



**PETROLEUM
EXPLORATION &
PRODUCTION
POLICY 2007**

GOVERNMENT OF PAKISTAN
Ministry of Petroleum & Natural Resources

(OCTOBER 2007)

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1 Introduction

1.1 Background

The importance of the domestic petroleum industry to the economy of Pakistan cannot be over-emphasized as an issue of national security, national self reliance and as a major source of government revenue.

Pakistan's average daily production of crude oil and gas in 2005 was 66,500 barrels and 3,800 million cubic feet, respectively. Pakistan's current crude oil production meets only 17% of the total demand for domestic consumption. The balance requirement is imported involving large expenditures of foreign exchange.

Domestic gas production and supply presently fails to meet the demand of domestic users, the industrial sector and power generation. Furthermore, gas supply may soon become insufficient due to increasing demand and depletion of present reserves. This, in turn, will force Pakistan to soon begin importing large volumes of gas at international prices to feed the domestic market.

The Government of Pakistan (GOP) is committed to accelerate an exploration and development programme in order to reverse the decline in crude oil production, to increase the domestic gas production and supply and to reduce the burden of imported energy which otherwise will have adverse effect on the balance of payments & trade.

The purpose of this Petroleum Exploration and Production Policy 2007 (Policy) is to establish the policies, procedures, tax and pricing regime in respect of petroleum exploration and production (E&P) sector.

1.2 Previous Policies

In 1991, GOP introduced the first petroleum policy document. This was then followed by new Petroleum Policies in 1993, 1994, 1997 and 2001. Whenever previous policies were superseded by a subsequent policy document, the existing rights granted under licences/Petroleum Concession Agreements (PCAs) / Production Sharing Agreements (PSAs) were not affected.

The 1997 Policy, while preserving the provisions of the 1994 Policy with respect to onshore areas, introduced a new offshore package of terms based on production sharing arrangements. Under the 1997 Policy, existing licence holders in offshore areas were given an option to convert their concession agreements into Production Sharing Agreements (PSAs).

The 1997 Policy was replaced in 2001 by Petroleum Policy 2001, coupled with Petroleum (Exploration and Production) Rules 2001, a model offshore Production Sharing Agreement and a model onshore Petroleum Concession Agreement. In 2003, a revised model offshore production sharing agreement was introduced complemented by the Offshore Petroleum (Exploration and Production) Rules 2003.

These petroleum policies have proved successful in attracting investment in exploration and production in Pakistan. In light of recent significant changes in the international E&P sector, notably in respect to escalating costs and the price of crude oil and gas, it is now considered

necessary to review and modify, where necessary the current Policy to stimulate a significant boost in investment in the Pakistan's E&P sector.

1.3 Policy Objectives

The principal objectives of this Policy are:

1. **To accelerate E&P activities in Pakistan** with a view to achieve maximum self sufficiency in energy by increasing oil and gas production.
2. **To promote direct foreign investment in Pakistan** by increasing the competitiveness of its terms of investment in the upstream sector.
3. **To promote the involvement of Pakistani oil and gas companies** in the country's upstream investment opportunities.
4. **To train the Pakistani professionals in E& P sector to international standards** and create favourable conditions for their retaining within the country.
5. **To promote increased E&P activity in the onshore frontier areas by providing globally competitive incentives.**
6. **To enable a more proactive management of resources** through establishment of a strengthened Directorate General of Petroleum Concessions (DGPC) and providing the necessary control and procedures to enhance the effective management of Pakistan's petroleum reserves.
7. To undertake exploitation of oil and gas resources in a socially, economically and environmentally sustainable and responsible manner.

1.4 Requirements of Policy

In order to achieve these objectives, it is necessary for this Policy to:

1. Provide stimuli for increasing exploration and production investment by modifying current contracting terms and incentives while taking into consideration the market conditions.
2. Adopt licensing terms, conditions and processes to attract newcomers including oil and gas majors and independents, National Oil Companies (NOCs), and Pakistani private companies.
3. Provide a balance between prices and incentives through the rationalization of the pricing formula so as to suitably compensate exploration and production risk.
4. Implement pro-active policy management.
5. Successfully align the Policy with GOP's objective to achieve maximum self sufficiency in domestic energy resources for the larger public good.
6. Provide a transparent and non-discriminatory licensing and contracting system managed by DGPC.

1.5 Outline of Pakistan's 2007 E&P Policy

The Petroleum Exploration & Production Policy 2007 maintains a system based upon the two different types of agreements to obtain E&P rights in Pakistan:

- For onshore operations, a system based upon a **Petroleum Concession Agreement (PCA)**
- For offshore operations, a system based upon a **Production Sharing Agreement (PSA)**

The Policy further outlines details of the new biddable gas pricing formula and other incentives.

This document is structured in six Sections:

- Section I: Licensing Process;
- Section II: Exploration and Production Regimes;
- Section III: Regulatory Process and Obligations;
- Sections IV: Pricing and Incentives for Petroleum Exploration & Production;
- Section V: Implementation and Removal of Difficulties;
- Section VI: Conversion to 2007 Policy.

This Policy has incorporated the significant achievements of the Pakistani petroleum industry with established good international oilfield practices.

This Policy will be enhanced by DGPC's continued active support of:

1. The implementation of best practices for assessing petroleum projects and efficient regulatory process.
2. Vigorously promoting exploration and production investment opportunities within Pakistan to both the domestic and the international petroleum industry.
3. Vigorously promote the access to and sale of public domain upstream geological and engineering data sets both in Pakistan and abroad.

1.6 Promoting Involvement of Pakistani Companies in the Country's Upstream Petroleum Industry

GOP is also committed to promoting the active participation of Pakistani companies in oil and gas activities in order to stimulate growth of domestic industry and capture the maximum economic benefit for the country and its workforce.

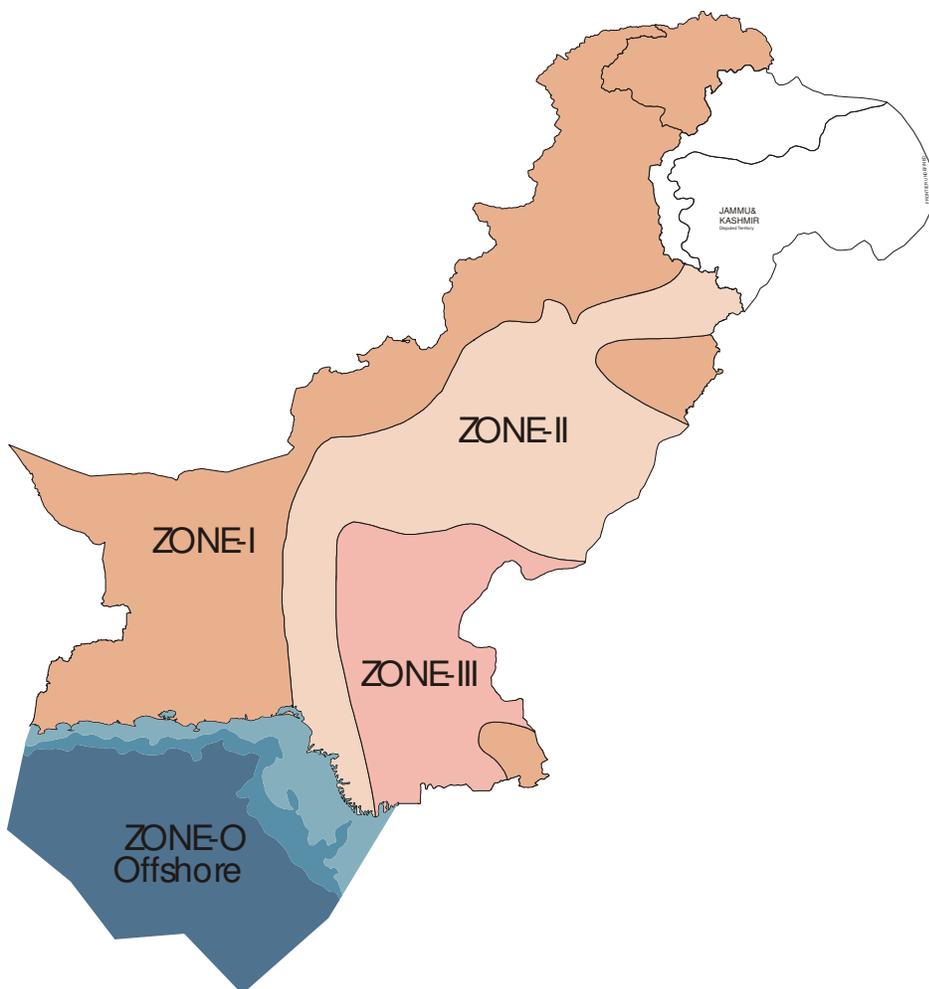
Furthermore, GOP views the increased involvement of Pakistani companies in partnerships with foreign companies, combined with the involvement of the local stakeholders, to be one

of the keys to unlocking the potential of the petroleum reserves in the frontier areas for the benefit of the country.

Section I – Licensing Process

2 Map of Licensing Zones

For the purposes of petroleum licensing, Pakistan will continue to be divided into three onshore and one offshore Zones, on the basis of risk and investment requirements.



3. Pre-qualification of Applicants

1. GOP intends to maximise the exploitation of Pakistan's petroleum resources. This can only be achieved by matching the skills, experience and financial resources of the right companies to the specific requirements of a particular investment opportunity. Opportunities for investment exist in Pakistan that are suitable for all types of companies, ranging from the multinational super-majors and both international and domestic National Oil Companies to small niche players and local Pakistani independents.
2. As part of the licensing system, DGPC will run a two-tier pre-qualification system, the first tier of which will be based on the technical competence of the applicant. The second tier concerns the financial strength of the applicant and its commitment to invest in the upstream sector.
3. The two tier approach is to enable smaller local Pakistani companies to join consortia with other E & P companies in order to gain the necessary industry experience to allow them to expand their capacity to take on operating roles in future. In such consortia, the nominated leading company must meet all necessary pre-qualification requirements.
4. DGPC will maintain a register of pre-qualified companies who will be eligible to participate in bidding for grant of petroleum rights in Pakistan. After the announcement of this Policy, DGPC will seek pre-qualification of the interested companies through a press advertisement giving a period of ninety days to all interested companies to become pre-qualified. In addition, any interested company can submit an application for pre-qualification at any time; however, such companies must be pre-qualified at least one month before close of Invitation to Bid. DGPC will accept or reject pre-qualification applications within thirty days from date of close of initial pre-qualification period of ninety days or from the date of filing of any application with DGPC, as the case may be, unless such time is extended with the approval of the Government.
5. Once pre-qualification status has been granted, it shall remain valid for a period of five years from the approval. All pre-qualified companies are required to notify DGPC whenever there is an adverse material change in their status following pre-qualification.

3.1 Basis for Pre-qualification of Applicants

3.1.1 Legal Capacity and Residence Requirements

1. The applicant company must:
 - a. Demonstrate that it is eligible to apply for a licence in accordance with the applicable Rules and to execute any subsequent agreement, and that such status is likely to remain valid for a period longer than the life of any subsequent agreement plus one year;
 - b. Declare that there is no pending litigation, legal process or other circumstance that might cause it to breach its obligations; and
 - c. Provide a sworn statement that it is not incapable of contracting with GOP and/or Government Holdings (Private) Limited (GHPL).

2. Within a period not exceeding ninety days after award of petroleum right to a pre-qualified company, it must either become incorporated in Pakistan or obtain permission to operate as a registered branch office of a foreign company to operate in Pakistan.

3.1.2 Financial Capacity

DGPC must be satisfied that any applicant company is solvent and is capable of meeting its financial commitments for which following information will be required from the applicant company wishing to be pre-qualified:

1. Copies of the last three annual reports and accounts, and, if appropriate, those of the company's ultimate parent.
2. Trading profit and loss forecasts for the next five years (including projected balance sheets and cash flow statements and any assumptions made in preparing the forecasts), and if appropriate, how any deficit will be met.
3. If the company is a subsidiary of another company, DGPC will need a letter of support from the authorized representative of the parent company stating that it will ensure that adequate financial and technical resources will be made available to such company to meet its share of obligations and liabilities in respect of applicable petroleum right. In those circumstances the financial information about the parent company would also be needed.

3.1.3 Technical Capacity

1. To pre-qualify as an Operator, a company will need to demonstrate to DGPC that it understands the technical obligations and responsibilities commensurate with the responsibilities of an Operator. An applicant seeking to become an Operator must satisfy the minimum criteria set forth for this purpose in the Policy/Rules.
2. In the event, an applicant does not have requisite past operating experience, such applicant shall be required to either produce an agreement with an internationally renowned E&P/ services company acceptable to DGPC or a high calibre technical and management team with proven track record of overseeing and managing operations in the international petroleum industry. The prequalification depends on the company maintaining the relationship until they themselves have the requisite experience to pre-qualify. If the company substitutes the technical service company then the replacement must be approved by DGPC.
3. Non-Operators will not need to demonstrate as high a level of technical expertise as Operators, however, it is expected that such companies will have the requisite expertise to participate in the deliberation of an operating committee and be able to exercise responsible oversight.

