCIAL CAPABILITY

i) The Applicant, in respect of each of the Consortium Members, if any, shall be required to furnish a financial report from the Applicant’s and/or Consortium Members’ statutory auditors that the net worth of the company is equal to or more than their share of expenditure of the minimum work programme commitment.

ii) Where the certificate is based on the financial capability of the parent company, the parent company guarantee shall be required to be furnished by the Applicant.

iii) The net worth shall be calculated in accordance with the method given in the table below. The information should be based on the latest audited annual reports.

iv) Alternatively, the entity should furnish a certificate from a reputable recognized financial institution guaranteeing provision of necessary sufficient funds to meet Minimum Work Programme commitments for duration of Exploration Period.

v) Where the Applicant happens to be the best ranked Applicant for two or more Blocks, the net worth of the Applicant shall be required to be equal to or more than the net aggregate value of all such Blocks. Where the Applicant’s net worth is less than the Minimum Work Programme commitments for such Blocks, the bids shall be considered in order of priority given by that Applicant in their Application for the respective Blocks.

Net Worth Calculation: (Name of the Company)

<table>
<thead>
<tr>
<th>Sub-criteria (For the previous 3 years)</th>
<th>I Previous Year</th>
<th>II Previous Year</th>
<th>III Previous Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Paid up capital in EUROS MM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Reserve and surplus in EUROS MM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Misc. expenditure to the extent not written off in</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
EUROS MM

d) Equity = (a)+(b)-(c) in EUROS MM

e) Contingent liability on revenue account in EUROS MM
   (i)(ii)
   (iii) Details to be annexed.
   (iv)
   (v ...... )
   Total Contingent liability on revenue account in EUR MM

f) Net worth in Euros MM (d - e)

VI. BIDDABLE ITEMS

These biddable items must be provided separately for each Block.

(A) Minimum work programme for each exploration period

Precise definitions of the Minimum Work Programme (MWP) commitment for the First and Second Exploration Phases in terms of Line/Sq Km of seismic survey and number of exploration wells (with minimum stated objective depths) are to be given. A realistic estimate of the likely monetary spend (LMS) (in Euros) required to complete the minimum work obligation should be indicated. LMS value indicated by the Applicant shall be included in the Agreement. If the Expert Committee has reason to believe that the Applicant has given low or unrealistic cost estimates for its MWP commitment, the Expert Committee may use its own cost estimates for the minimum programme commitment of the Applicant and net worth qualifying criteria may be evaluated by the Expert Committee on this basis. Note that contingent or conditional work programmes or work programmes not precisely specified shall only be given a low weighting while evaluating bids. In addition, the Applicants are required to bid their MWP commitment as per the format given below:

Note: All Estimated Expenditure values shall not be subject to any form of escalation

<table>
<thead>
<tr>
<th>First Exploration Phase - All items are by definition obligatory</th>
<th>Physical Quantity</th>
<th>Estimated Expenditure (Euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) SEISMIC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) 3-D (API) in Sq. Km</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) 2-D (API) in Line Km</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Reprocessing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Gravity-Magnetic (API) in stations/Line Km (in case of Line Km, no. of stations/ line Km must be indicated)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Any other surveys (API) (e.g. Magneto-Telluric (MT) in stations, Transient Electro Magnetic (TEM) in stations, Geochemical Surveys, Bathymetric, Seabed Sampling, Satellite Gravity Survey/Data Access, Environmental Baseline Survey and Environmental Impact Assessment)

### Exploratory Drilling (Please indicate drilling depth)

<table>
<thead>
<tr>
<th>Water Depth (in metres)</th>
<th>WD less than 400m</th>
<th>Drilled section below sea floor (metres)</th>
<th>WD deeper than 400m</th>
<th>Drilled section below sea floor (metres)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) 1st Well</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) 2nd Well</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) 3rd Well</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) &amp; so on</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Total Estimated Expenditure |                   |                                        |                     |                                        |

### Second Exploration Phase - Please specify at the Application stage whether the work programme for this phase is a firm or contingent commitment

<table>
<thead>
<tr>
<th>Physical Quantity</th>
<th>Estimated Expenditure (Euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| (i) SEISMIC       |                               |
| (a) 3-D (API) in Sq. Km |                               |
| (b) Reprocessing   |                               |

| (ii) Gravity-Magnetic (API) in stations/Line Km (in case of Line Km, no. of stations/ line Km must be indicated) |                               |

| (iii) Any other surveys (API) (e.g. Magneto-Telluric (MT) in stations, Transient Electro Magnetic (TEM) in stations, Geochemical Surveys, Bathymetric, Seabed Sampling, Satellite Gravity Survey/Data Access, Environmental Baseline Survey and Environmental Impact Assessment) |                               |

| (iv) Exploratory Drilling (Please indicate drilling depth) |                               |

<p>| Water Depth (in metres) |                   |                                        |                     |                                        |</p>
<table>
<thead>
<tr>
<th>WD less than 400m Drilled section below sea floor (metres)</th>
<th>WD deeper than 400m Drilled section below sea floor (metres)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) 1st Well</td>
<td></td>
</tr>
<tr>
<td>(b) 2nd Well</td>
<td></td>
</tr>
<tr>
<td>(c) 3rd Well</td>
<td></td>
</tr>
<tr>
<td>(d) &amp; so on</td>
<td></td>
</tr>
<tr>
<td>Total Estimated Expenditure</td>
<td></td>
</tr>
</tbody>
</table>

Notes:

i) The details of the Minimum Work Programme (MWP) obligation along with physical quantity and estimated expenditure should be provided for the Second Phase even though this may only be contingent upon entry into that phase and not therefore a firm work commitment at this stage.

ii) For exploratory drilling, please note that the Application evaluation shall be based on both the committed water depths (i.e. above or below the 400m bathymetry) and section drilled (in metres) from the seabed.

(B) Fiscal, HSE and Other Matters

Bonus

Signature bonus (amount): ________________________ EUR

(Minimum of HRK 1,400,000.00)

Health Safety and Environmental aspects:

The overview of the Applicant's plans and organisation in the Republic of Croatia per the time of submitting the Application with regard to HSE functions should include details of the Applicant's HSE framework (management system, policies, organization, planning, monitoring performance, review and audit, etc), including a management summary extract from the annual reports for the last three years. If the Applicant is part of a group of legal entities, relevant group wide documentation may be submitted.

The Applicant thus must demonstrate its HSE plans and systems and their implementation with regard to risk reduction through the Applicant’s choices and implementation of technical, operational or organisational solutions. HSE Systems must demonstrate that the Applicant’s HSE standards are in accordance with best international industry practice, reducing potential harm to a minimum and yielding best possible results.

Applicants are to provide information on the possible impact that the exploration activities shall have on the environment and outline proposed methods to effectively manage any environmental impact.

The Applicant should submit a short overview of his expertise and experience in technology, safety-and working environment, and with regard to environmental matters. The following areas of expertise should therefore be described:
It is important to emphasize in which regard expertise is relevant for, and suited to, the technical challenges in the defined area applied for. The Applicant should refer to how his expertise could contribute to cost effective exploration of, and possible development of, the defined area applied for.

A brief summary of the Applicant’s experience from relevant projects within exploration, field development and operations should also be submitted. The role and level of responsibility in the actual project should be stated (Operator or Participant).

For those Applicants seeking operatorship, documentation of their operational experience regarding safety, working environment and environment-related matters that they deem to be relevant in connection with the defined area applied for should be submitted. This should include the following items:

a) Guiding principles regarding safety, working environment and environment-related matters.

b) System for safety control, working environment and external environment the Applicant shall encounter in Croatia, including the continuous improvement of these matters.

c) Operational organisation, including resources, expertise and experience.

**VII. BLOCKS PRIORITY**

Where Application refers to more than one Block, priority ranking in terms of the Applicant’s relative interest in the different Blocks should be indicated in order of priority as follows:

<table>
<thead>
<tr>
<th>Reference to Block No.(s)</th>
<th>Priority Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>3</td>
</tr>
</tbody>
</table>

Applicants shall define the minimum number of Blocks they wish to be awarded pursuant to their Application.

**VIII. GEOLOGICAL ASSESSMENT AND GEOLOGICAL MODEL**

Please provide the following information to the best extent possible:

a) For each Block, an account of the regional position and geological significance within the basin/area;

b) A written summary of the plays/leads/prospects identified in the Block(s) applied for, together with a prognosis on reservoir information and an assessment of the hydrocarbon potential in each Block;

c) Prognosis of stratigraphy/lithology and target horizons;

d) Structure map (or isopach map if more relevant to a stratigraphic lead/prospect) of each potential horizon;

e) A brief description of the maps and a lead/prospect summary;
f) If possible, an estimate of potential prospective resources for each lead / prospect identified.

Notes:

i) The Applicant is expected to provide the information as described above in as much detail as possible so as to facilitate evaluation of the Application by an Expert Committee. Wherever this is not possible, the reasons therefore must be specified.

ii) Applications not submitted in this format covering all the relevant information listed above are liable to be rejected.

iii) No unsolicited proposal from the Applicant for a change in any of the Application terms shall be entertained after Application Deadline.

iv) Any assumptions/deviations in the Application that are inconsistent with the Agreement terms may render the Application liable for rejection.

v) Applicants may be invited to present their technical evaluations of the Blocks for which they have applied.

**Production Sharing Agreement**

An Applicant shall agree and provide a confirmation to be signed by a duly authorized representative that it has reviewed and analysed the provisions of the model Agreement and agrees that they shall be the basis of the Agreement that shall eventually be signed and that changes in the Agreement shall be limited to:

a) avoid any ambiguity;

b) increase clarity.

Such declaration shall be submitted as part of the Application package.
<table>
<thead>
<tr>
<th>CHECK LIST OF DOCUMENTS:</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Letter of presentation and commitment from the Applicant, and from parent company(ies), where applicable.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Certificate(s) from statutory auditor(s) of the bidding company(ies) regarding net worth. Or alternatively, a certificate from a reputable recognized financial institution guaranteeing provision of necessary sufficient funds to meet Minimum Work Programme commitments for duration of Exploration Period</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Documents evidencing the legal existence of the bidding company(ies) (including article(s) of association and memorandum and certificate(s) of incorporation/registration).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Audited annual reports, balance sheets and profit and loss statements in the English language along with the schedule of notes forming part of the balance sheet for the last 3 years, with the opinion of qualified independent auditors).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Summary description of Operator’s current technical capability.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Documentation related to HSE and other matters.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Summary information on the experience of key technical permanent personnel for the period of 10 years, including assignment on various projects.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Ample and sufficient power-of-attorney granted to a legal representative/authorized representative of company or leader of Consortium.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Consortium or association agreement, where applicable.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Document whereby the parent company knows of and endorses the Application and the contractual obligations of its affiliate or subsidiary, where applicable.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Minimum Work Programme implementation plan offered for the exploration period.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Declaration to be signed by a duly authorized representative that is has reviewed and analysed the provisions of the model Agreement and agrees that they shall be the basis of the Agreement that shall eventually be signed.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ADDENDUM to ANNEX 5

Table 1
(i) Average Annual accretions of Proved & Probable reserves (2P) during the last 5 years

<table>
<thead>
<tr>
<th>Year</th>
<th>Accretion of oil reserves (MMBBL)</th>
<th>Accretion of Solution Gas reserves (BCF)</th>
<th>Accretion of Free Gas reserves (BCF)</th>
<th>Accretion of O+OEG Reserves MMBOE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Proved</td>
<td>Proved</td>
<td>Proved</td>
<td>Proved</td>
</tr>
<tr>
<td></td>
<td>Probable</td>
<td>Probable</td>
<td>Probable</td>
<td>Probable</td>
</tr>
</tbody>
</table>

Notes:
- For the purpose of Application evaluation, information is to be provided separately in the above format in respect of reserves accretion below and above the 400m bathymetric mark.
- The figures should be provided for the last five completed years.

Table 2
(ii) Average Annual Production for the last five years

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<tr>
<th>Year</th>
<th>Annual Production of Oil (MMBBL)</th>
<th>Annual Production of Solution Gas (BCF)</th>
<th>Annual Production of Free Gas (BCF)</th>
<th>Annual Production O+OEG MMBOE</th>
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Notes:
- The figures should be provided for the last five completed years.
  - Conversion to be used: 1 barrel of oil = 6000 Cubic Feet of Natural Gas
  - Reserves Means ultimate Recoverable component of OIIP/GIIP in respective category under current economic and technical conditions
ANNEX 6 APPLICATION LETTER

Ministry of Economy – Mining Sector
Ulica grada Vukovara 78
10 000 Zagreb
Republic of Croatia

1st Offshore Licensing Round Croatia Application for Block

Having examined the Tender Guidance with due care, and having examined the applicable legislation, and having obtained full knowledge of the scope of the Licensing Round, I/we, the undersigned, apply for a Licence for the Block referred to above, in accordance with the terms of the Tender Guidance, and my/our Application is herewith attached.

I/We hereby confirm that I/we do not fall into any of the categories listed in Clause 3.1.1 of the Tender Guidance.

If my/our Application succeeds, I/we undertake to conclude an Agreement with the GoC in accordance with the content of the Licence.

I/We agree that I/we am/are bound by my/our present Application for a period of 180 days as from the Application Deadline as provided in the Tender Guidance (or for any period for which my/our Application Validity Period has been extended, pursuant to Clause 3.2.2 of the Tender Guidance).

Applicant’s Representative’s Signature:

Name and Title of Signatory:

Applicant’s /Consortium Members

Name(s) of the Applicant / Consortium Members:

Place of establishment (full address):

Contact Address (if different from the above):

Telephone No.: E-mail:

Date:

Note:
- Applicant’s Representative must evidence representative authority and sign in original
- Where the Applicant is a Consortium, information shall be provided for each Consortium Member
- All blanks must be completed
ANNEX 7  BID GUARANTEE

To: Republic of Croatia, Ministry of Economy, Ulica grada Vukovara 78, 10 000 Zagreb
From: [bank details] (the "Bank")

[Date]

BANK GUARANTEE No [ ]

For: [name of the applicant] (the "Applicant")

Value: EUR 500,000.00

Regarding: Tender to apply for licences for the exploration and production of hydrocarbons (the "Tender")

We understand from the Applicant that it has to furnish a bank guarantee in your favour as provided in the Tender.

This being stated, we, Bank [ ], upon the request of the Applicant herewith issue this Guarantee and irrevocably and unconditionally undertake to transfer to you upon your first demand without examination of the legal relationship between you and the Applicant, amounts up to a total sum of EUR 500,000.00 should you advise us with reference to our Guarantee number on the existence of the following circumstances:

1. Applicant’s waiver of its Application within the timeframe of the Application validity;
2. Submitting false information in the Application;
3. Failing to submit originals or certified copies in accordance with the Application;
4. Failure to deliver a performance guarantee required by the Agreement.

For the purpose of identification, your demand for payment in writing has to be presented to us in full, through the intermediation of your bank.

Your demand is also acceptable if transmitted to us in full by authenticated SWIFT through your bank confirming that your original demand has been sent by registered mail or courier service and that the signatures thereon are legally binding upon you.

Your demand will be considered as having been made once we are in possession of your written demand for payment or authenticated SWIFT to this effect sent to our address: ______________.

Every demand from you under this Guarantee shall be accepted by us as conclusive evidence that the amount claimed is due to you under this Guarantee, notwithstanding any dispute between yourselves and the Applicant.

The payment shall be made, notwithstanding any objection of the Applicant, within five days from the receipt of a demand in a form specified above.

Our liability under this Guarantee shall not be discharged or affected by any arrangements made between you and the Applicant or by any alteration in the Applicant's obligations under the Application or by any forbearance whether as to payment, time, performance or otherwise (whether or not any such arrangement, alteration or forbearance is made with our knowledge or consent).

This Guarantee will be valid and effective for its full amount from the date of this Guarantee and thereafter until the [date]. If, for any reason, the Application Deadline is extended, the validity period of the Guarantee shall be altered accordingly, in a way that the Guarantee is valid and effective for its full amount for the entire time of the Application Validity Period.

In the event of any dispute between yourselves and the Applicant the moneys payable under this Guarantee shall not be deposited with a court or any other institution but shall be directly paid to you.
This Guarantee is governed and shall be construed in accordance with the laws of Croatia. All disputes arising out of or in connection with this Guarantee shall be finally settled under the Rules of Arbitration of the Permanent Court of Arbitration of the Croatian Chamber of Commerce (the “Zagreb Rules”) by a panel of three arbitrators appointed in accordance with the said Rules. The venue of the arbitration shall be Zagreb, Croatia.

For the Bank
ANNEX 8  DRAFT OF PRODUCTION SHARING AGREEMENT
Draft of Production Sharing Agreement

(Prepared for the First Offshore Licensing Round of 2014)

Zagreb, April 2014
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AGREEMENT made by and BETWEEN:

THE GOVERNMENT OF THE REPUBLIC OF CROATIA (hereinafter referred to as the "Government"), represented for the purposes of this Agreement by THE MINISTRY OF ECONOMY of the REPUBLIC OF CROATIA (hereinafter referred to as the "Ministry"),

and

............................a company incorporated under the laws of ............... (hereinafter referred to as the "Contractor"), having its registered office at..................................................., which expression shall mean and include its successors and such assigns as are permitted hereunder,

on this ......................... day of ....................... two thousand and ......................... at Zagreb.

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

WITNESSETH:

WHEREAS, by virtue of the Act on the Exploration and Production of Hydrocarbons (Official Gazette of the Republic of Croatia nos. 94/2013 and 14/2014, hereinafter referred to as the “Law”) as amended or replaced from time to time, the ownership of Petroleum reserves wherever they are located in the Republic of Croatia, including the land, territorial waters, the continental shelf and the exclusive economic zone, is vested in and are deemed to always have been vested entirely and solely in the Republic of Croatia; and

WHEREAS, the Law makes provision with respect to exploring for and producing Petroleum and authorises the Government to hold a tendering procedure, grant Licenses and Concessions and conclude Agreements with investors for an Exploration Block, and

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

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

WHEREAS, the Contractor applied for and was granted the Licence over the area described in Article 3 and shown on the map in Annex "A" hereof;

NOW THEREFORE, in consideration of the premises, mutual covenants and conditions herein contained, it is hereby agreed as follows:
1  DEFINITIONS

1.1  In this Agreement, 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.

1.2  Words that are not defined herein, but are defined in the Law and regulations pertaining to the prospecting, exploration and exploitation of petroleum in force at any given time in the Republic of Croatia, shall have the meanings set forth in the said law and regulations.

1.3  Any law and regulation referred to in this Agreement shall mean a law or regulation in force on the effective date and includes any amendment(s) thereto.

1.4  The headings used in this Agreement are for convenience only and shall not be used to construe, define, restrict or describe the scope or object of the Agreement or of any of its clauses.

1.5  Unless otherwise defined in the Agreement the technical terms used herein have the meaning given by the American Petroleum Institute.

“Accounting Procedure” means, the Rules and Procedures as set forth in Annex B and attached to and forming part of this Agreement.

“Affiliated Company” or “Affiliate” means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct, administer and dictate policies of such Person, through the ownership of a percentage of such Person's voting securities enough to hold a majority of voting rights at general meetings or through other means; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

“Agency” means an entity as defined in the Law and or any amending or succeeding Law thereto.

“Agreement Area” means the geographic area which is subject to this Agreement, after relinquishment, surrender, withdrawal, amendment, extension or otherwise from time to time pursuant to the terms of this Agreement.

