PURSUANT TO THE ARTICLE 20 OF THE ACT ON THE EXPLORATION AND PRODUCTION OF HYDROCARBONS (OFFICIAL GAZETTE NO. 52/18, 52/19 I 30/21)

REPUBLIC OF CROATIA

GOVERNMENT OF THE REPUBLIC OF CROATIA

hereby publishes the present

BIDDING ROUND FOR GRANTING LICENCES FOR THE ONSHORE EXPLORATION AND PRODUCTION OF HYDROCARBONS

These bidding instructions aim to help potential bidders to prepare and submit their bid for the bidding round for granting licences for the onshore exploration and production of hydrocarbons.

These bidding instructions, as well as all information, documents and notices related to the bidding round shall be published on the website of the Croatian Hydrocarbon Agency – www.azu.hr.

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1 TERMS

The terms used in these bidding instructions shall have the following meaning:

Agency	refers to the Croatian Hydrocarbon Agency, which is in charge of monitoring activities related to the exploration and production of hydrocarbons within the framework of the Act on the Exploration and Production of Hydrocarbons.
Consortium member	refers to an economic operator that is a member of a consortium.
Investor	refers to a selected bidder who has been granted a licence for the exploration and production of hydrocarbons.
Exploration block	refers to the area delimited by connecting the coordinates of the peak points of the part of land that has been defined for the activities of hydrocarbon exploration, as described in Annex 3 of these bidding instructions.
Bid guarantee	refers to the guarantee that bidders are obliged to deliver in accordance with the provisions of item 3.3 of these bidding instructions.
Consortium	refers to a group of bidders that acts as the association of two or more economic operators.
End date for submitting bids	refers to the date of March 31st till 16 :00 hours according to local time every calendar year or September 30th till 16 :00 hours according to local time every calendar year.
Ministry	refers to the Ministry of Economy and Sustainable Development of the Republic of Croatia.
Bidding round	refers to the bidding round that is conducted with the aim of selecting the best bidder for each exploration block, in accordance with these bidding instructions.
Selected bidder	refers to the bidder that has been selected, upon the completion of the review and evaluation of the bids, for granting a licence for the exploration and production of hydrocarbons.
Operator	refers to a party (individual bidder or consortium member, if applicable) who is responsible for meeting the obligations of investor for a certain exploration block, in accordance with the production sharing agreement that has been concluded between the investor and the Government of the Republic of Croatia, and who has also been appointed as operator.

Bid	refers to the set of information and documents that the bidder has submitted to the Ministry, in the form and manner prescribed by these bidding instructions, and prior to the end date for submitting bids.
Bidder	refers to a participant in the bid procedure that has submitted a bid (individual economic operator or consortium).
Validity period of the bid	refers to the time period during which the bid must remain valid, in accordance with the provisions of these bidding instructions.
Commission	refers to the commission under Article 20 of the Act that has been established in accordance with Article 21 of the Act, and which is in charge of opening, reviewing and evaluating the received bids and conducting other actions that are necessary for the purpose of submitting their proposals for the granting of licences for the exploration and production of hydrocarbons to the Government via the Ministry.
Agreement	refers to the production sharing agreement that is signed with the selected bidder after the licence for the exploration and production of hydrocarbons has been granted, all in accordance with the draft production sharing agreement that can be found in Annex 8 of these bidding instructions.
Bidding instructions	refers to the bidding instructions that apply to the bidding procedure for granting licences for the onshore exploration and production of hydrocarbons.
Government	refers to the Government of the Republic of Croatia.
Controlling company	for the needs of these bidding instructions refers to a company that holds the majority of shares or majority vote in another independent company, in which it is considered to have a prevailing influence in the other company if, as a shareholder or company member, they are entitled to appoint/terminate the majority of the board members, i.e. the majority of executive directors or members of the supervisory board, i.e. governing board of the company, or if they control the majority of votes in the company pursuant to an agreement concluded with other shareholders or members of this company.
Act	refers to the Act on the Exploration and Production of Hydrocarbons (OG No. 52/2018, 52/2019 and 30/21).
Representative of the bidder	refers to a person that the bidder (or consortium members, if the bidder is a consortium) has, by virtue of a power of attorney or internal act, authorised to perform certain actions in this bid round on behalf and for the account of the bidder.

All other terms used in these bidding instructions, and for which a specific definition has not

been provided, shall be interpreted in accordance with the Act, other legal provisions or in another manner if circumstances require so.

2 INTRODUCTION

2.1 ANNOUNCEMENT OF THE BIDDING ROUND

In accordance with the Act, Agency drafted this these bidding instructions for the granting of licences for the onshore exploration and production of hydrocarbons which are published on the website of the Agency.

2.2 BIDDING SUBJECT

The subject of this bidding round is the granting of licences for the exploration and production of hydrocarbons. The area for which this bidding round is issued encompasses a part of the mainland of the Republic of Croatia. This mainland area is divided into 3 exploration blocks which are located on the territory of the Pannonian Basin. A detailed division of the region into exploration blocks can be found in Annex 3 of these bidding instructions.

Selected bidders will be granted licences for the exploration and production of hydrocarbons at certain exploration blocks, pursuant to the concrete bids they have submitted and in accordance with the provisions and requirements prescribed by these bidding instructions and the Act.

The provisions of the Act and other applicable legal regulations shall apply to the publication and bidding round and other matters related to bidding, as well as to activities related to the exploration and production of hydrocarbons on the mainland of the Republic of Croatia.

All works must be planned and implemented in accordance with the Framework Plan and Programme for the Onshore Exploration and Production of Hydrocarbons, which can be found in Annex 2 of these bidding instructions and which prescribes all the measures and restrictions related to the implementation of certain activities.

Only bids that have been prepared in accordance with these bidding instructions and submitted no later than March 31st till 16:00 hours according to local time every calendar year or September 30th till 16:00 hours according to local time every calendar year considered.

2.3 DISCLAIMER FOR ACCURACY OF INFORMATION

The Government, Ministry and Agency, as well as their representatives, agents, advisors and consultants, shall not give, nor shall it be considered that they have given, whether implicitly or explicitly, any guarantee or statement which represents that the information contained in these instructions or provided in any other manner, whether verbally or in writing, is correct, complete and accurate, unless such a statement or guarantee is explicitly given in the agreement between the Government and the selected bidder. The receipt of these bidding instructions, the information

contained therein or in any of its appendices or which has been provided to a third party in another manner, whether verbally or in writing, and which relates to the bids or another affair which involves the Government, Agency, Ministry, and its representatives, advisors or consultants, shall not mean or be interpreted as the provision of any sort of financial, legal, technical or other advice. The Government, Agency, Ministry, and its representatives, advisors or consultants shall not be held liable for any expenses incurred to any participant in the bidding round in the course of participation in the procedure in line with these bidding instructions, or in any kind of inspection or transaction that may ensure, whether executed or unexecuted. It shall not be assumed that these bidding instructions contain all of the information that is necessary for the interested bidder to make their decision regarding investment. It shall be considered that, by receiving these bidding instructions, the bidding participant agrees with the above conditions.

By submitting their bid, the bidders confirm that they are familiar with all of the applicable laws and other legal regulations of the Republic of Croatia that may in any manner influence or affect the activities stemming from these bidding instructions, the licence for the exploration and production of hydrocarbons or the production sharing agreement. A framework of the applicable regulations of the Republic of Croatia can be found in Annex 1 of these bidding instructions.

2.4 LEGAL FRAMEWORK

The bidding round is conducted with the aim of granting licences for the exploration and production of hydrocarbons to selected bidders and concluding a production sharing agreement with the Government. The Act and this agreement constitute the legal framework for the implementation of activities related to the exploration and production of hydrocarbons.

Licence for the exploration and production of hydrocarbons, production sharing agreement and licence for the production of hydrocarbons

For the implementation of the activities of onshore exploration and production of hydrocarbons, which are the subject of these bidding instructions, it is necessary to be granted a licence for the exploration and production of hydrocarbons and conclude a production sharing agreement. The licence for the exploration and production of hydrocarbons is granted to the selected bidder for a period up to thirty (30) years, and it consists of an exploration period and a production period and starts elapsing on the day that the agreement enters into force.

The investor shall, pursuant to the conditions contained in the licence, conclude a production sharing agreement with the Government within six (6) months from the day that the licence for the exploration and production of hydrocarbons was issued. The production sharing agreement must be in compliance with the content of the granted licence, and it shall stipulate all of the rights and obligations of the parties, as well as all of the rights and obligations stemming from the licence for the exploration and production of hydrocarbons.

The investor shall be entitled to explore hydrocarbons and to directly be granted the licence for production of hydrocarbons in case a commercial discovery is announced, under the condition that the contractual obligations have been duly met, and that the other requirements prescribed by Article 28 of the Act have also been met.

Exploration period

The exploration period may last up to five (5) years, and it may, at the request of the investor, be extended up to two times for a period of six (6) months per extension, in accordance with Article 25 of the Act. This bidding round requires from bidders to base their bids on the division of the exploration period into two exploration phases – the first of which lasts three (3) years, and the second of which lasts two (2) years.

Upon the expiry of the first exploration phase, the investor must relinquish 25% of the exploration block that has been granted to them pursuant to the licence for the exploration and production of hydrocarbons. Upon the completion of the second exploration phase, the investor must relinquish the remaining part of the exploration block, apart from the part of the exploration block which has been designated as an appraisal area as defined by the appraisal work programme, i.e. the part or parts of the exploration block for which one or several exploitation fields have been defined.

Content of the licence

The licence contains:

- the name of the selected bidder
- the subject of the licence for the exploration and production of hydrocarbons, with a description of all of the activities that the licensee is authorised to perform as part of the execution of petroleum operations
- the establishment of the right to the direct award of the production licence for the hydrocarbons in case of declaring a commercial discovery, and under the condition that the investor has duly fulfilled all contractual obligations, and that the other requirements prescribed by Article 28 of the Act have also been fulfilled
- the boundaries and surface area of the exploration block that must be delimited by the coordinates of the peak points defined by the official terrestrial reference coordinate system of the Republic of Croatia (HTRS96/TM)
- the validity period of the licence for the exploration and production of hydrocarbons, with possible conditions for its renewal
- the main conditions of the Agreement which shall be concluded based on the granted licence for the exploration and production of hydrocarbons
- obligations of the hydrocarbon exploration and production licensee regarding compliance with all set requirements related to environmental protection, as well as with any other special conditions.

Production period

Upon the declaration of a commercial discovery, providing that the obligations under the concluded agreement are being duly fulfilled and other prerequisites prescribed by the Act have been met, the investor will be granted a production licence for hydrocarbons.

Upon the expiry of the exploration period and providing that the prerequisites for the direct granting of a production licence for hydrocarbons, that are prescribed by the Act have been met, the production period shall commence, and it shall last up to the expiry of the period stated in the licence for the exploration and production of hydrocarbons.

At the request of the investor, which must be submitted at least twelve (12) months prior to the expiry of the production licence for hydrocarbons, the Government may extend the production period. In this case, the validity of the licence for the exploration and production of hydrocarbons shall also be extended.

2.5 DETERMINING BOUNDARIES ON LAND

The Republic of Croatia has concluded the following international treaty with neighbouring countries, by which it defined boundaries on land in relation to the boundaries of the exploration blocks that are the subject of this bid.

Bosnia and Herzegovina	The Treaty on the State Border between the Republic of Croatia and Bosnia and Herzegovina was signed in 1999 and has been temporarily applied since.
Hungary	The current border between the Republic of Croatia and Hungary was established based on the peace treaty concluded in Paris in 1947

3 DRAFTING, SUBMITTING AND CONTENT OF BIDS

The bidder is obliged to bear all expenses related to the preparation and submission of their bid. Regardless of the final result of the bidding round, the Government shall in no case be liable for expenses incurred to each bidder.

The bids must meet the administrative, formal, legal and technical requirements defined in the continuation of the text.

3.1 ADMINISTRATIVE REQUIREMENTS

Language

The official language of the bidding round is Croatian. An English translation of these bidding instructions has been provided to participants, and in case of any discrepancies between Croatian and English version of these bidding instructions, the Croatian version shall prevail. Participants are free to choose between Croatian and English when communicating with the Agency. The Agency shall issue official responses in Croatian with an English translation.

Bidders are obliged to submit their bids in Croatian, or in a foreign language together with a certified translation to Croatian, in which both versions must meet the rules for the preparation and submission of bids that are described in these bidding instructions. All of the translations of documentation to Croatian must be certified by a court interpreter.

Requests for clarification, amendments

All questions related to these bidding instructions (including requests for clarification and amendments) may be sent to the e-mail address of the Agency - onshore@azu.hr.

The end date for asking questions is thirty (30) days prior to the expiry of the end date for submitting bids. All questions will be answered fifteen (15) days prior to the expiry of the end date for submitting bids, at the latest. Certain answers may amend the provisions and conditions of these bidding instructions.

The issuing party may amend these bidding instructions at any moment, fifteen (15) days prior to the end date for submitting bids at the latest. Such amendments shall be in effect from the moment that they are published on the websites of the Agency (www.azu.hr), and they shall constitute an integral part of these bidding instructions.