3.1.4 New Local Entrants

Where a local company seeking to enter a licence or agreement is a newly incorporated E&P company, DGPC will generally require the following information:

1. Registered name and contact details.

2. Place of incorporation and/or its principal place of business including certificate of incorporation and Article of Association and Memorandum.
3. Details of financial structure of the company.
4. Name and usual residential address and nationality of the members of the Board of Directors or other governing body.
5. Details of capital & assets including details of all holdings of 5% or more in the equity of any other company held by it. The company will also be required to provide details of financing plans to meet its likely investment obligations including the source of financing and bank references from AA rated banks approved by the State Bank of Pakistan.
6. Details of the corporate structure with a diagram showing the relationship between the company and its subsidiaries, affiliates and parents.
7. Main activities of the company, with particular reference to its oil and gas activities, if any.
8. Details of Personnel, including numbers and disciplines (e.g. petroleum engineer, geologist, geophysicist etc.) with emphasis on their relevant experience. The team should comprise of at-least two geologists, two geophysicist, one petroleum engineer, and one HSE professional each having at-least five years experience in the petroleum industry. This proviso will not be applicable to any applicant who wishes to become Non-Operator only.

3.1.5 Participation in bidding

An applicant will be eligible for participating in bidding provided it meets one of the following conditions:-

- i. Who individually pre-qualify as an Operator.
- ii. Who form consortia with other nominated leading company meeting pre-qualification criteria as an Operator.
- iii. The local companies having credible technical and management team as required pursuant to sub paragraph 3.1.4.8 above.

3.1.6 Formal Assessment of Applicants

Based on the required information provided by each applicant, DGPC will assess applicants in a clear and transparent manner. An applicant will be pre-qualified as either an Operator or non-operator should it satisfy the necessary benchmarks as set forth in Annexure 4.

3.1.7 Operator Qualification

Applicant companies that seek to become an Operator in an onshore and/or offshore area must meet each of the following benchmarks as per criteria laid down in the Policy/Rules:

1. Technical Capacity.
2. Operational Capacity (offshore and/or onshore).
3. Legal capacity and compliance with residential requirements.
4. Financial Capacity.

3.1.8 Non Operator Qualification

Applicants seeking non-operating rights in any licence/agreement offered by GOP (offshore and/or onshore), must meet the following criteria:

1. Legal capacity and compliance with residence status requirements.
2. Financial Capacity.

3.1.9 Submission of Misleading Information or an Adverse Material Change in Status

DGPC reserves the right to disqualify any company should there be an adverse material change in the status of a company during or following the pre-qualification selection.

DGPC reserves the right to refuse authorisation to participate should erroneous or misleading information be supplied by the applicant.

3.2 Direct Negotiation with Strategic Partners

GOP may assign the status of “Strategic Partner” to national oil companies representing foreign governments. GOP will promote direct negotiations with selected strategic partners in order to:

1. Explore and develop specific acreage selected by DGPC for strategic partnerships.
2. Develop acreage of significant petroleum potential identified by DGPC in regard to which GOP considers that a strategic partnership would improve the exploitation of any petroleum resources.
3. The party to whom block is awarded would remain the Operator and majority share holder of such block(s). The block awarded to the strategic partner can only be farmed out to Public Sector Companies of the same country acceptable to the GOP or Pakistani Public Sector E&P companies including GHPL.

Strategic partners will be required to undergo the same pre-qualification procedure as other companies outlined above; however, they will be given privileged award of petroleum rights without following competitive bidding for certain blocks selected by DGPC on mutually acceptable terms and conditions.

4. Licensing System

4.1. Types of Exploration and Production Rights

Four different types of E&P rights will be available, as outlined in the table below:

Type	Name	Petroleum Right Granted	Term	Maximum Acreage
1.	Reconnaissance Permit	Non-exclusive right for geophysical, geochemical & geological operations, including the drilling of stratigraphic wells. No rights to negotiate or convert into onshore Licence or offshore PSA	1 year initial term with possible renewal of 1 year.	Unlimited in open areas.
2.	Petroleum Exploration Licence – Onshore	Exclusive right for exploration, including drilling and production testing, on terms specified in the licence, Rules and related agreement.	Five years initial term divided in two phases, Phase I of three years and Phase II of two year, with two possible renewals of two years (each) for exploration. For appraisal operations, a separate application can be made under the Rules allowing a maximum period of appraisal renewal for two years. Plus a possible additional five years retention period ¹ for gas market in Zone I & Zone II,	Maximum 2,500 km ² with subsequent progressive area relinquishment of 30% of the original area after Phase I, 20% of the remaining area after Phase II and 10% of the remaining area on or before 2nd renewal.
	Development and Production Lease	Exclusive right to develop and produce hydrocarbons from within a designated portion of a Petroleum and Exploration Licence, issued when conditions laid down in the Rules are satisfied.	Up to 25 years with a possibility of a renewal for five years.	Maximum acreage retained under development and production lease as defined in the Rules.
3.	Petroleum Exploration Licence – Offshore Shallow Water	Exclusive right for exploration, including drilling and production testing, on terms specified in the licence, Rules and related PSA	Five years initial term divided in three phases, Phase I & II of two years each, and Phase III of one year, with two possible renewals of two years each for exploration. For appraisal operations, a separate application can be made under the Rules allowing a maximum period of appraisal renewal for two years over discovery area. Plus a possible additional two five-year retention periods ² for gas market.	Maximum 2500 km ² with subsequent area relinquishment of 30% of the original licence area at the end of Phase I, 30% of the remaining licence area at the end of Phase II and 20% of the remaining licence area at the end of 1st renewal.

	Development and Production Lease	Exclusive right to develop and produce hydrocarbons from within a designated portion of a Petroleum and Exploration Licence, issued when conditions laid down in the Rules are satisfied.	Up to 25 years with a possibility of a renewal for five years.	Maximum acreage retained for development and production as defined in the Rules.
4.	Petroleum Exploration Licence – Offshore Deepwater and Ultra Deep Water	Exclusive right and PSA for exploration, including drilling and production testing, on terms specified in the licence, Rules and related PSA	Five years initial term divided in three phases, Phase I & II of two years each, and Phase III of one year, with two possible renewals of two years each for exploration. For appraisal operations, a separate application can be made under the Rules allowing a maximum period of appraisal renewal for two years, over discovery area. Plus a possible additional two five-year retention periods ² for gas market	Maximum 2500 Sq. Kms with subsequent area relinquishment of 30% of the original contract area at the end of the initial term, 20% of the remaining area at the end of 1st renewal.
	Development and Production Lease	Exclusive right to develop and produce hydrocarbons from within a designated portion of a Petroleum and Exploration Licence, issued when conditions laid down in the Rules are satisfied.	Up to 25 years with a possibility of a renewal for five years.	Maximum acreage retained for development and production as defined in the Rules.

¹ For details of the retention period for gas market arrangements, please see 5.1.7 below

² For details of the retention period for gas market arrangements, please see 6.13 below

4.2. Procedure for the Granting of E&P Rights

Onshore and Offshore E&P rights will be awarded via three distinct procedures:

1. The granting of Petroleum Exploration Licences for entering into PCA or PSA in relation to onshore and offshore blocks offered through competitive bidding as per procedure laid down herein below.
2. The granting of Petroleum Exploration Licences for entering into PCA or PSA in relation to onshore and offshore blocks without competitive bidding to Strategic Partner Companies on Government to Government basis.
3. The granting of non-exclusive Reconnaissance Permits for undertaking studies and multi-client surveys after direct negotiation.

An application for any offshore permit or licence will be filed to DGPC. However, GHPL will hold the rights to such permit or licence and will contract the applicant company to perform the required work via a Contractor agreement (PSA).

In order to further streamline the procedure for expeditious disposal of applications for the grant of exploration licences for both onshore and offshore; DGPC will continue the competitive bidding process as given below. In addition, the existing procedure for clearances by Provincial Governments and security agencies through a predefined "White and Green

Area Map" will continue. No area clearance would be required for concession blocks falling inside white/green areas.

4.2.1 Call for Nomination

1. DGPC will invite and supervise a "Call for Nomination" as outlined herein below for the grant of all Petroleum Exploration Licences for entering into PCAs or PSAs.
2. In the first week of January and June every year, or as and when required, DGPC will invite through a press advertisement, a call for submission of nominations of open acreage for grant of petroleum rights which will remain open for 60 days.
3. All E&P companies (pre-qualified as well as other interested companies fulfilling the requirements set out in the Rules) will be eligible to make nomination. In the event a company making a nomination is not pre-qualified, such company will be required to secure pre-qualification in accordance with the Rules in order to be eligible for participation in the competitive bidding.
4. In order to promote under-explored areas which either have not been explored during the last three years or have remained un-contested in an Invitation to Bid during the last three years, the first applicant would have "right to match" the highest bid for blocks nominated in Zone-O and Zone-I. This shall however, not be claimed as a matter of right.
5. Subject to nominated blocks falling in a green area, DGPC will consider such nominated blocks for inclusion in the next Invitation to Bid after completing the necessary internal due diligence.
6. A Call for Nomination or any submission made in response thereto shall not constitute or give rise to any obligation on the part of the company making the submission to participate in Invitation to Bid or on the part of DGPC to make Invitation to Bid in respect of nominated block.
7. Call for nomination will be issued as per format at Annexure 6 in national newspapers, the MPNR website as well as a leading oil and gas publication of international repute.

4.2.2 Invitation to Bid

1. DGPC will issue an Invitation to Bid within 15 days of close of Call for Nomination, as per the format at Annexure 6, in national newspapers, the MPNR website as well as a leading oil and gas publication of international repute. Invitation to Bid may cover the nominated blocks and such additional blocks as DGPC may deem appropriate.
2. An Invitation to Bid will remain valid for at least 90 days and all pre-qualified companies would be eligible to contest Invitation to Bid.
3. It is a pre-requisite that the standard Model Petroleum Concessions Agreement and Model Production Sharing Agreement are followed by all companies participating in Invitation to Bid. All the economic terms and conditions will remain fixed as defined in this Policy, unless mutually agreed by the parties and approved by GOP. All participating companies will be required to furnish an undertaking to the effect that in the event, they are considered for the award of petroleum right by DGPC, they will not seek any change or modification or amendment or revision to terms and conditions applicable to Invitation

to Bid including that of Model Petroleum Concessions Agreement and Model Production Sharing Agreement.

4. Upon a written request of an interested company, DGPC will make every effort to provide bid documents within 15 days of the request, which will include but not be limited to copies of: (a) the Policy; (b) the applicable Rules; (c) Model Petroleum Concessions Agreement and Model Production Sharing Agreement, whichever is applicable; and (d) information which is available or can be purchased.
5. Bids will be invited based on criteria of the highest work programme determined on the basis of Work Units as set-out in Annexure 5 and a Gas Price Gradient (GPG).
6. Any pre-qualified company can submit a bid for any block included in Invitation to Bid in accordance with the Policy/Rules.
7. All Bids will be opened publicly in the presence of authorized representatives of the bidders should they chose to be present. If only one bid is received, the bidding company can be considered for award in accordance with the Rules provided the company offers a reasonable Work Programme commensurate with the prospectivity of the area.
8. Award of petroleum rights to Pakistani state owned companies will also be subject to the same process mentioned herein above.
9. DGPC will ensure that the conditions and requirements concerning the exercise or termination of the Invitation to Bid are established and made available to interested companies along with the bid documents. Furthermore, any changes made to the conditions and requirements in the course of the bid procedure are to be notified to all interested companies immediately by means of bulletins posted to the website and through registered mail to the companies buying bid documents.
10. Bids are to be submitted in a sealed envelope.
11. All bids are to be made in accordance with the applicable Rules.
12. All bidders are required to notify DGPC should there be an adverse material change in their status following pre-qualification. GOP will retain the right to refuse the granting of any rights when this material change prevents a company from meeting the original pre-qualification requirements.
13. DGPC will make every effort to conclude and sign a Petroleum Concession Agreement or Production Sharing Agreement as the case may be based strictly on the model provided with the bid documents within 30 days after the closing date of Invitation to Bid subject to completion of all documents to be submitted by the applicant companies.
14. The Government reserves the right to exercise the powers to accept or reject any application and cancel or annul the bidding process.
15. DGPC reserves the right to call more bidding rounds as and when required.

4.2.3 Direct Negotiation of Non-Exclusive Rights

A potential investor may apply, in accordance with the Rules, for a non-exclusive Reconnaissance Permit via direct negotiation with DGPC in any area currently open and considered by DGPC to be suitable for this purpose.

4.3 Formal Bid Assessment

Based on the bids submitted by applicant companies/consortia for each offered block, DGPC will operate a balanced scorecard system providing a performance measurement tool to be used by DGPC in order to evaluate companies against set performance criteria in a clear and transparent manner. Pre-qualified companies/consortia are to be evaluated under the following bid criteria:

1. Gas Price Gradient (GPG) for when the Reference Crude Price (see paragraph 11.2) below) is above USD 45/bbl; with a minimum GPG set at 0.2 and a maximum GPG allowed set at 1.0. No applicant company will bid GPG at less than 0.2 or more than 1.0 unless instructed to by DGPC prior to a rebid in the case of a draw as outlined in 4.3.2 below.
2. Firm Work Units for Phase I of the initial term offered at the time of bidding as per Annexure 5.

4.3.1 Completion of Balanced Scorecard

1. To work out the gas price when the Reference Crude Price exceeds USD 45/bbl, applicant companies/consortia are required to bid a factor in the gas price formula (see section IV below). This factor, known as the Gas Price Gradient (GPG), is biddable so as to give advantage to the party that offers the lowest price to sell available gas. For an example, see Annexure 5.
2. The work commitment component of the bid round will comprise the following:
 - i. 3D and 2D seismic acquisition to be undertaken
 - ii. Exploratory wells to be drilled and the minimum depth below land surface/seabed nominated

Seismic acquisition to be undertaken and exploratory wells to be drilled are defined in terms of work units – see Annexure 5.