“Agreement 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.

“Agreement” or “the” means this present document and pertaining Annexes which are made
"Agreement" means an integral part hereof and any amendments made thereto pursuant to the terms thereof.

"Annex" means any and all of the annexes:
- Annex A – Map of the Original Agreement Area;
- Annex B – Accounting and Financial Procedures;

"Applicable Environmental Legislation" means the legislation, whether primary or secondary, national, European Union or international, applicable from time to time in the Republic of Croatia, and includes judgments, rulings and orders of any competent court.

"Appraisal Area" means a geographical area with the Agreement Area, encompassing the surface of the geological structure or prospect where Appraisal is intended to be performed and a reasonable margin surrounding such structure or feature to be mutually agreed by the Agency and the Contractor.

"Appraisal Operations" means all activities and work conducted to determine the physical extent, reserves and likely production rate of a Crude Oil and/or Natural Gas Field.

"Appraisal Well" means a well drilled within the Agreement Area, following a Discovery, for the purpose of delineating the Petroleum reservoir(s) to which the Discovery relates in terms of thickness and lateral extent and estimating the quantity of recoverable Petroleum therein.

"Appraisal" means all work carried out by the Contractor subsequent to a Discovery of Petroleum for the purpose of delineating one or more Petroleum reservoirs to which that Discovery relates in terms of thickness and lateral extent and in order to further define the quantity of recoverable Petroleum therein and all activities related thereto.

"Arm's Length Sales" means sales of Petroleum 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, and shall, inter alia, exclude sales (whether direct or indirect, through brokers or otherwise) involving Affiliates, sales between companies which are Parties to this Agreement, sales between governments and government-owned entities, counter trades, restricted or distress sales, sales involving barter arrangements and generally any
transactions motivated in whole or in part by considerations other than normal commercial practices.

“Available Gas” means Natural Gas produced and saved hereunder and not used in Petroleum Operations, to the extent permitted under the provisions of Article 14.

“Available Oil” means Crude Oil produced and saved hereunder and not used in Petroleum Operations, to the extent permitted under the provisions of Article 14.

“Available Petroleum” means Available Oil and Available Gas.

“Barrel” means a quantity or unit of Crude Oil equal to 158.9874 litres (forty-two [42] United States gallons) at a temperature of 15.56 degrees centigrade (sixty [60] degrees Fahrenheit) under one atmosphere of pressure.

“Budget” means the estimate of the costs of all items included in a Work Programme.

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

“Commercial Discovery” means a Discovery that, in the judgment of the Contractor, can be produced commercially after consideration of all pertinent operating and financial data collected during the performance of the appraisal work programme and otherwise, as provided in Article 5.4, including, but not limited to Crude Oil or Natural Gas recoverable reserves, sustainable production levels and other relevant technical and economic factors, according to International Good Oilfield Practice.

“Concession” shall have a meaning as defined in the Law and or any amending or succeeding Law thereto.

“Contractor’s Party (ies)” means any party with a participating interest in Contractor’s rights and obligations under this Agreement.

“Cost Gas” means the portion of the Available Gas, less the quantities required for royalty payment, as set out in accordance with Article 14 that the Contractor may freely retain each Calendar Year for the purposes of recovery of its Petroleum Costs.
“Cost Oil” means the portion of the Available Oil, less the quantities required for royalty payment as set out in accordance with Article 14 that the Contractor may freely retain each Calendar Year for the purposes of recovery of its Petroleum Costs.

“Cost Petroleum” means Cost Oil and Cost Gas.

“Crude Oil” means unrefined petroleum which is produced at the wellhead in liquid state at a temperature of 15°C and pressure of 1 Atmosphere and the Crude Oil known as condensate and Natural Gas liquids obtained from Natural Gas by condensation or extraction.

“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 Oil of same quality coming from other regions and delivered under comparable commercial conditions, including quantities as well as destination and utilisation of such Crude Oil, taking into account the market conditions and the type of contracts.

“Customs Duties” mean all duties, taxes or imposts (except those charges, as may be in force from time to time, paid to the Government for actual services rendered such as normal handling and storage charges) which are payable as a result of the importation of the item or items under consideration.

“Decommissioning Cost” has the meaning given in Article 9.

“Decommissioning Plan” means a plan of works, and an estimate of expenditure therefore, for Decommissioning, including environmental, engineering and feasibility studies in support of the plan.

“Decommissioning” means the removal and abandonment of facilities, installations, structures, artificial islands, wells, bore holes or any other items which are related to petroleum operations and which are disused or no longer required for Petroleum Operations in respect of the Agreement area. Unless otherwise stated, Abandonment is taken to mean the restoration of the Agreement area to the same condition as existed prior to the commencement of petroleum operations.

“Delivery Point” means the point or points at which Petroleum reaches the outlet flange of the delivery facility as specified in the Development and Production Plan, or such other point or points which may be agreed by the Ministry
“Designated Area” means the area pertaining to a Discovery that does not merit Appraisal or is not a Commercial Discovery or a Significant Gas Discovery, as provided for in Article 5.3.

“Development and Production Expenditures” means direct expenditures of a capital nature on Development and Production Operations and general expenses made in connection with the development and production of a Field, excluding expenditures made within the corresponding Exploitation Area before the Discovery has been declared as Commercial Discovery, and Operating Expenditures, all as determined in accordance with the Accounting Procedure attached hereto as Annex B.

“Development and Production Operations” means all operations other than Exploration Operations conducted to facilitate the extraction and the production of Crude Oil and Natural Gas.

“Development and Production Plan” means a plan for the development and production of the Exploitation Area as determined in accordance with Article 7 in this Agreement.

“Development” shall include but not be limited to:

(i) all the operations and activities under the Agreement with respect to the drilling of wells other than Exploration Wells and Appraisal wells, the deepening, plugging, completing and equipping of such wells, together with the design, construction and installation of such equipment, pipeline or lines, installations, production units and all other systems relating to such wells as may be necessary in conformity with sound oilfield and generally prevailing environmental practices in the international Petroleum industry;

(ii) all operations and activities relative to the servicing and maintenance of pipelines, lines, installations, production units and all related activities for Production and management of wells.

“Discovery Well” means an Exploration Well that hits a Discovery.

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

“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

“Effective Date” means the date of execution of this Agreement by the Parties, as set out in Article 40.

“Environmental Damage” means any damage, disturbance or hindrance of the environment such as significant soil erosion, removal of vegetation, destruction of wildlife, marine organisms, pollution of groundwater, pollution of surface water, land or sea contamination, air pollution, noise pollution, bush fire, disruption of water supplies, disruption of natural drainage, damage to archaeological, paleontological and cultural sites.

“Environmental Impact Assessment” means an assessment of the possible impacts that any proposed activities may have on the environment, prepared in accordance with all Applicable Environmental Legislation.

“Exploitation Area” means a geographical area within the agreement area, encompassing the extent of the geological structure or prospect which is subject to a Development and Production Plan.

“Exploitation Period” means a period of time running from the Government’ approval of a Concession for exploitation.

“Exploration Expenditures” means direct expenditures on Exploration Operations and other expenses made in connection with exploration of the Agreement Area, as these expenditures shall be determined in accordance with the Accounting Procedure attached hereto as Annex B, but expenditures made within an Exploitation Area shall be excluded.

“Exploration Operations” means without limitation, geological studies, geophysical studies, aerial mapping, investigations relating to the subsurface geology, stratigraphic test drilling, exploratory 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.

“Exploration Period” means the period specified in the Agreement during which the Contractor may carry out exploration operations.

“Exploration Phase” or “Phase” means any of the periods in the Agreement in which the Contractor is required to complete Minimum Exploration Work Obligations as is specified therein.
“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 defined in the Agreement.

“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 Petroleum; 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.

“Field” means a Petroleum reservoir or multiple Petroleum reservoirs all grouped on or related to the same individual geological structural features or stratigraphic conditions. All reservoirs overlying and underlying a Field shall constitute part of such Field.

“Force Majeure” means those events or circumstances set forth in Article 34 of the Agreement.

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


“Gross Negligence or Wilful Misconduct” means an intentional and conscious or reckless disregard of a duty regarding good and prudent international oil industry practices, but shall not include (i) any act or inaction required, in the opinion of the Party acting or failing to act based upon the circumstances known to such Party at the time, to meet emergency conditions including, but not limited to, the safeguarding of life, property and Petroleum Operations, or (ii) any error of judgment or mistake made in the exercise of good faith of any function, authority, or discretion conferred upon the Party.
“International Good Oilfield Practice” means such practices and procedures utilized internationally by prudent operators under conditions and circumstances similar to those experienced in Petroleum Operations within the Agreement Area intended to (a) conserve Petroleum by maximizing the recovery of Petroleum in a technically and economically sustainable manner, with a corresponding control of reserves decline and minimization of losses at the surface; (b) promote operational safety and prevention from accidents; and (c) protect the environment by minimizing the impact of Petroleum Operations thereon. The Agency from time to time, shall notify what international standards shall apply for the interpretation of International Good Oilfield Practices.

“Law” or “the Law” means the Act on the Exploration and Production of Hydrocarbons (Official Gazette of the Republic of Croatia nos. 94/2013 and 14/2014) and or any amending or succeeding law thereto.

“Licence” shall have a meaning as defined in the Law and or any amending or succeeding Law thereto.

“Lifting Schedule” means the planned programme of Petroleum liftings by each Party approved by the Ministry.

“Measurement Point” means the place or places mutually agreed between the Agency and the Contractor where appropriate equipment and facilities will be located for the purpose of performing volumetric measurements and other determinations, temperature and other adjustments, determination of water and sediment and other appropriate measurements, to establish the volume of Petroleum produced.

“Minimum Expenditure Obligation” means the minimum monetary spend to which the Contractor has committed in respect of Exploration Operations to be conducted in each respective Exploration Phase.

“Ministry” means an entity as defined in the Law and or any amending or succeeding Law thereto.

“Natural Gas” means petroleum that at a temperature of 15°C and pressure of 1 Atmosphere is in a gaseous phase, including wet mineral gas, dry mineral gas, wet gas and residue gas remaining after the extraction, processing or separation of Crude Oil from wet gas, as well as non-petroleum gas or gases produced in association with liquid or gaseous petroleum.
“Operating Expenditures” means those costs described in Article 2.5 of the Annex B.

“Operator” means the Company appointed pursuant to Article 12 to serve as Operator with responsibility for carrying out Petroleum Operations in the Agreement Area in accordance with the provisions of this Agreement on behalf of the Contractor.

“Original Agreement Area” means the geographical area that is described in Article 3 and delineated on the map attached as Annex A.

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

“Petroleum Cost” means expenditures made and obligations incurred by the Contractor in carrying out Petroleum Operations hereunder, determined in accordance with the Accounting Procedure attached hereto as Annex B.

“Petroleum Operations” means Exploration Operations, Development and Production Operations and all other related activities carried out under this Agreement, including the lifting of Petroleum from the Agreement Area but excluding any storage, transportation or processing beyond the Delivery Point.

“Petroleum” means any kind of Petroleum products in solid, liquid or gaseous state, including crude oil or natural gasoline, natural Petroleum gases as well as all related minerals or substances of any kind extracted together therewith. Petroleum shall have the same meaning as the term Hydrocarbons has in the Law.

“Production” shall include but not be limited to operations and all activities related thereto carried out for Petroleum production after the approval of the Development and Production Plan, such as extraction, injection, stimulation, treatment, transportation, storage, lifting, and related operations, but does not include any storage or transportation beyond the Delivery Point.

“Profit Gas” means the remaining Available Gas, less the quantities required for royalty payment and after the Contractor has taken the Cost Gas pursuant to the provisions of Article 14.2.

“Profit Oil” means the remaining Available Oil, less the quantities required for
royalty payment after the Contractor has taken the Cost oil pursuant to the provisions of Article 14.2.

“Profit Petroleum” means Profit Oil and Profit Gas.

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

“Regulations” means the regulations issued under the Law and any other regulations issued in the Republic of Croatia and applicable to Petroleum Operations.

“Reservoir” means a naturally occurring discrete accumulation of Petroleum.

“Royalty” means the fee or delivery in kind to the Republic of Croatia as described in Article 14.1.

“Significant Gas Discovery Area” means a geographical area within the Agreement Area, encompassing the surface of the geological structure or prospect of a Significant Gas Discovery.

“Significant Gas Discovery” means a Discovery of Natural Gas from an Exploration Well in the Agreement Area which has tested significant flow rates of Natural Gas (predominantly methane) from one or more reservoirs, and which is estimated to be capable of continuous production from the said reservoir(s) over a reasonable period and which in the opinion of the Contractor could be declared a Commercial Discovery in the future, provided inter-alia that:

(a) adequate gas pipeline transportation facilities are installed, or
(b) markets have been sufficiently developed for sale of Natural Gas on a commercial basis, or
(c) the requirements of both (a) and (b) have been met.

“Sub-contractor” means any company or person contracted by the Contractor to provide goods or services in connection with Petroleum Operations.

“Territory” means the land territory, the internal waters, the territory waters, the continental shelf and the exclusive economic zone of the Republic of Croatia of Croatia.

“Well” means any opening in the ground or seabed made or being made by drilling or boring, or in any other manner, for the purpose of discovering
and/or producing Crude Oil or Natural Gas, or for the injection of any fluid into a Petroleum reservoir, other than a seismic hole or a structure test hole or stratigraphic test hole.

“Work Programme” means a statement itemizing the Petroleum Operations to be carried out pursuant to this Agreement during any Calendar Year or part thereof.
2  GRANT OF RIGHTS, TITLE TO PETROLEUM

2.1  Grant of Rights

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

2.2  Title to Petroleum

The State shall remain the sole owner of all Petroleum produced pursuant to the provisions of this Agreement except as regards that part of Crude Oil, Condensate or Gas, the title whereof has passed to the Contractor or any other person in accordance with the provisions of this Agreement.

Title to Cost Oil and Cost Gas and the Contractor’s share of Profit Gas and Profit Oil shall pass to the Contractor at the Delivery Point.
3 TERMO OF THE AGREEMENT AND AGREEMENT AREA

3.1 Term of the Agreement

3.1.1 This Agreement shall remain in force for a term of duration of the license issued in line with requirements of the Law.

3.1.2 The term of this Agreement shall be divided in one (1) Exploration Period and one (1) or more Exploitation Period(s), which shall not exceed the term of this Agreement.

3.1.3 The Agreement may be extended upon mutual agreement of the Parties in line with provisions of the Law.

3.1.4 This Agreement supersedes and replaces any previous agreement or understanding between the Parties, whether oral or written, on the subject matter hereof, prior to the commencement of this Agreement and each of the Parties hereby confirms and acknowledges that it has not relied on any representations in entering into this Agreement and that all liability for misrepresentation whether negligent or innocent (but expressly excluding liability for fraudulent misrepresentation) is hereby excluded.

3.2 Agreement Area

3.2.1 The initial Agreement Area covers the [__________] Block and extends over an area of [__________] square kilometres ([__________] km2), as detailed and indicated on the map attached in Annex A and is delimited by the following coordinates:

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3.2.2 The Government, by execution of this Agreement, hereby validates and approves the foregoing coordinates of the Agreement Area.
4 WORK PROGRAMMES AND BUDGETS

4.1.1 No later than ninety (90) days prior to the beginning of each Calendar Year, and, for the first Calendar Year, no later than one (1) month after the Effective Date, the Contractor shall prepare and submit for approval by the Agency a detailing by the Quarters itemized annual Work Programme, along with the corresponding annual Budget for the Agreement Area, setting forth the Petroleum Operations the Contractor proposes to carry out during the ensuing Calendar Year.

4.1.2 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. The Work Program(s) submitted by Contractor for each Calendar Year shall be accompanied by an indicative schedule for operations to be conducted in the coming year.

4.1.3 The Agency may propose amendments or modifications to the annual Work Programme and corresponding annual Budget by notice to the Contractor, including all justifications deemed necessary, within sixty (60) days following receipt of said Work Programme. In such a case, the Agency 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 International Good Oilfield Practice. The date of approval of the annual Work Programme and corresponding annual Budget shall be the date of the above-mentioned mutual agreement.

4.1.4 Failing notice by the Agency to the Contractor of his wish to amend or modify the annual Work Programme and corresponding annual Budget within the abovementioned period of sixty (60) days, said Work Programme and Budget shall be deemed approved by the Agency upon the expiry date of said period.

4.1.5 It is acknowledged by the Agency and the Contractor that the results acquired as the work progresses or certain changes in circumstances may justify modifications to the annual Work Programme, in accordance with International Good Oilfield Practice.

4.1.6 In that case, after notification to the Agency, the Contractor may make such modifications provided the basic objectives of the annual Work Programme are not modified.

4.1.7 In any case, the expenditures incurred for purposes of such modifications shall not exceed the initial Annual Budget approved by the Agency by more than five percent (5%) or 10 % for any individual item within the initial Annual Budget, without his written consent.

4.1.8 Contractor shall deliver to the Agency within twenty-one (21) days after each Calendar Quarter a status report on the operations conducted and costs incurred under the approved Work Programme and budget during such Calendar Quarter. The status report shall forecast any significant changes to
such approved Work Programme and budget that Contractor anticipates may be necessary during the balance of the Calendar Year. The report corresponding to the last Quarter of each Calendar Year shall also include a year-end summary of operations and costs during such Calendar Year.

4.1.9 In case of emergency, Operator may incur expenditures necessary for prudent Operations. Operator shall report such expenditures to the Agency in accordance with Article 4.1.8. Unless such emergency is due to Gross Negligence or Wilful Misconduct on the part of Operator, such expenditures shall be approved by the Agency, and shall automatically be included in the approved Budget. In case of operational imperatives requiring Agency’s approval in a shorter timeframe than provided in Article 4.1.3 Parties shall endeavour to complete the approval process within such shorter time frame.
5 Exploration

5.1 Exploration period

5.1.1 The Exploration Period shall be for a period of five (5) Years divided into Exploration Phases as follows:

a) Phase I of the Exploration Period shall have a duration of three (3) years commencing on the Effective Date of this Agreement;

b) Phase II of the Exploration Period shall have a duration of two (2) years immediately following Phase I.

5.1.2 At the expiry of Phase I of the Exploration Period, provided that the Contractor has completed the Exploration Work Obligations for that Exploration Phase, the Contractor shall have the option, exercisable by filing at least three (3) months prior to the expiry of Phase I a written application, to the Ministry and the Agency, who shall seek the approval of the Government, either:

a) to proceed to Phase II on presentation of the requisite guarantees as provided for in Article 15; or

b) to relinquish the entire Agreement Area except for any Appraisal Area and any Exploitation Area and to conduct Appraisal Operations and/or Development and Production Operations in relation to any Commercial Discovery in accordance with the terms of this Agreement, and the Contractor shall have no further obligation in respect of the Exploration Work Obligations for the subsequent Exploration Phase of the Exploration Period.

If neither of the options is exercised by the Contractor, this Agreement shall terminate at the end of Phase I and the License shall be automatically cancelled.

5.1.3 The application for the Phase II Exploration Period shall be accompanied with a map specifying the Agreement Area retained by the Contractor, defined in accordance with the provisions of Article 6, together with a report specifying the work performed on the area to be relinquished in accordance with Article 6.1(a) from the Effective Date and the results obtained therefrom.

5.1.4 For any Discovery made at any point during the Exploration Period, Contractor shall have the right to retain such Discovery and its resulting Discovery Area in order to Appraise and submit a Development Plan, in accordance with provisions of the Agreement. The Exploration Period of the resulting Discovery Area will be extended in order to complete such work as further detailed in Article 5.5.