Submitting bids

Bids must be delivered in a sealed envelope or box that should contain:

(a) the name and full address of the bidder (if the bidder is a consortium, then the full address and name of the operator) and

(b) a title written above the recipient’s address, which should read:

"PONUDA ZA NADMETANJE ZA IZDAVANJE DOZVOLA ZA ISTRAŽIVANJE I EKSPLOATACIJU UGLJIKOVODIKA NA KOPNU - NE OTVARATI"

which is to be delivered to the following address:

Croatian Hydrocarbon Agency

Miramarska cesta 24,

10000 Zagreb

Republic of Croatia

by March 31st till 16:00 hours according to local time every calendar year or September 30th till 16:00 hours according to local time every calendar year

Bids may be submitted to the Agency in person or via post/courier service. Confirmation of receipt shall be issued to those bidders who submitted their bid in person. Due to the limited possibilities for marking post sent via courier service, we advise bidders who wish to submit their bid in this manner to mark this information on a closed envelope or box inside the courier bag or box, in order to ensure that the parcel is not prematurely opened.

The bids must be printed or written in indelible ink and must not contain text inserted between the lines, erased text or text written over the bid, except if it was necessary to correct mistakes made by the bidder, in case of which such corrections must be confirmed with the signature of the representative of the bidder. All materials contained in the bid should be on A4 paper size wherever possible, however, A3 paper folded into an A4 format may also be accepted if necessary.

The bid must be bound into one whole. If, due to its scope or other objective circumstances, the bid cannot be bound into one whole, then it can be submitted in two or more parts. Bids must be bound in a fashion that prevents pages from being subsequently removed or inserted (for example, tied with a string and sealed on the back). If the bid is submitted in two or more parts, each part must be bound in a fashion that prevents pages from being subsequently removed or inserted. The bidder must mark those parts of the bid that cannot be bound, for example samples, catalogues, data storage media etc., with their name and list them in the content of the bid as part of the bid. If the bid consists of multiple parts, the bidder must state the number of parts that the bid consists of in the content of the bid. The pages of the bid must be numbered in a way that makes visible the ordinal number of the page and the total number of pages of the bid, for example 1/57 or 57/1. If the bid is composed of multiple parts, pages must be marked in the manner that each subsequent part starts with the ordinal number that follows the number where the previous part stopped. If a part of the bid has already been previously numbered (for example, in the case of catalogues), the bidder is not obliged to number this part of the bid again. Bidders must deliver one (1) original marked as ORIGINAL and 1 (one) copy (photocopy of original) marked as COPY, each of which must be separately bound. Additionally, the bid must include one (1) electronic copy (on a USB stick or other suitable electronic format) which contains all of the documents that have been delivered in printed form, and which constitute an integral part of the offer, providing that they are in a format that is compatible with the systems used by the Agency, which includes Microsoft Office, Microsoft Internet Explorer and Adobe Reader, in which they must not be protected by a password or contain encrypted data.

The submitted bid may be amended only if an amended bid that meets all of the provisions of these instructions is delivered prior to the end date for submitting bids.

Validity of bids

The bids must be unconditional and remain valid for three hundred and sixty (360) days from the end date for submitting bids, in which the beginning of this term is counted from the following day.

The Agency may send to the bidder a written request for the extension of the validity of the bid no later than ten (10) days prior to the expiry of the validity of the bid.

Grounds for exclusion from the bidding round

A participant may be excluded from the bidding round due to the following grounds:

a) attempting to influence the unified procedure for granting licences for the exploration and production of hydrocarbons and concluding production sharing agreements in an irregular manner, obtaining confidential information that may give them an unfair advantage in the procedure or out of negligence delivering incorrect information that may have a material effect on decisions related to the granting of licences for the exploration and production of hydrocarbons or the conclusion of a production sharing agreement
b) not meeting the conditions under Article 17 of the Act
c) failing to submit a satisfactory bid guarantee
d) failing to deliver documents related to legal and financial capacity or documents related to technical capacity and health, safety and environmental protection
e) demonstrating, in another country, a lack of efficiency and responsibility in any manner, while performing activities that are the subject of the licence for the exploration and production of hydrocarbons
f) failing to meet some of the conditions prescribed by the bid documentation

3.2 FORMAL REQUIREMENTS

Bid fee

Bidders are obliged to pay a bid fee amounting to five thousand euro (EUR 5,000.00), to the state budget

BENEFICIARY NAME AND ADDRESS: Republic of Croatia – Ministry of finance, Katančićeva 5, 10000 Zagreb, Croatia

ACCOUNT NUMBER: HR12 1001 0051 8630 0016 0

BANK NAME AND ADDRESS: Croatian National Bank, Trg hrvatskih velikana 3, Zagreb 10000, Croatia

SWIFT CODE: NBHRHR2X

REMITTANCE INFO - REMARKS: HR64 9733-49649-VAT *(VAT NUMBER WITHOUT LETTER MARK)*

"Bidding fee – exploration block _____."

The Bid must contain confirmation of the said payment.

Structure of the bid

The bid must begin with a cover letter (in accordance with the form in Annex 6 of these bidding instructions) the original of which has been filled in and signed by the representative of the bidder, together with enclosed documents that prove their capacity as representative.

The cover letter and bid guarantee must be submitted in original form. All of the other documents required by these bidding instructions may be submitted in original form or as certified copies thereof. All of the documents that have been issued by authorities must contain the prescribed certification (for example, a stamp and signature or an Apostille) which is officially used in the Republic of Croatia for such documents.

At their own discretion, the bidder may also include information that is not required or prescribed by these bidding instructions in their bid.

Bids are treated as confidential if they are marked as such.

The committee may, at their own discretion, ask for clarifications regarding the bid from the bidders. Upon receiving such a request, the bidders must, within a deadline of ten (10) days, fully meet this request and deliver the requested clarifications and/or documentation.

Furthermore, the bid must contain documents that pertain to financial, legal and technical capacity, documents related to health, safety and environmental protection, and other relevant documents and certificates as per Article 16 of the Act.

Documents related to formal bid requirements that must be delivered by the bidders:

1. Cover letter (in accordance with the form in Annex 6 of these bidding instructions), the original of which has been filled in and signed by the representative of the bidder
2. Power of attorney issued to the representative of the bidder which authorises them to perform certain actions in this bidding round on the behalf of and for the account of the bidder (if the bidder is a consortium, then all members of the consortium must issue a power of attorney to the representative of the bidder, i.e. the representative of the consortium)
3. Consortium or association agreement, where applicable
4. Consent of the controlling company for applying for the bidding round (document by virtue of which the controlling company confirms their familiarity with the bid and expresses their support, as well as their approval of the conditions of the draft

agreement of its affiliated company/subsidiary, where applicable)

5. Certificate on the payment of the bid fee in the amount of five thousand euro (EUR 5,000.00)

3.3 BID GUARANTEE

Bidders are obliged to deliver a bid guarantee together with their bids and this bid guarantee must be in the amount of five hundred thousand euro (EUR 500,000.00). The bid guarantee will be collected if the bidder withdraws from the bid during the term of validity of the bid, gives false data or fails to deliver a guarantee for performing minimum work obligations within the set time frame.

The bid guarantee must be drafted in accordance with Annex 7 of these bidding instructions, and must be issued by a bank that is acceptable to the Ministry and holds an operating licence in any of the following countries: Republic of Croatia, any other EU member state, any country that has signed the Agreement on Government Procurement (GPA) or any country that has signed and ratified association or bilateral agreements with the European Union or the Republic of Croatia, and is entitled to do so in accordance with the legislation of these countries. The bid guarantee must be irrevocable and unconditional at first demand, and it must remain valid for three hundred and sixty (360) days from the end date for submitting bids, in which the beginning of this term is counted from the following day.

For the needs of these bidding instructions, bank refers to at bank or credit institution from the list of Croatian National Bank listed on https://www.hnb.hr/temeljne-funkcije/supervizija/popis-kreditnih-institucija and https://www.hnb.hr/documents/20182/121774/h-popis-institucija-iz-EU.xlsx.

The bid guarantee shall be returned to the investor after the delivery of all of the required guarantees that must be delivered within the deadlines stated in the agreement.

The bid guarantee shall be returned to all of the other bidders upon the expiry of the validity of the guarantee, i.e. after licences have been granted to selected bidders, whichever comes first.

If the Agency requests extension of the term of validity of the bid from the bidder, the bidder will also be requested to extend the term of validity of the bid guarantee accordingly.

3.4 LEGAL REQUIREMENTS

The bidder (i.e. each consortium member separately, if the bidder is a consortium) must be a legal person that is registered, exists and is authorised to act in accordance with the laws of the country of its incorporation, registration and seat. Only bidders that meet the necessary legal requirements shall be taken into consideration as candidates for being granted a licence for the exploration and production of hydrocarbons.

Documents related to legal capacity that must be delivered by the bidders:

1. Excerpt from the court register and copy of memorandum/articles of association of the company from which it is evident that the bidder is registered to perform the activity of exploration and production of hydrocarbons. In the stated documents, the jurisdiction where the bidder is registered or was incorporated must be visible, together with the legal form of the bidder, the activities for which the bidder is registered, in which it has to be visible, where applicable, that the operator is registered for performing the activity of exploration and production of hydrocarbons, the jurisdiction where the bidder performs their business activities, management board, capital structure and management structure, including the legal relation between the bidder and the controlling company, if applicable, as well as the relation between the bidder and the other members of the group, if the bidder is the member of a group.
2. Certified statement from a person legally authorised to represent the bidder on the non-existence of the circumstances under Article 17, paragraph 1, subparagraph 1, items a) through f), which must not be older than three (3) months prior to the end date for submitting bids. In such a certified statement, all of the circumstances listed in the mentioned items must be exhaustively listed.
3. Certificates proving that the bidder does not have any outstanding debts pursuant to Article 17, paragraph 1, subparagraph 2 of the Act, which must not be older than three (3) months prior to the end date for submitting bids. Bidders with seat in the Republic of Croatia shall prove the non-existence of this impediment in the following manner:

    a) with a certificate from the tax administration on the non-existence of debt, which proves that the bidder has no outstanding debts related to public levies, taxes and/or contributions for pension and health insurance in the Republic of Croatia
    b) with a certificate from the energy inspection for petroleum operations which certifies that the bidder has not been caught engaging in unlawful exploration and/or production of hydrocarbons. If the bidder was engaged in unlawful exploration and/or production of hydrocarbons, they are obliged to submit valid proof that they have reimbursed the Republic of Croatia for the incurred damages. A settlement shall also be considered to be valid proof, providing that the bidder has met all the due obligations defined by the settlement
    c) with a certificate from the ministry in charge of energy affairs and the ministry in charge of finances which proves that the bidder has no outstanding debts in relation to fees for the exploration and production of hydrocarbons in the Republic of Croatia
    d) with a certificate from the authority in charge of the management of state assets as a legal person with public authority which certifies that the bidder does not have any outstanding debts related to exploitation of forests and/or forestland, i.e. agricultural land, for the purpose of production of hydrocarbons in the Republic of Croatia.
    e) with a certificate from the ministry in charge of environmental protection which certifies that the bidder does not have any defaulted obligations related to the restoration and protection of the natural environment.

4. A certificate by which the bidder proves that they are not in the procedure of liquidation and that they have not suspended their business activities in the Republic of Croatia, issued by the competent court, in accordance with the requirements under Article 17, paragraph 1, subparagraph 4 of the Act, which must not be older than three (3) months prior to the end date for submitting bids.

5. A statement from a person that is legally authorised to represent the bidder, certifying the non-existence, i.e. possible existence of the circumstances under Article 17, paragraph 5, subparagraphs 1 through 5, in which all of the circumstances listed in the mentioned subparagraphs must be exhaustively listed. If the bidder happens to be in one of the situations listed in the stated subparagraphs, the bidder may supply proof to prove that the measures they have taken are sufficient to attest to their reliability. In case of this, the committee shall evaluate whether such proof is sufficient not to exclude the bidder from the bidding round, while taking into consideration the severity and the extenuating circumstances of the omission.

   Bidders that do not have seat in the Republic of Croatia shall prove the non-existence of such circumstances with corresponding certificates issued by the authorities of the country in which they have seat.

   In case a certain country does not issue certificates or documents of the previously described type, the bidder may give a suitable affidavit before a notary public or a competent court, administrative or commercial authority in the country of their seat. In this case, instead of the stated certificates or documents, the bidder must enclose the corresponding certified affidavits to their bid.

   If the bidder is a consortium, all of the aforementioned information and documentation must be supplied for every consortium member separately.

3.5 FINANCIAL REQUIREMENTS

Documents related to the financial capacity of the bidder must demonstrate the bidder's ability to fund the activities of exploration and production of hydrocarbons, as well as the manner in which these activities shall be funded if the bid is selected.

Bidders must enclose revised financial statements that confirm that the net value of the company is equal to or greater than the amount of the minimum financial obligation in the work programme (if the bidder is a consortium, then the net value of each member of the consortium must be equal to or greater than their share in the amount of the minimum financial obligation in the work programme).

When a bid is based on the financial capacity of the controlling company, the bidder must deliver revised financial statements for the controlling company.

If the calculation of the net value of the company does not confirm that it is equal to or greater than the foreseen costs of executing the work programme, then the bidder must deliver a certificate from an eminent and renowned financial institution that vouches for the provision of a sufficient amount of necessary funds in order to meet the minimum amount of obligations towards the work programme throughout the duration of the exploration period.

If the bidder is the best-ranking bidder for two or more exploration blocks, their net value must be equal to or greater than the total net value of all such exploration blocks. If the net value of the bidder is lower than the minimum amount of the obligation for the work programme for these exploration blocks, bids shall be considered according to the order of priority given by the bidder in their bid for these exploration blocks.