3. The balance scorecard to determine the winning bid for each block on offer will therefore have the following components:

For all Zones:

Components	Measures	Main Weights
Gas Price Formula	Gas Price Gradient (GPG)	20%
Work Commitment on offered block	Work Units	80%

4.3.2 Bid Evaluation Procedure

1. Each bid must contain the necessary information as required in the balance scorecard clearly indicating work units and GPG. The evaluation of work unit commitments will be pro-rated from the value of the highest work unit commitment – see Annexure 5.
2. DGPC will numerically rank bids submitted by candidate companies with regard to each individual category as stated in the balanced scorecard as per 4.3.1(3) above.
3. The bid with the highest weighted average score will be declared the winner.
4. If more than one bid achieves the highest mark and there is a draw, then the successful bidder will be decided on the basis of bidder offering lower GPG. In such an event, if GPG offered by the bidders is also same then:
 - a. Within 15 days of bid opening date, such bidders will be asked to re-bid the GPG at no more than the previous GPG and with a lower limit of GPG=0 and work commitment of not less than previously offered.
 - b. The process will be repeated until there is a clear winner.

4.4 Post Award Process

Following a successful bid, either a PCA for onshore acreage or a PSA for offshore acreage, will be concluded between Government/ GHPL and the successful bidder as per the Model PCA/PSA made available to the applicants at the time of the announcement of the invitation for bids. No modification to the terms of the model agreement nor to the terms of the bid will be allowed during the finalisation of execution copies of the PCA or PSA.

Section II – Exploration and Production Regimes

5 Onshore Petroleum Concession Agreement (PCA)

The economic package for onshore licensing Zones I, II and III is detailed below and will be included in a model PCA to be released in line with this Policy (see map of licensing Zones in Section I above).

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

The onshore PCA will apply to all new licences in onshore areas.

The onshore fiscal package contained in this Policy as applied to future awards will be reviewed from time to time in the light of additional information and may be adjusted to maintain international competitiveness.

5.1 Royalty, Income Tax and Windfall Levy

1. Royalty will be payable at the rate of 12.5% of the value of petroleum at the field gate.
2. The royalty will be paid in cash or kind at the option of GOP on liquid and gaseous hydrocarbons (such as LPG, NGL, Solvent oil, gasoline and others) as well as all substances including sulphur, produced in association with such hydrocarbon. The lease rent paid during the year shall not be deductible from the royalty payment.
3. Tax on income will be payable at the rate of 40% of profit or gains in accordance with the Fifth Schedule of the Income Tax Ordinance, 2001. Royalties will be treated as an expense for the purpose of determination of income tax liability.
4. Windfall Levy (WLO) will be applicable on crude oil and condensate using the following formula:

$$\text{WLO} = 0.5 \times (\text{M}-\text{R}) \times (\text{P}-\text{B})$$

Where:

- WLO - Windfall Levy on crude oil and condensate;
 - M - Net production;
 - R - Royalty;
 - P - Market Price of crude oil and condensate as set out in paragraph 11 below;
 - B - Base Price, which will be as under:
 - a. The base price for crude oil and condensate will be USD 30 per bbl.
 - b. This base price for crude and condensate will escalate each calendar year by USD 0.25 per barrel starting from the date of first commercial production in contract area.
5. For sale of natural gas to parties other than GOP, Windfall Levy (WLG) will be applicable on the difference between the applicable GOP Zone price and the 3rd party sale price using the following formula:

$$WLG = 0.5 \times (PG - BR) \times V$$

Where:

- WLG - Windfall Levy on share of natural gas;
- PG - Third Party Sale Price of natural gas;
- BR - Base Price;
- V - Volume of gas sold to third party excluding royalty.

The Base Price will be the applicable Zone price for sale to GOP as outlined in paragraph 11 below. Where the 3rd party sale price of gas is less or equal to the base price, the windfall shall be zero. The windfall levy shall not apply on sales of natural gas made to GOP.

5.1.1 Import Duties, Taxes and Fees

Incentives in respect of Import Duties/Taxes and Fees for the E&P companies and the “service companies” are as per applicable SRO.

5.1.2 Production Bonuses

Production bonuses will be payable on a contract area basis as follows:

CUMULATIVE PRODUCTION (MMBOE)	AMOUNT (USD)
At start of commercial production	500,000
30	1,000,000
60	1,500,000
80	3,000,000
100	5,000,000

1. Local Operator companies will pay their share of production bonuses in the Pakistan Rupees equivalent of United States Dollar converted at the prevailing exchange rate on the day of transaction.
2. GHPL will not pay the production bonuses as long as GOP is the majority shareholder of this company.
3. It is intended that production bonuses will be expended on social welfare projects in and around the respective contract areas according to guidelines to be issued by GOP.

5.1.3 Incentives for Exploration and Production Companies incorporated in Pakistan

There is a need to develop a strong indigenous base in Exploration and Production sector and to minimize foreign exchange outlays. Therefore, the following incentives will continue to be offered to pre-qualified E&P Companies incorporated in Pakistan, which pay dividends and receive payments for petroleum sold in Pakistani currency.

1. Such E&P companies will be encouraged to operate exploration blocks with 100% ownership.

2. In case of joint ventures with foreign E&P companies, local E&P companies including GHPL shall have working interest of 15% in Zone-I, 20% in Zone-II and 25% in Zone-III on full participation basis (hereinafter referred to as “required minimum Pakistani working interest”). The local E&P companies shall contribute their share of exploration expenditure in Pakistani currency upto required minimum Pakistani working interest. GHPL will remain non-operator in such joint ventures. In the event any local E&P company, other than GHPL, subsequently intends to reduce its working interest in a joint venture whereby the collective working interest(s) of local E&P companies (including that of GHPL) becomes lower than the above threshold specified for required minimum Pakistani Working Interest, GHPL shall have the first right to make up the balance required minimum Pakistani working interest on point forward basis without reimbursement or payment of any past cost.
3. Consortia of companies not meeting the minimum required Pakistani working interest can still be granted an exploration licence provided such companies advertise in the press within 15 days of the grant, inviting Pakistani incorporated companies and GHPL to participate in the joint venture on the full participation basis under standard Joint Operating Agreement. The Pakistani incorporated companies and GHPL shall have the option to participate in the joint venture within 30 days.
4. The foreign E&P companies shall be deemed to have fulfilled their obligation with respect to the minimum Pakistani participation if Pakistani incorporated companies and/or GHPL do not take any interest fully or partially.
5. Local E&P companies will, on a case to case basis, be entitled during the exploration phase to receive foreign exchange against payment in Pakistani currency to meet their day to day obligations under permits, licences and PCAs/PSAs. After commercial discovery, local E&P companies would be paid up to 30% of their sale proceeds in foreign currency to meet their day to day operational requirements. For project financing after commercial discovery, local E&P companies will be required to make their own foreign exchange arrangements except for companies in which GOP holds majority shareholding.

5.1.4 Local Employment, Training and Social Welfare

Local employment, training and social welfare obligations will be applicable as per Annexure-3.

5.1.5 Exploration Period

See paragraph 4.1.above.

Upon a written request of an Operator DGPC may, on a case to case basis, extend the term of the licence on the following grounds only:

- a. If seismic and drilling services are not readily available in the country for the timely discharge of minimum work obligation, a proof to this effect will be required before the Government considers accepting or denying a request for extension of an exploration licence. Such a request for extension will be required to be made after the holder of the exploration licence has exhausted all other options including but not limited to pooling resources to undertake coordinated activities with other petroleum right holders, if possible;

- b. If a holder of an exploration licence commits to undertake additional work which is equivalent to at least 20% more than the minimum work obligation of subsequent phase or renewal;
- c. If a holder of an exploration licence makes additional accelerated area relinquishment equivalent to 20% of the original licence area; or
- d. If the party was unable to perform work because of circumstances beyond his control such as law and order situation or for unforeseeable reasons including but not limited to a flood or earthquake etc.

Notwithstanding above, in no circumstances shall an extension or extensions cumulatively exceed 36 months during the currency of an exploration licence.

5.1.6 Extended Well Testing

1. Subject to approval from DGPC, an Operator may be permitted to undertake extended well testing (EWT) during the appraisal phase and before declaration of commerciality and approval of the development plan. Such approval will be granted provided that the Operator inter-alia complies with the requisite royalty, tax, rentals, and training/social welfare commitments as applicable under the lease.
2. A request for approval of EWT (including associated temporary production facilities) will be made to DGPC providing information with regard to (a) technical justification for EWT; (b) proposed duration for EWT and (c) a plan with regard to disposal of gas during the proposed EWT period. The duration of EWT will be allowed keeping in view the reservoir uncertainty and the proposed investment outlay on EWT. DGPC will not grant approval to undertake flaring for EWT for a period longer than 30 days if the gas infrastructure is located within 25 kms radius of the discovery well, unless under exceptional circumstances.
3. Where the specification and quality of the gas from an approved EWT is acceptable to the buyer, the gas price shall entail a 15% discount from the applicable gas price for that Zone.
4. The facilities that are required to undertake EWT shall be constructed and operated in accordance with good international oilfield practices.

5.1.7 Retention Period

1. In the case of a significant gas discovery in Zone I or Zone II, a retention period of up to 5 years will be considered for onshore licences, on a case to case basis, provided such discovery can be declared a commercial discovery when inter-alia adequate gas pipeline transportation facilities are installed and gas markets have been sufficiently developed for sale of natural gas on commercial basis.
2. A discovery containing oil and gas or oil, gas and condensate is considered to be a gas discovery for the purposes of obtaining a retention period only when liquids production is not considered economic without marketing the gas stream.

5.1.8 Total Lease Term

Total term of an onshore development and production lease will be up to 25 years plus five years renewal subject to paragraph 5.1.9 below.

5.1.9 Five Year Term Renewal

So as to provide the Operator with a suitable return on late term investment in the lease, the production period of a lease may be renewed for one term of five years. A revised field development plan will be required to be submitted for approval by DGPC. In order to obtain such a renewal the Operator must meet the following conditions:

1. The submission of a request for a renewal has been submitted not less than three years in advance of the expiry of initial term of the production period; and
2. That the exploitation area has been producing on a regular basis on the date of the request.

5.1.10 Policy for Grant of Lease after Expiry of Lease Term

1. For grant of petroleum rights after the expiry of lease period, DGPC will invite bids using the call for bids one year before the end of the lease period from pre-qualified companies seeking to have a petroleum right over the lease area, in relation to any producing field for an additional ten years. The bids will be evaluated on the basis of Signature Bonus, which would be spent for social welfare of the area in which the field is located. A procedure for transfer of funds generated through signature bonus would be the same as being applicable for transfer of royalty.
2. Each bidder(s) shall provide a bid bond of 10% of the offered signature bonus at the time of bidding.
3. DGPC shall be under no obligation to grant any extension.
4. The above policy for grant of lease after expiry of lease term shall also apply to leases granted under Pakistan Petroleum (Exploration & Production) Rules of 1986 and 2001.

5.2 Block System

A block system based on latitudes and longitudes as indicated in Annexure 1 and 2 will be followed for grants and relinquishments of all onshore acreage.

5.3 Rentals

1. All holders of exploration licence will be required to pay an advance rental charge at the following rates:
 - a. In respect of the five years of the initial term of the licence; Rs.3500 per square kilometre or part thereof; or in respect of each year of the initial term of the licence; Rs.800 per square kilometre or part thereof;

- b. In respect of each renewal of the licence; Rs.5000 per square kilometre or part thereof; or in respect of each year of the renewal of Licence; Rs.2750 per square kilometre or part thereof.
2. During the lease period, the following annual advance rental charges will apply:
- a. Rs.7,500 per square kilometre or part thereof covering the lease area during the initial lease period.
 - b. Rs.10,000 per square kilometre or part thereof covering the lease area during the renewal period of a lease and further lease term extension.

5.4 Non Fulfilment of Work Obligations

A holder of a reconnaissance permit or exploration licence will be liable to pay the Government financial compensation for non-performance of work obligations (work units), within the stipulated timeframe. In respect of an exploration licence, the compensation to be paid will be calculated based upon the number of work units unfulfilled multiplied by the applicable USD rate for work units whereas for a reconnaissance permit, such compensation will be based on minimum expenditure obligation specified in the permit deed.

6. Offshore Production Sharing Agreement (PSA)

The economic package for Licensing Zone O is detailed below and will be included in a model PSA to be released in line with this Policy. Licensing Zone O covers three distinct offshore areas; shallow, deep and ultra deep as defined in Annexure 2.

This Policy will apply to all new grants of offshore PSAs.

6.1 Royalties, Corporate Tax and Windfall Levy

6.1.1 Royalties

Following Royalty schedule will be applied:

- | | |
|--|---------------------------|
| • First 48 Calendar Months after Commencement of Commercial Production | No royalty |
| • Months 49 to 60 inclusive | 5% of field gate price |
| • Calendar Months 61 to 72 inclusive | 10% of field gate price |
| • Calendar Months 73 and greater | 12.5% of field gate price |

1. The royalty will be paid in cash or kind at the option of GOP on liquid and gaseous hydrocarbons (such as LPG, NGL, Solvent oil, gasoline and others) as well as all substances including sulphur, produced in association with such hydrocarbon. The lease rent paid during the year shall not be deductible from the royalty payment.
2. Royalties will be treated as an expense for the purpose of determination of income tax liability.

6.1.2 Corporate Income Tax

Subject to any incentives offered to Operators by GOP, corporate tax will be payable at the rate of 40% of profit or gains in accordance with the Fifth Schedule of the Income Tax Ordinance, 2001.