5.1.5 Exploration Period can be extended in line with the requirements of the Law twice for a further period of six (6) months.
5.2 Exploration Operations, Minimum Work and Expenditure Obligations

5.2.1 The Contractor shall start Exploration Operations within thirty (30) days of the Agency’s approval of the Exploration Work Programme and Budget for the first Agreement Year.

5.2.2 During the Phase I of the Exploration Period the Contractor shall carry on the following Minimum Work Obligations:
   a) undertake at least (___) kilometres of 2D seismic survey;
   b) undertake at least (___) kilometres of 3D seismic survey;
   c) evaluate, reprocess, integrate and map all seismic data related to the Agreement Area;
   d) undertake other surveys (_______);
   e) drill at least (___) Explorations Well(s).

The Contractor shall have a Minimum Expenditure Obligation of [x] Euro (EUR [x]) for the purpose of the Minimum Work Obligations in the Phase I of the Exploration Period.

All Contractor’s pre-effective costs incurred during the first Agreement Year before Work program and Budget approval shall be subject to the approval and recovery according to Article 14 of this Agreement.

5.2.3 During the Phase II of the Exploration Period the Contractor shall carry on the following Minimum Work Obligations:
   a) undertake at least (___) kilometres of 3D seismic survey;
   b) evaluate, reprocess, integrate and map all seismic data related to the Agreement Area;
   c) undertake other surveys (_______);
   d) drill at least (___) Explorations Well(s).

The Contractor shall have a Minimum Expenditure Obligation of [x] Euro (EUR [x]) for the purpose of the Minimum Work Obligations in the Phase II of the Exploration Period.

5.2.4 Each Exploration Well mentioned above shall be drilled to the minimum target depth of (___) meters, or to a lesser depth if authorized by the Agency or if discontinuing drilling according with International Good Oilfield Practice which is justified by one of the following reasons:
   a) basement is encountered at a depth less than the above-mentioned minimum Agreement depth;
   b) continued drilling is clearly dangerous due to abnormal formation pressure;
   c) rock formations are encountered, the hardness of which makes it impractical to continue drilling with appropriate equipment; or
d) Petroleum formations are encountered, requiring the installation of protective casings which prevent reaching the above-mentioned minimum Agreement depth.

In any of the above cases, the Contractor shall obtain prior approval of the Agency, 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 Agreement depth.

5.2.5 If in an Exploration Phase the Contractor drills a number of exploration wells greater than the minimum drilling obligations specified for said phase in the Exploration Work Obligations, the excess exploration wells may be carried forward to a subsequent Exploration Phase and shall be deducted from the minimum drilling obligations specified for said Exploration Phase.

5.2.6 For the purpose of Article 5.2, appraisal wells drilled under an appraisal work program with respect to a Discovery shall not be considered as exploratory wells. In the event of a Discovery, only one Well per Discovery shall be deemed to be an Exploration Well.

5.2.7 Within sixty (60) Days following completion of the Minimum Work Obligations for each phase of the Exploration Period, Contractor shall notify the Agency that Minimum Work Obligations has been fulfilled regarding the respective phase of the Exploration Period. The Agency shall have the right to audit (inspect) the work executed by the Contractor.

5.2.8 The Agency shall within thirty (30) Days of receiving such notice, confirm in writing that Contractor has fulfilled such Minimum Work Obligations of the relevant phase of the Exploration Period.

5.2.9 If the Agency does not dispute in writing, within thirty (30) Days of Contractor’s notice that Contractor has fulfilled its Minimum Work Obligations with respect to such phase, Contractor shall be deemed to have completed its Minimum Work Obligations with respect to the relevant phase.

5.2.10 If the Agency dispute in writing that Contractor has fulfilled its Minimum Work Obligations, such objections shall set forth the full details of Agency’s objections. Parties shall discuss disputes, which may arise as to whether or not the Minimum Work Obligations have been satisfied, in an effort to reach an amicable solution. Either of the Parties may refer the matter to dispute resolution, pursuant to Article 35, should they remain unable to agree.

5.2.11 The Contractor shall conduct a preliminary Environmental Impact Assessment study prior to the initiation of any exploration work which shall comply with the provisions of the Strategic Environmental Assessment (SEA) of the offshore area of the Republic of Croatia, as well as with the Applicable Environmental Legislation.

5.2.12 Subject to provisions of this Article and Article 15 of this Agreement, if the Contractor fails to satisfy the requirements of the Exploration Work Program both technical and expenditure commitments with respect to the applicable Exploration Phase, the Contractor shall pay to the Government the amount equal to the unexpended balance of the minimum expenditure obligation with respect to such Exploration Phase.
5.3 **Discovery**

5.3.1 In the event of a Discovery of Petroleum in the Agreement Area, the Contractor shall inform the Ministry within twenty four (24) hours of such Discovery, followed by a written notification within thirty (30) Days of the Discovery. The notice shall include all relevant information on the Discovery and particulars on any testing program which the Contractor intends to carry out, in accordance with International Good Oilfield Practice, to contribute to the evaluation of the Petroleum encountered during drilling.

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

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

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

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

5.4 **Appraisal**

5.4.1 If the Contractor considers that the Discovery merits Appraisal, it shall no later than three (3) months following the submission of the report referred to in Article 5.3.2 diligently submit to the Agency a detailed Appraisal Work Program and the estimated corresponding Budget for approval designed to determine:

a) without delay, and in any event within the period specified above whether such Discovery is a Commercial Discovery; and
b) with reasonable precision, the boundaries of the area to be delineated as the Exploitation Area.

5.4.2 The Appraisal Work Program shall:

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

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

5.4.4 Within three (3) months after completion of the Appraisal Work Programme the Contractor shall submit to the Agency a comprehensive evaluation report on the work performed relative to the Appraisal Work Programme. Such evaluation report shall include, but not be limited to, the following information:

a) geological conditions, such as structural configuration;
b) physical properties and extent of reservoir rocks;
c) pressure, volume and temperature analysis of the reservoir fluid;
d) fluid characteristics, including gravity and composition of liquid and gaseous petroleum, sulphur percentage, sediment and water percentage, and product yield pattern;
e) production forecasts (per Well and per Field); and
f) estimates of recoverable reserves, projected delivery rate and pressure, quality specifications and other relevant technical and economic factors including economic feasibility studies carried out by the Contractor in respect of its declaration made under Article 5.5.

5.4.5 If upon expiry of the Phase II of the Exploration Period an Appraisal Work Programme with respect to a Discovery is actually under progress, the Contractor may obtain, upon an application to the Government through the Ministry, with respect to the Appraisal Area related to the said Discovery, the extension of the Exploration Period for a period of time necessary to complete the relevant Appraisal Operation. Such extension shall not exceed a period of six (6) months.

5.4.6 If the Contractor, after completion of Appraisal, considers that the Discovery is not commercial, the Ministry may, with a three (3) months’ prior notice, require the Contractor to relinquish its rights on the Appraisal Area related to the said Discovery.

5.4.7 Where the Ministry makes use of the right provided in Article 5.4.6, the Contractor shall forfeit its rights on all Petroleum which could be produced from said Discovery, and the Republic of Croatia 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 Petroleum Operations by the Contractor.

5.4.8 Any quantity of Petroleum produced from a Discovery prior to it being declared a Commercial Discovery, if it is not used for the Petroleum Operations or lost, shall be owned by the Republic of Croatia.
5.4.9 Subject to the provisions of Article 5.5, if no Commercial Discovery has been made in the Agreement Area by the end of the Exploration Period, this Agreement shall terminate.

5.5 Declaration of Commerciality

5.5.1 With the submission of the evaluation reports pursuant to Article 5.4.4, the Contractor shall submit a written declaration to the Ministry and the Agency indicating one of the following:

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

5.5.2 If the Contractor declares pursuant to Article 5.5.1 (a) that a Discovery is a Commercial Discovery, the Contractor shall submit to the Ministry and the Agency for approval within four (4) months of such declaration:

a) a proposed Development and Production Plan; and
b) a proposed designation of the Exploitation Area;
c) a full Environmental Impact Assessment prepared in accordance with the Applicable Environmental Legislation, Strategic Environmental Assessment (SEA) of the offshore area of the Republic of Croatia, with the relevant opinion of the Environmental Authority, as well as with the relevant provisions of the Directive 85/337/EEC, covering the proposed Development and any related facilities or infrastructure inside or outside of the Agreement Area, which shall be subject to approval in accordance with the Applicable Environmental Legislation. Such Environmental Impact Assessment shall be approved prior to initiation of Development Operations.

5.5.3 In case of a Commercial Discovery the Parties may agree to establish an operating company responsible for Development and Production Operations of the said Discovery.
6 RELINQUISHMENTS

6.1 Periodic Relinquishment

6.1.1 The Contractor shall:

a) at the end of Phase I of the Exploration Period relinquish not less than twenty five percent (25\%) of the Original Agreement Area;

b) at the end of the Phase II of the Exploration Period relinquish the remaining portion of the Agreement Area.

6.1.2 Notwithstanding paragraph 6.1.1 above, the Contractor shall not be obliged to relinquish any part of the Agreement Area which has been made an Appraisal Area or Exploitation Area or Significant Gas Discovery Area.

6.1.3 Subject to paragraph 6.1.8, the Contractor may at any time with at least three (3) months prior written notice to the Ministry and the Agency relinquish all or part of the Agreement Area. Any such voluntary relinquishment of part of the Agreement Area during the Exploration Period shall not reduce the Exploration Work Obligations set forth in Article 5 nor the amount of the corresponding guarantee.

6.1.4 The Contractor shall, subject to paragraphs 6.1.1 and 6.1.5, propose the size, shape and location of the portion of the Agreement Area which it intends to relinquish pursuant to the provisions of this Agreement.

6.1.5 The notice submitted by the Contractor in accordance with paragraph 6.1.3 shall be accompanied by a description of the area to be relinquished with pertaining map of the area.

6.1.6 The area to be relinquished by the Contractor pursuant to the provisions of this Agreement 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 Petroleum Operations to be conducted thereon. This applies correspondingly to the areas retained by the Contractor.

6.1.7 The Ministry through the Agency shall approve the shape and size of the Agreement Area that will remain after relinquishment and may exempt from the requirement that the areas are to be contiguous. When particular reasons so warrant, the Government may exempt from the requirement to delimit the area in whole minutes of a degree.

6.1.8 If the Contractor does not relinquish a portion of the Agreement Area at the time and in the manner required by this Article 6.1, all of the Agreement Area shall be deemed relinquished at the end of the Agreement Year concerned.

6.1.9 Without the consent of the Ministry and the Agency, and notwithstanding paragraph 6.1.2, the Contractor shall not relinquish all of the Agreement Area if it has not fulfilled the Exploration Work Obligations or is in breach of any provision of this Agreement.
6.2 Final Relinquishment of Exploration Area

6.2.1 The Contractor shall, at the expiry of the Exploration Period, relinquish all of the Agreement Area other than such part thereof as is an Exploitation Area.

6.2.2 If, at the end of the Exploration Period, a Discovery has been made but there has been insufficient time for the Contractor (acting, and having acted, in accordance with this Agreement) to conduct an Appraisal of such Discovery, the obligation of the Contractors under this Article 6.2 shall, subject to the provisions of the Regulations, be postponed:

a) for such area as the Contractor proposes and the Ministry and the Agency may determine to be reasonably necessary for Appraisal of the Discovery;
b) for such period as is reasonably necessary to permit the Contractor to Appraise (or to complete the Appraisal of) the Discovery; and
c) as a consequence of that Appraisal, for the Contractor to decide whether to declare a Commercial Discovery and, if it does so, for the Ministry to declare an Exploitation Area in respect of it.

6.3 Relinquishment of Exploitation Area

6.3.1 Except with the approval of the Ministry and the Agency, an Exploitation Area shall be deemed to be relinquished on the first to occur of:

a) production from the Exploitation Area ceasing permanently or for a continuous period of twelve (12) months (or, if because of Force Majeure, eighteen (18) months or such greater period as determined by the Law); and
b) the expiry of the Exploitation Period.

6.3.2 Without the approval of the Government, the Contractor may not otherwise relinquish all or any part of an Exploitation Area.

6.4 Continuing Obligations in respect of Relinquished Area

6.4.1 This Agreement shall terminate in respect of a part of the Agreement Area which is relinquished.

6.4.2 Relinquishment of all or a part of the Agreement Area is without prejudice to the obligations of the Contractor related to Decommissioning.

6.4.3 No relinquishment made in accordance with this Article 6 shall relieve the Contractor of the obligation to pay surface fees accrued, or making payments due and payable as a result of Petroleum Operations conducted prior to the date of relinquishment.

6.4.4 Contractor shall be liable and shall bear the cost and expenses for all claims, damages or losses arising out of or related to Environmental Damage resulting from suspended and abandoned wells and other facilities for a period of five (5) Calendar Years following the relinquishment of a portion of
the Agreement Area or the relinquishment of a Exploitation Area that includes such wells or facilities unless Contractor can demonstrate that the pollution and damages are caused by acts of nature or by actions or omissions of others.
7 DEVELOPMENT AND PRODUCTION

7.1 Approval of a Development and Production Plan

7.1.1 The Contractor shall prepare and submit the Development and Production Plan for the Exploitation Area and any amendments for the approval of the Ministry and the Agency. The Contractor may not perform any activities with reference to the Development and Production Plan prior to such approval being obtained save with the express permission to enter into specific activities granted by the Ministry and the Agency.

7.2 Development and Production Plan

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

a) a description and a map of the estimated extent of the Exploitation Area;

b) all information and data pertaining to the characteristics of the Commercial Discovery, including but not limited to: geological and geophysical information, areas, thickness and extent of the productive strata, petrophysical properties of the reservoir formations, PVT data, the reservoir’s productivity indices for the wells tested at various flow rates, permeability and porosity of the reservoir formation, the relevant characteristics and qualities of the Petroleum discovered, additional geological data and evaluations of the reservoir, reserves estimates, and any other relevant characteristics and properties of the reservoir and fluids contained therein, as well as evaluations, interpretations and analysis of such data;

c) a description of the proposed reservoir development and management programme;

d) an evaluation of the commerciality of the Development, including a full economic evaluation with an estimate of the petroleum reserves, both proven and probable (confirmed by the third party independent report), and of the corresponding production profiles, as well as a study on the methods for recovery of Petroleum and utilization of Natural Gas, if any;

e) in the event of Associated Natural Gas, the Contractor shall give an assessment of the possibility of such Associated Natural Gas exceeding the quantities of Natural Gas necessary for the requirements of the Petroleum Operations related to the production of Crude Oil (including reinjection operations) and if it considers that such excess Associated Natural Gas is capable of being produced in commercial quantities together with any analysis made thereof;

f) an assessment and presentation of the possible outlets for the Natural Gas from the Discovery in question, both on the local market and for export, together with an evaluation of the necessary means for its marketing, with due consideration to the sale and marketing of the Republic of Croatia’s Profit Gas in accordance with Article 14;
g) proposals as to the possibility of a joint marketing of the Parties shares of Petroleum;

h) details of:

i. the geological and the reservoir work done, together with the production profiles simulated, in order to reach the best depletion alternative;

ii. the work, facilities and services required for the development and production of the reservoir, including, inter alia, drilling schedules, number of wells, well spacing and any other related activities. Proposals relating to production procedures shall ensure that the area does not suffer an excessive rate of decline of production, or an excessive loss of reservoir pressure, and shall ensure environmental protection conforming to International Good Oilfield Practice and comply with the Regulations;

iii. the plan for the production, processing, storage, transportation, sale, and other disposal of Petroleum (hereunder exploitation of Associated Natural Gas) to be extracted from the Agreement Area;

iv. the production, treatment and transportation facilities to be located in the Republic of Croatia. Proposals relating to facilities shall provide for the optimal use of existing or planned facilities;

v. facilities, wherever located, which are connected to any such facilities as aforesaid and which (or the operation of which) might affect the integrity, management or operation thereof;

vi. the Delivery Point;

vii. the Measurement Point.

i) the production profiles for all Petroleum products, including possible injections for the life of the Development, the commencement of Production and the specific rates of Petroleum Production, and the level of production and of deliveries which the Contractor submits, should constitute the start of Commercial Production;

j) a Decommissioning Plan, in such detail as the Agency requires, including a calculation of the Decommissioning Costs, the annual amount in the Decommissioning Fund provided for in Article 9 and the Contractor’s proposal for the Decommissioning Security;

k) a risk management plan prepared in accordance with the requirements of the applicable laws and regulations of the Republic of Croatia and the Applicable Environmental Legislation, including the measures and directions established by the Ministry to prevent any damage and remove any hazards that the Petroleum Operations may cause to affected communities, Contractor’s personnel and the environment;

l) an environmental impact assessment study, prepared in accordance with the Applicable Environmental Legislation, containing a description of the ecosystem prior to the commencement of the development (baseline study), including the flora and fauna, soil, air quality, underground and surface water, landscape aesthetics prior to commencement of
Petroleum Operations, and the aspects of the ecosystem which may be affected qualitatively and quantitatively by the Petroleum Operations and the effect of said operations on local populations and industries, if any, and the socio-economic conditions of those individuals.

m) The licensees will conduct a full Environmental Impact Assessment prior to the initiation of any exploitation work, which will comply with the provisions of the Strategic Environmental Assessment (SEA) of the offshore area of the Republic of Croatia and with the relevant opinion of the Environmental Authority, as well as with the relevant provisions of the Directive 85/337/EEC. an environment management plan, including a socio-economic management plan, prepared in accordance with the requirements of the Regulations and of the Applicable Environmental Legislation, including the measures planned for the protection of the environment, the elimination or the reduction of pollution and the protection and compensation of affected populations and industries if applicable, and the verification of the effectiveness of said measures;

n) an emergency response plan prepared in accordance with the requirements of the Regulations and of the Applicable Environmental Legislation, including measures to respond to any accident that may occur at the site of the Petroleum Operations, medical treatment and evacuation of employees and surrounding populations and the protection of the environment;

o) the Contractor’s proposals for:
   i. the use of local goods and services;
   ii. training and employment

p) the estimated Development and Production Expenditure including, but not limited to covering the feasibility, fabrication, installation, commissioning and pre-production stages of the Development;

q) the Contractor’s proposals for financing, hereunder full information as to the Contractor’s current financial status, technical competence and experience;

r) the programme and time-schedule for the performance of the Development and Production Operations, including the estimated date of the commencement of Petroleum Production;

s) where any Field(s) extend beyond the Agreement Area, a suggested unitization or joint development plan;

t) such other data and information (including in respect of insurance to be obtained by the Contractors, and buyers and shippers of Petroleum) as the Law and Regulations require and as the Ministry and the Agency otherwise requires.

7.2.2 From time to time, and in like manner, the Contractor shall submit, for the approval of the Ministry and the Agency, amendments to the Development and Production Plan.

7.2.3 In determining whether to approve a Development and Production Plan or an amendment to it
properly submitted by the Contractor, the Ministry and the Agency shall give due consideration to the Contractor’s proposal to secure the implementation of a Decommissioning Plan in respect of the Exploitation Area.

7.2.4 The Ministry and the Agency may propose amendments or modifications to the Development and Production Plan, as well as the requested Exploitation Area.

7.2.5 The Ministry and the Agency may set as a condition for approval of the Development and Production Plan that Petroleum are to be transported in specified transportation systems.