Documents related to financial capacity that must be delivered by the bidders:

1. Revised annual financial statements for the last three (3) years, which include the following:
    a. balance sheets,
    b. profit and loss accounts,
    c. summaries of the notes accompanying financial statements which briefly describe the accounting policies, i.e. provided information on the methods and standards pursuant to which the financial statements were drafted,
    d. opinions of an independent auditor.
2. Calculation of the net value of the company made pursuant to the delivered revised financial statements. The net value of the company is calculated according to the method in Table 3, Annex 5. When a bid is based on the financial capacity of the controlling company, the bidder must deliver the calculation of the net value of the company based on the delivered revised financial statements of the controlling company.
3. Alternatively to item 2, a certificate from an eminent and recognized institution in the form of a letter of intent or equivalent document, guaranteeing provision of the necessary amount of funds for the purpose of meeting the minimum working and financial obligations throughout the duration of the exploration period.

    If the bidder is a consortium, all of the aforementioned information and documentation must be provided for each consortium member separately.

3.6 TECHNICAL REQUIREMENTS

Documents related to the technical capacity of the bidder must demonstrate the experience that the bidder possesses in the area of the exploration and production of hydrocarbons. Taking into consideration the areas that are the subject of this bid, particular attention shall be given to experience related to the onshore exploration and production of hydrocarbons and areas where there exists an increased hazard to the environment, the development and production of hydrocarbons and the performance of these activities in the capacity of operator, in case of a consortium.

Bidders must, regardless of their scope of activities in the past five (5) years, supply information on whether a penalty or other measure was imposed on them by any authority due to harm inflicted on the environment, in relation to the activities of the bidder.

The bidder must provide information on their plans and their environmental and safety system and its implementation, with an overview of risk reduction through the bidder's

choice and implementation of technical, operational and organisational solutions. The safety and environmental systems must demonstrate that the bidder's standards are in compliance with the best international practice in the industry, reducing potential damages to the lowest possible level and leading to the best possible results.

The bidder must fill in Annex 5, and present documents related to technical capacity, safety and environmental protection that related to each exploration block.

If the bidder is a consortium, all of the documents and information proving the technical capacity of the bidder must be given for each consortium member separately, unless otherwise stated in these bidding instructions.

Documents related to technical capacity that must be delivered by the bidders:

The bidder must present and enclose the following (for each consortium member, where applicable):

1. Information on their ongoing projects in other countries related to the activities of exploration and production of hydrocarbons, if applicable, information on the total area held by the bidder (by state) if applicable, annual reports, production amounts and investments in exploration and production, for the period of the previous three (3) years, in which the role and level of responsibility for each project (operator or consortium member) if applicable must be stated. It is necessary to present a short summary of the bidder's experience in relevant projects in research, development and management, in which the role and level of responsibility for each project (operator or consortium member) must be stated.
2. Statement issued by a person that is legally authorised to represent the bidder concerning whether, in the past five (5) years, any authority imposed on them a penalty or other measure due to harm inflicted on the environment, in relation to the activities of the bidder, regardless of the scope of activities
3. The number of permanently employed staff involved in the exploration and production of hydrocarbons and a summary of information on key permanent technical staff for a period of five (5) years, including their roles in different projects

Bidders must also deliver the following documentation:

4. A short report of the possible impacts of exploration and production on the environment, together with the planned measures and monitoring programme
5. Geological assessment and geological model in the broadest possible sense, in accordance with the instructions under Annex 5
6. Description of the concept and approach for the implementation of the research
    - detailed plan of works to be performed in the first exploration phase
    - detailed plan of works to be performed in the second exploration phase
7. Minimum work programme for the research, by type and scope with estimated

costs for each exploration phase (Annex 5, Table 2)

8. Proposal of the plan for restoring the exploration block, with cost estimate and specification of the type of guarantee for decommissioning
9. Fee for the conclusion of a production sharing agreement (signature bonus) contained in Annex 5 (Item V, part B)

3.7 STATEMENT BY WHICH THE BIDDER AGREES WITH THE PROVISIONS OF THE DRAFT AGREEMENT AS THE BASIS FOR NEGOTIATIONS

The bidder is obliged to also deliver a statement signed by the representative of the bidder, as defined in Annex 5, by virtue of which they confirm that they have reviewed and familiarised themselves with the provisions of the proposed draft agreement (Annex 8), and by which they consent for these provisions to constitute the basis of the production sharing agreement that is to be signed.

4 EVALUATION OF BIDS

4.1 CRITERIA FOR THE SELECTION OF THE MOST FAVOURABLE BIDDER

In addition to the application of the provisions of Article 2, paragraph 2 of Directive 94/22/EC of the European Parliament and Council of 30 May 1994 on the conditions for the granting and use of a licence for the search for, exploration of and production of hydrocarbons (OJ L 164, 30 June 1994) which relate to national safety, and in accordance with Article 19 of the Act, the criteria that shall be taken into consideration for the granting of licences for the exploration and production of hydrocarbons are the following:

a) the technical, financial and professional capacities of the bidder
b) the manner in which the bidder plans to perform the activities that are subject of the licence for the exploration and production of hydrocarbons
c) overall quality of the submitted bid,
d) the financial conditions that the bidder offered for the granting of a licence for the exploration and production of hydrocarbons, and
e) any lack of efficiency and responsibility that the bidder demonstrated in other countries, while previously performing the activities that are the subject of the licence for the exploration and production of hydrocarbons.

The criteria for the selection of the bidder also include the fee for the conclusion of the production sharing agreement (signature bonus), the minimum amount of which is prescribed by the regulation under Article 51 of the Act.

If, after the evaluation is complete, two or more bids are of similar importance pursuant to the criteria and in accordance with the Act, other relevant and objective criteria that are not discriminating shall be taken into consideration in order to make the final decision.

4.2 EVALUATION TABLE

Below is a presentation of the evaluation procedure according to the criteria listed in sections 4.1(b) and (d):

Criteria for the evaluation of exploration blocks DR-02/2, SA-10/1 i SZH-01

Criteria		Highest grade	Share %
First exploration phase	**2D seismic surveys**	**15**	**70**
	3D seismic surveys	**40**	
	Other activities	**5**	
	Reprocessing of existing seismic data	2	
	Gravimetry/magnetometry	2	
	Other*	1	
	Number and depth of wells	**40**	
Second exploration phase	**2D seismic surveys**	**5**	**20**
	3D seismic surveys	**25**	
	Number and depth of wells	**70**	
Fee for conclusion of agreement		**100**	**10**

*Other surveys include, but are not limited to: geochemical testing, magnetotelluric and lidar acquisition.

4.3 EVALUATION PROCEDURE

Upon the expiry of the end date for submitting bids and upon appointment, the committee will begin with the procedure of opening, reviewing and evaluating bids. If the committee finds that the information that they have at their disposal is incomplete or unsuitable they may, if necessary, demand additional information from the bidder or a certain third party, as well as perform surveillance or obtain the opinion of the consultant or another expert.

Furthermore, the committee may, at its own discretion, request from the bidder clarifications regarding the offered minimum work obligations if they discover certain inconsistencies. The bidders must fully comply with this request within ten (10) days from the delivery thereof.

When and if the committee finds that the information that they have at their disposal is satisfactory, they shall evaluate the bids and rank them, and then via the Ministry propose to the Government the decision on the granting of a licence for the exploration and production of hydrocarbons to the selected bidder, i.e. the first-ranking bidder. The Government shall grant the stated licence, notify the selected

bidder and summon them for the signing of the agreement.

If the selected bidder fails to commence with the conclusion of the agreement within the term prescribed by the Act, the Government shall terminate the granted licence for the exploration and production of hydrocarbons to such a bidder and may issue a licence to another selected bidder that has met the bidding criteria for the same exploration block, if such a bidder exists, and the second-ranking bidder shall then commence with the conclusion of the agreement.

ANNEX 1 CROATIAN LEGISLATIVE FRAMEWORK

1. Regulations on the exploration and production of hydrocarbons
   a) Act on the Exploration and Production of Hydrocarbons (OG No. 52/2018, 52/2019 I 30/2021)
   b) Act on the Incorporation of the Croatian Hydrocarbon Agency (OG Nos. 14/2014 ,73/2017 and 84/2021)
   c) Decree on the fee for the exploration and production of hydrocarbons (OG Nos. 25/2020 i 43/2023)
   d) Rules on the construction of petroleum and mining facilities and installations (OG No. 95/2018 and 101/2022)
   e) Rules on petroleum and mining projects and the procedure for testing petroleum and mining projects (OG No. 87/2022)
   f) Rules on reserves (OG No. 95/2018 and 87/2022)
   g) Rules on professional qualifications for performing certain jobs in the petroleum/mining industry (OG No. 95/2018 and 87/2022)
   h) Rules on the permanent disposal of carbon dioxide in geological structures (OG No. 95/2018)

All other regulations in the field of environmental protection, spatial planning, and finance are also applicable.

ANNEX 2 FRAMEWORK PLAN AND PROGRAMME FOR THE ONSHORE EXPLORATION AND PRODUCTION OF HYDROCARBONS

Framework plan and programme for the onshore exploration and production of hydrocarbons contains limitations and environmental protection measures that need to be applied during performance of the activities of onshore exploration and production of hydrocarbons and overview of restrictions and limitations for each exploration block which are, among the others, subject of this bidding round.

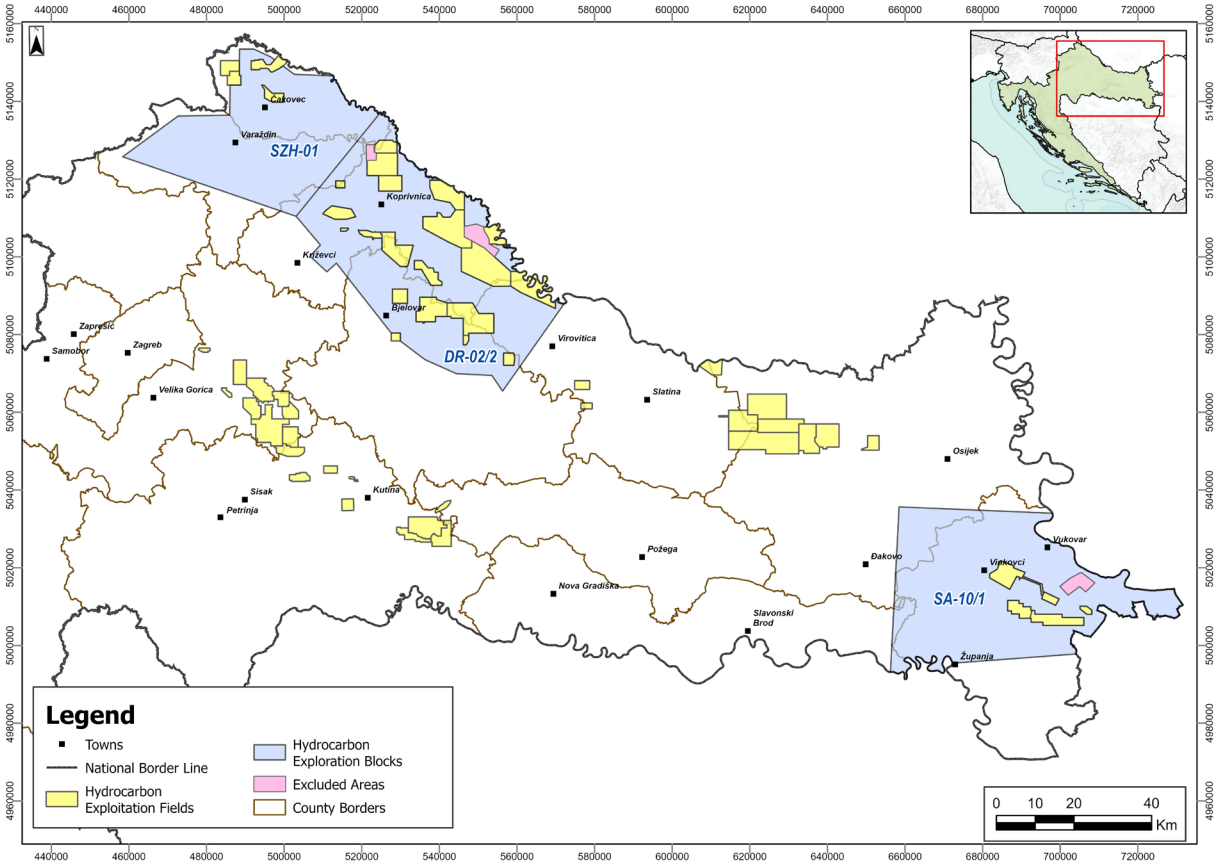
Limitations and environmental protection measures of framework plan and program are made pursuant to strategic study of environment impact of the fframework plan and programme of the onshore exploration and production of hydrocarbons.

Framework plan and programme for the onshore exploration and production of hydrocarbons is publicly available document and can be found on Agency web site https://www.azu.hr/media/yrseqtsc/opp-onshore-1408.pdf

ANNEX 3 MAP AND COORDINATES OF EXPLORATION BLOCKS

The area for which this bidding round is issued is divided into 3 exploration blocks which are located in northwest and central Croatia and in south Slavonia, with a total acreage of 4.942,85 SqKm.