6.1.3 Windfall Levy

Windfall Levy (WLO) will be applicable on crude oil and condensate using the following formula:

$$\text{WLO} = 0.5 \times (\text{P}-\text{R}) \times \text{SRO}$$

Where:

- WLO - Windfall Levy on share of crude oil and condensate;
- P - Market Price of crude oil and condensate as set out in paragraph 11 below;
- SRO - Share of crude oil and condensate allocated to a Contractor;
- R - Base Price, which will be as under:
 - a. The base price for crude oil and condensate will be USD 30 per bbl.

- b. This base price for crude and condensate will escalate each calendar year by USD 0.25 per barrel starting from the date of first commercial production in contract area.

For sale of natural gas to parties other than GOP, Windfall Levy (WLG) will be applicable on the difference between the applicable GOP Zone price and the 3rd party sale price using the following formula:

$$\text{WLG} = 0.5 \times (\text{PG} - \text{BR}) \times \text{V}$$

Where:

- WLG - Windfall Levy on share of natural gas;
- PG - Third Party Sale Price of natural gas;
- BR - Base Price;
- V - Volume of gas sold to third party excluding royalty.

The Base Price will be the applicable Zone price for sale to GOP as outlined in paragraph 11 below. Where the 3rd party sale price of gas is less or equal to the base price, the windfall shall be zero. The windfall levy shall not apply on sales of natural gas made to GOP.

6.2 Depreciation

The following depreciation rates will apply:

- On successful exploration and development wells 25% on Straight Line
- On dry holes (exploratory wells) Will be expensed immediately upon commencement of commercial production or relinquishment whichever is earlier.
- Non-commercial well (exploration wells) Expensed upon relinquishment of licence
- On facilities and offshore platforms 20% Declining Balance

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

6.3 Direct Government Participation

A sliding scale production sharing arrangement will be used instead of direct government participation.

6.4 Production Sharing

1. The agreement will be a sliding scale production sharing arrangement.
2. The production sharing agreement will be executed by the Contractor with GHPL who will be granted the Exploration Licence and Development and Production Lease. The Contractor will therefore initially receive the profit oil and profit gas shares and will be responsible for the management of the production sharing agreements.

6.5. Cost Limit

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

6.6 Profit Oil and Profit Gas Splits

The profit split is set on the basis of a sliding scale for shallow, deep and ultra deep grid areas as shown in Annexure 2. The sliding scale is based on cumulative production permitting a rapid recovery of investments and a higher net present value.

1. Profit oil & gas share for wells in shallow grid area of less than 200m water depth and depth to reservoir shallower than 4,000m

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

2. Profit oil & gas share for wells in deep grid area of more than or equal to 200m and less than 1,000m water depth or deeper than 4,000m to reservoir in shallow grid area

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

3. Profit oil & gas share for wells in ultra deep grid area of more than or equal to 1,000m water depth

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

6.7 Production Bonuses

Production Bonuses will be as outlined in the table below.

CUMULATIVE PRODUCTION	AMOUNT (USD)
<ul style="list-style-type: none"> • Within 90 days of start of commercial production 	500,000
<ul style="list-style-type: none"> • Upon reaching 60 MMBOE 	1,000,000
<ul style="list-style-type: none"> • Upon reaching 120 MMBOE 	1,500,000
<ul style="list-style-type: none"> • Upon reaching 160 MMBOE 	3,000,000
<ul style="list-style-type: none"> • Upon reaching 200 MMBOE 	5,000,000

1. The Production Bonus amount for offshore would be deposited in the Government treasury and the same would be expensed in accordance with the guidelines to be issued by the Government from time to time.

6.8 Import Duties and Taxes

Incentives in respect of Import Duties/Taxes and Fees for the E&P companies and the “service companies” are as per applicable SRO.

6.9 Marine Research and Coastal Area Development Fee

A marine research and coastal area development fee will be applicable as per the following schedule:

- USD 50,000 per year - until first discovery
- USD 100,000 per year - thereafter until declaration of commerciality
- USD 250,000 per year - during development phase
- USD 500,000 per year - during production phase.

Out of the above fee 75% would be expensed on coastal area development and 25% for marine research.

6.10 Local Employment, Training and Social Welfare Contributions

Details of local employment, training and social welfare contributions for Pakistani nationals are given in Annexure 3.

6.11 Exploration Period

See paragraph 4.1.above.

Upon a written request of an Operator DGPC may, on a case to case basis, extend the term of the licence on the following grounds only:

- a. If seismic and drilling services are not readily available in the country for the timely discharge of minimum work obligation, a proof to this effect will be required before the Government considers accepting or denying a request for extension of an exploration licence. Such a request for extension will be required to be made after the holder of the exploration licence has exhausted all other options including but not limited to pooling resources to undertake coordinated activities with other petroleum right holders, if possible;
- b. If a holder of an exploration licence commits to undertake additional work which is equivalent to at least 20% more than the minimum work obligation of subsequent phase or renewal;
- c. If a holder of an exploration licence makes additional accelerated area relinquishment equivalent to 20% of the original licence area; or
- d. If the party was unable to perform work because of circumstances beyond his reasonable control such as law & order situation, unforeseeable reasons including but not limited to flood, earthquake etc.

Notwithstanding above, in no circumstances shall an extension or extensions cumulatively exceed 36 months during the currency of an exploration licence.

6.12 Extended Well Testing

1. Subject to approval from DGPC, a Contractor may be permitted to undertake extended well testing (EWT) during the appraisal phase and before declaration of commerciality and approval of the development plan. Such approval will be granted provided that the

Operator inter-alia complies with the requisite royalty, tax, rentals, marine research & coastal development fee and training/social welfare commitments as applicable under the lease.

2. A request for approval of EWT (including associated temporary production facilities) will be made to DGPC providing information with regard to (a) technical justification for EWT; (b) proposed duration for EWT and (c) a plan with regard to disposal of gas during the proposed EWT period. The duration of EWT will be allowed keeping in view the reservoir uncertainty and the proposed investment outlay on EWT. DGPC will not grant approval to undertake flaring for EWT for a period longer than 30 days if the gas infrastructure is located within 25 kms radius of the discovery well, unless under exceptional circumstances.
3. Where the specification and quality of the gas from an approved EWT is acceptable to the buyer, the gas price shall entail a 15% discount from the applicable gas price for that Zone.
4. The facilities that are required to undertake EWT shall be constructed and operated in accordance with good international oilfield practices.

6.13 Retention Period

1. In the case of a significant gas discovery, a retention period of up to 5 years will be considered for offshore licences, on a case to case basis, provided such discovery can be declared a commercial discovery when inter-alia adequate gas pipeline transportation facilities are installed and gas markets have been sufficiently developed for sale of natural gas on commercial basis. A further period of up to 5 years will be available subject to justification acceptable to DGPC. No such retention provision is available for an oil discovery.

2. A discovery containing oil and gas or oil, gas and condensate is considered to be a gas discovery for the purposes of obtaining a retention period only when liquid production is not considered economic without marketing the gas stream.

6.14 Total Lease Term

Initial term of the development and production lease will be up to 25 years in offshore area with one possible renewal of up to 5 years, subject to paragraph 6.15 below.

6.15 Five Year Lease Term Renewal

A Contractor may, on behalf and with the consent of GHPL, apply to DGPC for the production period of a lease to be renewed for one term of five years. A revised field development plan will be required to be submitted for approval by DGPC. In order to obtain such a renewal the Operator must meet the following conditions:

1. The submission of a request for a renewal has been submitted not less than three years in advance of expiry of initial term of the production period; and
2. That the exploitation area has been producing on a regular basis on the date of the request.

6.16 Policy for Grant of Lease after Expiry of Lease Term

1. DGPC will invite bids using the call for bids from pre-qualified companies seeking to act as Contractor to GHPL, over the lease area, in relation to any producing field for an additional ten years either one year before the end of the initial term of a lease or if a renewal has been granted, one year before the end of the lease renewal. The bids will be evaluated on the basis of Signature Bonuses, which would be spent in accordance with the guidelines issued by GOP from time to time.
2. Each bidder(s) shall provide a bid bond of 10% of the offered signature bonus at the time of bidding.
3. DGPC shall be under no obligation to grant any extension.

6.17 Block System

A block system based on latitudes and longitudes as indicated in Annexure 1 & 2 will be followed for grants and relinquishments of all offshore acreage.

6.18 Rentals

Contractors will be required to pay an advance annual acreage rental for the area covered under the PSA of fifty thousand US dollars plus a further rate of ten dollars per square kilometre or a part thereof every year.

6.19 Non Fulfilment of Work Obligations

A Contractor working under an Exploration licence will be liable to pay GHPL financial compensation for non-performance of work obligations (work units) not accomplished within the stipulated timeframe. Such compensation will be deposited in Federal treasury by GHPL within fortnight of receipt from defaulting Contractor. The compensation to be paid will be calculated based upon the number of work units unfulfilled multiplied by applicable USD amount for work units.

Section III - Regulatory Process & Obligations

7. Regulatory Process

7.1 Miscellaneous

1. This Policy will be applicable to all petroleum operations including but not limited to seismic activities, exploration, drilling, development and production, except coal bed methane for which the concerned provincial regulator will be responsible for all matters related thereto.
2. The Operator shall conduct all petroleum operations in accordance with Good international oil field practices and the principles and standards as laid down in the Rules. Consistent with this requirement, the Operator shall endeavour to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of Petroleum.
3. All definitions/terms in this document will be interpreted in line with the Rules, which will prevail in case of any conflict.
4. In order to expedite commercialization of discoveries, model Sale and Purchase Agreements for Gas, Condensate and Crude Oil will be finalized in consultation with the industry and made part of bidding documents.

7.2 Application Fees

The following fees will be payable on application for the following rights:

- Reconnaissance Permit - Rs 50,000
- Exploration Licence - Rs 100,000
- Development and Production Lease – Rs 200,000
- In addition, the Government may require Contractor or Company holding petroleum right to bear the cost of third party independent evaluation/ assessment of notice of commercial discovery and proposed development plan submitted by the concerned party for consideration and approval

7.3 Non-compliance

Any company non-compliant with the terms of a permit, licence, lease, agreement and/or the Rules will result in enforcement action by DGPC.

Grounds for the suspension and/or revocation of any permit, licence or lease will be set out in detail as part of the rules, permit, licence or lease.

7.4 Confidentiality of Data and Records

1. All data and records concerning operations within the permit area, licence area or lease area are required to be submitted to DGPC. All data is to be treated as confidential and may not be disclosed by the parties except as provided for in the agreement or where the data is in the public domain.
2. The parties may disclose data to affiliates and subcontractors, banks, bona fide intending assignees and their employees, consultants, etc. in connection with petroleum operations, and as required by laws and the applicable stock exchange regulations.

7.4.1 Geological & Geophysical Data

1. All data, including, but not limited to, well logs, maps, magnetic tapes, cores, samples and any other geological and geophysical information obtained as a result of petroleum operations under a permit, licence, lease or an agreement is the property of GOP and must be delivered to DGPC as soon as it becomes available. The Operator/Contractor and other interest owners retain the right to make use of such data, free of cost, in connection with petroleum operations.
2. Geological and geophysical data is to be kept confidential by GOP for a period of three years from the date of its acquisition, with the exception of disclosure required by the laws and Rules of Pakistan. However, GOP may disclose data earlier if the Agreement terminates or upon relinquishment of the area to which the data relates.
3. DGPC may agree to keep the data confidential for longer period if such data is gathered for commercial purposes under a multi client arrangement with DGPC provided; however, all such data will be made available by DGPC within five years.
4. DGPC reserves the right to charge a reasonable fee for the purchase of this data by third parties to cover data storage, handling, reproduction and marketing costs.

7.4.2 Operational, Commercial & Financial Data

Operators and Contractors have the obligation to provide DGPC with relevant information related to exploration and production activities.

DGPC will disclose information into the public domain according to the following conditions:

1. Operational: daily, monthly and annually.
2. Commercial & financial: after five years, except commercial sensitive information which may give unfair advantage to third-parties.

7.5 Performance Guarantees

DGPC shall require successful applicants for petroleum exploration licences to furnish, in an acceptable form, a guarantee or guarantees, with respect to its work commitments on or before the execution of the petroleum exploration licence. In the event, the successful

applicant elects to provide any guarantee other than a Parent Company Guarantee during exploration phase, the guarantee so provided would only be released in case all work obligations including but not limited to social welfare, training, data, rental etc. are fully discharged. DGPC reserves the right to deduct payment for non-performance of all such obligations from the performance guarantee.

The guarantee will be irrevocable and unconditional and in a standard format satisfactory to DGPC such as the following:

1. Bank guarantee equal to 50% of the minimum financial obligation from a bank of international repute acceptable to the Government on the prescribed format in PCA/PSA.
2. Parent Company Guarantee
3. Petroleum production lien
4. First and preferred assets lien
5. Escrow Account

8 Foreign Exchange

1. Contractor/Operator will be required to contribute all funds required for the Expenditure in respect of petroleum operations in foreign exchange and in Pakistani Rupees as required.
2. Subject to domestic supply obligations and export duties, each foreign E&P Companies shall be entitled to export its share of the petroleum acquired under an agreement, in accordance with the applicable laws. Each foreign Contractor/Operator (and its registered branch in Pakistan) shall have the right to retain abroad and to freely make use of sale proceeds from the export of its share of petroleum.
3. Foreign E&P companies shall have the right to remit sale proceeds from the sale of petroleum within Pakistan in foreign currency abroad in accordance with applicable regulations of the State Bank of Pakistan. GOP shall ensure that the State Bank of Pakistan shall permit all remittances of funds without any delay or additional cost to such companies.
4. If a foreign working interest owner assigns its interest in a licence, lease and/or agreement to a foreign entity with the consent of GOP, such working interest owner will be allowed to retain abroad all proceeds resulting from such assignment.
5. E&P company shall have full right of control over movement of funds out of bank accounts established for the purpose of petroleum operations but may be required to provide to the State Bank of Pakistan or any Government designated office, bank statements with an explanation of each deposit, or payment from such account, and shall supply on a quarterly basis, in a form acceptable to the State Bank, or such designated office full particulars of foreign exchange transactions related to an agreement.
6. For all currency conversion transactions and calculations in relation to petroleum operations the rate of exchange shall be at the rate as established by the State Bank of

Pakistan (SBP) prevailing on the date of each transaction. In case SBP ceases to publish this rate, the arithmetic average of the average inter-bank mid rate may be used.