7.2.6 The Ministry and the Agency shall specify its reasons for not approving a Development and Production Plan or an amendment to it.

7.2.7 A Development and Production Plan shall be such as would be undertaken by a person seeking diligently to develop and exploit (in accordance with this Agreement and International Good Oilfield Practice) the Petroleum in the Exploitation Area in the long term to best interests of the Parties.

7.2.8 The Contractor shall proceed with the development and production of the Petroleum in accordance with the Development and Production Plan submitted to and approved by the Ministry and the Agency pursuant to the provisions of this Article.

7.3 Grant of Concession

7.3.1 Upon approval of a Development and Production Plan of a Commercial Discovery pursuant to Article 7.1, the Contractor shall be granted a Concession in respect of the proposed Exploitation Area. Such Concession shall be granted by the Government without conducting of any other procedure providing the Contractor met all requirements specified in the Law. The Concession will constitute an inseparable integral part of the License, and shall enable the Contractor to commence and carry out Development and Production Operations in the Exploitation Area in accordance with the Development and Production Plan for the period stipulated in the License.

The Exploitation Period may be extended by the Government in compliance with requirements of the Law.

7.3.2 Where a part of a Reservoir in respect of which a Commercial Discovery has been declared extends beyond the Agreement Area, such area shall be included in the proposed Exploitation Area, in relation to a Concession, provided that such area is:

a) not subject to a License granted to any other Person;
b) not the subject of negotiations/bidding for a License; and
c) available for licensing (i.e. is not an area over which Petroleum Operations are excluded).

The Parties shall agree on the terms and conditions of inclusion of such additional area into the Exploitation Area.
7.3.3 The Contractor shall commence Development and Production Operations within six (6) months after the date of approval of the Concession and shall pursue said operations diligently.

7.4 Production Rate and Lifting

7.4.1 The Contractor shall use all reasonable efforts to produce Petroleum at the maximum efficient rate which is economic in accordance with International Good Oilfield Practice and in compliance with Article 23 of this Agreement. The Contractor shall submit to the Agency not later than sixty (60) days prior to commencement of Production from each Exploitation Area and then prior to commencement of each Calendar Year an estimated production schedule for each Exploitation Area.

7.4.2 Twelve (12) months prior to the scheduled initial Commercial Production, from each Field, the Contractor shall submit to the Ministry and the Agency for approval proposed procedures and related operating regulations covering the scheduling, storage and lifting of Petroleum produced from the Field. The procedures and regulations shall be consistent with the terms of this Agreement and shall comprise the subjects necessary for efficient and equitable operations including, but not limited to, rights of the Parties, notification time, maximum and minimum quantities, duration of storage, scheduling, conservation, spillage, liabilities of the Parties, throughput fees and penalties, over and under lifting, safety and emergency procedures and any other matters that may be agreed between the Parties.

7.4.3 In any event, the agreed lifting procedures and regulations, as provided in the previous paragraph, shall always comply with applicable law.

7.4.4 In the case of more than one Commercial Discovery in the Agreement Area or more than one quality of Crude Oil in a Field, the Ministry and the Agency 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 Agreement Area. Natural Gas deriving from more than one Commercial Discovery in the Agreement Area shall to the extent feasible be lifted and transported in one commingled stream.
8 UNIT DEVELOPMENT AND JOINT OPERATIONS

8.1 If a Reservoir that exists in a Discovery Area is situated partly within the Agreement Area and partly in an area in the Republic of Croatia over which other parties have an Agreement to conduct Petroleum Operations, the Contractor shall notify the Ministry and the Agency and provide such information as the Ministry and the Agency may reasonably request in connection therewith.

If a Reservoir in a Discovery Area is situated partly within the Agreement Area and partly in an area in the Republic of Croatia over which other parties have an Agreement to conduct Petroleum Operations and both parts of the Reservoir can, in the reasonable opinion of the Government, be more efficiently developed together on a commercial basis, on receiving information in writing from any party to these Agreements or any information on this from any bona fide source, the Ministry and the Agency may, for securing the more effective recovery of Petroleum from such Reservoir, by notice in writing to the Contractor, require that the Contractor:

a) to collaborate and agree with such other parties on the joint development of the Reservoir with such collaboration and agreement being set out in the form of a Unit Development Agreement;

b) to submit such agreement between the Contractor and such other parties to the Ministry and the Agency for approval within one hundred and eighty (180) days; and

c) to prepare a Unit Development Plan for such joint development of the said Reservoir, within one hundred and eighty (180) days of the approval.

8.2 If no plan is submitted within the period specified or such longer period as the Ministry and the Agency and the Contractor and the other parties may agree, or, if such plan, as submitted, is not acceptable to the Ministry and the Agency and the parties cannot agree on amendments to the proposed Unit Development Plan, the Agency may cause to be prepared by an expert witness, at the expense of the Contractor and such other parties a plan for such joint unit development, consistent with International Good Oilfield Practice.

8.3 If a proposed Unit Development Plan is agreed and adopted by the parties, or adopted following determination by the expert, the plan, as finally adopted, shall be the approved Unit Development Plan and the Contractor shall comply with the terms of the said plan.

8.4 The provisions of this Agreement shall apply mutatis mutandis to a Discovery of a Reservoir located partly within the Agreement Area, which, although not equivalent to a Commercial Discovery if developed alone, would be a Commercial Discovery if developed together with that part of the Reservoir which extends outside the Agreement Area to the areas subject to Agreement for Petroleum Operations by other parties.

8.5 Where otherwise non-commercial volumes of Petroleum in the Agreement Area would, if exploited together with deposits in an area adjacent to the Agreement Area, be commercial, the Ministry and
the Agency may require Contractor and the Contractor of that adjacent area to share facilities.
9 DECOMMISSIONING

9.1 Decommissioning Plan, Budget and Fund

9.1.1 No later than six (6) years prior to the anticipated date of Decommissioning of a Field or as soon as possible prior to the termination of, or relinquishment of part of, any Agreement Area, the Contractor shall in accordance with applicable law submit to the Agency for his approval the relevant detailed Decommissioning Plan which shall include a detailed technical and engineering description of the decommissioning, removal and disposal of the facilities and installations, and of the site clean-up and restoration measures including the estimated decommissioning expenditures.

9.1.2 The Agency 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 Agency 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 International Good Oilfield Practice. The date of approval of the plan shall be the date of the above-mentioned mutual agreement.

9.1.3 The Decommissioning Plan shall be revised and resubmitted to the Agency for approval at such times as are reasonable having regard to the likelihood that the Decommissioning Plan, including estimated decommissioning expenditures thereunder, may need to be revised.

9.1.4 In order to secure the implementation of the Decommissioning Plan, the Contractor shall be required to establish a Decommissioning Fund, as from the approval of the Development and Production Plan and approve with the Agency the Formula for Determination of amount of payment into this Fund. Such fund shall be deposited in an escrow account in a bank acceptable to the Agency. Such annual provisions shall be deemed to be Petroleum Costs and recoverable pursuant to Article 14.

9.1.5 The Contractor shall commence payment into the Decommissioning Fund from and after the first anniversary of the First Commercial Production.

9.1.6 It is the intent of the Parties that the total payment into the Decommissioning Fund made by Contractor for any Field shall equal the Decommissioning Cost Estimates of such Field at the time Decommissioning Operations are to be conducted or at the termination of this Agreement whichever is earlier.

9.1.7 In the event that the actual Decommissioning Costs exceed the total accumulated provisions, the remaining balance of the abandonment costs shall be borne exclusively by the Contractor. In the event that actual decommissioning costs are lower than the total accumulated provisions, the remaining balance of the reserve fund shall be vested in the Republic of Croatia.

9.1.8 The Contractor shall continue to be liable as provided by law, after the term of this Agreement, for any damage, claim, cost, or expense arising from the Petroleum facilities, due to causes which have
arisen or which have accrued during the terms of this Agreement and which are attributable to the Gross Negligence or Wilful Misconduct of the Contractor.

9.1.9 If excess funds remain in the Decommissioning Fund following completion of all decommissioning and such funds have not been subject to full Cost Recovery, such excess funds shall be distributed to Contractor. If excess funds remain in the Decommissioning Fund following completion of all abandonment and such funds have been subject to full Cost Recovery, then such excess funds shall be transferred to the Government.

9.2 **Scope of Decommissioning Obligation**

9.2.1 Except for those facilities and assets, which Agency has notified the Contractor should not be removed, the Contractor shall, in accordance with the Decommissioning Plan and in compliance with the Law, on termination of the Agreement or relinquishment of part of the Agreement Area:

a) remove from the Agreement Area or part of the Agreement Area or abandon in place, in accordance with International Good Oilfield Practice, all wells, facilities and assets used in the conduct of Petroleum Operations, including, without limitation, pipelines, equipment, production and treatment facilities, electrical facilities, landing fields, and telecommunication facilities;

b) perform all necessary Site Restoration and remediation activities.
10 HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION

10.1 The Government places a high priority on the preservation and protection of the environment, both onshore and offshore. The Government and the Contractor recognises that Petroleum Operations may have some impact on the environment. Accordingly, in performance of this Agreement, the Contractor shall conduct Petroleum Operations with due regard to concerns with respect to protection of the environment and conservation of natural resources and shall in particular:

a) implement International Good Oilfield Practice and standards including advanced technologies, practices and methods of operation for the prevention of Environmental Damage in the conduct of its Petroleum Operations;

b) establish, keep up to date and further develop a management system designed to ensure compliance with the health, safety and environment requirements in accordance with the International Good Oilfield Practice and in compliance with laws and regulations of the Republic of Croatia.

c) take all necessary and adequate steps to:

i. prevent Environmental Damage and, where some adverse impact on the environment is unavoidable, to minimise such impact and the consequential effects thereof on property and people;

ii. ensure payment of adequate compensation for injury to persons or damage to property caused consequent to Petroleum Operations, and the amount so paid as compensation shall not be deemed to be a recoverable cost under this Agreement;

iii. if the Contractor does not act promptly so as to control or clean up any pollution or make good any damage caused, Government may, after giving the Contractor reasonable notice in the circumstances, take any actions which are necessary in accordance with International Good Oilfield Practice, and the reasonable costs and expenses of such actions shall be borne by the Contractor;

d) conduct environmental studies and environmental impact assessment, employ effective monitoring programs as provided in this Agreement and applicable laws and regulations of the Republic of Croatia.

e) implement the proposals contained in its Development and Production Plan regarding the prevention of pollution, the treatment of wastes and the safeguarding of natural resources.

f) at all-time comply with requirements of current health, safety and environmental legislation and regulations of the Republic of Croatia and treaties adopted by the Republic of Croatia as well as with any HSE standards and rules agreed between the Parties.
10.2 In the event of:

a) an emergency or accident arising from Petroleum Operations affecting the environment, the Contractor shall forthwith notify the Government accordingly and deal with them in line with approved plans and in compliance with the Law;

b) any fire or oil spill, Contractor shall promptly implement the relevant contingency plan;

c) any other emergency or accident arising from Petroleum Operations affecting the environment, Contractor shall take such action as may be prudent and necessary in accordance with International Good Oilfield Practice in such circumstances and as may be required under international obligations entered into by the Government.

10.3 If Contractor’s failure to comply with certain provisions of this Agreement results in pollution or damage to the environment or marine life or otherwise, the Contractor shall take all necessary measures to remedy the failure and effects thereof. If such pollution or damage is the result of gross negligence or wilful misconduct of the Contractor, the cost of the remedy shall not be deemed to be a recoverable cost under the Agreement.

10.4 When entering into an agreement, the Contractor shall ensure that its Sub-contractors and suppliers are qualified to fulfill the legal requirements relating to health, safety and the environment. Any agreement entered into between the Contractor and its Sub-contractors relating to Petroleum Operations shall include the terms set out in this Agreement and any established measures and methods for the implementation of Contractor’s obligations in relation to the health, safety and environmental protection under this Agreement.
11 CONTRACTOR’S GENERAL RIGHTS AND OBLIGATIONS, GOVERNMENT ASSISTANCE AND CONTROL

11.1 Contractor’s general rights

11.1.1 The Contractor shall have the exclusive right to perform the Petroleum Operations within the Agreement Area.

11.1.2 For purposes of performing the Petroleum Operations, the Contractor shall have the right to lay pipelines and build communication and infrastructure facilities, access available infrastructure of the Republic of Croatia, subject to a prior approval, and exercise other ancillary rights as may be reasonably necessary for the conduct of Petroleum Operations subject to obtaining the required approvals and in compliance with the relevant laws and regulation and control thereof.

11.1.3 The Contractor shall have the right to use, free of charge, such quantities of Petroleum produced as are reasonably required for conduct of Petroleum Operations in the Agreement Area in accordance with International Good Oilfield Practice.

11.1.4 The Contractor shall have other rights as provided in the Law and other laws and regulations of the Republic of Croatia.

11.2 Contractor’s General Obligations

11.2.1 The Contractor shall be subject to and comply with the Law, the Regulations and individual administrative decisions issued by virtue of the Law as well as with all other applicable laws and regulations at any time in force in the Republic of Croatia.

11.2.2 The Contractor shall assure that anyone performing work for him, either personally, through employees or through Sub-contractors, shall comply with the provisions of Article 11.2.1.

11.2.3 The Contractor shall supply all the necessary funds and purchase or rent all the equipment and materials required for the performance of the Petroleum Operations. The Contractor shall also supply all the technical expertise, including the use of the foreign personnel required for the performance of the Petroleum Operations, subject to provisions of Article 28. 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 4 of this Agreement and International Good Oilfield Practice.

11.2.4 Within three (3) months following the Effective Date, the Contractor shall open an office in the Republic of Croatia and keep it during the term of this Agreement. Said office shall include in particular a representative authorized to conduct the Petroleum Operations to whom any notice under this Agreement may be served.

11.2.5 The Contractor shall provide good working conditions, living accommodations on offshore installations, and access to medical attention and nursing care for all personnel employed by it or its Sub-contractors in Petroleum Operations in accordance with applicable law and International Good
11.2.6 The Contractor shall furnish the Ministry, the Agency and its authorised representatives of the Government with such information, reports, records and accounts relating to the Petroleum Operations in the Agreement Area in line with the timeline and procedures as may be required and detailed in provisions of this Agreement, the Law and any other applicable laws and regulations of the Republic of Croatia.

11.3 Government Assistance

11.3.1 Upon application by the Contractor in the prescribed manner, and subject to compliance with applicable laws and relevant procedures, the Government acting through the Agency or any other Government nominee shall assist the Contractor:

a) at the Contractor’s cost, where it is so required in obtaining necessary approvals, permits, consents, authorisations, visas, work permits, licenses, rights of way, easement, surface rights and security protection pursuant to this Agreement;

b) in complying with import/export controls and regulations and custom formalities and where applicable obtaining exemptions from customs and other duties;

c) to obtain onshore facilities at the Contractor’s cost, in the event that such facilities are required outside the Agreement Area for Petroleum Operations (including storage, loading and processing facilities, pipelines and offices and access to land required for such facilities).

d) in obtaining access to all geological, geophysical, drilling, well and production information for the Agreement Area.

e) in providing the right of ingress and egress from the Agreement Area and any facilities used in Petroleum Operations, wherever located, provided such right is within their control.

11.3.2 Upon presentation of appropriate documentation to Contractor, the Government shall be promptly reimbursed by Contractor for all reasonable expenses incurred in providing the assistance requested by Contractor as per Article 11.3.1.

11.4 Government Control

11.4.1 At all times during the term of this Agreement the Agency or any other body nominated by the Republic of Croatia shall have control over activities of the Contractor in line with provisions of this agreement and applicable laws and regulations of the Republic of Croatia.
12 OPERATOR AND ADVISORY COMMITTEE

12.1 Operator

12.1.1 _________ is designated the Operator under this Agreement.

12.1.2 The Operator shall diligently and in accordance with International Good Oilfield Practice execute the Petroleum Operations on behalf of the Contractor. The Operator shall be the only entity which, on behalf of the Contractor, may execute Agreements, incur expenses, make commitments and implement other actions in connection with the Petroleum Operations.

12.1.3 There shall only be one (1) Operator. Only Contractor or one of the Contractor Parties shall be Operator.

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

12.1.5 The Contractor shall at any time have the right to appoint another entity as the Operator, upon giving the Government not less than thirty (30) days prior written notice of such appointment. Such new Operator shall be approved by the Government.

12.1.6 Where the Government determines that an Operator is no longer competent to be an Operator, the Ministry and the Agency may, by written notice to the Operator and the entities constituting the Contractor, request that a new Operator shall be proposed. The Contractor must then within thirty (30) days propose to the Ministry and the Agency a new Operator. If the Contractor does not put forward a proposal for a new Operator or a proposed Operator is not approved, the Government may, by written notice to the Operator and the entities constituting the Contractor, revoke the authorization and terminate this Agreement.

12.2 ADVISORY COMMITTEE

12.2.1 Within sixty (60) days from the Effective Date the Agency shall establish a Advisory Committee (hereinafter referred to the "Advisory Committee") for the purpose of providing orderly direction of all matters pertaining to the Petroleum Operations and the Work Programs. The Advisory Committee, as the competent body of the Agency and the Ministry, shall act within its competence as defined in the Law and this Agreement. Chairman of the Advisory Committee shall be the Chairman of the Agency who will have the authority to invite to the meeting with the Contractor a reasonable number of its experts as deemed necessary to discuss the matters on the Agenda of the meeting and to prepare necessary decisions.

12.2.2 The Advisory Committee shall review, deliberate, decide and give advice, suggestions and recommendations to the Parties regarding the following subject matters and prepare decisions for
the approval of the Ministry and/or Agency as the case may be for the following matters:

a. work programs and budgets;

b. relinquishment of areas;

c. the Contractor's activity reports;

d. the determination of any Discovery as a Commercial Discovery;

e. production levels submitted by the Contractor, based on prudent international petroleum industry practice;

f. accounts of petroleum costs;

g. procurement procedures for potential Subcontractors;

h. the Contractor's accounting methods, the presentation of the statements of Recoverable Costs, and on the form and maintenance of operating records and reports on Petroleum Operations;

i. development and Production Plan and relative budget, and on any subsequent amendments thereto, as proposed by the Contractor;

j. any matter having a material adverse effect on Petroleum Operations;

k. approval of, and any material revision to, any Exploration Work Program and Budget prepared after the first Commercial Discovery in the Production Area relating to such Commercial Discovery;

l. approval of, and any material revision to, the Development Plan, the production schedule, lifting schedule and Development and Production Work Programs and Budgets;

m. establishment of rules of procedure for the Supervisory Committee;

n. approval of, and any material revision to, procurement procedures for goods and/or services, submitted by the Contractor;

o. approval of a bank in which to place the Decommissioning Fund, in accordance with Article 9;

p. approval of, and any material revision to, any proposed Decommissioning Plan submitted pursuant to Article 9 on any Decommissioning Work Program and Budget;
q. any Terms of Reference which are required to be prepared and agreed for the purposes of expert determination, pursuant to Article 35;

r. approval of any costs in excess of five per cent (5%) or 10 % for any individual item above any Budget;

s. any matter having a material adverse effect on Petroleum Operations;

t. other subject matter of a material nature that the Parties are willing to consider.

12.2.3 Ordinary meetings of the Advisory Committee shall take place in Republic of Croatia, at the offices of the Agency, or at any other location agreed between Parties, at least twice in Agreement Year prior to the date of the first Commercial Discovery and three times an Agreement Year thereafter.