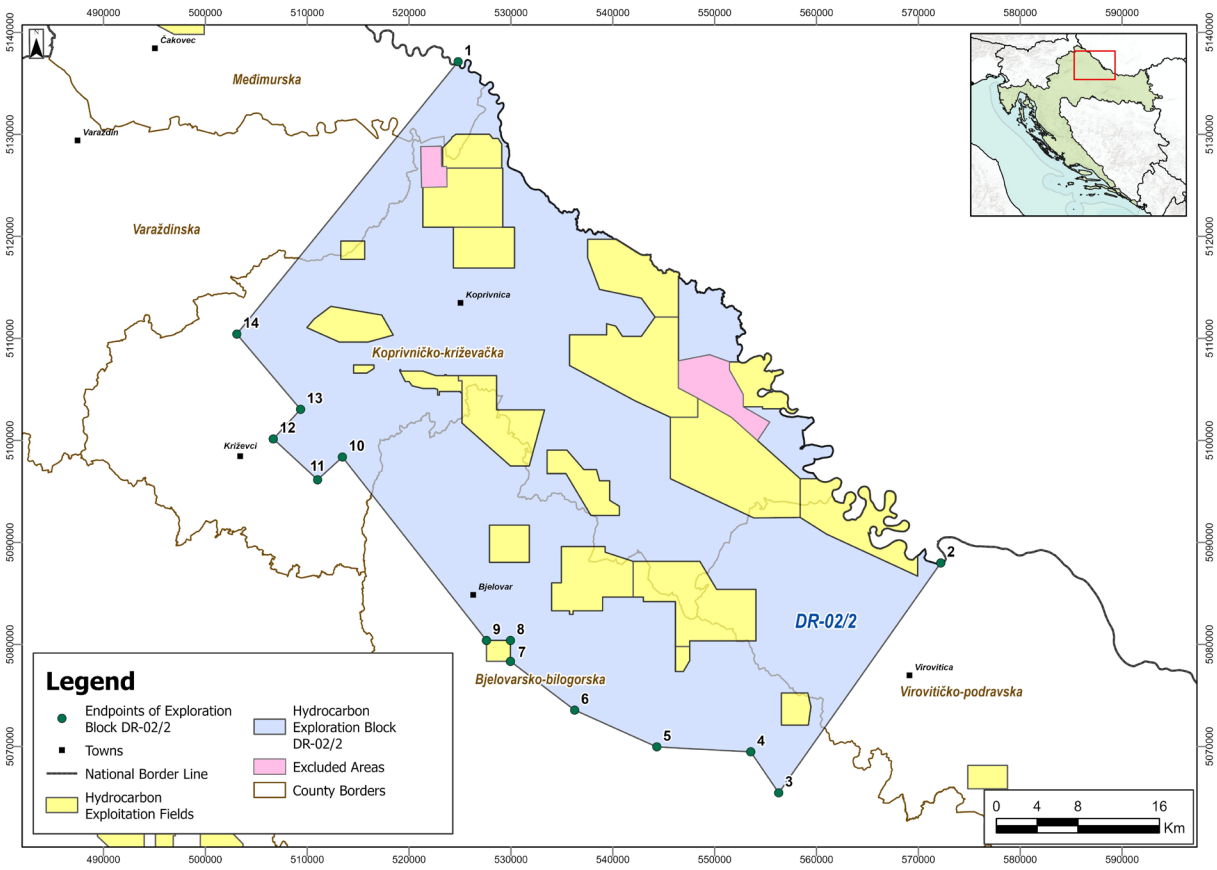
Map of Exploration Blocks



Coordinates of Exploration Blocks

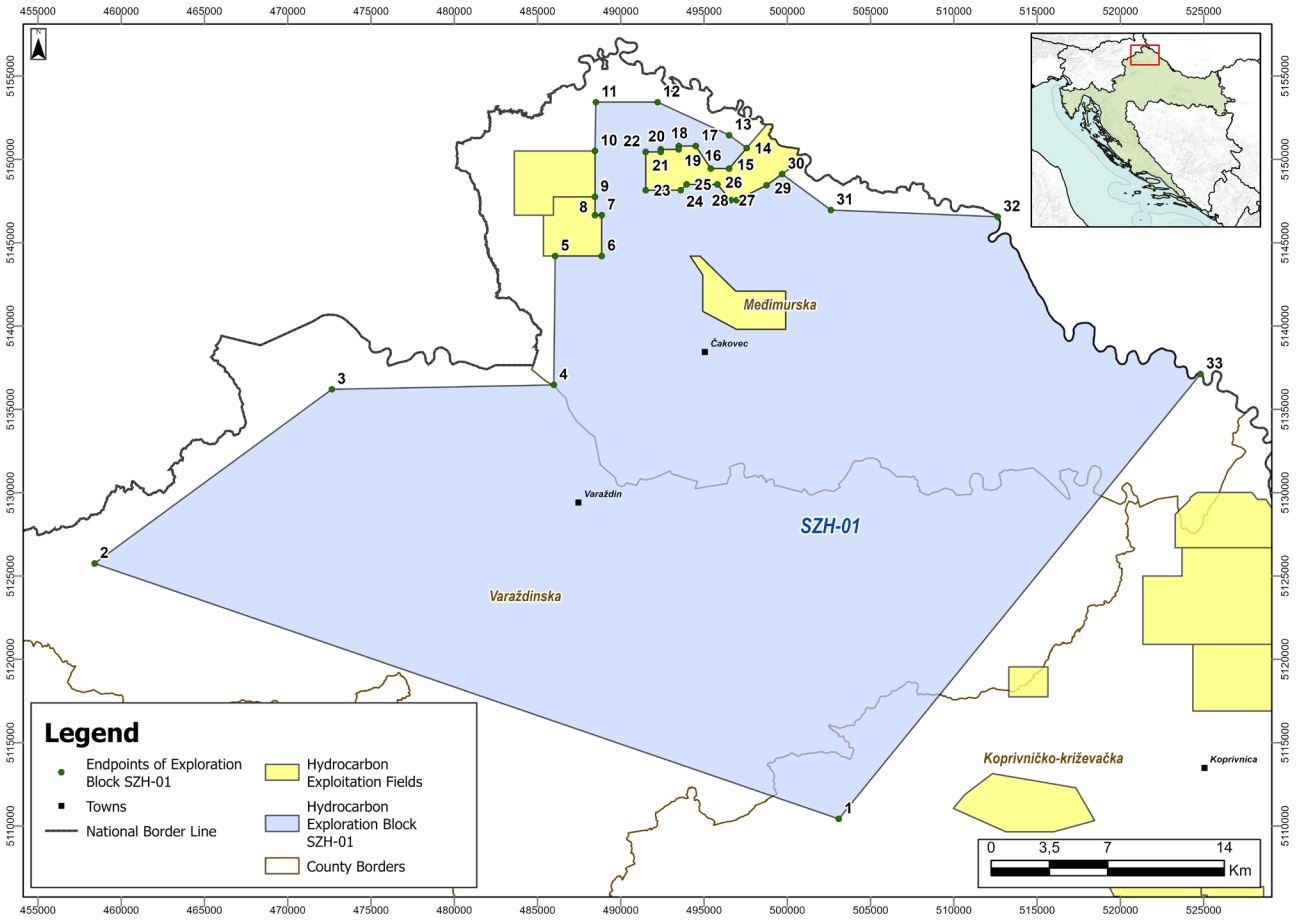
Exploration Block Drava-02/02

Exploration Block	Area (SqKm)	Endpoint	Coordinates HTRS96/TM	
			E	N
DR-02/2	1732,91	1*	524.811,29	5.137.121,94
		2*	572.197,66	5.087.994,54
		3	556.294,50	5.065.457,62
		4	553.542,01	5.069.474,94
		5	544.321,00	5.069.960,00
		6	536.258,00	5.073.574,00
		7	529.950,00	5.078.350,00
		8	529.950,00	5.080.400,00
		9	527.600,00	5.080.400,00
		10	513.460,00	5.098.374,00
		11	511.014,00	5.096.150,00
		12	506.677,00	5.100.153,00
		13	509.346,00	5.103.045,00
		14	503.089,00	5.110.426,00
		1	524.811,29	5.137.121,94
		*Exploration block line between endpoints 1 and 2 represents international border line between Republic of Croatia and Hungary.		



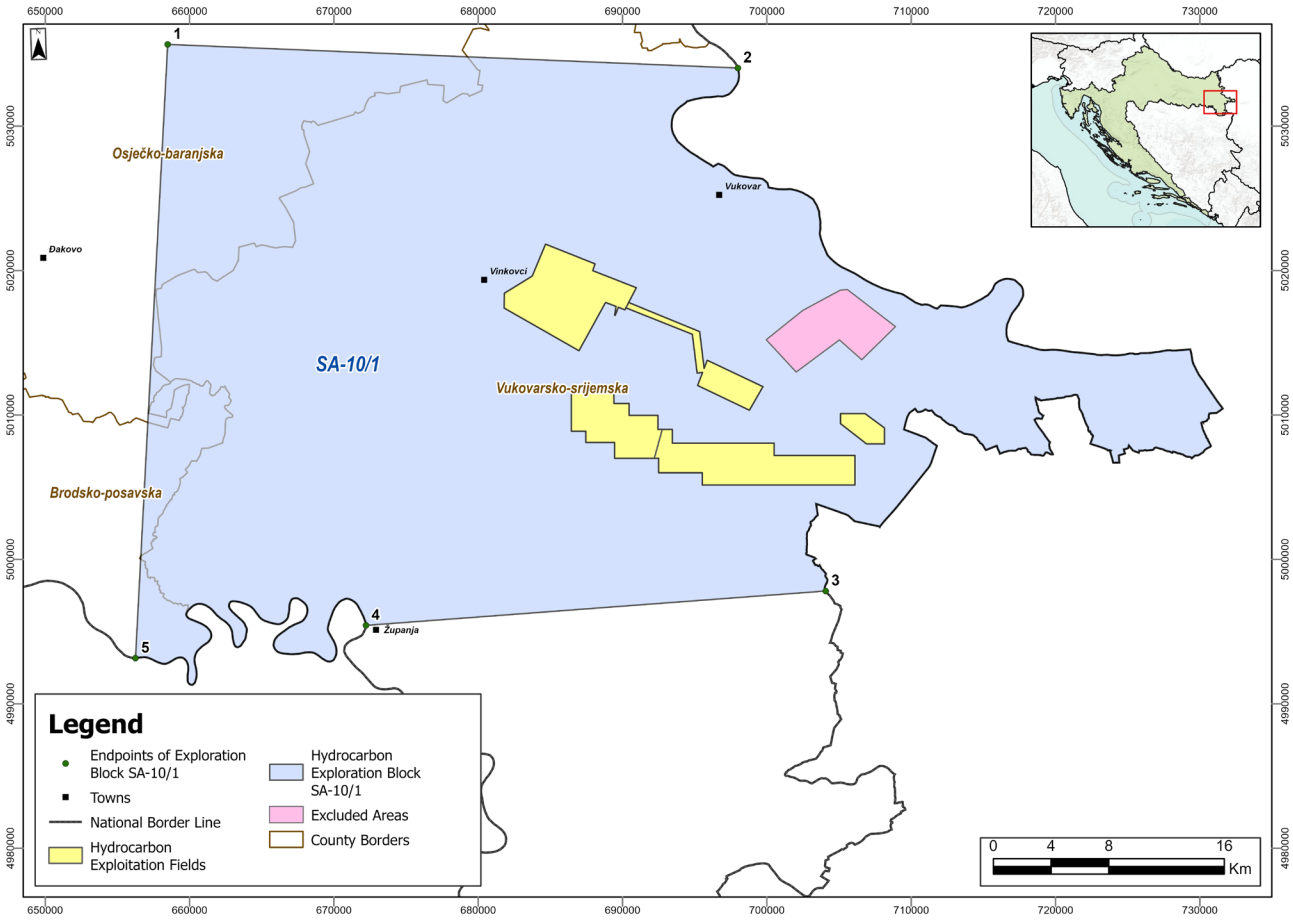
Exploration Block SZH-01

Exploration Block	Area (SqKm)	Endpoint	Coordinates HTRS96/TM	
			E	N
SZH-01	1361,38	1	503.089,00	5.110.426,00
		2	458.393,01	5.125.751,60
		3	472.647,50	5.136.202,71
		4	485.975,92	5.136.467,29
		5	486.059,20	5.144.200,00
		6	488.850,00	5.144.200,00
		7	488.850,00	5.146.650,00
		8	488.450,00	5.146.650,00
		9	488.450,00	5.147.750,00
		10	488.450,00	5.150.500,00
		11	488.503,05	5.153.436,33
		12	492.207,22	5.153.436,33
		13	496.505,17	5.151.455,49
		14	497.556,58	5.150.681,90
		15	496.500,00	5.149.450,00
		16	495.400,00	5.149.450,00
		17	494.500,00	5.150.800,00
		18	493.475,00	5.150.800,00
		19	493.475,00	5.150.600,00
		20	492.400,00	5.150.600,00
		21	492.400,00	5.150.450,00
		22	491.500,00	5.150.450,00
		23	491.500,00	5.148.150,00
		24	493.600,00	5.148.150,00
		25	493.950,00	5.148.500,00
		26	495.800,00	5.148.500,00
		27	496.600,00	5.147.550,00
		28	496.950,00	5.147.550,00
		29	498.750,01	5.148.450,01
		30	499.683,63	5.149.116,88
		31	502.613,89	5.146.960,88
		32*	512.639,33	5.146.557,19
		33*	524.811,29	5.137.121,94
		1	503.089,00	5.110.426,00
		*Exploration block line between endpoints 32 and 33 represents international border line between Republic of Croatia and Hungary.		