7. For foreign currency provisions relating to Local Pakistani Companies, please refer to sub-paragraph 5.1.3.5 above.

9 Assignment or Transfer of Interest

1. The working interest owner shall not sell, assign, transfer, convey or otherwise dispose of all or any part of its rights and obligations under a licence, lease and/or an agreement, to a third Party or any of its affiliates without the previous written consent of DGPC, which shall not be unreasonably withheld.
2. In giving this consent DGPC may impose any such conditions as DGPC considers appropriate including but not limited to conditions which are for the purpose of ensuring full payment of royalty, corporate tax and windfall levy by the assignee in respect of the interests assigned or transferred.
3. DGPC will require payment of an administration fee of Rs 50,000 in relation to any one application for assignment or transfer of interest.

10 Domestic Supply Obligation & Gas Allocation

10.1 Domestic Supply Obligation

Subject to the considerations of internal requirements and national emergencies, E&P companies will be allowed to export their share of crude oil and condensate as well as their share of gas based on export licences to be granted by the concerned regulator. For the purpose of the grant of such export licenses for gas, the export volumes will be determined in accordance with "L15" concept provided a fair market value for such gas is realized at the export point. Under the "L15" concept the gas reserves that exceed the net proven gas reserves in Pakistan including the firm import commitments vis-à-vis the projected gas demand for next fifteen years can be considered for export. Once gas has been dedicated for exports, licenses for such export volumes shall not be subsequently revoked.

10.2 Remittance of Proceeds Abroad

1. If the foreign E&P Companies sell gas to third parties in Pakistan and want to remit sale proceeds in foreign currency abroad, GOP shall allow these companies to freely remit a "guaranteed percentage" of their sale proceeds.
2. The "guaranteed percentage" shall be 75% of the total gross revenues from any Lease in Zone O and I, 70% of the total gross revenues from any Lease in Zone II and 65% of the total gross revenues from any Lease in Zone III. The remaining gross income in Rupees can be used to pay royalties, taxes, windfall levy and any other payments to the Government as well as to meet local operating costs.

10.3 Delivery Point and Field Gate for Natural Gas

1. For the purpose of pricing and delivery obligations for natural gas, the field gate shall be selected from the following two options:

- (a) For Zones I,II and III: Anywhere within a 25-km radius from the outlet flange of a production facility;
 - (b) For Zone O : At the nearest access point to an existing regulated transmission system; or at the shore within Zone II or III coastal locations.
2. In the event there is more than one field located in a block; the secondary or subsequent fields will be connected to either the transmission system, any point inside the outlet flange of the production facility of the primary field or the pipeline connecting the primary field to transmission system, as may be approved by DGPC.
3. All field gate locations will be approved by DGPC on case to case basis within the above criteria following the submission of proposed field development plan by the concerned company.

10.4 Sale of Natural Gas within Pakistan

1. E&P companies operating in Pakistan will be allowed to contract with gas transmission and distribution companies and third parties, other than residential and commercial consumers, for the sale of their share of gas in Pakistan at negotiated prices in accordance with the applicable laws, rules, and regulations.
2. Subject to overall market demand, E&P Companies may request and GOP will purchase their share of pipeline specification gas through a nominated buyer which is effectively controlled by it in acceptable daily, monthly and yearly volumes to meet the internal demand in an economical manner provided there are no infrastructure constraints. The delivery point shall be at the field gate, as outlined in paragraph 10.3 (above). GOP/gas buyer nominated by GOP shall pay the price for gas at the field gate as set out in this Policy. In addition, the "guaranteed percentage" for foreign exchange remittance as contained in sub paragraph 10.2.2 above will apply to such sales.
3. Where a government nominated buyer agrees in principle to purchase gas pursuant to sub paragraph 10.4.2 above, the gas producer shall construct and operate and maintain the gas pipeline connecting the field to the field gate in accordance with the Policy, applicable law, rules and regulations. All costs associated with such pipeline will be borne by the gas producer and no transportation tariff will be paid by the Government/ gas buyer nominated by the Government for this purpose.
4. The gas producer can arrange for the construction and operation of the connecting gas pipeline outlined in sub paragraph 10.4.3 above, through an independent third party provided the title of such pipeline is transferable to the Government on expiry or early termination of relevant petroleum rights. For avoidance of doubt, it may be noted that no tariff will be payable by the Government/ gas buyer nominated by the Government for this pipeline.

10.5 Pipeline Construction and Operation

1. E&P companies operating in Pakistan will be allowed to construct and operate pipelines for local requirements and for exports of their share of petroleum which shall be regulated by the regulator concerned in accordance with applicable laws, rules, regulations and the Policy based on an open-access (third party) regime. The E&P

Companies constructing such pipelines would be allowed priority access based on a firm utilization plan.

2. Whether a connecting pipeline from field gate to the nearest transmission system, is constructed and operated by a producer, a third party or a government nominated entity; such a pipeline shall be regulated pursuant to the provisions of sub paragraph 10.5.1 above, unless the regulator concerned decides that the pipeline shall be a non-regulated pipeline.
3. At the request of the producer, the buyer nominated by GOP for purchase of the gas may also consider laying the pipeline, if required, starting from the field gate to the nearest transmission system, at his cost.
4. If an inter-connecting pipeline is proposed to be constructed by a third party or the buyer, the producer will be required to confirm the requisite gas supply volumes, pressures, reserves and other technical parameters on standard supply term contract basis for a period to be agreed between the parties.
5. Subject to sub paragraph 10.5.9 below, the basis of the tariff allowed and paid monthly for delivery from field gate into the transmission system will be determined by the regulator based upon a 'rate of return on equity' basis at the rate of 12% with the capital cost being amortized over a minimum of 15 years. Allowable costs will include operating cost and interest payable on the initial capital over the minimum 15 year amortization period. Post the repayment period the Operator will be able to make a 12% margin over operating costs. If such pipeline is used by more than one shipper, the calculation basis for each year shall be done on an overall pipeline volume nomination basis at the start of each year, through the aggregation of all shippers nomination. Any shortfall or excess of volume delivered from the nomination in the year shall be deducted/ received from the tariff payment of that year or charged to the party responsible for such a shortfall.
6. Unless a pipeline is specifically constructed in order to facilitate a third party access agreement agreed between Operators/Contractors and a third party duly approved by the regulator; all pipelines from field to field gate, in case of offshore, shall be constructed with an excess capacity equal to thirty percent, depending upon projected plateau rates unless otherwise allowed by DGPC based on an objective assessment of future likely use of such capacity.
7. E&P companies are expected to exhaust options to make efficient use of the current transmission system and may co-operate in the construction and operation of pipelines upstream of the field gate or transmission system. Shared ownership and spare capacity shall be based upon the combined planned coincidental shared plateau of the Operators unless otherwise agreed by DGPC or the regulator concerned. Companies are encouraged to co-operate in any extension of an initial system to ensure economies of scale, maximum utilization and to ensure that the overall pipeline stays below the tariff limit as specified in para 10.5.9 hereunder.
8. In the event such pipeline is located in offshore area and the excess capacity is subsequently utilized by a third party, the tariff will be charged by the party providing access to such pipeline as approved by DGPC and revenues generated therefrom will be treated as a part of profit oil/profit gas for its production sharing purposes.
9. The tariff payable to any third party or the producer for pipeline connecting the field gate to the transmission system shall not exceed \$0.5/MMBTU in aggregate. Any tariff in

excess of this limit will be determined by the regulator on a case to case basis but only in exceptional circumstances, and subject to the approval of GOP. The indexation of the tariff limit will be based on OGRA's recommendation and approved by GOP. The public utility companies will continue receiving tariff under a separate tariff regime within the frame work of OGRA Ordinance.

10. Ownership/operation of the pipeline connecting field to the field gate and the field gate to the transmission system shall pass to the government consequent upon the expiry or early termination of the lease that initiated the pipeline unless such pipeline is not used for shipment of gas from another adjacent area for which specific approval of the Government and/or the regulator concerned will be required. The transfer should be free of any lien or encumbrance or other liabilities.

Section IV – Pricing and Incentives for Petroleum Exploration & Production

11 Oil and Gas Pricing

11.1 Crude Oil, Condensate and Liquefied Petroleum Gas (LPG) Pricing

11.1.1 Crude Oil

The Producer Policy Price for crude oil delivered at the nearest refinery gate shall be based on the Reference Crude Price (RCP) equal to C&F price of a comparable crude oil or a basket of Arabian/Persian Gulf crude oils plus or minus a quality differential between the comparable crude oil / a basket of crude oils and the local crude oil. No other adjustment or discount will apply. C&F price will be arrived at on the basis of FOB price of imported crude oils into Pakistan plus freight on AFRA, which is deemed chartered rate.

11.1.2 Condensate

The Producer Policy Price for condensate will be the FOB price of internationally quoted comparable condensate delivered at the nearest refinery gate plus or minus a quality yield differential, based on the value in the Arabian Gulf spot products market of the crude oil/condensate. No other adjustment or discount will apply.

11.1.3 Liquefied Petroleum Gas

For new projects, the LPG producer price will be as notified by the regulator.

11.2 Gas Pricing

For all gas pricing, a Reference Crude Price (RCP) equal to the C&F price of a basket of Arabian/Persian Gulf Crude Oils imported in Pakistan during the first six months period of the seven months period immediately preceding the relevant price notification period as published in an internationally recognized publication acceptable to the parties will be used. C&F price will be arrived at on the basis of FOB price of imported crude oils into Pakistan plus freight on AFRA, which is deemed chartered rate.

11.2.1 Mature Basin Price for Zone III

For Zone III, the Mature Basin Price shall be calculated using three linear formulae as follows:

1. Reference Crude Price (RCP) equal to or greater than USD 10/bbl and up to and including USD 20/bbl:
 - When RCP is equal to USD 10/bbl (RC10)
Zone III price is equal to USD 1.50/MMBTU (Gas Price Floor (GPF));

- When RCP is equal to USD 20/bbl (RC20)
Zone III price is equal to USD 2.50/MMBTU (GP20); and
- When RCP is greater than USD 10/bbl and less than USD 20/bbl
Zone III price is equal to $GP20 + (RCP - RC10) \times [(GP20 - GP20) / (RC20 - RC10)]$.

For example when RCP = USD 15/bbl

Zone III (USD/MMBTU) = $1.50 + (15 - 10) \times [(2.50 - 1.50) / (20 - 10)]$;

Zone III (USD/MMBTU) = 2.00

2. Reference Crude Price (RCP) greater than USD 20/bbl (RC20) and up to and including USD 45/bbl:

- When the RCP is equal to USD 45/bbl (RC45)
Zone III price is equal to USD 3.00/MMBTU (Gas Price Ceiling (GPC)); and
- When RCP is greater than USD 20/bbl and less than USD 45/bbl
Zone III price is equal to $GP20 + (RCP - RC20) \times [(GPC - GP20) / (RC45 - RC20)]$.

For example when RCP = USD 30/bbl

Zone III price (USD/MMBTU) = $2.50 + (30 - 20) \times [(3.00 - 2.50) / (45 - 20)]$;

Zone III price (USD/MMBTU) = 2.70

3. Reference Crude Price (RCP) greater than USD 45/bbl:

- Zone III price is equal to $GPC + (RCP - RC45) \times GPG \times [(GPC - GP20) / (RC45 - RC20)]$

Where GPG (gas price gradient) has a minimum value of 0.2 or as may be bid in the bidding stage for the petroleum exploration licence, up to a maximum value of 1.0.

For example when RCP = USD 60/bbl and GPG = 0.20

Zone III price (USD/MMBTU) = $3.00 + (60 - 45) \times 0.20 \times [(3.00 - 2.50) / (45 - 20)]$

Zone III price (USD/MMBTU) = 3.06

11.2.2 Gas Price for Zone II

For Zone II, the Gas Price for Zone II shall be calculated using additional premiums to address the issue of more complex reservoir targets as follows:

$$\text{Zone II} = \text{Zone III price} + \text{Zone II Premium}$$

Zone II premiums shall be calculated as follows:

1. Reference Crude Price (RCP) is equal to or greater than USD 10/bbl and up to and including USD 45/bbl:
 - When RCP is equal to USD 10/bbl (RC10)
Zone II Premium floor is equal to USD 0.00/MMBTU (P10);
 - When RCP is equal to USD 45/bbl (RC45)
Zone II Premium ceiling is equal to USD 0.25/MMBTU (P45); and

- When RCP is greater than USD 10/bbl and less than USD 45/bbl
Zone II Premium is equal to $P10 + (RCP - RC10) \times [(P45 - P10) / (RC45 - RC10)]$.

For example when RCP = USD 30/bbl

Zone III price (USD/MMBTU) = 2.70 (see example in sub paragraph 11.2.1 above)

Zone II Premium (USD/MMBTU) = $0.00 + (30 - 10) \times [(0.25 - 0.00) / (45 - 10)]$;

Zone II Premium (USD/MMBTU) = 0.14

Gas price Zone II (USD/MMBTU) = $2.70 + 0.14$

Gas price Zone II (USD/MMBTU) = 2.84

2. Reference Crude Price (RCP) greater than USD 45/bbl:

- Zone II Premium is equal to USD 0.25/MMBTU (P 45).