12.2.4 Either the Government or the Contractor may call an extraordinary meeting of the Advisory Committee to discuss important issues or developments related to Petroleum Operations, subject to giving reasonable prior notice, specifying the matters to be discussed at the meeting, to the other Party.

12.2.5 The agenda for meetings of the Advisory Committee shall be prepared by the Contractor in accordance with instructions of the Chairman and communicated to the Parties at least fifteen (15) days prior to the date of the meeting. The Contractor shall be responsible for preparing and keeping minutes of the decisions made at the meetings. Copies of such minutes shall be forwarded to each Party for review and approval. Each Party shall review and approve such minutes within ten (10) days of receipt of the draft minutes. A Party who fails to notify in writing its approval or disapproval of such minutes within such ten (10) days shall be deemed to have approved the minutes.
13 BONUSES AND FEES

13.1 Payments

All payments by the Contractor shall be defined in Euros, and payable in Croatian Kuna (HRK) according to middle exchange rate as listed by the Croatian National Bank on the payment day.

13.2 Bonuses

13.2.1 The Contractor shall pay the Republic of Croatia the following amounts as bonuses:

a) Signatory Bonus:

____________ (_____ ) Euros at the effective date of the Agreement payable in as determined in Article 13.1 of this Agreement on the day of signing this Agreement

b) Production Bonuses:

Oil Fields

i. One Million Four Hundred Thousand (1,400,000.00) Croatian Kuna (HRK) at the commencement of daily production;

ii. One Million Four Hundred Thousand (1,400,000.00) Croatian Kuna (HRK) after cumulative production of 50,000 barrels of oil equivalent;

iii. One Million Four Hundred Thousand (1,400,000.00) Croatian Kuna (HRK) after cumulative production of 100,000 barrels of oil equivalent;

iv. One Million Four Hundred Thousand (1,400,000.00) Croatian Kuna (HRK) after cumulative production of 150,000 barrels of oil equivalent;

v. One Million Four Hundred Thousand (1,400,000.00) Croatian Kuna (HRK) after cumulative production of 200,000 barrels of oil equivalent.

Gas Fields

i. Nine Hundred Thousand (900,000.00) Croatian Kuna (HRK) at the commencement of daily production;

ii. Nine Hundred Thousand (900,000.00) Croatian Kuna (HRK) after cumulative production of 25,000 barrels of oil equivalent

iii. Nine Hundred Thousand (900,000.00) Croatian Kuna (HRK) after cumulative production of 50,000 barrels of oil equivalent;

iv. Nine Hundred Thousand (900,000.00) Croatian Kuna (HRK) after cumulative production of 75,000 barrels of oil equivalent;

v. Nine Hundred Thousand (900,000.00) Croatian Kuna (HRK) after cumulative production of 100,000 barrels of oil equivalent.
The procedure and formula for conversion of gas into oil equivalent shall be agreed by the Contractor and the Agency three (3) months before commencement of production.

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

13.3 Fees

13.3.1 The Contractor shall pay the Republic of Croatia the following surface fees:

a) Four Hundred (400) Croatian Kuna (HRK) per square kilometre of Agreement Area annually during the exploration period;

b) Four Thousand (4,000) Croatian Kuna (HRK) per square kilometre of Exploitation Area annually during the term of exploitation of each Exploitation Area.

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

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

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

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

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

13.3.2 The Contractor shall pay the Agency an administration fee of Six Hundred Thousand (600,000.00) Croatian Kuna (HRK) during the first year of this Agreement increasing annually at a rate of four percent (4%) for the unexpired term of the Agreement. Such charges shall be payable within thirty (30) days of the Effective Date of this Agreement and thereafter within the first thirty (30) days of each Agreement Year in respect of the following items: No refund shall be due if Contractor ceases operation prior to the end of an Agreement Year.

13.3.3 The bonuses, surface and administrative fees required under this Article 13 shall not be included in the Petroleum Costs for purposes of cost recovery under Article 14.1.

13.3.4 Thirty (30) days after the Effective Date, the Contractor and the Agency shall agree on a mechanism
to preserve the value in Croatian Kuna of the fees and bonuses payable during the duration of the Agreement relative to currencies that are widely traded internationally (e.g. US Dollar, Euro)
14 ROYALTY, RECOVERY OF PETROLEUM COSTS AND PRODUCTION SHARING

The Contractor shall have the right to use free of charge Petroleum produced from the Agreement Area to the extent reasonably required for Petroleum Operations under this Agreement.

All Available Petroleum from each Exploitation Area shall be measured at the applicable Measurement Points and allocated as set forth in the following sequence and proportions:

a) ten percent (10%) equal to the value of all Available Petroleum shall be payable to the Republic of Croatia as a Royalty as provided in Article 14.1;

b) the remaining ninety percent (90%) of all Available Petroleum shall be sub-divided between the Republic of Croatia and the Contractor:
   i. first as a recovery of Petroleum Costs by the Contractor with a cost recovery ceiling of fifty percent (50%) as provided in Article 14.2, and
   ii. then as a profit sharing between the Republic of Croatia and the Contractor (based on the “R” Factor calculations) as provided in Article 14.3.

Subject to provisions of this Agreement Contractor shall be entitled to take and receive and freely export its Cost Oil and Cost Gas and share of Profit Oil and Profit Gas.

14.1 Royalty

14.1.1 Equivalent of the ten percent (10%) of the value of Available Petroleum at the delivery point shall be payable to the Republic of Croatia in cash at the relevant weighted average Market Price as determined under Article 16 as a Royalty after the end of each Calendar Quarter.

14.1.2 Subject to the Contractor receiving one hundred and eighty (180) days’ notice in writing, the Government shall have the right to receive royalty share of such Petroleum in kind. The Royalty when taken in kind shall be delivered to the Government, which shall take possession thereof at the Delivery Point.

14.2 Recovery of Petroleum Costs

14.2.1 Subject to provisions of Article 26 and Annex B, in case of a Commercial Discovery the Contractor shall be entitled to recover 100% of its approved Petroleum Costs incurred in the Original Agreement Area (hereinafter referred to as "Cost Oil" and/or "Cost Gas" and collectively as "Cost Petroleum").

14.2.2 The Contractor shall be entitled to recover its Petroleum Costs out of the sales proceeds or other disposition of Available Oil and Available Gas, to the extent permitted under the provisions of Article 14.2.3.
14.2.3 For purposes of recovery of its Petroleum Costs, the Contractor may freely retain each Calendar Year Cost Oil and Cost Gas of fifty percent (50%) of the Available Oil and of the Available Gas respectively, less Royalty as defined in Article 14.1, or only any lesser percentage which would be necessary and sufficient.

14.2.4 The value of Cost Oil and Cost Gas shall be determined in accordance with the provisions of Article 16.

14.2.5 To the extent that in a Calendar Year outstanding recoverable Petroleum Costs exceed the value of Cost Petroleum for such Calendar Year, the excess shall be carried forward without an interest for recovery in the next succeeding Calendar Year until fully recovered, or until termination of the Contract, where such termination occurs earlier, whatever the reason thereof. No unrecovered cost can be recovered by the Contractor after such termination.

14.2.6 If, in any quarter, Petroleum Costs recoverable pursuant to Annex B shall be less than the actual value of the Cost Recovery Ceiling defined in Article 14.2.3, then the remaining balance of all such Cost Petroleum shall be deemed Profit Petroleum and shall be divided between and taken separately by the Republic of Croatia and the Contractor according to Article 14.3.

14.3 Profit Sharing

14.3.1 Available Petroleum remaining after the deduction of Royalty in accordance with Article 14.1.1 and the deduction of Petroleum Costs in accordance with Article 14.2.2 shall be deemed Profit Petroleum.

14.3.2 From the first day of production and as and when Petroleum are being produced, the Contractor shall be entitled to take a percentage share of Profit Oil and/or Profit Gas, in consideration for its investment in the Petroleum Operations, which percentage share shall be determined in accordance with Article 14.3.4.

14.3.3 To determine the percentage share of Profit Oil and/or Profit Gas to which the Contractor is entitled, the "R" Factor shall be calculated each Quarter in accordance with Article 14.3.4.

14.3.4 The “R” Factor shall be calculated as follows: \[ R = \frac{X}{Y} \]

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 14.3.3:

“Cumulative Net Revenues” means total Net Revenues, as defined below, received by the Contractor from the Effective Date until the end of the Quarter preceding the relevant Quarter;
“Net Revenues” means the total amount actually received by the Contractor for its share of Profit Petroleum and recovery of its Petroleum Costs in the Agreement Area, excluding, inter alia, all Operating Expenditures, area rentals, Bonuses and the Administration Fee, actually incurred by the Contractor in the Agreement Area until the end of the Quarter preceding the relevant Quarter;

“Cumulative Capital Expenditures” means all Development and Production Expenditures and all Exploration Expenditures in the Agreement Area, excluding, inter alia, Operating Expenditures, area rentals, Bonuses and Administration Fee, actually incurred by the Contractor from the Effective Date until the end of the Quarter preceding the relevant Quarter.

14.3.5 The share of Profit Petroleum to which the Contractor shall be entitled to [from the first day of production] is equal to the relevant percentage according to the value of the “R” factor as indicated in the table below:

<table>
<thead>
<tr>
<th>R-Factor (R)</th>
<th>Contractor’s Profit Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 &lt; R ≤ 1.0</td>
<td>90%</td>
</tr>
<tr>
<td>1.0 &lt; R ≤ 1.5</td>
<td>80%</td>
</tr>
<tr>
<td>1.5 &lt; R ≤ 2.0</td>
<td>70%</td>
</tr>
<tr>
<td>R &gt; 2.0</td>
<td>60%</td>
</tr>
</tbody>
</table>

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

14.4 Calculations

Within thirty (30) days after the end of each quarter Cost Petroleum and Profit Petroleum calculations shall be carried out. To the extent that actual quantities, expenditures and/or prices are not known, provisional estimates based on the approved annual Work Programme and Budget and any other relevant documentation and information shall be used. Within sixty (60) days of the end of each Year, a final calculation based on actual quantities, expenditures and/or prices shall be made and any necessary adjustments to the sharing of Petroleum shall be agreed upon between the Agency and the Contractor.
15 GUARANTEE

15.1 As a condition precedent to the effectiveness of this Agreement, upon the Effective Date, the Contractor shall provide an irrevocable, unconditional, on demand bank guarantee in favour of the Government, for the amount specified in this Article. The bank guarantee shall be issued by a bank licensed to operate in any of the following countries: the Republic of Croatia, 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 Croatia and has the right to do so, according to the legislation of those countries.

15.2 The amount of the bank guarantee shall be an amount equal to One Hundred percent (100%) of the total minimum expenditure obligation in respect of the Phase I of the Exploration Period to be undertaken by the Contractor in the Agreement Area.

15.3 Before the commencement of the Phase II of the Exploration Period the Contractor shall deliver to the Government a similar bank guarantee for an amount equal to One Hundred percent (100 %) of the total minimum expenditure obligation in respect of the Phase II of the Exploration Period to be undertaken by the Contractor in the Agreement Area.

15.4 The bank guarantee referred to above shall provide that after the completion and due performance of the Minimum Work and Expenditure Obligations of a particular Exploration Phase, the guarantee will be released in favour of the Company on presentation to the bank of a Certificate from the Ministry, that the obligation of the Contractor has been fulfilled and the relevant guarantee may be released. Such Certificate shall be provided within thirty (30) days from the completion of the Minimum Work Programme and fulfilment of obligations under this Agreement to the satisfaction of the Government.

15.5 The bank guarantee, shall further provide that at the end of each Quarter and upon the completion and due performance of relevant activity in the Minimum Work Programme of a particular Exploration Phase, the applicable value of the Guarantee will be reduced in favour of the Company on presentation to the bank of a Certificate from the Government to the effect that the relevant Guarantee may be reduced.

15.6 If, upon expiry of the Phase I of the Exploration Period or any further Phase or extension thereof, or in the event of whole relinquishment or termination of the Agreement, the exploration work has not reached the applicable Exploration Work Obligations, the Ministry shall have the right to call for the guarantee as compensation for the non-performance of the Exploration Work Obligations entered into by the Contractor.

15.7 After the payment has been made, the Contractor shall be deemed to have fulfilled its Exploration Work Obligations for the relevant Exploration Phase under this Agreement.

15.8 If any of the documents referred to above are not delivered by the Contractor within the period
specified herein, this Agreement may be terminated by the Government upon tendering ninety (90) days written notice of its intention to do so.

15.9 Notwithstanding any change in the composition or shareholding of the parent company furnishing a Performance Guarantee as provided herein and the provisions set out below, it shall not, under any circumstances, be absolved of its obligations contained in the guarantees so provided.

15.10 The Government shall release the guarantee given by the Assignor to the extent of the amount of the guarantee provided by the Assignee, and where relevant the guarantee under Article 15.2 of this Article, if:
   a) a Party (“Assignor”) assigns all or a part of its Participating Interest to another (“Assignee”) in accordance with Article 31;
   b) the Assignee provides an irrevocable, unconditional bank guarantee from a reputed bank of good standing, acceptable to the Government, in favour of the Government, for an amount equal to the assignee’s Participating Interest share of the estimated expenditure of the Minimum Work Programme at the Effective Date of the assignment;
   c) the Assignee provides a Performance Guarantee; and
   d) the addendum to the Agreement giving effect to the assignment of Participating Interest is executed by all Parties.
16 VALUATION OF CRUDE OIL AND NATURAL GAS

16.1 Petroleum shall be valued for the purposes of determining (a) the amount of the Royalty paid in cash or in kind; (b) the recovery of Cost Petroleum; (c) the share of Profit Petroleum; and (d) the Contractor’s Gross Revenues in computing the Contractor’s income tax liability.

16.2 Valuation of Crude Oil

16.2.1 Crude Oil shall be valued at the F.O.B. (free on board) realized market price at the Delivery Point expressed in Euros per Barrel and payable thirty (30) days after the date of the bill of lading, as determined for each Quarter and referred to as “Market Price”. A value shall be established for each grade of Crude Oil or for each Crude Oil blend, if any.

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

16.2.3 In the event such sale to third parties are not made during the Quarter in question, or represent less than thirty per cent (30%) of the total quantities of Crude Oil obtained from all the Fields under this Agreement and sold during said Quarter, the Market Price shall be determined by comparison with the “Current International Market Price”, during the Quarter in question, of Crude Oil produced in the Republic of Croatia and the neighbouring producing countries, taking into account the variances in quality, grade, transportation and payment conditions. Within six (6) months of the declaration of a Commercial Discovery, the Contractor shall submit for the approval of the Agency the mechanism by which the Market Price shall be determined when the conditions defined in this Article apply.

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

a) sales in which the buyer is an Affiliated Company of the seller as well as sales between entities constituting the Contractor;

b) sales in which the buyer has any direct or indirect relationship or common interest with the Contractor which could reasonably influence the sales price;

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

16.2.5 A committee headed by the Agency and consisting of representatives from the Republic of Croatia and representatives from the Contractor shall meet upon request from its president in order to establish in accordance with the provision of this Article 16 the Market Price of the Crude Oil
produced, which shall apply to the preceding Quarter.

The Contractor shall provide evidence to the committee that the sales of Crude Oil are Arm’s Length Sales. The decisions of the committee shall be taken unanimously.

16.2.6 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. The expert shall establish the price in accordance with the provisions of this Article 16 within twenty (20) days from his appointment. The determination of the expert shall be final and binding on the Republic of Croatia and the Contractor. The expertise cost shall be shared equally by the Parties.

16.2.7 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.

16.3 Valuation of Natural Gas

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

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

16.3.3 The Agency shall have the right to review and approve Natural Gas sales contracts.
17 **MEASUREMENT OF PETROLEUM**

17.1 Petroleum produced as part of Petroleum Operations from the Agreement Area shall be measured by methods and appliances generally accepted and customarily used in International Good Oilfield Practice and to be approved by the Ministry and the Agency. Petroleum produced from each Commercial Field shall be measured at the Delivery Point.

17.2 The Contractor shall develop and submit for approval by the Ministry and the Agency Petroleum Measurement Procedures prepared in compliance with International Good Oilfield Practice and American Petroleum Institute standards for fiscal metering.

17.3 The Contractor shall not make any alteration in the agreed method or procedures for measurement or to any of the approved appliances used for that purpose without the written approval of the Ministry and the Agency.

17.4 The Contractor shall keep all the records of analysis and measurement of Petroleum calibrations and proving of the measurement systems and make available to the Ministry or its authorized agency such records on request.

17.5 The Ministry through duly appointed representatives shall periodically exercise control of measurements in line with requirements of the Law.

17.6 Before commencement of production from each Commercial Field, the Parties shall mutually agree on:
   a) methods to be employed for measurement of volumes of Petroleum production;
   b) the point or points at which Petroleum shall be measured and the respective shares allocated to the Parties in accordance with the terms of this Agreement;
   c) the frequency of inspections and testing of measurement appliances and relevant procedures relating thereto; and
   d) the consequences of a determination of an error in measurement.

If the Parties cannot agree on the items set out above, then any Party may refer the matter in issue for final determination as specified in Article 35 of this Agreement.

17.7 The Contractor shall give written notice to the Agency fourteen (14) Days prior to any testing and calibration by Operator of the appliances used in the measurement and determination of the quality and quantity of Petroleum. The Agency or its duly authorized representative, at its cost and risk, shall be entitled to have witnesses present at such testing and calibration.

17.8 Where the appliances used in connection with Petroleum measurement have caused an overstatement or understatement of production, the error shall be presumed to have existed since the date of the last calibration of such appliance, unless proven otherwise. Operator shall
appropriately correct the error by:

a) amending the volume of the Petroleum delivered in the relevant period; and

b) adjusting the entitlements of each Party to take into account the correction.
18 MARKETING OF THE REPUBLIC OF CROATIA’S PROFIT OIL AND PROFIT GAS

18.1 Marketing and Sales of the Republic of Croatia’s Profit Oil and Profit Gas

Upon the Ministry’s and the Agency’s prior notice of at least ninety (90) days, the Contractor may be requested to provide, free of charge, marketing and sales assistance to the Government for the sale of all or part of the quantities of Profit Oil and Profit Gas to which the Republic of Croatia is entitled hereunder.

18.2 Option to market the Republic of Croatia’s Profit Oil and Profit Gas

The Ministry and the Agency or any Person authorized by the Ministry and the Agency therefor may require the Contractor to market any part of the Republic of Croatia’s share of Profit Oil and Profit Gas under normal commercial terms and conditions in the international Petroleum industry and at the market price, as determined in accordance with Article 16 for Crude Oil and Natural Gas respectively, in force at the time the Petroleum in question are lifted.

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

a) no later than six (6) Months prior to the start of a Quarter, the Ministry and the Agency shall give written notice to the Contractor that he requires the Contractor to market a specified quantity of Petroleum to be lifted rateably over a period of two (2) consecutive Quarters;

b) the Contractor’s obligation to market Petroleum from the Republic of Croatia will continue mutatis mutandis from Quarter to Quarter after the initial two (2) consecutive Quarters until and unless the Ministry and the Agency 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.
19 SUPPLY TO THE DOMESTIC MARKET AND USE OF INFRASTRUCTURE

19.1 Supply to the Domestic Market

19.1.1 The Republic of Croatia’s domestic requirements shall, to the extent possible, be supplied from the entitlements of the Government under this Agreement, and from other entitlements of the Government and any entity owned or controlled by the Government.