Legend
Endpoints of Exploration Block SZH-01
Towns
National Border Line
Hydrocarbon Exploitation Fields
Hydrocarbon Exploration Block SZH-01
County Borders
SZH-01
Međimurska
Čakovec
Varaždinska
Varaždin
Koprivničko-križevačka
Koprivnica
0 3,5 7 14
Km

Exploration Block Sava-10/1

Exploration Block	Area (SqKm)	Endpoint	Coordinates HTRS96/TM	
			E	N
SA-10/1	1848,56	1	658.484,00	5.035.657,00
		2*	697.988,78	5.034.022,07
		3*	704.081,47	4.997.814,77
		4*	672.220,58	4.995.433,40
		5*	656.252,84	4.993.165,52
		1	658.484,00	5.035.657,00
		*Exploration block line between endpoints 2 and 3 represents international border line between Republic of Croatia and Serbia.		
		*Exploration block line between endpoints 2 and 3 represents international border line between Republic of Croatia and Bosnia and Herzegovina.		



ANNEX 4 OVERVIEW OF GEOLOGICAL DATA

PANNONIAN BASIN

1. Geological Data and Exploration History

The Republic of Croatia has about 30,300 km of 2D and 5,300 km^2 of 3D seismic data in the Pannonian Basin and data for about 3,200 wells, of which about 600 are exploration wells. In the bidding for onshore hydrocarbon exploration, the available data (Figure 1) for the exploration areas that are the subject of the bidding can be viewed. The data can be viewed in the Croatian Hydrocarbon Agency (Agency) Data Room under certain conditions. Further information on the data and access to the data room can be found on the Agency's website www.azu.hr or at the email address data.room@azu.hr

The history of the basin exploration is very long, dating back to the mid-19th century. In 1884, the first Peklenica well was drilled and oil was produced through shallow shafts. In the period after World War II until the 1950s, oil and gas production continued at shallower depths.

The most intensive drilling period was from the 1960s to the 1990s, when over 2,000 exploration and development wells were drilled. Recording of 2D seismic profiles started in the 1970s and the largest number of profiles was recorded from 1980 to 1989. The first 3D seismic volume was recorded in 1994. Exploration in the Croatian part of the Pannonian Basin led to the discovery of about 60 oil and gas fields.

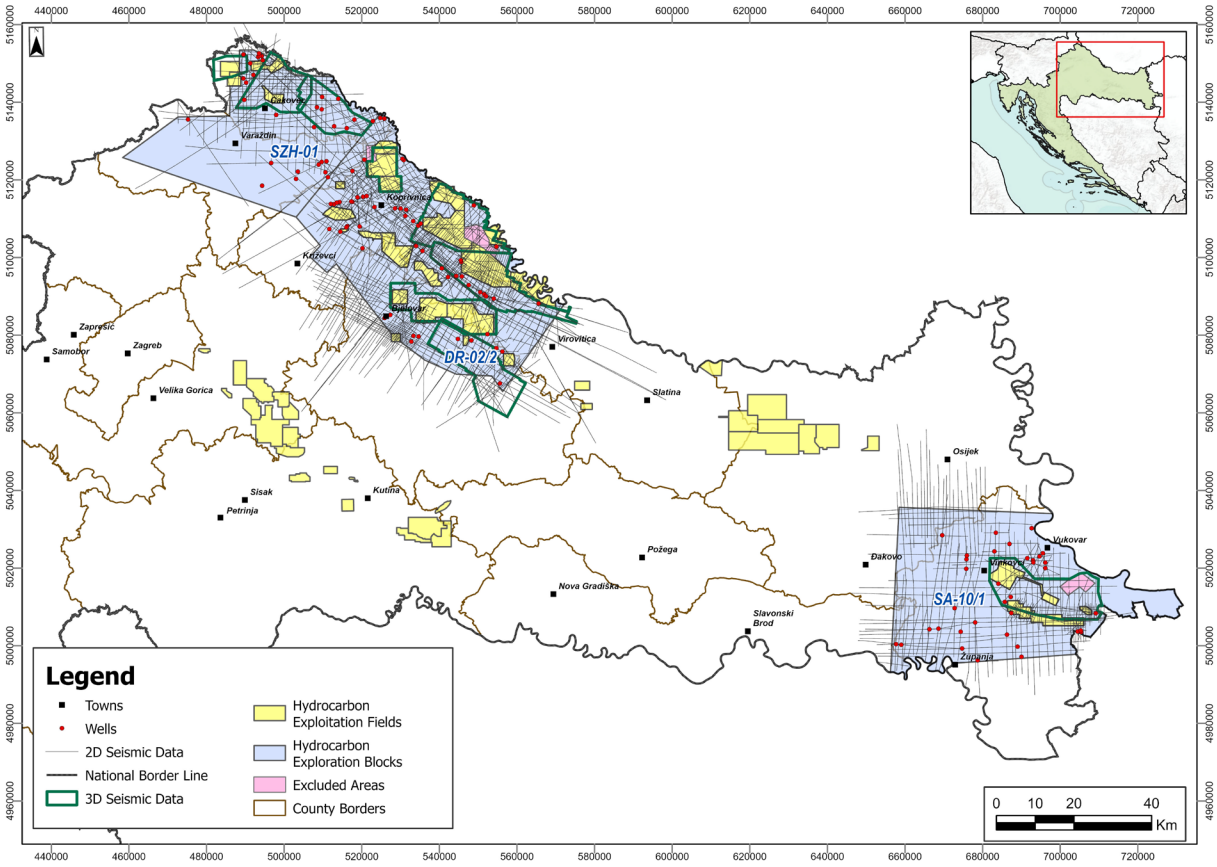


Figure 1 Map of available data in data room within the current bidding blocks

2. Geological Overview

The Republic of Croatia lies at the crossroads of Central Europe, the Balkan Peninsula and the Mediterranean. The Republic of Croatia is a diverse country that includes both the Dinarides, a mountain range with heights of over 1,000 metres, and the river valleys formed by the Mura, Sava, Drava, Kupa and Danube rivers. The Croatian mainland is divided into two main provinces, the Pannonian Basin and the Dinarides, which differ both geographically and geologically.

The Pannonian Basin lies within the Carpathian, which surrounds it to the north and east, while it is closed off by the Alps to the west and the Dinarides to the south. The basin is segmented by the inner Carpathians and the high-altitude basement but continues at the Paleogene/Neogene level (the Graz and Vienna Basins in Austria, as well as the East Slovak Subbasin in Slovakia and Ukraine and the Transylvanian Basin in Romania show geological continuity with the central part of the Pannonian Basin).

The Croatian part of the Pannonian Basin (Figure 2) is about 26,000 km^2 and includes four depressions, from northwest to southeast: Mura, Drava, Sava and Slavonia-Srijem (Figures 3 and 4). About forty hydrocarbon fields are located within these depressions.

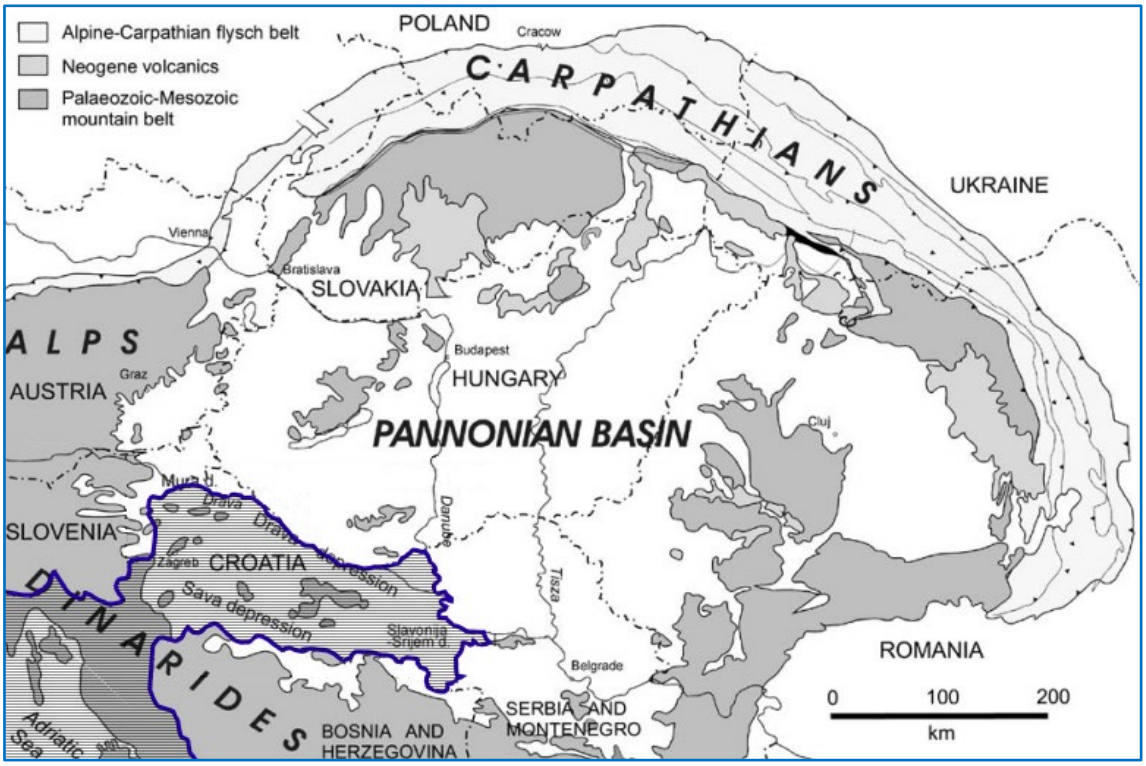


Figure 2 Pannonian Basin map (modified after ROYDEN, 1988)

Figure 3 Schematic overview of the depressions and subdepressions within the Croatian part of the Pannonian Basin

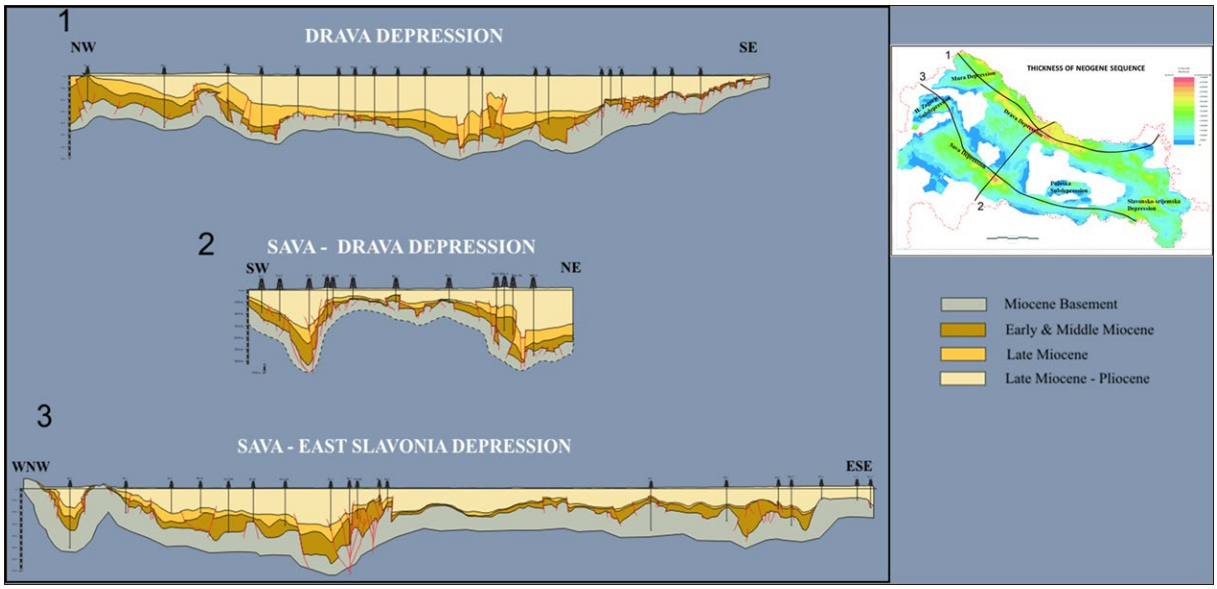


Figure 4 Schematic geological Cross Sections over the Croatian part of Pannonian Basin

Tectono - Stratigraphy

The present structural-stratigraphic base of the Pannonian Basin is characterised by Paleozoic and Mesozoic rocks, and the basin fill consists of Paleogene/ Neogene and Quaternary sediments.

The basement tectonics is the result of overthrusts from the west along strike-slip faults. They were subjected to subaerial erosion mainly during the Maastrichtian-Paleocene. During the Cretaceous, the basin experienced frequent compressive deformation caused by the closure of the Tethys.

In the Middle Miocene strike-slip faulting occurred and pull-apart basins formed, which later became grabens and half-grabens. The extent of extension was often associated with reactivation of older compressional faults. The timing of rifting varied depending on location, and the first rift basins formed in the north and west.

Many of the Miocene extensional basins were initially without sedimentation and were then filled by two main delta systems that extended from the west, north and southeast (drying of the Carpathians). The thickness of the sediments deposited from the Paleozoic until today exceeds 10,000 m. The thickness of the Neogene sequence itself is over 7,000 m.