11.2.3 Frontier Areas Pricing Incentives

For Zone O and Zone I, the Frontier Area Price (FAP) shall be applicable and calculated using pricing incentives (PI) as follows:

Frontier Area Price (FAP) = Zone III Gas price + PI

Pricing Incentives shall be calculated as follows:

1. Reference Crude Price (RCP) is equal to or greater than USD 10/bbl and up to and including USD 45/bbl:

- When RCP is equal to USD 10/bbl (RC10)
PI floor is equal to USD 0.00/MMBTU (PI 10);
- When RCP is equal to USD 45/bbl (RC45)
PI ceiling for Zone I is equal to USD 0.55/MMBTU
PI ceiling for Zone O Shallow Water is equal to USD 1.05/MMBTU
PI ceiling for Zone O Deep and Ultra Deep Water is equal to USD 1.40/MMBTU
and
- When RCP is greater than USD 10/bbl and less than USD 45/bbl
PI is equal to $PI_{10} + (RCP - RC10) \times [(PI_{45} - PI_{10}) / (RC45 - RC10)]$.

For example when RCP = USD 30/bbl

Zone III price (USD/MMBTU) = 2.70 (see example in sub paragraph 11.2.1 above)

PI (Zone I) (USD/MMBTU) = $0.00 + (30 - 10) \times [(0.55 - 0.00) / (45 - 10)]$;

PI (Zone I) (USD/MMBTU) = 0.31

FAP (Zone I) (USD/MMBTU) = $2.70 + 0.31$

FAP (Zone I) (USD/MMBTU) = 3.01

2. Reference Crude Price (RCP) is greater than USD 45/bbl:

- PI is equal to respective PI 45 for Zone I, Zone O Shallow Water or Zone O Deep and Ultra Deep Water.

11.3 Associated Gas Pricing

The price for associated gas shall be equal to the price of non-associated gas in the respective Zones.

11.4 Royalty Calculation in case of Sale of Gas to Third Parties

For the purpose of calculating the amount due by way of royalty, the value of the petroleum produced and saved shall be determined by using actual selling price in the following manner, namely:-

- (a) If the petroleum is sold to the national market, the actual selling price means the price determined in accordance with the relevant sale and purchase agreement between the petroleum right holder and the Government or its designee less allowed transportation cost beyond the delivery point.
- (b) In all other cases, the actual selling price means the greater of-
 - (i) the price at which the petroleum is sold or otherwise disposed of less allowed transportation costs; or
 - (ii) the fair market price received through arm's length sales of the petroleum less the allowed transportation costs; or
 - (iii) the price applicable to the sales made under sub-rule (a) above.

11.5 Extended Well Testing Gas Pricing

Gas from Extended Well Tests (EWT) will be priced as per paragraphs 5.1.6 and 6.12 above.

11.6 Ring Fencing

In accordance with the Fifth Schedule of the Income Tax Ordinance 2001, there will be no ring fencing for the purpose of calculation of corporate tax.

Section V: - Implementation and Removal of Difficulties:-

12 Implementation of the policy, removal of difficulties, addressing of anomalies, framework for institutional development and strengthening of the Policy Wing

1. A Committee shall be constituted to address the issues of the implementation of this policy, removal of difficulties, addressing of anomalies and approving framework for institutional development and strengthening of the Policy Wing to enhance its professional competence for policy formulation and upstream regulation. The committee shall comprise of the following:

Minister for Petroleum and Natural Resources	Chairman
Deputy Chairman Planning Commission	Member
Secretary, Finance Division	Member
Secretary, Petroleum and Natural Resources	Member
Director General Petroleum Concessions	Member/Secretary

2. In order to meet the deadlines, a separate cell headed by Director General Petroleum Concessions {DG(PC)}, as already provided in Petroleum (Exploration & Production) Policy 2001, shall be maintained comprising the following professionals on contract basis:

- (a) Legal Advisor,
- (b) Financial Consultant,
- (c) Petroleum Economist,
- (d) Petroleum Explorationist and
- (e) Other professionals on need basis.

3. The funds generated through sale of technical data and unspent training amount generated under PCAs and PSAs shall be utilized for capacity building, strengthening of the Policy Wing of Ministry of Petroleum and Natural Resources, remunerations of outside professionals engaged on contract, part time legal advisors/technical consultants, policy promotional activities, workshops, seminars, conferences & symposia etc.
4. Separate procedures/guidelines will be issued by the Ministry of Petroleum and Natural Resources in relation to the provisions at paragraph 12.2 and 12.3 above.

13 Applicability and Effect of Policy

1. This Policy supersedes the 1991 Petroleum Policy, the 1993 Petroleum Exploration and Production Policy, the 1994 Petroleum Policy, the 1997 Petroleum Policy and the 2001 Petroleum Policy to the extent applicable to exploration and production sector only, without affecting the rights that may have accrued under the aforesaid policies.
2. In addition to the protection of the Policy under Regulation of Mines and Oilfields and Mineral Development (Government Control) Act, 1948 and the Economic Reforms Act, 1992, GOP will ensure/facilitate implementation of the agreements by the Ministries/Divisions and Organizations concerned.
3. For implementation of this policy appropriate changes will be made in relevant rules, regulations and model agreements.
4. GOP reserves the right to change terms of this Policy in response to changes in national energy Policy or significant changes in the domestic or international energy market. These changes will not affect any rights that may have previously accrued under this Policy.
5. This Policy may be reviewed by GOP after 5 years for appropriate adjustments keeping in view the then prevailing conditions.
6. The incentives of this Policy shall apply to E&P companies who will apply for new petroleum rights after this Policy comes into effect as well as to those E&P companies who opt for conversion to this Policy in accordance with section VI hereof.

Section VI – Conversion to 2007 Policy

14 Conversion of Regimes

- 1 The option for conversion to this policy will be available to all new exploration efforts made under the exploration licences & PCAs/PSAs:
 - (a) that stand granted/executed; or
 - (b) for which provisional award has already been made; or
 - (c) for which applications are pending and bids have been invited before the date of approval of the Policy.
- 2 For the purpose of this section, new exploration efforts means “Exploration Wells” under drilling and/or spudded, after the date of approval of the Policy.
- 3 For all conversion pursuant to paragraph 14.1 above, GPG of 0.2 will be applied in the gas price formula for areas falling in the corresponding zones in accordance with this Policy.
- 4 All pending applications for which bidding process has not been initiated as of the date of approval of this Policy, will be treated as blocks duly nominated under a “call for nomination” procedure of this Policy as laid down in paragraph 4.2.1 above. However, nothing contained herein will be construed to have created any right for the applicant.
- 5 This Policy will not affect any obligation with regard to already agreed minimum work programme and minimum expenditure obligation and the State participation in an existing joint venture, if any.
- 6 The conversion under this Policy will be opted as a package and the companies desirous of opting for conversion to this Policy shall be required to submit their written request to DGPC within 90 days from the date of approval of the policy failing which they will not remain eligible for the conversion. Similarly, for those blocks for which the exploration licences have not yet been granted and PCAs/PSAs have not been executed as mentioned in sub-paragraph 14.1 (b) and (c), the company concerned will have the option to apply, in writing, for conversion under this Policy within 90 days from the date of grant of such block. The option once exercised shall be final. The supplemental agreement to give affect to the conversion shall be executed as soon as possible but no later than 6 months from the date of exercise of the option.

Annexures

Annexure 1 - The Block System

All Zones

1. Blocks:

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

2. Grid Areas:

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

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

3. Sections:

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

Offshore Zones

1. The map of the Offshore of Pakistan (Annexure 2) shows each Grid Area as being either "shallow" (having an average water depth of less than 200 metres) or "deep" (having an average water depth greater than 200 metres) or ultra deep having an average water depth greater than 1,000 metres.

2. **Maximum Size**

A Reconnaissance Permit may be granted for an offshore area of any size.

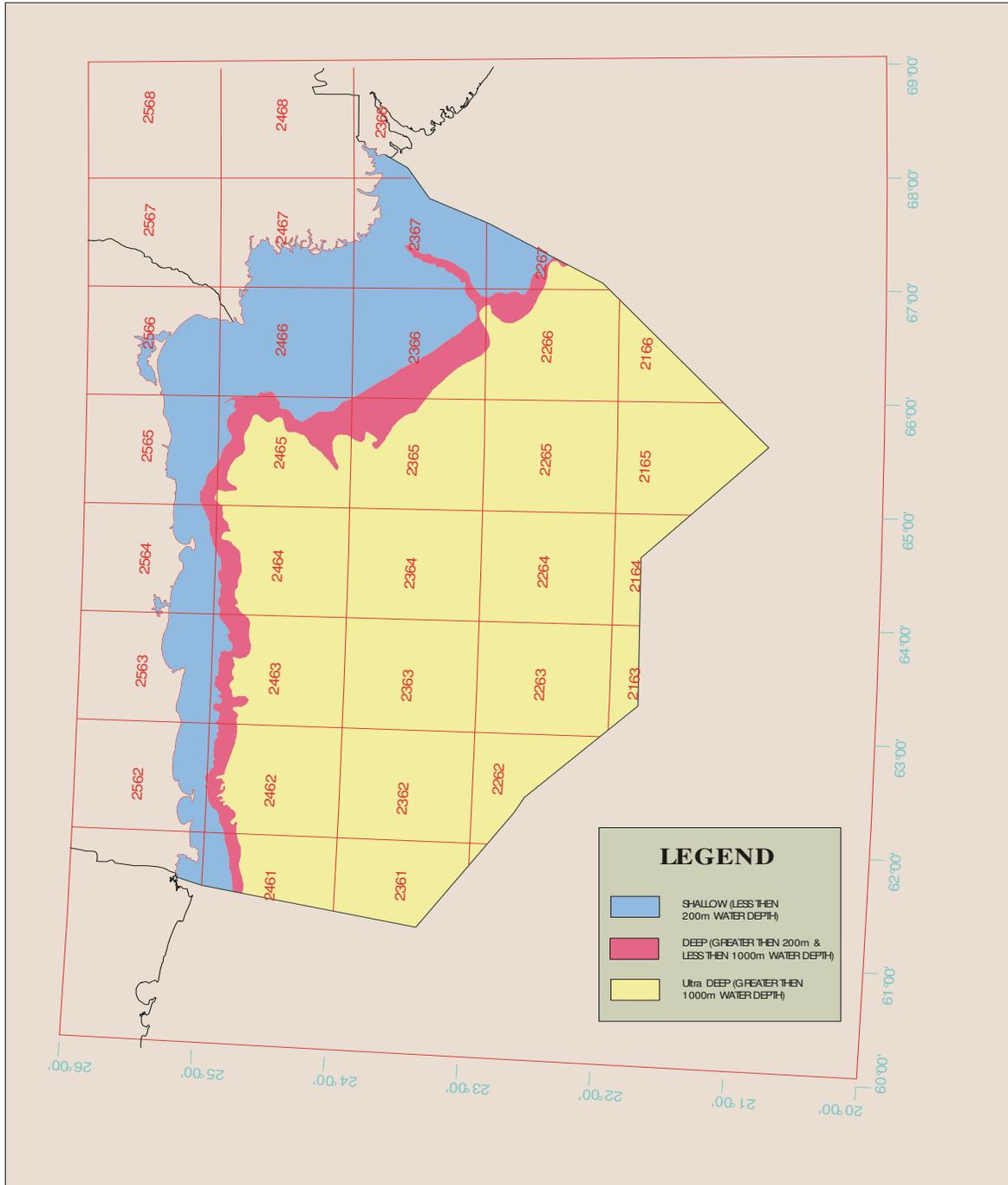
A Licence shall not be granted in respect of any area of more than 9,600 Sections.

A Lease shall not normally be granted in respect of any area of more than 150 Sections and the maximum acreage assigned to any one field shall be defined as the vertical projection to the surface of the outer limit of the reservoir(s).