19.1.2 If Crude Oil and Gas available to the Government pursuant to Article 19.1 is insufficient for fulfilling the Republic of Croatia’s domestic requirements, the Contractor, if requested in writing by the Agency, shall be required to sell to the Republic of Croatia a portion of the Contractor's share of Profit Oil and/or Profit Gas up to the full amount of Contractor’s entitlement for the domestic consumption of the Republic of Croatia at a price determined in accordance with Article 16 of this Agreement.

19.1.3 When the Republic of Croatia no longer requires supply from the Contractor's share of Profit Oil and/or Profit Gas pursuant to Article 19.1.2 it shall give reasonable notice to the Contractor of the date on which such supply shall cease, after which the Contractor shall be entitled to freely lift and export its share of Profit Oil and/or Profit Gas.

19.1.4 In case of war or imminent expectation of war or grave national emergency, the Ministry may request all or a part of the Crude Oil and Gas produced from the Agreement Area and require the Contractor to increase such production to the extent required. In such event, the price to be paid by the Republic of Croatia for the Crude Oil and Gas shall be the value determined in accordance with Article 16 of this Agreement.

19.1.5 In the event of any requisition as provided above, the Republic of Croatia shall indemnify the Contractor in full for the period, during which the requisition is maintained, including all reasonable damages, if any, which result from such requisition.

19.2 Use of Republic of Croatia Infrastructure

19.2.1 For transporting Crude Oil the Contractor may be required to connect its production facilities to the pipeline systems of the Republic of Croatia.

19.2.2 Subject to provisions of Article 19.1.2 for transporting Natural Gas, the Contractor shall be required to connect its production facilities to the pipeline systems of the Republic of Croatia and to use such systems for transporting the produced natural gas from the place of production.
20 CONSERVATION OF PETROLEUM 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 Petroleum above or under the ground in any form during Petroleum Operations, gathering and distribution, storage or transportation operations.

20.2 Production shall take place in such a manner that as much as possible of the Petroleum in place in each individual Petroleum deposit, or in several deposits in combination, will be produced. The production shall take place in accordance with prudent technical and sound economic principles and in such a manner that waste of Petroleum 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 Petroleum shall not be produced from multiple independent Petroleum productive zones simultaneously through one string of tubing, except with the prior approval of the Agency.
21 NATURAL GAS

21.1 The provisions of this Agreement related to the exploration for and the exploitation of Crude Oil shall, unless otherwise specified in this Agreement and applicable law, apply mutatis mutandis to Natural Gas.

21.2 Subject to the provisions of this Article, the respective shares of Natural Gas of the Contractor and the Government shall be determined in accordance with Article 14.

21.3 The Republic of Croatia domestic market shall have the first call on the utilisation of Natural Gas discovered and produced from the Agreement Area. Accordingly, any proposal by the Contractor relating to Discovery and Production of Natural Gas from the Agreement Area shall be made for the utilisation of Natural Gas and shall take into account the objectives of the Government to develop its resources in the most efficient manner and to promote conservation measures. In the event of the Government not exercising the first call on the utilization of Natural Gas in line with provisions of Article 19 of this Agreement, the Contractor may propose to the Government to sell Natural Gas outside of the Republic of Croatia.

21.4 The Contractor shall have the right to use Natural Gas produced from the Agreement Area for the purpose of Petroleum Operations including reinjection for pressure maintenance in oil fields, gas lifting and power generation required for Petroleum Operations subject to provisions of this Agreement.

21.5 Associated Natural Gas

21.5.1 In the event that a Discovery of Crude Oil contains Associated Natural Gas (ANG), the Contractor shall declare in the proposal for the declaration of the said Discovery as a Commercial Discovery as specified in Article 5, whether (and by what amount) the estimated production of ANG is anticipated to exceed the quantities of ANG which will be used in accordance with Article 21.4 (such excess being hereinafter referred to as the “Excess ANG”). In such an event the Contractor shall indicate whether, on the basis of the available data and information, it has reasonable grounds for believing that the Excess ANG could be commercially exploited in accordance with the terms of this Agreement along with the Commercial Production of the Crude Oil from the Agreement Area, and whether the Contractor intends to so exploit the Excess ANG.

21.5.2 Based on the principle of full utilisation of ANG, a proposed Development Plan for an Oil Discovery shall, to the extent practicable, include a plan for utilisation of the ANG including estimated quantities to be flared, re-injected, and to be used for Petroleum Operations; and, if the Contractor proposes to commercially exploit the Excess ANG for sale in the domestic market in accordance with Government’s policy, or elsewhere, the proposed plans for such exploitation.

21.5.3 If the Contractor wishes to exploit the Excess ANG the Contractor shall submit its proposals for such exploitation to the Agency.
21.5.4 If the Contractor does not wishes to exploit the Excess ANG Contractor should not consider the exploitation of the excess of Natural Gas as justified and if the Agency, at any time, would wish to utilise it, the Agency shall notify the Contractor thereof, in which event:

a) the Contractor shall make available to the Republic of Croatia free of charge at the Crude Oil and Natural Gas separation facilities all of the excess that the Republic of Croatia wishes to lift;

b) the Republic of Croatia shall be responsible for the gathering, treatment, compression and transportation of that excess from the above-mentioned separation facilities, and shall bear any additional costs related thereto;

c) the construction of the facilities necessary for the operations referred to in paragraph (b) above, together with the lifting of that excess by the Republic of Croatia, shall be carried out in accordance with International Good Oilfield Practice and in such a manner as not to hinder the production, lifting and transportation of Crude Oil by the Contractor.

21.6 Non-Associated Natural Gas

21.6.1 In the event of a Non-Associated Gas Discovery, the Contractor shall promptly report in line with requirements of Article 5 of this Agreement and diligently engage in discussions with the Agency with a view to determining whether the Appraisal and Exploitation of said Discovery have a potentially commercial nature.

21.6.2 If, after the above-mentioned discussions, the Contractor considers that the Non-Associated Natural Gas Discovery merits appraisal, it shall undertake an Appraisal Work Programme with respect to such Discovery in accordance with the provisions of Article 5.

21.6.3 For purposes of assessing the commerciality of the Non-Associated Natural Gas Discovery, the Contractor shall have the right, if it so requests at least two (2) months prior to the expiry of the exploration period set forth in Article 5, to be granted the extension with respect to the Appraisal Area related to said Discovery, as specified in Article 5 of this Agreement and the Law.

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

21.6.5 Following completion of appraisal work, in the event the Parties should jointly decide that the exploitation of that Discovery is justified to supply the local market as per requirements of Article 19 of this Agreement, or to develop and produce that Natural Gas for export, the Contractor shall submit to the Ministry and the Agency a Development and Production Plan in accordance with the provisions of Article 7.

21.6.6 Upon approval of Development and Production Plan the Contractor shall then proceed with the Development and Production of that Natural Gas and the provisions of this Agreement applicable to Crude Oil shall apply, mutatis mutandis, to Natural Gas, unless otherwise specifically provided in this
Agreement.

In the event the Contractor does not commence development of such Discovery within five (5) years from the date of Discovery, the Contractor shall relinquish its right to develop such Discovery and the area relating to such Discovery shall be excluded from the Agreement Area.

21.6.7 If the Contractor considers that the Discovery of Non-Associated Natural Gas does not merit appraisal, the Ministry may, with a twelve (12) months prior notice which may be reduced with the Contractor's consent, require the Contractor to relinquish its rights on the area encompassing said Discovery. In the same manner, if the Contractor, after completion of appraisal work, considers that the Discovery of Non-Associated Natural Gas is not commercial, the Ministry may, with a three (3) months' prior notice, require the Contractor to relinquish its rights on the Appraisal Area related to said Discovery.

21.6.8 In both cases, the Contractor shall forfeit its rights on all Petroleum which could be produced from said Discovery, and the Ministry 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 Petroleum Operations by the Contractor.
22 TITLE TO ASSETS

22.1 The Contractor shall be the owner of the assets, whether fixed or movable which it has acquired for purposes of Petroleum Operations, subject to provisions of this Article and in compliance with the Law.

22.2 Title to fixed and moveable assets shall be transferred automatically and gradually from the Contractor to the Republic of Croatia as their costs become subject to recovery in accordance with the provisions of Article 14. However, the full title to each fixed and moveable asset shall be transferred automatically from the Contractor to the Republic of Croatia only at the end of the Year when their total cost has been recovered by the Contractor in accordance with the provisions of Article 14, or at the time of termination of this Contract, whichever first occurs.

22.3 Notwithstanding the provisions of Article 22.2 the Contractor shall have the exclusive right to use, free of any charge, all assets, both before and after recovery of the cost, for the conduct of Petroleum Operations. The Government agrees not to transfer or otherwise dispose of any of such assets without the Contractor's prior written approval.

22.4 The Contractor shall be responsible for proper maintenance, insurance and safety of all assets acquired for Petroleum Operations and for keeping them in good repair, order and working condition at all times.

22.5 Without prejudice to the provisions of this Article the Government shall have the right to require the Contractor to remove assets referred in Article 22.2 at the latter's expense. In such case it is being understood that the decommissioning operations shall be carried out by the Contractor in accordance with the Law, International Good Oilfield Practice, and in accordance with the time schedule and conditions defined in the Decommissioning Plan which approved pursuant to Article 9.

22.6 If the assets purchased by the Contractor under Article 22 are not exclusively needed by the Contractor and by others designated by the Ministry, the Contractor may make such assets available for use by others so designated by the Ministry as long as it would not hinder or delay Petroleum Operations.
23 CUSTOM DUTIES

23.1 The Contractor and its’ Sub-contractors engaged in carrying out operations under this Agreement with respect to the importation of such machinery and equipment as may be required to be used by Contractor or its Sub-contractors for Petroleum Operations shall be subject to the provisions of the European union legislation and laws and regulations of the Republic of Croatia effective at the time of the application.
24 TAXATION

24.1 The Contractor and its Sub-contractors shall comply with the applicable taxation and fiscal laws and regulations of the Republic of Croatia as well as with any European Union tax rules applicable from time to time in the Republic of Croatia, except where, pursuant to any authority granted under any applicable law, they are exempted wholly or partly from the application of the provisions of a particular law.

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

24.3 The expenditure incurred in respect of Petroleum Operations will be allowable in accordance with the provisions of the tax legislation.
25  IMPORT AND EXPORT

25.1 The Contractor shall have the right to import to the Republic of Croatia from a third country or transfer from a member state of the European Union, in its own name or on behalf of its Sub-contractors, all the goods, materials, machinery, equipment, spare parts and consumable directly necessary for the proper conduct of the Petroleum Operations according to the provisions of the European Union legislation and in line with provisions of Article 23 of this Agreement.

25.2 It is understood that the Contractor and its Sub-contractors imports the materials and equipment in observance with requirements of Article 28.

25.3 The foreign employees and their families assigned to work in the Republic of Croatia for the account of the Contractor or its Sub-contractors shall have the right to import to the Republic of Croatia from a third country or transfer from another member state of the European Union their personal use according to the provisions of the European Union legislation and laws and regulations of the Republic of Croatia.
26 BOOKS, ACCOUNTS, AUDITS

26.1 Books and Accounts

26.1.1 The Contractor shall maintain its records and books in accordance with the provisions of applicable corporate and taxation laws and the regulations of the Republic of Croatia, and the Accounting Procedure provided hereto in Annex B.

26.1.2 The accounting and auditing procedures specified in this Agreement are without prejudice to any other requirements imposed by any laws of the Republic of Croatia including any specific requirements of the laws relating to taxation of Companies. The Republic of Croatia may make such Rules as may be required to establish accounting and auditing procedure to regulate the matters set out in this Article.

26.1.3 Records and books shall be maintained in the English and Croatian languages and expressed in Croatian Kuna and in Euros. All such records and books shall be supported by detailed documents demonstrating the expenses and receipts of the Contractor under this Agreement.

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

26.1.5 The originals of the records and books referred to in this Article 26.1 shall be kept at the Contractor’s office. As from the date the Contractor has declared the first Commercial Discovery in the Agreement Area, said records and books shall be maintained in the Republic of Croatia.

26.1.6 Within ninety (90) days after the expiry of a Calendar Year, the Contractor shall submit to the Agency for approval detailed accounts showing the Petroleum 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 the law of the Republic of Croatia.

26.2 Audits

26.2.1 After notifying the Contractor in writing, the Agency may cause to be examined and audited the records and books relating to Petroleum Operations and any sale of Petroleum produced in accordance with this agreement by experts of his election or by agents of the Republic of Croatia. The Agency will have a period of seven (7) years from the end of a given Calendar Year to perform such examinations or audits with respect to said Year and notify his objections to the Contractor for any contradictions or errors found during such examinations or audits. The Contractor will provide the Agency with its explanations the soonest possible and in any case not later than the end of the following month.
26.2.2 The Contractor shall provide any necessary assistance to the persons designated by the Agency for that purpose and facilitate their performance.

26.2.3 Nothing in this Article shall be construed as limiting the right of the Government and or its agents pursuant to any statutory power to audit or cause to be audited the books of accounts of the Contractor.
27 DATA, RECORDS, CONFIDENTIALITY, SUPERVISION AND INSPECTIONS

27.1 Data and Records

27.1.1 The Contractor shall have the right to use and have access to all geological, geophysical, drilling, well production, well location maps and other information held by the Ministry and the Agency related to the Agreement Area and areas adjacent to the Agreement Area in consideration of the payment of the required fees.

27.1.2 The Contractor shall prepare and, at all times while this Agreement is in force, maintain accurate and current records of its operations in the Area hereunder. The data management procedure shall be submitted by the Contractor to the Agency for approval in two (2) months after effective date of this Agreement. Upon approval by the Agency, the Contractor may cease submitting any or all of the above items and maintain them for the review by the Agency in its files in the Republic of Croatia.

27.1.3 In accordance with International Good Oilfield Practice, the Contractor shall keep the Ministry and the Agency promptly and fully informed of Petroleum Operations being carried out by it and its Sub-contractors and the Contractor shall promptly provide the Ministry and the Agency, free of cost, with all data obtained as a result of Petroleum Operations under this Agreement including but not limited seismic data, geological, geophysical, geochemical, petrophysical, engineering, well logs, maps, magnetic tapes, cores, cuttings and production data as well as all interpretative and derivative data, including reports, analyses, interpretations and evaluations prepared in respect of Petroleum Operations, hereinafter referred to as “Data”.

The list of reports shall include, but not limited to the following:

a) raw and processed seismic data and interpretations thereof including digital horizon files, velocity models used for depth conversion;

b) well data, including, but not limited to, daily drilling reports, electric logs and other wire line surveys, mud logging reports and logs, samples of cuttings and cores and analyses made thereof;

c) all reports prepared from drilling data, geological or geophysical data, including all maps or illustrations derived;

d) all original well completion and well testing reports;

e) reports dealing with location surveys and all other reports regarding wells, treating plants or pipeline locations;

f) reports dealing with reservoir investigations and reserve estimates, field outlines and economic evaluations relating to current and future Petroleum Operations;

g) quarterly reports on Petroleum Operations as agreed between the Agency and the Contractor;
h) final reports upon completion of each specific project or operation;

i) contingency programs and reports dealing with health, safety, and the environment

j) design drawings, criteria, specifications and construction records;

k) reports of technical audits and studies relating to Petroleum Operations;

l) reports of all other technical data relevant to the performance of Petroleum Operations in the Agreement Area; and

m) all reports which may be required by the Accounting Procedure or which may be requested by the Agency and are otherwise required by the terms of this Agreement.

n) all audit reports issued in accordance with the Accounting Procedure regarding the Petroleum Operations and its accounting.

The Contractor shall keep in the Republic of Croatia accurate geological and geophysical information, data and maps relating to the Agreement Area, and such reports in relation thereto which are necessary to preserve all information which the Contractor has about the geology and other characteristics of the Agreement Area.

27.1.4 The Republic of Croatia shall have title to all original data and information resulting from Petroleum Operations under this Agreement, including but not limited to geological, geophysical, petrophysical and engineering data; well logs and completion status reports; and any other data that the Contractor or anyone acting on its behalf may compile or obtain during the term of this Agreement in line with the Law. The Contractor is entitled to retain and use a copy of all such data, subject to the provisions of this Article 27.

27.1.5 The Contractor shall keep the Government currently advised of all developments taking place during the course of Petroleum Operations and shall furnish the Agency with full and accurate information and progress reports relating to Petroleum Operations (on a daily, monthly, financial yearly or other periodic basis) as the Agency may reasonably require, provided that this obligation shall not extend to proprietary technology.

27.2 Confidentiality

27.2.1 Each Party agrees that all information and data of a technical, geological or commercial nature, acquired or obtained from and/or related to Petroleum Operations on or after the Effective Date and not (a) in the public domain; (b) already known to each Party or its respective Affiliates as of the Effective Date; (c) acquired independently from a third party who has the right to disseminate such information at the time it is acquired by either Party or an Affiliate of such Party; (d) developed by a Party or is respective Affiliates wholly independently of the information and data received from a disclosing party; or (e) otherwise legally in the possession of such Party without restriction on disclosure, shall be considered and kept confidential, and shall not be disclosed, sold, offered to any third party or published, except as specified in Article 27.
27.2.2 Notwithstanding the provisions set out above, disclosure may be made to:

a) Sub-contractors, Affiliates, assignees, auditors, financial consultants or legal advisers, provided that such disclosures are required for effective performances of the aforementioned recipients’ duties related to Petroleum Operations;

b) Employees, professional consultants, advisers, data processing centers and laboratories, where required, for the performance of functions in connection with Petroleum Operations for any Party comprising the Contractor;

c) Banks or other financial institutions, in connection with Petroleum Operations;

d) Bona fide intending assignees or transferees of a Participating Interest of a Party comprising the Contractor or in connection with a sale of the stock or shares of a Party comprising the Contractor;

e) The extent required by any applicable law or in connection with any legal proceedings or by the regulations of any stock exchange upon which the shares of a Party comprising the Contractor are quoted;

f) Government departments for, or in connection with, the preparation by or on behalf of the Government of statistical reports with respect to Petroleum Operations, or in connection with the administration of this Agreement; and

g) By a Party with respect to Data or information which, without disclosure by such Party, is generally known to the public.

Any disclosure by the Contractor to any third party pursuant to the Agreement shall be made with a written undertaking by the Contractor to the Ministry stating that the third party shall treat such data, information or reports as confidential.

27.2.3 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 Agency is first notified of such disclosure and of the information so disclosed.

27.2.4 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 Agreement.

27.2.5 Subject to Article 27.2.7, the confidentiality obligations of the Parties shall terminate:

(a) on the termination of this Agreement
(b) as to data from areas relinquished, on the date of such relinquishment: or
(c) as to data associated with portions of the Agreement Area retained beyond the termination of the Exploration Period, on the termination date of this Agreement; or
(d) as to data associated with areas not relinquished, five (5) Years from the date of collection of such data or the termination of the Exploration Period, whichever is soonest.
27.2.6 Any Contractor Party ceasing to own a participating interest in this Agreement, during the term of this Agreement, shall nonetheless remain bound by the obligations of confidentiality set forth above and any disputes shall be resolved in accordance with Article 35.

27.2.7 Notwithstanding the provisions of Article 27.5 of this Agreement, the confidentiality obligations of Contractor with respect to geological, geophysical data and information acquired or obtained from and related to Petroleum Operations shall remain in force and effect throughout the life of the Agreement and a period of five (5) Calendar years thereafter.