Seven basic lithostratigraphic units have been identified in the Pannonian Basin (Figures 5, 6 and 7). The oldest unit (**Unit 7**) is pre-Permian and represents the basement. It consists of igneous and metamorphic rocks, including granites, gneisses, schists and other metamorphic rocks with different degrees of metamorphism. The unit was influenced by the Caledonian and Hercynian orogeny.

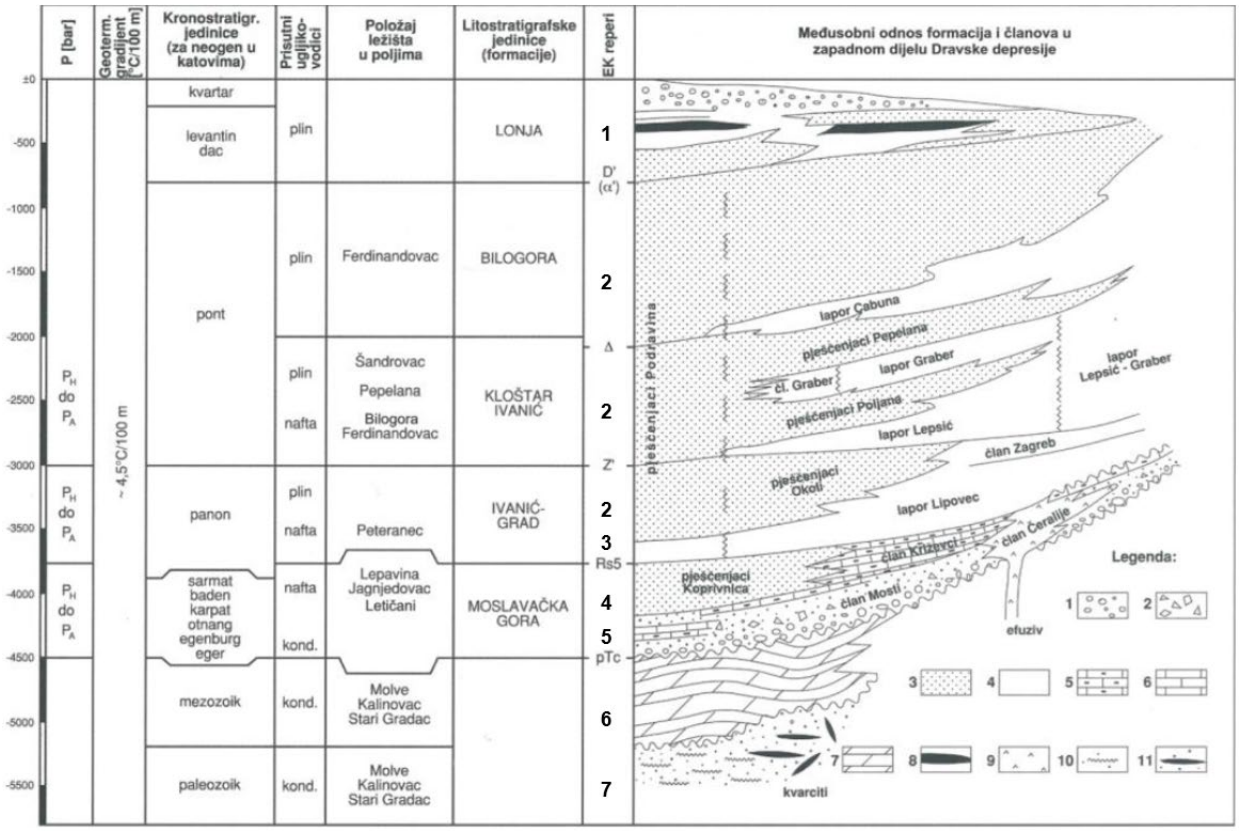


Figure 5 Schematic lithostratigraphic section of the Drava Depression

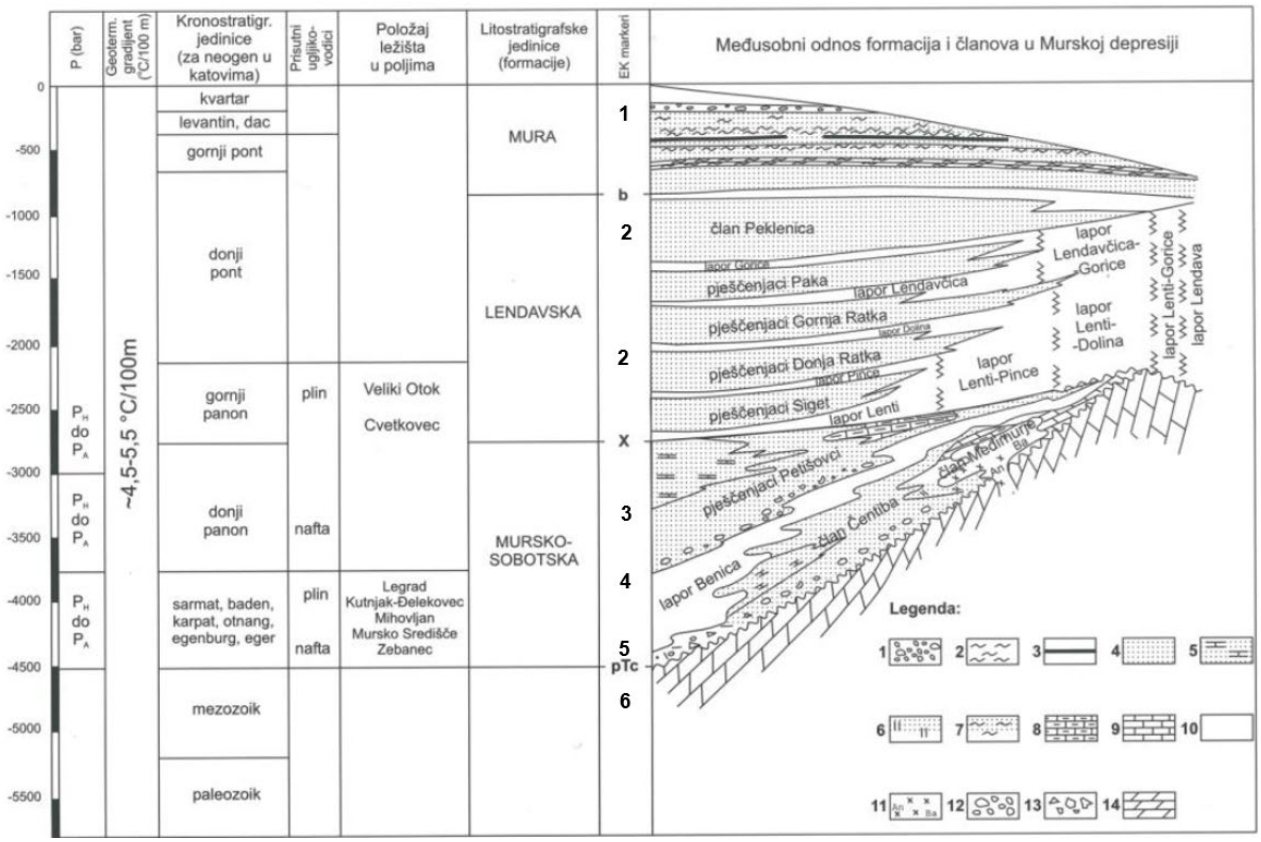


Figure 6 Schematic lithostratigraphic section of the Mura Depression

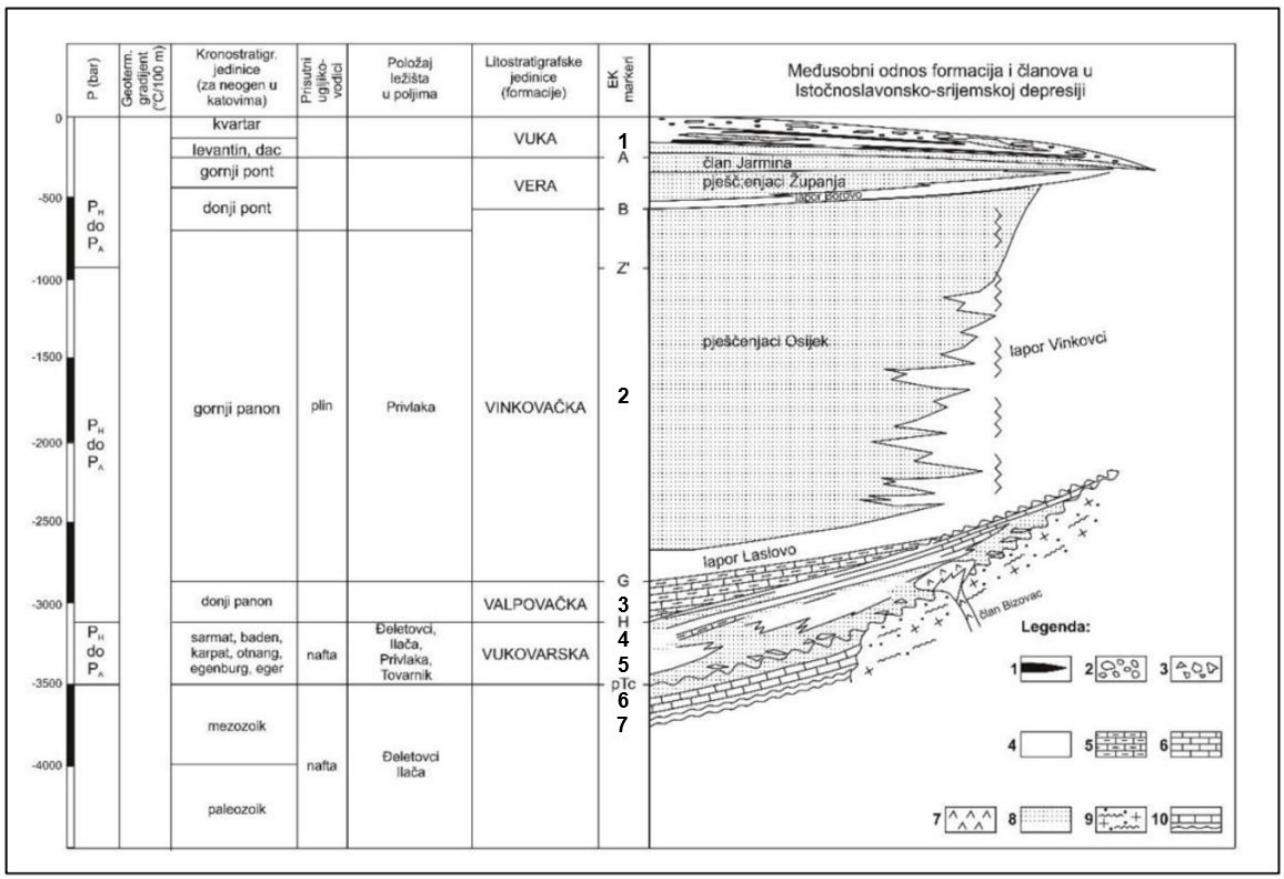


Figure 7 Schematic lithostratigraphic section of the Eastern Slavonia Depression

Within the shallow depressions, along the basin margins and in the central part of the basin, an erosional unconformity separates the basement from the overlying clastic and carbonate sediments deposited on platforms and in deep troughs formed during the Upper Permian, Triassic and Jurassic (**Unit 6**). The sediments of Unit 6 consist of shallow marine carbonates, dolomitic limestones and breccias deposited in the Middle Triassic when volcanic activity indicated fragmentation of the western Tethys.

The younger sediments of Unit 6 are carbonates deposited under conditions of a gradually deepening basin and submarine uplift. The end of this phase is marked by the Late Jurassic obduction of the ophiolites. This is followed by local uplift and erosion. Plate collision began in the Upper Cretaceous to the Paleocene. Therefore, the beginning of Unit 6 is marked by the initial overthrusting of the Dinarides and the development of flysch and molasse with deep layers aligned parallel to the movement of the overthrust system.

In the Sava and Drava depressions, the sediments of **Units 5 and 4**, which date from the Miocene, lie discordantly on the igneous, metamorphic, and sedimentary rocks of the basement. The formation of this unit is related to the Miocene wrench pull apart extension caused by the rotation of the Apulian Plate. It is assumed that the wrench faults form in weakened zones that were created during earlier overthrusting processes. In this way, fault bounded basins were formed (Sava and Drava) with a Dinaric orientation. These strong

movements led to rapid subsidence and fault-controlled non-marine and marine sedimentation, which lasted until the end of the Sarmatian. Initially, large quantities of breccias, conglomerates and various sandstones were deposited in alluvial fans, interconnected rivers, and coastal areas. At the same time, significant amounts of lava and pyroclastic rocks occurred, related to the activities of the basin margin wrench faults. Marine transgression in the Badenian formed limestone back-reefs, reefs, and fore-reefs. Later, some parts of the carbonates were redeposited as thick deposits of carbonate breccias.

During the period of slight subsidence, there was a migration of the reefs to the marginal areas of the basin and the formation of thick marl packages, rich in organic material, in the central areas. At the end of this phase during the Sarmatian, the slow thermal uplift and the strong erosion of the marginal parts of the depressions led to the formation of a regional unconformity.

Immediately after the Sarmatian uplift, thermal subsidence occurred due to the cooling of the lithosphere, with a relatively rapid filling of the newly formed basins. The regression, which was predominant from the end of the Middle Miocene to the present day, allowed the development of deltaic and turbiditic depositional systems and the filling of depressions. This cycle begins with the deposition of dark, organic-rich and anoxic Lower Pannonian marls (**Unit 3**) in the deeper parts of the basin. At the same time, light grey marls were deposited in the marginal areas.