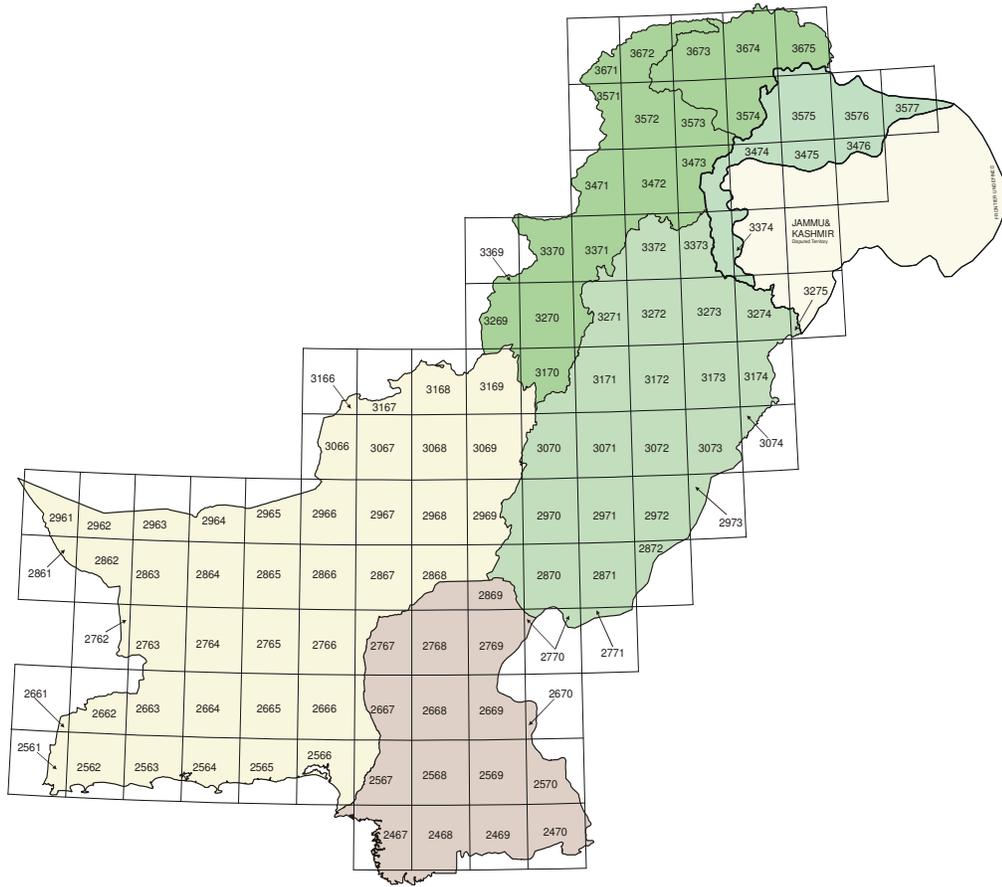
Annexure 2 – Block Maps of Pakistan

Block Map of Offshore Pakistan

Description of Geological Zone "O"



Block Map of Onshore Pakistan



Annexure 3 - Employment, Training and Social Welfare Program

EMPLOYMENT

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

TRAINING

Training shall be provided for capacity building of Pakistani employees and GOP officials by foreign and local E&P companies as per guidelines issued by DGPC from time to time. The E&P companies shall incur following expenditures at different levels of their activity:

Onshore Zones

- USD 25,000 per year - during exploration phase
- USD 50,000 per year - during development and production

Offshore Zone O

- USD 50,000 per year - during exploration phase
- USD 250,000 per year - during development and production

This shall not form part of Government revenue and shall be used primarily for capacity building and to meet expenditures connected with infrastructure development as mentioned in Section V above for which separate guidelines shall be issued with the approval of the Principal Accounting Officer.

SOCIAL WELFARE PROGRAM

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

The following minimum expenditure shall be incurred on welfare projects:

- | | |
|--|---|
| a. During exploration stage until Commercial Production | USD 25,000 per Licence Year |
| b. During Commercial Production Phase (BOE/d) | Amount/Lease Year (USD) (For all Zones) |
| Less than 2,000 | 50,000 (Zones O & I); 37,500 (Zones II & III) |
| 2,000 - 5,000 | 100,000 (Zones O & I); 75,000 (Zones II & III) |
| 5,000 - 10,000 | 200,000 (Zones O & I); 150,000 (Zones II & III) |

10,000 - 50,000	400,000 (Zones O & I); 300,000 (Zones II & III)
More than 50,000	700,000 (Zones O & I); 525,000 (Zones II & III)

These amounts will be subject to review from time to time. Local E&P companies will incur these expenditures in equivalent Pak Rupees.

Annexure 4 – Pre-qualification Selection

Pre-Qualification of Operators

1. The degree of scrutiny of a new prospective field Operator will depend on its existing track-record, both in Pakistan and elsewhere, and on their technical, management and financial competence. The type of work to initially be undertaken (surface reconnaissance exploration, wildcat exploration, appraisal, development, production, field end life management, etc.) will also play an important role in the selection of technically suitable Operators.
2. To be appointed Operator, a company will need to demonstrate to DGPC that it understands its technical obligations and responsibilities in the field of health, safety and environment (HSE) and that it is competent, both financially and technically, to discharge these under its agreements with its partners. The company will need to be able to demonstrate a sound management structure staffed by an established group of suitably experienced personnel. A prospective Operator would normally be expected to have a proven track record of success in the operatorship of comparable projects elsewhere and have an approach compatible with GOP's objectives including securing optimum economic recovery from each field.
3. It is necessary that Operators maintain sufficient in-house staff to clearly understand and supervise the key exploration, reservoir and facilities management issues and to direct the overall exploration or field development plan, as relevant to the acreage and licence type.
4. Operatorship experience in Pakistan and elsewhere in the world should be described.

Information Required For Operators Pre-Qualification

The list below represents the necessary information DGPC will require in order to process an operatorship prequalification application.

1. **Company name and contact details:** the name, address and nationality of the applicant including information as to the identity of the person who will serve as liaison with the Pakistani authorities.
2. **Company Registration:** A copy of the charter or constitution of the applicant and information concerning its place of incorporation, its principal place of business, its board of directors, the domicile and nationality of board members, its share capital and shareholdings.
3. **Company Structure:** A management structure showing clear lines of responsibility and clear processes for upstream operations is essential. DGPC will look for, as applicable to the acreage and licence type, strong exploration experience and success and a strong reservoir management team with considerable experience and the minimum of vacancies in key positions. The key operations staff should be based in Pakistan.
4. **Health, Safety and Environmental Management (HSE):** It is essential that all operations within Pakistan are carried out in a manner that conforms to current HSE legislation and regulations. Companies seeking new operatorship in Pakistan, therefore, will need to demonstrate that their HSE management systems are compatible with all national requirements.
5. **Management System:** The applicant should describe, as relevant, how it will manage in practice an exploration, development or production operation, clearly describing the division of

responsibility between the company's own staff and sub-contractors, if the latter are to be employed.

6. **Worldwide Operating Experience:** Companies without substantial operating experience within Pakistan should demonstrate their operating experience overseas to indicate track record of effective exploration and/or field management.
7. **Companies with no Previous Operating Experience:** Companies with no previous operating experience will be subject to particular scrutiny dependent on the type of licence they are applying for and will need to demonstrate that they have an agreement with an internationally renowned E&P/ services company acceptable to DGPC or have a high calibre technical and management team with proven track record of overseeing and managing operations in the international petroleum industry.
8. **Field Management Resources:** When relevant, provide details of the technical resources available to the prospective Operator. The applicant's own capacity to analyse all technical and financial data including the potential of a field should also be explained.
9. **Training Policy:** Well trained staff is considered essential for effective operatorship of a block in Pakistan. In this regard, a brief description of the company's training policy for appropriate human resource development may be provided.
10. **Reserves and Economics Calculation:** The methodology adopted by the company for reserve estimation and field economics should be outlined.
11. **Additional information:** Additional information may be sought by DGPC following the receipt of application.

Pre-qualification evaluation

The applicant companies will be evaluated on the basis of pre-qualification benchmarks which are indicated as follows:

Pre-qualification benchmarks

Category	Pre qualification measures	Minimum Benchmark
Technical Capacity	Number of Geologists employed with a minimum of 5 years experience	≥ 2.0
	Number of Geophysicist employed with a minimum of 5 years experience	≥ 2.0
	Number of Petroleum Engineers/ Petro-physicist employed with a minimum of 5 years experience	≥ 1.0
	Number of HSE professionals employed with a minimum of 5 years experience	≥ 1.0
	Proven reserves (mmboe) onshore & offshore	≥ 3.0 (**)
	Production (mboe/d) onshore & offshore	≥ 0.5 (**)
	Worldwide average annual exploration and development investment over last three years	≥ USD 10mm*
	Wells drilled in past 5 yrs (includes wells drilled by operator when company is non operator)	≥ 2.0*
Operational Capacity - Offshore	Years as offshore Operator worldwide or as offshore non-operator in Pakistan together with Onshore operatorship of at least 2 years	≥ 3.0
Operational Capacity – Onshore	Years as onshore or offshore Operator worldwide	≥ 3.0
	Or years as onshore or offshore non-operator in Pakistan to qualify as onshore Operator	> 3.0
Legal capacity and compliance with residential requirements	Local legal existence confirmation(for local companies and IOCs with domestic branch)	Yes
	International legal existence confirmation (for IOCs without a domestic branch)	Yes
Financial Capacity (Based on Audited Financial Statements)	Return on capital employed (ROCE)	≥ 12% (*)
	Liquidity Position	≥ 1.0
	Debt : Equity (Benchmark is maximum value)	Not more than 80:20

*this criteria does not apply for a new local entrant, he must instead satisfy criteria as outlined in section 3.1.4

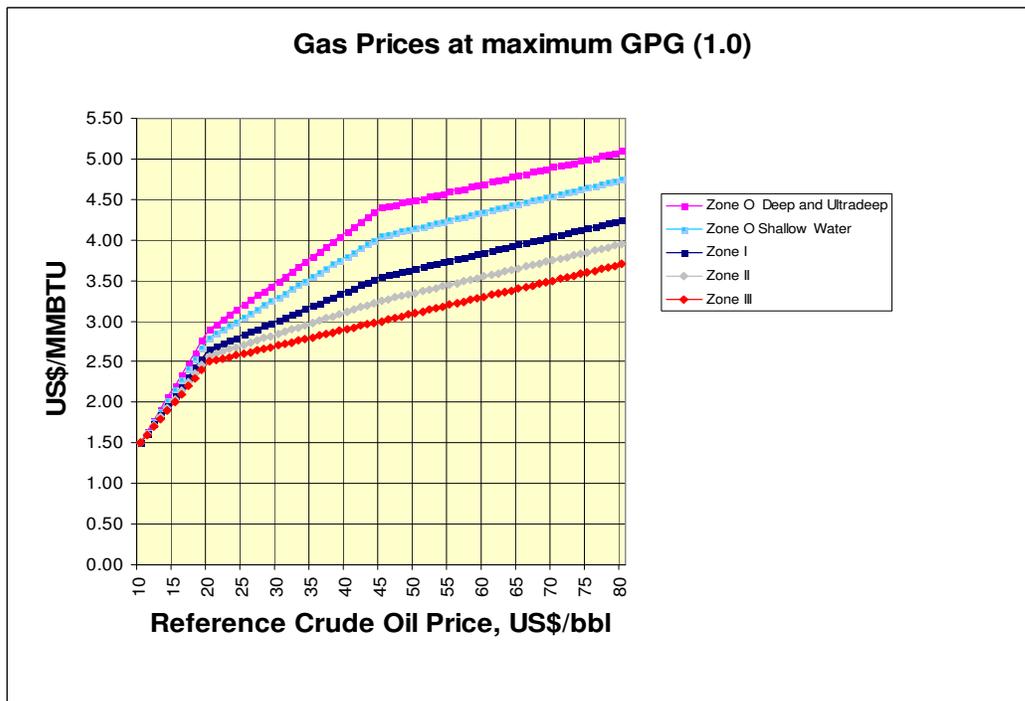
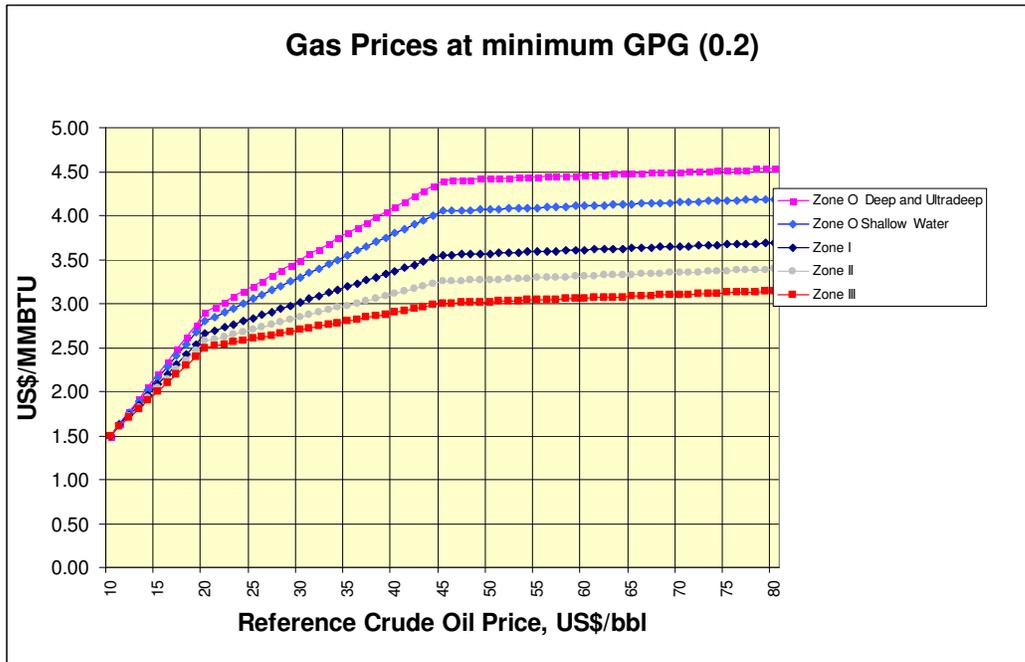
** this would not apply to new local entrants and their pre-qualification would be done in accordance with section 3.1.4. However, for others these criteria may be relaxed provided the company can demonstrate adequate high calibre management team with previous experience of this level as identified under section 3.1.3

DGPC reserves the right to alter the benchmark figures where a special technical expertise is required for development.

An applicant not meeting the above technical and operational criteria will be allowed to put forward the details of technical services agreements with an E&P company/service company or a high calibre technical and management team as required pursuant to sub paragraph 3.1.4(8) above in order to satisfy the technical and operational pre-qualification requirements.