27.3 **Supervision and Inspections**

27.3.1 Petroleum Operations shall be subject to inspection pursuant to provisions of the Law. The authorised officers shall have the right, inter alia, to supervise Petroleum Operations and to inspect the facilities, equipment, materials, records and books relating to Petroleum Operations, provided that such inspection shall not unduly delay the proper conduct of said Operations.

27.3.2 For purposes of permitting the exercise of the above-mentioned rights, the Contractor shall provide the authorised officers with reasonable assistance regarding transportation and accommodation.
28 EMPLOYMENT, TRAINING, GOODS, SERVICES AND PROCUREMENT

28.1 Employment and Training

28.1.1 From the commencement of the Petroleum Operations, the Contractor and its’ Sub-contractors shall give preference employment for Croatian and EEA personnel where qualified Croatian and EEA nationals are available for employment in the conduct of Petroleum Operations and contribute to the training of those personnel in order to allow them access to any position of skilled worker, foreman, executive and manager.

28.1.2 For that purpose the Contractor shall establish at the end of each Calendar Year in agreement with the Agency a plan for recruiting Croatian and EEA personnel and a plan for training and improving such personnel, in order to achieve progressively greater participation of Croatian and EEA personnel in the Petroleum Operations and provide annual reports in the form as agreed with the Agency.

28.1.3 Contractor and its Sub-contractors are hereby authorised and shall be free, throughout the term of this Agreement, to, in accordance with this Article, select and determine the number of employees to be hired by them in connection with the conduct of Petroleum Operations.

28.2 Goods and Services

28.2.1 The Contractor and its Sub-contractors undertake to give preference to Croatian and EEA enterprises and goods, under equivalent conditions in terms of price, quantity, quality, conditions of payment and delivery time.

28.2.2 The Contractor has the right to use qualified Subcontractors to provide specialized materials, goods and services. The Contractor and its Sub-contractors undertake to give preference to Croatian and EEA enterprises, materials, goods and services, under equivalent conditions in terms of price, quantity, quality, conditions of payment and delivery time. In this regard Contractor shall maintain records and accounts and provide reports in accordance with the provisions Annex B.

28.3 Procurement

28.3.1 Within sixty (60) days from the effective date of this Agreement, the Contractor shall submit to the Agency for approval a procurement procedure, which shall be developed in compliance with provisions of this Article 28.3, good international oilfield practice and applicable laws and regulations.

28.3.2 The Contractor and its Sub-contractors undertake to issue calls for bids to Croatian and foreign candidates for supply of goods and services, construction and other contracts that exceeds the values applicable from time to time in accordance with the rules on public procurement applicable in the Republic of Croatia. It is understood that the Contractor shall not unduly break down said contracts into components.
28.3.3 The Agency shall have a right to be present at opening and evaluation of bids for the contracts with the contract value exceeding an equivalent One Hundred Thousand (100,000.00) Euros.

28.3.4 The copy of contracts shall be provided to the Agency upon execution thereof.
29 STABILISATION PROVISIONS

29.1 In the event that during the validity of the agreement there are changes and/or amendments to the provisions of acts and regulations that were in force at the time of entry into force of the agreement, including changes and/or additions to acts and other regulations as a result of concluded international treaties to which the Republic of Croatia becomes a party, and which substantially affect the economic and/or commercial provisions of the agreement and/or to other essential interests of the Agreement Parties, the Government and the Contractor will accede to negotiations for possible changes and/or amendments of the agreement to ensure the balance of interests and planned economic results of the parties that existed at the time of concluding the agreement and which are consistent with the provisions of the signed agreement.

29.2 The provision referred to in Article 29.1 shall not apply in case of changes and/or amendments to acts and regulations governing labour relations, protection of nature and environment, protection of human health, occupational safety, protection of people and safety of assets, conservation of Petroleum and safety of the Petroleum Operations. Such acts and regulations shall always apply in their most up to date revision.
30 TERMINATION OF THE AGREEMENT

30.1 This Agreement may be terminated by the Government and the license pertaining to the Agreement Area revoked by the Government, without compensation, under one of the following occurrences:

a) material breach or recurrent breach by the Contractor of the provisions of the Law and/or the Regulations and/or the provisions of this Agreement;

b) delay exceeding three (3) months incurred by the Contractor with respect to a payment due to the Republic of Croatia;

c) disruption of development work with respect to a Field during six (6) consecutive months, except in case of Force Majeure as stated in the Article 34;

d) after commencement of production from a Field, disruption of production for at least six (6) months or repetitive disruption of Production, decided without the Ministry's consent, except in case of Force Majeure as stated in the Article 34;

e) failure of the Contractor to comply, within the prescribed time period, with an arbitration award rendered in accordance with the provisions of Article 36;

f) bankruptcy, composition with creditors or liquidation of assets of the Contractor or its parent-company or any entity constituting the Contractor, as the case may be; or

g) if the Contractor has knowingly submitted a false statement given to the Government which were of a material consideration for the execution of this Agreement.

30.2 Except with respect to the occurrence set forth in paragraph 30.1(f) above, the Government shall pronounce the forfeiture provided for in Article 30.1 only after having served formal notice on the Contractor, by registered mail with acknowledgement of receipt, to remedy the breach in question within three (3) months (or within six (6) months with respect to the occurrences set forth in paragraphs 30.1(c) and 30.1(d) above) from the date of receipt of such notice.

30.3 Should the Contractor fail to comply with such prescription within the prescribed time period, the Government may pronounce ipso jure the termination of this Agreement.

30.4 For the duration of the Exploration Period, the Government may, with at least three (3) months' prior notice, request the Contractor to relinquish immediately without any compensation all its rights over the area encompassing a Discovery, including Petroleum which may be produced from said Discovery, if the Contractor:

a) has not submitted an Appraisal Work Program with respect to said Discovery within nine (9) months following the date on which said Discovery has been notified to the Ministry and an Agency; or

b) does not declare the Discovery as a Commercial Discovery within nine (9) months after completion of appraisal work with respect to said Discovery.
30.5 The Government may then perform or cause to be performed any appraisal, development, production, treatment, transportation and marketing work with respect to said Discovery, without any compensation to the Contractor; provided, however, it shall not cause prejudice to the performance of the Petroleum Operations by the Contractor in the remaining part of the Agreement Area.

30.6 Any dispute as to whether any ground exists to justify the termination of this Agreement pronounced by the Government due to the forfeiture may be subject to arbitration in accordance with the provisions of Article 35. In that event, the Agreement shall be suspended until the execution of the arbitration award by the Parties.

30.7 When Agreement is terminated the Parties shall observe requirements provided in this Agreement and in the Law.

30.8 Within ninety (90) days after the termination of this Agreement or such longer period as the Government may agree, the Contractor shall comply with Article 10 and carry out any necessary action as directed by the Agency to avoid Environmental Damage or hazards to human life or to the property of others.
31 ASSIGNMENT AND CHANGE OF CONTROL

31.1 Assignment

31.1.1 No assignment or other dealing by the Contractor with respect to this Agreement shall be of any force or effect without prior approval in writing by the Ministry.

31.1.2 Article 31.1 includes any assignment, transfer, conveyance, novation, merger, encumbering or other dealing in any manner whatsoever or howsoever (whether legally, beneficially or otherwise, and whether conditionally or not) by the Contractor or any one of the entities constituting the Contractor (hereinafter “the Entities”) with respect to:

a) this Agreement, or all or any part of its rights, interests, benefits, obligations and liabilities under it;

b) Petroleum which has not then been, but might be, recovered in the Agreement Area, or any proceeds of sale of such Petroleum; and

c) anything whereby this Agreement, that Petroleum or any of those rights, interests and benefits would, but for this Article 31.1, be held for the benefit of, or be exercisable by or for the benefit of, any other person.

31.1.3 Article 31.1.1 does not apply to an agreement for the sale of Crude Oil under which the price therefor is payable (or such Crude Oil is exchanged for other Petroleum) after title thereto has passed to the Contractor.

31.1.4 If, notwithstanding Articles 31.1.1 and 31.1.2, any assignment or other dealing is effective under the laws of the Republic of Croatia, or any other place without that consent, the Government may terminate this Agreement.

31.1.5 For the purposes of the foregoing, encumbrance includes any mortgage, charge, pledge, hypothecation, lien, assignment by way of security, title retention, option, right to acquire, right of pre-emption, right of set off, counterclaim, trust arrangement, overriding royalty, net profits interest, or any other security, preferential right, equity or restriction, any agreement to give or to create any of the foregoing and any transaction which, in legal terms, is not a secured borrowing but which has an economic or financial effect similar to that of a secured borrowing.

31.2 Change of Control

31.2.1 No change of control or change in any of the Factors Constituting Control of the Contractor or any one of the Entities can be of any force or effect with respect to this Agreement, except with the consent of the Ministry.

31.2.2 Any changes of the Factors Constituting Control of the Contractor or of any one of the Entities shall promptly be reported by the Contractor to the Ministry through the Agency. The Ministry may at any
time inquire about the Factors Constituting Control of the Contractor or any Entity.

31.2.3 For the purpose of this Article, “Factors Constituting Control” means:

a) Protocols, agreements or Agreements binding the Contractor or the Entity with another Contractor or Entity or with third parties and relating to the conduct of operations and management of their companies, to the sharing of expenditures and profit, or to the sharing and disposal of products and, if such companies are liquidated, to the distribution of assets;

b) Provisions of the Contractor’s or the Entity’s articles of incorporation and by-laws relating to the head office, the right attached to capital stock, the majority required in annual meetings; and

c) Generally, any transaction the result of which is to make one or more physical or legal persons gain or lose a controlling interest in the operations and management of the Contractor or the Entity.

31.2.4 If there is a change in the Factors Constituting Control except with the consent of the Ministry, the Ministry may serve notice on the Contractor within thirty (30) days after the Contractor has advised the Ministry in reasonable detail of the change in control, that this Agreement shall be terminated unless such a further change in control of the Contractor or the Entity as is specified in the notice takes place within the period specified in the notice.

31.2.5 Article 31.2.4 does not apply if the change in control is the direct result of an acquisition of shares or other securities listed on a recognised stock exchange.

31.2.6 For the purposes Article 31.2.3, “change of control” includes a Person ceasing to be in control (whether or not another Person becomes in control), and a Person obtaining control (whether or not another Person was in control).
32 CURRENCY AND EXCHANGE CONTROL, PAYMENTS

32.1 Currency and Exchange Control

32.1.1 All operations under this Agreement shall be subject to the exchange control laws of the Republic of Croatia, and to the rules and regulations thereon in force from time to time.

32.1.2 In all currency exchange transactions, the Contractor shall be accorded no less favourable treatment than that accorded from time to time to any other private or state enterprise for commercial transactions in Croatia.

32.1.3 All transactions, payments and valuations made in currencies other than the currency of the Republic of Croatia shall be recorded in Euros at the exchange rate in effect at the time the transaction or valuation is made.

32.1.4 The rate of exchange shall be established by reference to the middle rate published by the National Bank of Croatia. For transactions made on dates when no exchange rate is published, the exchange rate shall be established by reference to the middle rate published by the National Bank of Croatia on the immediately preceding publishing date.

32.1.5 The Contractor shall, during the term of this Agreement, have the right to:

a) repatriate abroad, in Kuna or any other freely convertible currency, the net proceeds of sales of Petroleum under this Agreement;

b) receive, retain and use abroad the proceeds of any export sales of Petroleum under this Agreement;

c) open, maintain and operate bank accounts with reputable banks, both inside and outside of the Republic of Croatia, for the purpose of this Agreement;

d) freely import, through normal banking channels, funds necessary for carrying out the Petroleum Operations;

e) convert into foreign exchange and repatriate sums imported in excess (if any) of its requirements; and

32.2 Payment Mechanism

All payments that the Contractor shall make to the Republic of Croatia under this Agreement except the administration fee payment shall be made to the:

________________
________________
Account name: ________________
Account number: ________________
IBAN: ________________
Administration fee payment that the Contractor shall make to the Republic of Croatia under this Agreement shall be made to the:

________________
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Account name: ________________
Account number: ________________
IBAN: ________________

Such payments shall be made within thirty (30) Calendar Days after the end of the month in which the obligation to make the payment is incurred, unless specified otherwise under the terms of this Agreement.

32.3 Late Payment

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

33.1.1 The Contractor shall be entirely and solely responsible in law towards third parties and shall compensate for any damage or loss which the Contractor, its employees or Sub-contractors and their employees may cause to the person, the property or the rights of other persons, caused by or resulting from Petroleum Operations, including any Environmental Damage. The Contractor shall indemnify the Republic of Croatia against all damages for which it may be held liable on account of any such operations.

33.1.2 The Contractor shall indemnify, defend and hold the Government harmless against all claims, losses and damages of any nature whatsoever arising in respect of matters the subject of this Agreement including claims for loss or damage to property or injury or death to persons caused by or resulting from any Petroleum Operations conducted by or on behalf of the Contractor irrespective of the negligence or breach of duty of the Ministry, Agency and other nominees or employees of the Government or any third party.

33.1.3 The Contractor shall effect and, during the term of this Agreement, maintain and obtain insurance coverage for and in relation to Petroleum Operations for such amounts and against such risks as are customarily or prudently insured in the international Petroleum industry, and shall furnish to the Agency, certificates evidencing that such coverage is in effect. Such insurance policies shall include the Government as additional insured and shall waive subrogation against the Government. The said insurance shall, without prejudice to the generality of the foregoing, cover:

a) loss or damage to all installations, equipment and other assets for so long as they are used in or in connection with Petroleum Operations; provided, however, that if for any reason the Contractor fails to insure any such installation, equipment or assets, it shall replace any loss thereof or repair any damage caused thereto;

b) loss, damage or injury caused by pollution in the course of or as a result of Petroleum Operations;

c) loss of property or damage or bodily injury suffered by any third party in the course of or as a result of Petroleum Operations for which the Contractor may be liable;

d) any claim for which the Government may be liable relating to the loss of property or damage or bodily injury suffered by any third party in the course of or as a result of Petroleum Operations for which the Contractor is liable to indemnify the Government;

e) with respect to Petroleum Operations offshore, the cost of removing wrecks and cleaning up operations following any accident in the course of or as a result of Petroleum Operations;

f) the Contractor’s and/or the Operator’s liability to its employees engaged in Petroleum Operations as required by applicable laws; and
g) other insurance policies in compliance with the Law and other applicable laws of the Republic of Croatia.

The Contractor shall require its Sub-contractors to obtain and maintain insurance against the risks referred to in this Article relating mutatis mutandis to such Sub-contractors.

33.1.4 The Contractor has the freedom to select its insurance provider. The Contractor shall provide the Agency with the certificates proving the subscription and maintenance of the above-mentioned insurances. The Agency shall approve the said insurance policies for exclusions and verify the financial capacity of Insurers. All insurance policies taken out pursuant to this Article shall be made available to Agency for review and approval prior to operations commencing. The Agency shall have the right to require amendments to the said insurance policies in order to secure the compliance with the requirements pursuant to this Article.

33.1.5 Contractor is liable for any loss or damage resulting from the Gross Negligence or Willful Misconduct of Contractor, of Contractor’s Sub-contractors or their employees, acting in the scope of their employment in the performance of Petroleum Operations, or any other persons for whom Contractor is responsible with regard to Petroleum Operations.

33.1.6 Where the Contractor consists of several entities, the obligations and responsibilities of those entities under this Agreement shall be joint and several. The parties constituting Contractor under this Agreement shall not be jointly responsible or liable for payment of corporate taxes.
34 FORCE MAJEURE

34.1 Force majeure relief
Any obligation or condition arising from this Agreement 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 Agreement 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 and that such Party has taken appropriate precautions and exercised due care, to carry out the terms and conditions of this Agreement.

For purposes of this Agreement, cases of Force Majeure are considered to include all events which are unforeseeable, irresistible and beyond the control of the Party which invokes it, such as earthquake, typhoon, fire, riot, insurrection, civil disturbances, acts of war or acts attributable to war, invasions, blockades, riots, strikes, but shall not include the unavailability of funds. The intent of the Parties is that the term Force Majeure shall be interpreted in accordance with the Law and principles and practice of international law.

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

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

The Parties shall take reasonable measures to minimize the consequences of any event of Force Majeure.

Notwithstanding anything contained above, if an event or circumstance of Force Majeure occurs and is likely to continue for a period in excess of thirty (30) days, the Parties shall meet to discuss the consequences thereof and the course of action to be taken to mitigate the effects thereof or to be adopted in the circumstances.

In case of the Force Majeure the Parties are, at all-times, subject to provisions of the Law.
35  DISPUTE SETTLEMENT

35.1  Amicable settlement

35.1.1 In the event of any difference or disagreement or dispute (hereinafter referred to as the “dispute”) between the Republic of Croatia and the Contractor regarding the interpretation or implementation of any provisions of this Agreement, the Parties shall first attempt to resolve that dispute amicably through negotiations which shall not exceed a period of thirty (30) days after the receipt by one Party of a notice in writing from the other Party of the existence of such a dispute.

35.1.2 If any dispute referred to under this Article has not been settled through negotiations within the established period either Party may, by written notice to the other Party, propose that the dispute be referred either for expert determination in accordance to Article 35.2 or to arbitration in accordance with Article 35.3.

35.2  Expert Determination

35.2.1 In the event of failure of the Parties to reach an amicable settlement, the dispute the Parties have agreed to refer to an expert determination and any other matter which the Parties may agree to so refer may be referred to an expert determination.

35.2.2 As per Article 35.2.1, the Parties shall, within thirty (30) days, by mutual agreement, appoint an expert to provide his expert decision on the dispute. The expert shall be an independent and impartial person of international standing with relevant qualifications and experience, appointed by a written agreement between the Parties and who shall not, by virtue of nationality, personal connection or commercial interest, have a conflict between his/her own interest and his/her duty as a sole expert.

35.2.3 Failing reaching such an agreement within the aforementioned period of thirty (30) days, any one of the Parties may request the International Centre for Technical Expertise of the International Chamber of Commerce to appoint such expert in accordance with its Rules for Technical Expertise in force on the Effective Date of this Agreement.

35.2.4 The expert shall render his decision no later than ninety (90) days after his or her appointment. The Parties agree to cooperate fully in the conduct of such expert determination and to provide the expert with all necessary information to make a fully informed decision in an expeditious manner.

35.2.5 The expert’s decision shall be final and binding upon the Parties unless the Parties refer the dispute to arbitration pursuant to Article 35.3 within sixty (60) days of the date on which the expert’s decision is received by the Parties by double-registered letter or by courier.

35.2.6 The expert expenses and fees shall be paid as determined in the decision of the expert.
35.3 **Arbitration**

35.3.1 If the dispute is not resolved through amicable settlement or expert determination within the period set out in Articles 35.1 and 35.2 above or if one of the Parties wishes to challenge the decision reached by the expert pursuant to Article 35.2, the dispute shall be referred to arbitration.

35.3.2 All disputes arising out of or relating to this Agreement, including such relating to its breach, termination or invalidity, and any legal consequence thereof, shall be finally settled by arbitration in accordance with the Rules of Arbitration of the Permanent Arbitration Court with foreign element at the Croatian Chamber of Economy as in force. The number of arbitrators shall be three.

35.3.3 The seat of arbitration shall be Zagreb, Republic of Croatia. The language used during the arbitration proceedings shall be the English language and the applicable law shall be the laws of the Republic of Croatia.

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

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

35.3.6 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.
36 GOVERNING LAW AND LANGUAGE OF THE AGREEMENT

36.1.1 This Agreement shall be governed and interpreted in accordance with the laws of the Republic of Croatia. The laws will also include amendments, revisions, and modifications and re-enactment.