The filling of the basin continued with the deposition of Upper Pannonian and Lower Pontian turbidite sandstones alternating with marly sandstones, sandy marls, and marls, and with the sedimentation of Upper Pontian sandstones, siltites and clayey marls, which together form **Unit 2**.

The last tectonic phase began in the Pliocene with the formation of a strong transgressive regime (**Unit 1**). Faulting within the basin was reactivated with the frequent occurrence of positive flower structures and associated anticlinal forms. Unit 1 ends with recent sediments.

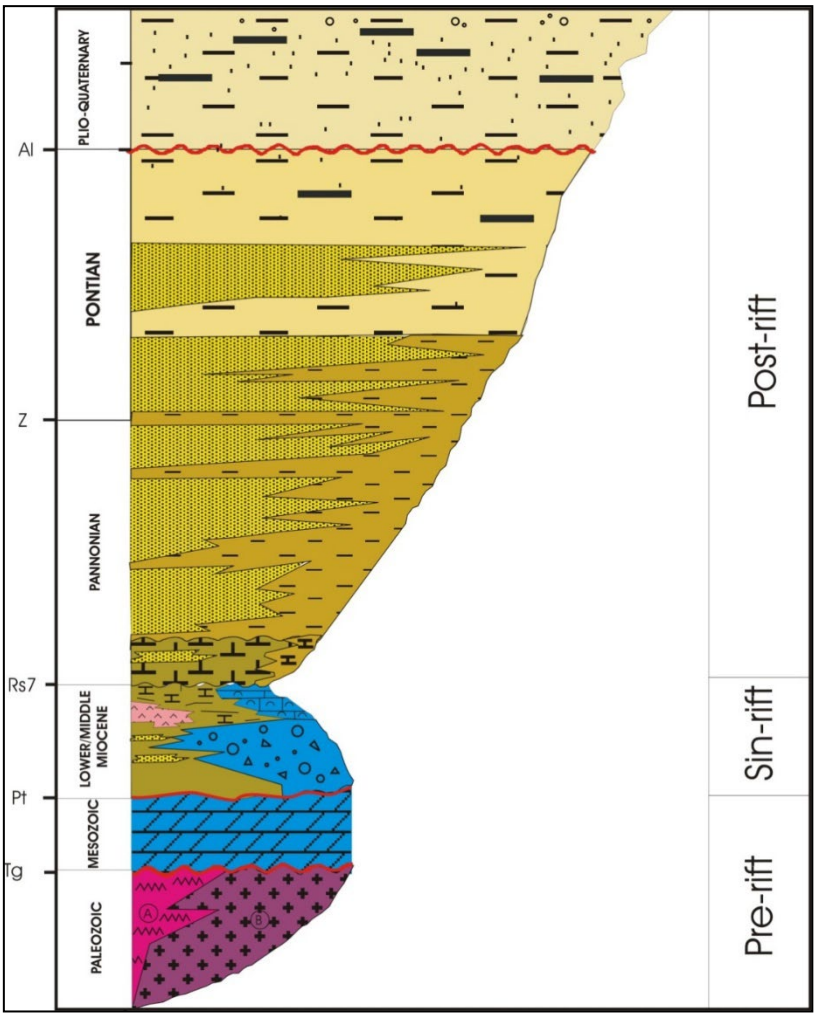


Figure 8 Schematic geological column of the Pannonian Basin

3. Petroleum systems

Source rocks

Source rocks of different chronostratigraphic affiliation have been found in the Drava and Sava Depressions:

- mudstones and siltites from the Lower Miocene,
- marls and calcite marls from the Pannonian, Sarmatian and Badenian.

The different maturity of the source rocks of the same stratigraphic units is related to the subsidence of the sediments and to the temperature anomalies at certain locations. The migration of hydrocarbons was short and occurred through the system of fault zones to shallower areas or by lateral drainage to higher structures or structural-stratigraphic traps.

Reservoirs

- Fractured metamorphic and igneous rocks of the basement
- Triassic limestones and dolomites

- Carbonates and clastics of Cretaceous and Palaeogene
- Lower and Middle Miocene clastics and carbonates
- Upper Miocene and Pliocene clastics of the Pannonian Basin

Seals

The main sealings within the basin are intraformational mudstones. In most fields, the clayey interval above the deposit is usually the sealing rock. In general, the impermeable sediments of the Neogene are the seals for all older deposits in the Pannonian Basin.

4. Geological Plays

There are 3 main groups of exploration goals in the Pannonian Basin: pre-rift play, syn-rift play and post-rift play (Figure 8).

1. The pre-rift play consists of igneous and metamorphic rocks of the basement. They consist mainly of granites, gabbros, gneisses, amphibolites and greenschists, which are often cataclysed and hydrothermally altered. Sometimes carbonates (limestones, dolomites, breccias and conglomerates) are found between the Neogene-Quaternary fill and the igneous and metamorphic rocks. The boundary between the older Palaeozoic and Mesozoic rocks of the Neogene basement and the younger sediments of the Neogene-Quaternary is a tectonic-erosional unconformity.
2. The syn-rift play is roughly defined by the tectonic-erosional unconformity Pt/Tg in the basement and the log marker Rs7 in the top. It is characterised by a heterogeneous lithological composition and chronostratigraphically covers the Lower and Middle Miocene. Lithologically, it consists of conglomerates, breccias, marly sandstones, calcitic sandstones, reef-type limestones, calcitic marls and clayey marls.
3. The post-rift play comprises clastic sediments deposited under conditions of thermal subsidence in the Upper Miocene and compression, inversion, and uplift of structures in the Pliocene. Lithologically, it consists of Lower Pannonian calcitic marls, Upper Pannonian, and Lower Pontian alterations of turbiditic fine-grained quartz-mica sandstones and marls, and Upper Pannonian and Pliocene poorly bonded sandstones, marly clays, clayey and sandy marls with some coal intercalations.

5. Geological Overview of Pannonian Depressions

Drava Depression

The young neotectonics uplift of Bilogora divides the Drava exploration area into the Drava Depression and the Bjelovar Subdepression.

The Drava Depression, which is also the largest in the region, occupies most of the area. The depression is oriented from northwest to southeast and has an asymmetrical contour with a slight northeast slope and a steep southwest edge that follows the slopes of Bilogora Mountain.

The basement consists of either metamorphic and intrusive rocks or carbonates, evaporites and flysch molasse deposits of the Mesozoic age.

The Miocene and Pliocene deposits formed during the syn-rift and post-rift phases. The occurrence of volcanic and pyroclastic rocks is characteristic of the Lower and Middle Miocene. The development of the Lower Pannonian differs from the usual development in other parts of the Pannonian Basin, as it consists of thick sandstone deposits. The Upper Pannonian and the Lower Pontian consist mostly of well-developed deposits of turbiditic sandstones, while in the Upper Pontian alteration of deltaic and alluvial sandstones and marls predominates. The thickness of the deposits in the deepest parts of the depression is over 6,000 meters (Figure 8).

The main production zones are found in carbonates and carbonate breccias of the Mesozoic, as well as in pyroclastic breccias and in effusive and reef-type limestones of the Lower and Middle Miocene. Parts of the Upper Pannonian and Pontian sandstones probably contain gas and condensate. Several smaller and shallower oil and gas fields are located within the complex flower structure of the Bilogora Mountain.

The Bjelovar Subdepression is located on the southwestern part of the Bilogora Mountain. It is divided into several paleomorphological uplifts of undefined orientation. The stratigraphic conditions are similar to those in the Drava Depression, but there are fewer Neogene deposits, which are less than 3,000 m thick. The turbiditic sandstones of the Upper Pannonian are absent, instead siltite and marl deposits were deposited. Several oil fields have been discovered at a depth of less than 1,200 meters. The most important deposits are fractured parts of the basement, Middle Miocene biocalcarenites and the Upper Pontian front delta sandstones.

The potential for discovery of new fields is in hidden structures and stratigraphic and structural-stratigraphic traps associated with coarse-grained clastic deposits of the Lower and Middle Miocene. Potential hydrocarbon traps are expected in Upper Miocene pinch-out sandstones and on uplifts.

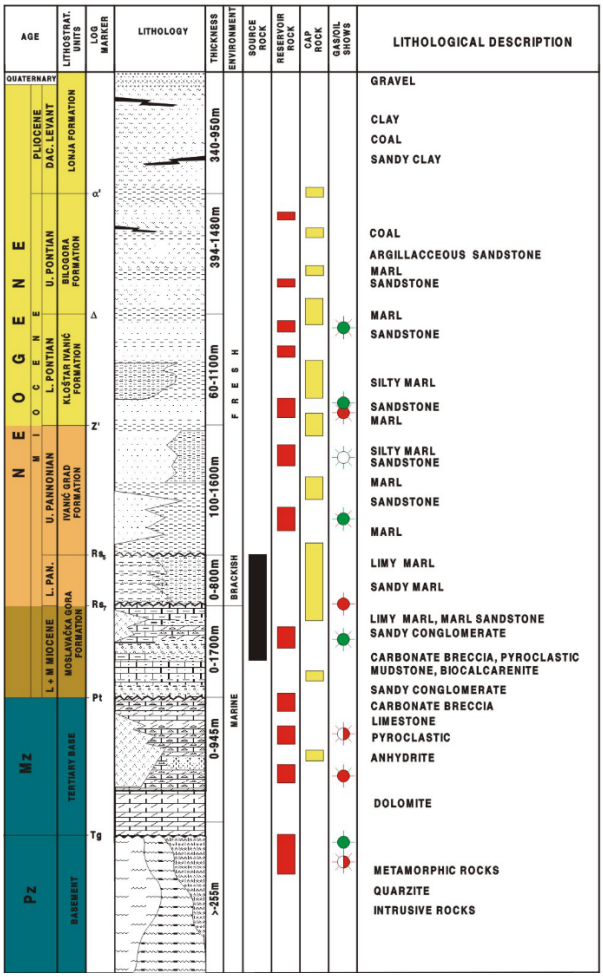


Figure 9 Geological column of the Drava Depression

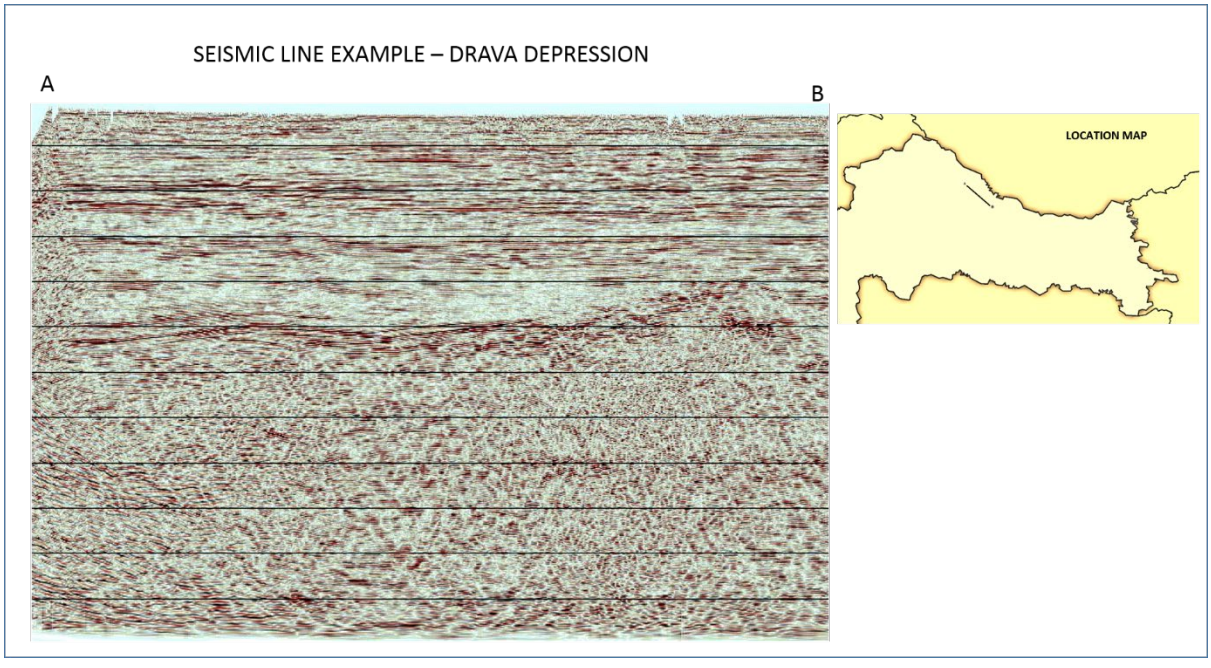


Figure 10 Example of the seismic profile in the Drava Depression

Mura Depression

The Mura Depression is situated in the southwestern part of the Pannonian Basin, where the Neogene sedimentary sequence reaches a maximum thickness of over 4000 m. Lower and Middle Miocene deposits overlie Mesozoic rocks composed predominantly of limestones and dolomites, interbedded with sandstones, siltstones, marls, and tuffs, which rest unconformably on the basement. Breccia-conglomerates, conglomeratic sandstones, and lithothamnion limestones with biocalcarenites are also present. Thick Badenian marl successions with excellent source rock properties are well developed.