Annexure 5 – Concept of Work Units and Scoring Card

Gas Price Formula: Graph (for details of gas pricing see paragraph 11.2 above)



Work Units

1. A "Work Unit" is a unit of work for the purpose of measuring the compliance with the minimum work obligation under an agreement. Work Units are defined in terms of kilometres of seismic or numbers of exploration wells drilled.
2. A work unit equates to an approximate expenditure of USD 10,000 and the units defined for each Zone and sub zone are considered generic averages for those Zones. The current value of USD 10,000 represents the 2007 base value for each work unit. The value will be updated at a rate to be decided by the Government from time to time before any bidding round. The value of USD10,000 (or future equivalent value) will be used where units have not been fulfilled to calculate the WIOs/Contractors unfulfilled obligations.
3. For the purposes of calculating work units only, "Well Depth" shall mean the well depth measured along the well bore from the seabed/ocean floor to the total depth for offshore wells; and the well depth measured along the well bore from the rotary table to the total depth for onshore wells. In case the well is a deepening of an existing well, the well depth is measured from the deepest point in the existing well to the new total depth. In case a well is side-tracked, the depth shall not include any depth drilled below the kick off point of the side track, but shall include the redrilled part of the well from the kick off point to the total depth. In case a well is horizontally drilled or deviated, the length of the horizontal/deviated segment well shall be added to the vertical well depth.

Equivalency of Work Units for Zone O (Offshore)		
Type of Work		Equivalent Work Unit
1 line-kilometre of 2D seismic (acquired, processed, interpreted & mapped)		0.3
1 square kilometre of 3D seismic (acquired, processed, interpreted & mapped)		1.0
1 exploration well with a surface location in shallow water (< 200m) grid area with the following well depths:	1,000 metres	300
	2,000 metres	550
	3,000 metres	1,000
	4,000 metres	1,800
	5,000 metres	3,200
	6,000 metres	5,800
	7,000 metres	10,000
1 exploration well with a	1,000 metres	500

surface location in deep water (\Rightarrow 200m & < 1,000m Water Depth) grid area with the following well depths:	2,000 metres	900
	3,000 metres	1,600
	4,000 metres	2,800
	5,000 metres	5,100
	6,000 metres	9,200
	7,000 metres or more	16,000
1 exploration well with a surface location in ultra deep water area (\Rightarrow 1000m) with the following well depths:	1,000 metres	700
	2,000 metres	1,300
	3,000 metres	2,200
	4,000 metres	3,600
	5,000 metres	6,400
	6,000 metres	12,000
	7,000 metres or more	21,000

Equivalency of Work Units for Zone I and II		
Type of Work	Equivalent Work Unit	
1 line-kilometre of 2D seismic (acquired, processed, interpreted & mapped)	0.3	
1 square kilometre of 3D seismic (acquired, processed, interpreted & mapped)	1.0	
1 exploration well with a surface location in onshore with the following well depths:	1,000 metres	100
	2,000 metres	200
	3,000 metres	400
	4,000 metres	600

	5,000 metres	1,000
	6,000 metres	2,000
	7,000 metres	3,000

Equivalency of Work Units for Zone III		
Type of Work		Equivalent Work Unit
1 line-kilometre of 2D seismic (acquired, processed, interpreted & mapped)		0.3
1 square kilometre of 3D seismic (acquired, processed, interpreted & mapped)		1.0
1 exploration well with a surface location in onshore with the following well depths:	1,000 metres	50
	2,000 metres	80
	3,000 metres	100
	4,000 metres	200
	5,000 metres	330
	6,000 metres	600
	7,000 metres	900

Prequalification example

The following is an example of the prequalification scoring system

Pre-qualification of Companies A through E

Category	Pre qualification measures	Minimum Benchmark	Comp. A	Comp. B	Comp. C	Comp. D	Comp. E inc Tech Partner(s)
Technical Capacity	Number of Geologists employed with a minimum of 5 years experience	≥ 2.0	4	20	0	0	3
	Number of Geophysicist employed with a minimum of 5 years experience	≥ 2.0	2	5	0	0	2
	Number of Petroleum Engineers/ Petro-physicist employed with a minimum of 5 years experience	≥ 1.0	2	10	0	0	1
	Number of HSE professionals employed with a minimum of 5 years experience	≥ 1.0	1	5	0	0	1
	Proven reserves (mmboe) onshore & offshore	≥ 3.0	100	2300	0	0	5
	Production (mboe/d) onshore & offshore	≥ 0.5	20	100	0	0	1
	Worldwide average annual exploration and development investment over last three years	≥USD 10mm	20	100	0	0	10
	Wells drilled in past 5 yrs	≥ 2.0	2	10	0	0	20
Operational Capacity - Offshore	Years as offshore Operator worldwide or as offshore non-operator in Pakistan together with Onshore operatorship of at least 2 years	≥ 3.0	10	0	0	0	0
Operational Capacity – Onshore	Years as onshore or offshore Operator worldwide Or	≥ 3.0	12	12	0	0	0
	years as onshore or offshore non-operator in Pakistan to qualify as onshore Operator	> 3.0	13	10	3	4	5
Legal capacity and compliance with residential requirements	Local legal existence confirmation(for local companies and IOCs with domestic branch)	Yes	Yes	Yes	Yes	Yes	Yes
	International legal existence confirmation (for IOCs without a domestic branch)	Yes	Yes	Yes	No	No	No
Financial Capacity (Based on Audited Financial Statements)	Return on capital employed (ROCE)	≥ 12%	15	22	N/A	13	14
	Liquidity Position	≥ 1.0	2	5	2	1.5	1.1
	Debt : Equity (Benchmark is maximum value)	Not more than 80:20	60:40	20:80	75:25	60:40	75:25
Approved as Onshore Operator			Yes	Yes	No	No (As no technical expertise)	Yes
Approved as Onshore Non-Operator			Yes	Yes	Yes	Yes	Yes
Approved as Offshore Operator			Yes	No	No	No	No
Approved as Offshore Non-Operator			Yes	Yes	Yes	Yes	Yes

Bid Scoring Criteria

The following scoring system is used for each of the criteria which should be enclosed with each bid document:

Zone or Sub Zone	Gas Price Gradient (GPG)			Work Units		
	Min	Max		Min	Max	
Zone III	0.2	1		100	Highest Bid	
Zone II & I	0.2	1		100	Highest Bid	
Zone O Shallow Water	0.2	1		200	Highest Bid	
Zone O Deep Water	0.2	1		200	Highest Bid	
Zone O Ultra Deep Water	0.2	1		200	Highest Bid	

Intermediate scores are prorated linearly between the maximum and minimum of ranges above.

Equivalency of Work Units mentioned in Annexure-5 may be updated on a yearly basis taking into account of the Seismic and Rig rates prevalent at the start of the year. Similarly the Minimum Work Units indicated above may also be revised by DGPC before Invitation to Bid according to the size and prospectivity of the area.

If more than one bid achieves the highest marks and there is a draw, then the successful bidder will be decided on the basis of bidder offering lower GPG. In such an event, if GPG offered by the bidders is also same then:

- a) within 15 days of bid opening date, such bidders will be asked to re-bid the GPG at no more than the previous GPG and with the lower limit of GPG=0 and work commitment of not less than previously offered.
- b) The process will be repeated until there is a clear winner.

Balance Scorecard Example for Zone III

Zone III Balanced Score Card Sheet (published post award)

ONSHORE BLOCK _____, ZONE _____ SCORECARD

	Gradient of Formula Bid	Score
Company A	1	1.00
Company B	0.2	5.00
Company C	0.4	4.00
Company D	0.5	3.50
Company E		0.00
Company F		0.00
Company G		0.00
Company H		0.00
Company I		0.00
Company J		0.00
Company K		0.00

	Work Units Bid	Score
Company A	1000	3.06
Company B	1015	3.09
Company C	1672	4.59
Company D	1850	5.00
Company E		0.00
Company F		0.00
Company G		0.00
Company H		0.00
Company I		0.00
Company J		0.00
Company K		0.00

Gradient (GPG)	
Min	Max
0.2	1
Score	
Max	Min
5	1

Work Unit	
Min	Max
100	1850
<i>Enter Highest Score</i>	
Score	
Min	Max
1	5

GPG values outside of the GPG range does not count toward the companies score

	Price Formula Bid	Work Commitment on offered block	Overall Score	Percentage
	20%	80%		
	Gradient of Formula	Work Units		
Company A	1	3.06	2.65	52.91%
Company B	5	3.09	3.47	69.46%
Company C	4	4.59	4.47	89.49%
Company D	3.5	5.00	4.70	94.00%
Company E	0	0.00	0.00	0.00%
Company F	0	0.00	0.00	0.00%
Company G	0	0.00	0.00	0.00%
Company H	0	0.00	0.00	0.00%
Company I	0	0.00	0.00	0.00%
Company J	0	0.00	0.00	0.00%
Company K	0	0.00	0.00	0.00%

Annexure 6 - Documentation for Block Award Process

CALL FOR NOMINATIONS OF ACREAGE TO BE CONSIDERED FOR GRANT OF PETROLEUM EXPLORATION RIGHTS

Nominations are invited for open acreage to be considered for the grant of exclusive petroleum rights in accordance with the provisions of the Petroleum Exploration & Production Policy, 2007 and Onshore Pakistan Petroleum (Exploration and Production) Rules 2007/Pakistan Offshore Petroleum (Exploration and Production) Rules, 2007.

2. Applicants are required to submit an application under a sealed cover to DGPC, presently located at 1019, Pak Plaza, Fazal-e-Haq Road, Blue Area, Islamabad by _____ (time) _____ (date).
3. Applicants making nominations are advised that after the Call for Nominations and before the Invitation to Bids, the requested areas will be subject to a review by DGPC.
4. A Call for Nomination or any submission made in response to this Call for Nominations does not constitute or give rise to any obligation on the part of the company making the submission to participate in the accompanying Invitation to Bid or on the part of DGPC to make Invitation to Bid in respect of nominated block(s).
5. DGPC anticipates the issue of the accompanying Invitation to Bids to be on or around _____ (date).

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Government of Pakistan
Ministry of Petroleum & Natural Resources
(Directorate General of Petroleum Concessions)

Invitation to Bid for Grant of Petroleum Exploration Rights (Date:-----)

Applications are invited for grant of Petroleum exploration rights (Exploration Licence) over the following blocks: -

Block No.

Block No.

Block No.

2. Bid Documents can be obtained from the office of Directorate General Petroleum Concessions (DGPC) 1019-A, Pak Plaza, Fazal-e-Haq Road, Blue Area, Islamabad on a written request and payment of a non-refundable fee of US \$ 100(or equivalent in Pak Rupees) in favour of DGPC through a bank draft.

3. Sealed applications should be submitted by the interested exploration and production companies to DGPC, 1019-A Pak Plaza Fazal-e-Haq Road, Blue Area, Islamabad, by ---- a.m. (PST) on ----, 200-. Applications will be opened publicly by the Bid Opening Committee the same day at --- a.m. in DGPC office in the presence of the applicants or their representatives.
4. Bids submitted by all applicants will be considered as irrevocable and unconditional. In case any applicant states otherwise, his bid will not be accepted and will be treated as “non-responsive”
5. The bidding process will be governed by and construed under laws of Pakistan and any question or dispute regarding grant of a Petroleum Right or any matter or thing connected therewith shall be resolved by arbitration in Pakistan and in accordance with Pakistan laws as per Rule 77 of Pakistan Onshore Petroleum (Exploration and Production) Rules, 2007 (in case of onshore areas) and Rule 81 of Pakistan Offshore Petroleum (Exploration and Production) Rules, 2007 (in case of Offshore areas).
6. The successful applicant will be selected in accordance with the provisions of the Petroleum Exploration and Production Policy 2007 and Pakistan Onshore Petroleum (Exploration and Production) Rules, 2007/Pakistan Offshore Petroleum (Exploration and Production) Rules, 2007 and the Bid Documents. The successful applicant will be notified as soon as possible.
7. In the event, any of the bidder(s) attempts to influence the DGPC in any manner whatsoever, it shall result in the disqualification of such bidder(s).
8. The applications of only those parties would be considered who have been pre-qualified at least one month before the close of Invitation to Bid as specified in sub para 3 (4) of Policy 2007.
9. The Government reserves the right to exercise the powers to accept or reject any application. In the event of refusal to grant such petroleum right, the Government shall as far as possible provide the reasons thereof. The Government also reserves the right to cancel or annul the bidding process without specifying any reason thereof.

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CALL FOR PREQUALIFICATION OF OPERATORS AND NON-OPERATING COMPANIES IN THE UPSTREAM PETROLEUM SECTOR

Applications for Prequalification are invited from the interested Companies to be considered for participation in bidding rounds for grant of exclusive Petroleum Rights, in accordance with the provisions of the Offshore and Onshore Pakistan Petroleum (Exploration and Production) Rules 2007 (incase of Offshore & Onshore area respectively), and the Petroleum Exploration & Production Policy, 2007.

2. Applicants are required to submit a prequalification application under a sealed cover to DGPC, presently located at 1019-A, Pak Plaza, Fazal-e-Haq Road, Blue Area, Islamabad in accordance with the Petroleum Exploration & Production Policy, 2007 and Pakistan Onshore Petroleum (Exploration and Production) Rules, 2007/Pakistan Offshore Petroleum (Exploration and Production) Rules, 2007 before any companies can bid for any block licences or leases.

3. Applicants submitting prequalification applications are advised that the approval of any prequalification categories; Onshore Operator, Onshore Non-Operator, Offshore Operator or Offshore Non-Operator, are at the sole judgement of DGPC as to whether the company meets the necessary minimum qualification criteria for each category.

4. A Call for Prequalification or any submission made in response to this Call for Prequalification does not constitute or give rise to any obligation on the part of the DGPC to grant any petroleum licence or lease.

5. Prequalification forms and minimum criteria can be down loaded from Ministry of Petroleum and Natural Resources website or obtained from DGPC.

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