36.1.2 Nothing in this Agreement shall entitle the Contractor to exercise the rights, privileges and powers conferred upon it by this Agreement in a manner that will contravene the laws of the Republic of Croatia.

36.1.3 The Contractor shall be subject at any time to the legislation in force in the Republic of Croatia.

36.1.4 This Agreement will be executed in the Croatian and English languages, and English version shall prevail. In case of a dispute and arbitration between the Parties, except for a manifest error or misprint, the English version shall prevail.
37 AMENDMENTS

37.1.1 This Agreement shall not be amended, modified, varied or supplemented in any respect except by an instrument in writing signed by all the Parties, which shall state the date upon which the amendment or modification shall become effective.

37.1.2 The parties shall use their best efforts to agree on the appropriate amendments to this Agreement within ninety (90) days from aforesaid notice. The amendments to this Agreement shall in any event neither decrease nor increase the rights and obligations of the Contractor as these were agreed on the Effective Date.
38 MISCELLANEOUS

38.1.1 No waiver by any Party of any one or more obligations or defaults by any other Party in the performance of this Agreement shall operate or be construed as a waiver of any other obligations or defaults whether of a like or of a different character. For any waiver to be effective hereunder, it shall be made in writing.

38.1.2 The provisions of any Article in this Agreement shall prevail over the provisions contained in the Annexes thereto.

38.1.3 Reference to any law or regulation having the force of law includes a reference to that law or regulation as from time to time may be amended, extended or re-enacted.

38.1.4 If any part of this Agreement is held to be invalid, the remainder of this Agreement shall remain in effect and the Parties agree that the part so held to be invalid shall be deemed to have been stricken here from and the remainder shall have the same force and effect as if such part had never been included herein.

38.1.5 All rights and obligations hereunder that expressly or by their nature extend beyond the term of this Agreement shall survive and continue to bind the Parties, their legal representatives, legal successors and legal assigns after any termination or expiration of this Agreement until such rights and obligations are satisfied in full or expire.
39 NOTICES AND IMPLEMENTATION OF THE AGREEMENT

39.1.1 The Parties hereby agree to cooperate in any possible manner to achieve the objectives of this Agreement.

39.1.2 All notices, statements, and other communications to be given, submitted or made hereunder by any Party to another shall be sufficiently given if given in writing in English language and sent by registered post, postage paid, or by telegram, telex, facsimile, radio or cable, to the address or addresses of the other Party or Parties as follows:

a) If to the Government:

________________
________________
________________

b) If to the Contractor:

________________
________________
________________

Notices shall be effective when delivered, if offered at the address of the other Parties set out in this Article 39.1.2 during business hours and, if received outside business hours, on the next following Business Day.

The Government or the Contractor may at any time change their authorized representative, or modify the addresses mentioned in this Article, subject to at least ten (10) days’ prior notice.
40 EFFECTIVE DATE

This Agreement shall become effective as of the Effective Date upon execution of this Agreement by each Party, and this Agreement shall be binding for each Party.

In witness whereof, the parties hereto have caused this Agreement to be executed in ___ (__) originals in the ______language, each page having been signed with initials by the two Parties.
ANNEX A: MAP OF THE ORIGINAL AGREEMENT AREA
ANNEX B ACCOUNTING AND FINANCIAL PROCEDURE

Attached to and made an integral part of this Agreement between the Republic of Croatia of Croatia and the Contractor.

ACCOUNTING AND FINANCIAL PROCEDURE

ARTICLE 1 GENERAL PROVISIONS

1.1 Purpose

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

Except as otherwise provided in this Agreement, this Accounting Procedure shall not apply to Contractor’s Income Tax obligations which shall be governed by the provisions of the Income Tax Law of the Republic of Croatia as amended or replaced and in effect from time to time.

1.2 Interpretation

The definitions contained in Article 1 of the Agreement 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 Agreement, then the provisions of the Agreement 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, Petroleum Operations in accordance with generally accepted accounting procedures and standards of the international Petroleum industry and in accordance with the charts of accounts approved under the following paragraph.

Within sixty (60) days after the Effective Date, the Contractor shall submit to the Agency 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 Agency thereon.
Notwithstanding the generality of the foregoing, the Contractor shall submit to the Agency, at regular intervals, statements relating to the Petroleum Operations, with respect to production, value of production and pricing, Petroleum Costs, production sharing, annual budget, final end-of-year statement.

In order to determine the “R” Factor, the Contractor shall keep a particular system of accounts to record, in Euros (EUR), income and expenditure related to the Petroleum Operations. This system shall consist of two main accounts: the “R” Factor Income Account, and the “R” Factor Expenditure Account as defined in this Annex B.

1.4 Language and Units of Account, Currency Exchange

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

The accounting records will be in Euros and Croatia Kuna. Any amount incurred in this currency shall be recorded in this currency. Any amount incurred in another currency than Croatia Kuna shall be converted into Euros at the exchange rate specified in Article 32 of this Agreement.

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 Petroleum Operations.

1.5 Revision of the Accounting Procedure

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

1.6 “R” Factor Income and Expenditure Accounts

1.6.1 “R” Factor Income Account

The following shall be recognized as income and recorded in the “R” Factor Income Account:

a) Income from arm’s length sales of Petroleum production as set out in Article 16 of this Agreement.

b) Deemed income from non-arm’s length sales of Petroleum production valued and measured as set out in Article 16 of this Agreement.
c) Income from sales of assets acquired by the Contractor for Petroleum Operations, the cost of which was recorded in the “R” Factor Expenditure Account.

d) Income from services rendered to third parties involving personnel whose remuneration and benefits are recorded in the “R” Factor Expenditure Account and/or involving goods whose acquisition cost has been recorded in the “R” Factor Expenditure Account.

e) Income from letting assets belonging to the Contractor, whose acquisition cost has been recorded in the “R” Factor Expenditure Account or subletting of goods whose hire is charged to the “R” Factor Expenditure Account.

f) Compensation received from insurance policies taken out in relation to Agreement activities for damaged goods, including compensation for loss of profits. The income obtained as a result of a hedging.

g) Other income representing credits applicable to charges to the “R” Factor Expenditure Account.

1.6.2. “R” Factor Expenditure Account

Petroleum Operations Expenditures may consist of capital and operating expenditures as follows:

(a) Capital Expenditures

Capital expenditures are those Petroleum Operations Expenditures for assets that normally have a useful life that extends beyond the year in which the asset was acquired.

In addition to expenditures relating to assets that normally have a useful life beyond the year in which the asset was acquired, the costs of exploration and development operations will be classified as capital expenditures.

Capital expenditures include, but are not limited to, the following:

i. Construction utilities and auxiliaries - workshops, power and water facilities, warehouses, and field roads. Cost of Crude Oil treating plants and equipment, secondary recovery systems, Natural Gas plants and steam systems;

ii. Construction housing and welfare housing - recreational facilities and other tangible property incidental to construction;

iii. Production facilities - production rigs (including the costs of labour, fuel, hauling and supplies for both the offsite fabrication and onsite installation of rigs, and other
construction costs in erecting rigs and installing pipelines), wellhead equipment, subsurface lifting equipment, production tubing, sucker rods, surface pumps, flow lines, gathering equipment, delivery lines and storage facilities;

iv Movables - surface and subsurface drilling and production tools, equipment and instruments, barges, floating craft, automotive equipment, aircraft, construction equipment, furniture and office equipment and miscellaneous equipment;

v Development and production drilling - labour, materials and services used in drilling Wells with the object of penetrating a proven reservoir, including the drilling of delineation Wells as well as re-drilling, deepening or recompleting Wells, and access roads, if any, leading directly to Wells;

vi Exploration drilling - labour, materials and services used in the drilling of Wells with the object of finding unproven reservoirs of Crude Oil and Natural Gas, and access roads, if any, leading directly to Wells;

vii Surveys - labour, materials and services used in aerial, geological, topographical, geophysical and seismic surveys, and core hole drilling; and

viii Other exploration expenditures - auxiliary or temporary facilities having lives of one year or less used in exploration and purchased geological and geophysical information.

(b) Operating Expenditures

Operating expenditures are all Petroleum Operations Expenditures other than capital expenditures.

ARTICLE 2 CLASSIFICATION OF PETROLEUM COSTS

2.1 Principles of Classification

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

2.2 Exploration Expenditures

Exploration Expenditures are those costs, whether of a capital or operating nature, which directly relate to Exploration for Petroleum incurred under the Agreement, 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 Petroleum Discovery.

2.4 Development and Production Expenditures

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

a) Drilling Wells, including labour, material and services, provided such Wells are completed as producing Wells or as injection Wells.

b) Facilities used in support of the performance of activities mentioned in paragraph (a).

c) Production facilities including offshore platforms, wellhead production tubing, pumps, flow lines, gathering equipment, delivery lines, treatment facilities, storage facilities, export terminal and piers, enhanced recovery facilities.

d) Pipelines and related facilities for transporting Petroleum produced in the Agreement Area to the Delivery Point.

e) Engineering and design studies for facilities mentioned in paragraph (c) and (d).

2.5 Operating Expenditures

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

2.6 Apportionment

Where any cost or receipt relates only partially to the performance of the Petroleum Operations under the Agreement, only such portion of the cost or receipt which relates to the performance of the Petroleum Operations under the Agreement shall be allocated to the Petroleum Costs or assessed as a receipt in the accounting records.
Where any cost or receipt relate to more than one of Exploration, Appraisal, Development and Production, and Operation Expenditures, or to more than one Exploitation Area, the cost or receipt shall be apportioned in an equitable manner, with all supporting elements.

ARTICLE 3 ALLOWABLE PETROLEUM COSTS FOR COST RECOVERY

The following costs and expenses incurred by the Contactor for the purposes of the Agreement, shall be classified in accordance with the provisions of Article 2 of this accounting procedure, and shall be included as Petroleum Costs allowed for cost recovery under Article 14.2 of the Agreement, subject as otherwise provided in the Agreement and in Article 3.17 of this accounting procedure.

3.1 Surface Rights

All direct costs necessary for the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the purpose of the Agreement, excluding the surface fees paid to the Republic of Croatia referred to in Article 13 of the Agreement.

3.2 Labour and Associated Labour Costs

a) Contractor’s locally recruited employees based in Croatia:

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

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 Croatia 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 Croatia.

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

b) Assigned personnel:

Costs of salaries and wages including bonuses of the Contractor’s employees directly and necessarily engaged in the conduct of the Petroleum 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 Petroleum Operations under the Agreement, 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 of Croatia 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 Petroleum 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 Croatia whose salaries and wages are chargeable to the Petroleum Operations under paragraph 3.2 (b) above.

Actual transportation expenses of expatriate personnel transferred to the Petroleum Operations from their country of origin shall be charged to the Petroleum Operations. Transportation expense of personnel transferred from the Petroleum Operations to a country other than the country of their origin shall not be charged to the Petroleum 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 Contractors 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 Petroleum 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 Petroleum Operations, the Petroleum 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 Petroleum Operations under the Agreement along with other related costs, including duties, customs fees, unloading changes, dock fees, and inland and ocean freight charges.

### 3.4 Charges for Services

#### a) Third Parties

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

#### b) Affiliates of the Contractor

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

   Charges shall reflect the cost of providing their services and shall not include any element of profit and shall be no less favorable than similar charges for other operations carried on by the Contractor and its Affiliates. The 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.

2. **Scientific or Technical Personnel:**

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

3. **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 Petroleum 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 Agency.

3.5 Communications

Cost of acquiring, leasing installing, operating, repairing and maintaining communication systems including radio and microwave facilities between the Agreement 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 Croatia directly serving the Petroleum Operations. If any such office, sub-office, warehouse, housing or other facility is used for agreement areas other than the Agreement Area, the net costs thereof shall be allocated on an equitable basis.

3.7 Ecological and Environmental

a) Costs incurred in the Agreement 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 Agreement 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 Petroleum Operations subject to the following:
a) Acquisition:
Contractor shall only supply or purchase materials for use in the Petroleum 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 Petroleum 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 of transferred from other activities of the Contractor to or from the Petroleum 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 Petroleum 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 Agreement 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 Petroleum 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 Agreement Area; provided notice in writing is furnished to the Agency of the proposed charge prior to charging the Petroleum Operations for such material and the Agency 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 Petroleum Operations until adjustment has been received by the Contractor from the manufacturers of the material or their agents.

3.9 Insurance and Losses

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

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

3.10 Legal Expenses
All reasonable costs and expenses resulting from the handling, investigating, asserting, defending, or settling of any claim or legal action necessary or expedient for the procuring, perfecting, retention and protection of the Agreement Area, and in defending or prosecuting lawsuits involving the Agreement Area or any third party claim arising out of the Petroleum Operations under the Agreement, or sums paid in respect of legal services necessary for the protection of the joint interest of the Republic of Croatia and the Contractor shall be allowed.

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

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

3.11 Claims

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

3.12 General and Administrative Costs

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

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

3.13 Other Expenditures

Other reasonable expenditures not covered or dealt with in the foregoing provisions of this Article 3 and not excluded under the provisions of Article 3.15 below, which are necessarily incurred by the Contractor for the proper, economical and efficient conduct of the Petroleum Operations shall be allowable with the approval of the Agency.
3.14 Miscellaneous Proceeds

The proceeds received by the Contractor, other than for the sale or other disposal of Petroleum from an Exploitation Area, which are directly related to the conduct of the Petroleum 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 Petroleum 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 Petroleum Cost charged to the accounts,
(c) Proceeds of any insurance or claim or judicial awards in connection with the Petroleum Operations or any assets charged to the accounts under the Agreement 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 Petroleum 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 Petroleum 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 Croatia or transferred to another member state of the European Union without being used in the Petroleum Operations under the Agreement.
(h) Proceeds received from authorized supplying of information obtained from the Petroleum Operations, the acquisition cost of which has been charged to the accounts.
(i) Proceeds received for the use of employee amenities, the cost of which has been charged to the accounts.

3.15 Duplication of Charges and Credits

There shall be no duplication of charges and credits.

3.16 Expenditures Not Eligible for Cost Recovery

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

(a) The bonuses, and fees referred to in Article 13 of the Agreement and Royalty referred to in Article 14.
(b) Any payments made to the Republic of Croatia for failure to fulfill the Exploration Work Obligations.
(c) Costs incurred prior to the Effective Date.
(d) Interest, or any charge or payment in the nature of, in lieu of, or having the commercial effect of, interest related to the financing of the Petroleum Operations.
(e) Costs incurred in respect of Petroleum after passing the Delivery Point.
(f) Costs incurred as a result of non-compliance by the Contractor with the legislation or the Agreement, including costs incurred as a result of any negligent act or omission or willful misconduct of the Contractor, its agents and Sub-contractors.
(g) Payment or compensation to damage under the Agreement.
(h) Costs incurred in respect of arbitration and litigation proceedings under the Agreement.
(i) Costs which are not adequately supported and documented.
(j) Cost of maintaining a Guarantee as specified in Article 15 of the Agreement.
(k) Costs incurred without the consent or approval of the Agency where such consent or approval is required.

ARTICLE 4 INVENTORIES

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

The Contractor shall give at least thirty (30) days written notice of its intention to take such inventory and the Agency 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 Agency a full report on such inventory within thirty (30) days of the taking of the inventory.

When an assignment of rights under the Agreement 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 STATEMENTS

5.1 Quarterly Statement

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

(a) The recoverable Petroleum Costs carried forward from the previous Quarter.
(b) The recoverable Petroleum Costs for the Quarter in question.
(c) The Credits under the Agreement for the Quarter in question.
(d) The total recoverable Petroleum 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 Petroleum taken by the Contractor for cost recovery pursuant to the provisions of Article 8.1 of the Agreement in the Quarter in question.
(f) The amount of Petroleum Costs to be carried forward into the next Quarter.

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

5.2 Annual Statement

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

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

ARTICLE 6 PRODUCTION STATEMENTS

6.1 Production Information

From the start of production from the Exploitation Area, the Contractor shall submit a Quarterly Production Statement to the Agency showing the following information separately for each Exploitation Area and in aggregate for the Agreement Area:

a) The quantity of Crude Oil produced and saved;
b) The quality characteristics of such Crude Oil produced and saved;
c) The quantity of Natural Gas produced and saved;
d) The quality characteristics of such Natural Gas produced and saved;
e) The quantities of Crude Oil and Natural Gas used for the purposes of carrying on drilling and production operations and pumping to field storage;
f) The quantities of Crude Oil and Natural Gas unavoidably lost;
g) The quantities of Natural Gas flared and vented;
h) The size of Petroleum stocks held at the beginning of the quarter in question;
i) The size of Petroleum stocks held at the end of the quarter in question;
j) The quantities of Natural Gas re-injected into the Reservoirs; and
All quantities shown in this statement shall be expressed in both volumetric terms (barrels of Crude Oil and cubic meters of Natural Gas) and in weight (metric tonnes).

6.2 Submission of Production Statement

The Production Statement for each quarter shall be submitted to the Agency no later than ten (10) days after the end of such month.

ARTICLE 7 VALUE OF PRODUCTION AND PRICING STATEMENT

7.1 Value of Production and Pricing Statement Information

The Contractor shall, for the purposes of Article 16 of the Agreement, prepare a Value of Production and Pricing Statement providing calculations of the value of Crude Oil and Natural Gas produced and saved during each Quarter. This Value of Production and Pricing Statement shall contain the following information:

a) the quantities and the price payable in respect of sales of Natural Gas and Crude Oil delivered to third parties during the Quarter in question; and

b) the quantities and price payable in respect of sales of Natural Gas and Crude Oil delivered during the Quarter in question, other than to third parties.

7.2 Submission of Value of Production and Pricing Statement

The Value of Production and Pricing Statement for each Quarter shall be submitted to the Agency for approval not later than thirty (30) days after the end of such Quarter.
ANNEX C PERFORMANCE GUARANTEE

The Hon. Minister


CROATIA

Our Letter of Guarantee No. ...............n

In consideration of your having contracted by way of an Exploration and Production Sharing Agreement dated............................ (hereinafter called “the Agreement”) with ............................, a company formed and existing in accordance with the Laws of ............................ (hereinafter called “the Contractor”) for the execution of the minimum work obligations (“The Obligations”) as identified in accordance Article 5 of the Agreement, the value of which for purposes of this Guarantee is calculated in accordance with Article 15 of the Agreement at €............................ (in words: ............................ Euro) and since it being a condition of the Agreement that a performance Guarantee of .........% of the total amount envisaged to be spent with respect to Applicable Term of the Exploration Period (as determined by the Agreement) (the “Applicable Term”) be established.

We, the undersigned bank, waiving all objections and defences under the aforesaid Agreement, hereby irrevocably, unconditionally and independently guarantee to pay to you without delay on first written demand any amount claimed by you up to the extent of € ......................... (in words: ......................... Euro) against your written declaration that the Contractor has refused or failed to perform the obligations with respect to the Applicable Term as set out in Article 5 of the Agreement, in accordance with its provisions.

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

This Performance Guarantee for the Obligations with respect to the Applicable Term is unconditional and irrevocable and will be discharged not later than thirty (30) days following the date of completion of such Obligations (“Expiry”), as the same may be extended, as provided for in Article ..., and in any event upon
issue of the Exploitation Licence as provided for under the Agreement, 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 Croatia under this Guarantee, shall be borne by the Contractor without reference and/or recourse to the Republic of Croatia.

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