Post-rift sediments are equally well developed, including Lower Pannonian marly limestones, Upper Pannonian and Lower Pontian turbiditic sandstones, as well as Upper Pontian and Pliocene deposits of deltaic and alluvial depositional systems.

The majority of reserves occur in fractured Mesozoic carbonates, while a smaller share is hosted in Miocene siliciclastic sediments (Figure 11). Most hydrocarbon accumulations are associated with structural and structural–stratigraphic traps.

Potential hydrocarbon reservoirs are expected within Mesozoic carbonates and in stratigraphic to structural–stratigraphic traps related to coarse-grained clastic deposits of the Lower and Middle Miocene. Additional hydrocarbon traps are anticipated in wedge-outs of Upper Miocene sandstones along basin margins and structural highs.

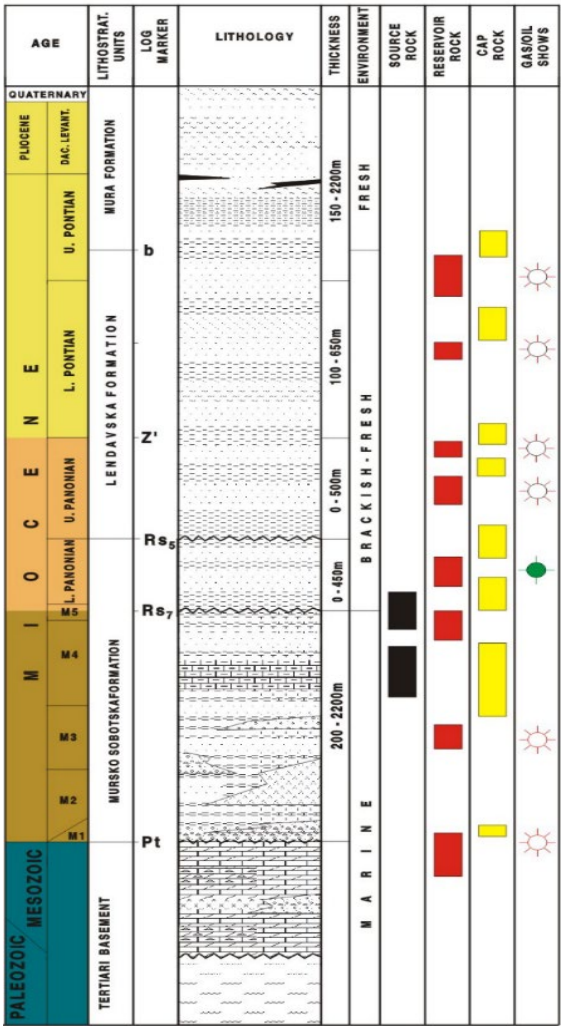


Figure 11 Geological column of the Mura Depression

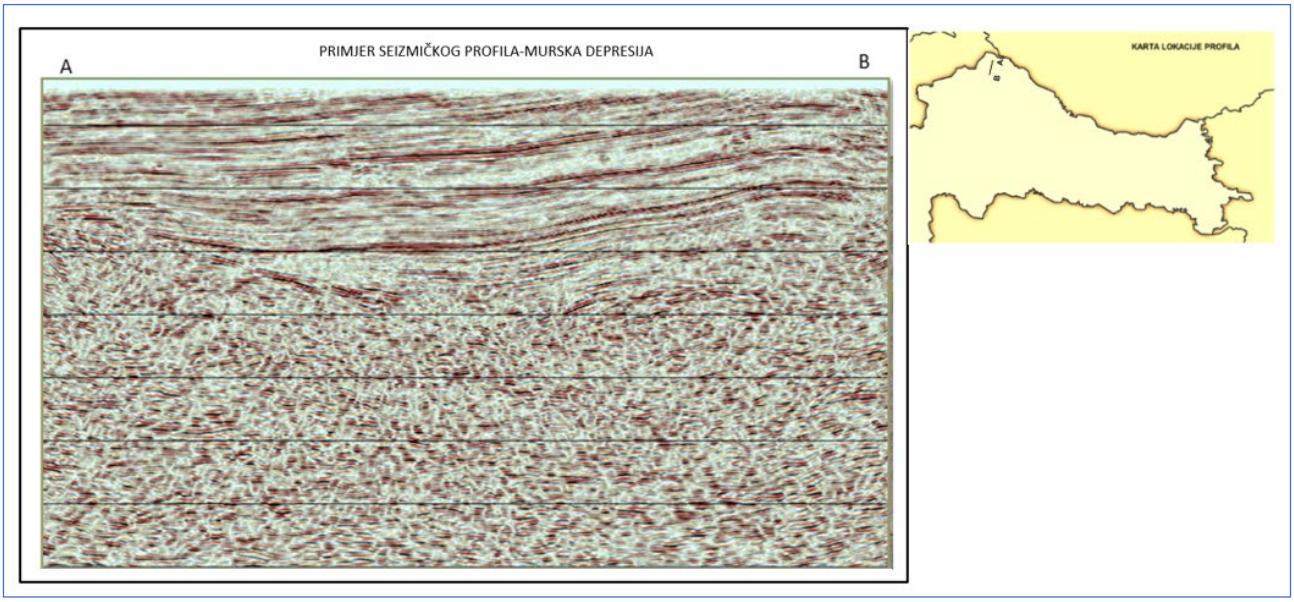


Figure 12 Example of the seismic profile in the Mura Depression

Slavonia-Srijem Depression

The Slavonia–Srijem Depression is characterized by a diversity of facies and significant thickness variations within a relatively small area, particularly in the case of Pannonian sediments/formations. These range from great thicknesses in the deeper parts of the basin to their complete absence in uplifted areas.

The Neogene sequence rests on a pre-Neogene basement composed of Mesozoic and Paleozoic magmatic, metamorphic, and sedimentary rocks. Within the Lower Paleozoic and Triassic successions, coarse-grained clastic deposits such as conglomeratic sandstones and conglomerates alternate with clay shales and phyllites. In places, limestones, tuffitic sandstones, and cherts are present, as well as diabases and tuffs related to Late Triassic volcanic activity, accompanied by hematitized limestones that mark this volcanogenic–sedimentary facies. The pre-Neogene succession of eastern Slavonia ends with Upper Cretaceous deposits, most commonly limestones and dolomites, with occasional andesite and dacite intrusions.

Miocene deposits of the Vukovar Formation were laid down across the entire region of eastern Slavonia, with the exception of the area southeast of Vinkovci, which persisted as islands during deposition. By the end of the Middle Miocene, large amounts of marl, clayey marl, and sands accumulated. During the Pannonian and Pontian, sedimentation continued with thick successions of marl, clayey marl, sandstones, and sands. The sedimentary cycle culminated in the Pliocene with sequences of clays, sands, and gravels, locally interbedded with coal seams.

Hydrocarbons are predominantly hosted in Upper Miocene turbiditic sandstones, as well as in Upper Pontian delta-front sandstones and distributary channel sandstones of the delta plain. Most accumulations occur in structural and structural–stratigraphic traps, while part of the reserves is found in tectonized intrusive rocks and basement complexes (Figure 13).

Potential hydrocarbon reservoirs are expected in the pre-Tertiary basement rocks, as well as in stratigraphic and structural–stratigraphic traps associated with coarse-grained clastic deposits of the Lower and Middle Miocene. Additional hydrocarbon traps are anticipated in wedge-outs of Upper Miocene sandstones along basin margins and structural highs.

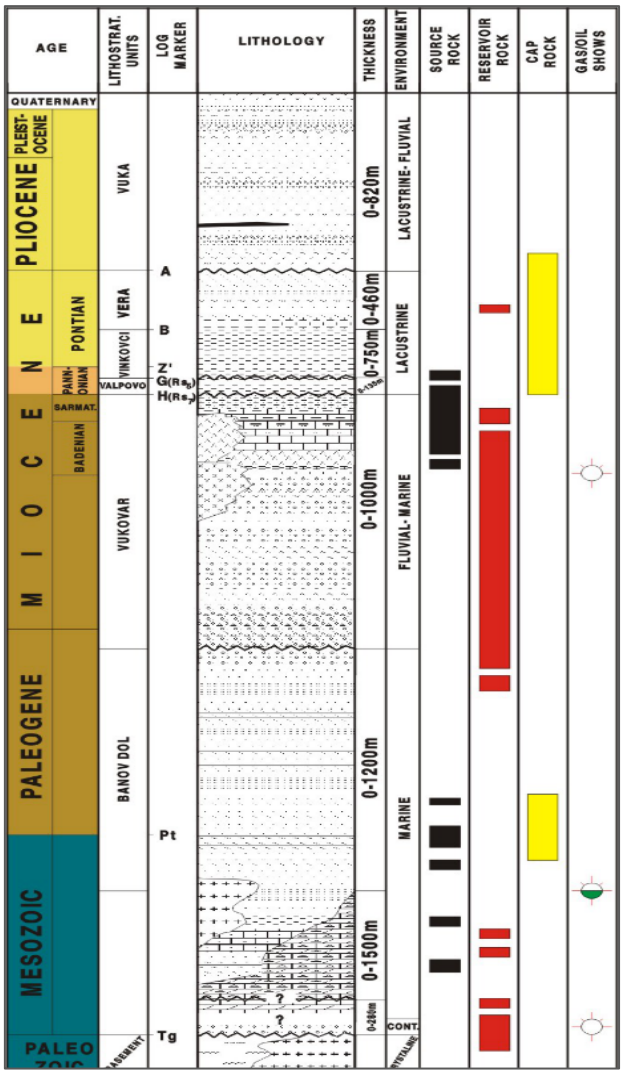


Figure 13 Geological column of the eastern part of Drava Depression and Slavonia-Srijem Depression

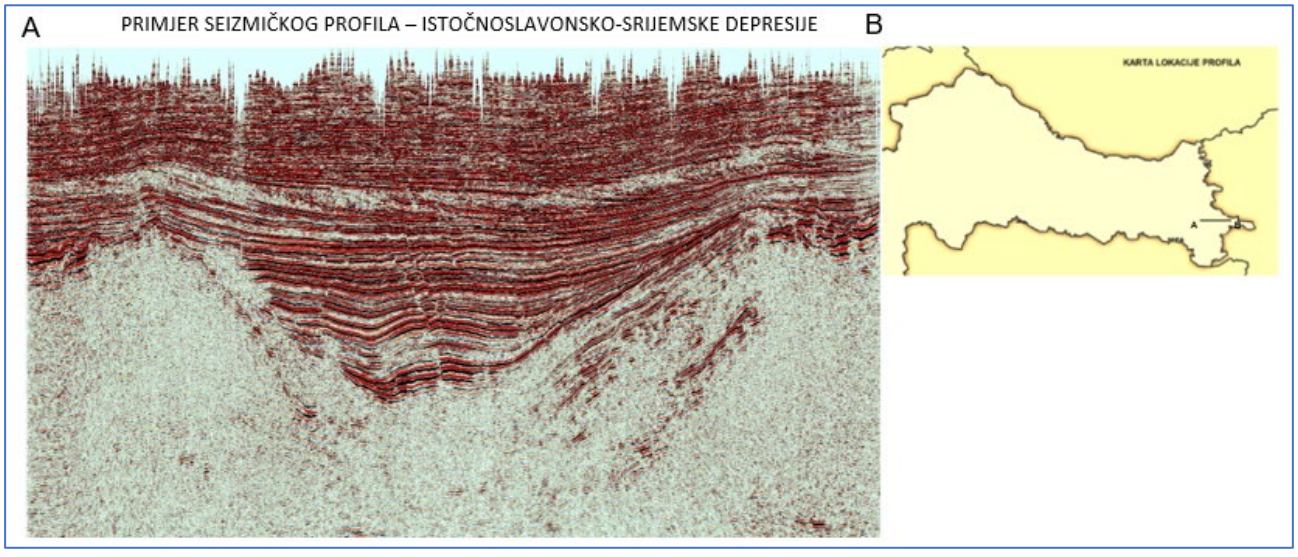


Figure 14 Example of the seismic profile in the Slavonia-Srijem Depression

ANNEX 5 BID SUBMISSION FORM

The bid for an exploration block must contain this form in both hard and digital copy. Documentation, certificates, and documents proving that the formal, financial, legal and technical requirements have been met, as well as the other requirements prescribed by the bidding instructions, are to be submitted in hard and digital copy.

In case of a bid by a consortium, each member must fill in the company information provided in section III.

Form for submitting bid for the exploration and production of hydrocarbons

I. BIDDING COMPANY/CONSORTIUM

(a) BIDDER OR OPERATOR

	NAME/COMPANY	PERCENTAGE OF PARTICIPATION
1.		

(b) OTHER MEMBERS (applies to consortiums)

	NAME/COMPANY	PERCENTAGE OF PARTICIPATION
1		
2		
3		
…		

II. LIST OF EXPLORATION BLOCKS FOR WHICH THE BID HAS BEEN SUBMITTED

NUMBER OF EXPLORATION BLOCKS	AREA OF EXPLORATION BLOCKS (km^2)
1.	
…	

III. COMPANY INFORMATION

All bidders must supply this information. In case of a bid made by a consortium, each consortium member must provide this information separately.

	Parameters	Requested information
(a)	Company name	
(b)	In case of a bid made by a consortium, name of the operator	
(c)	Seat	Place
		Country
		Postcode
(d)	Representative of the bidder	Name
		Function
		Phone
		E-mail
(e)	Name and address of the end controlling company (if applicable)	Name
		Address
		Phone
		E-mail
(f)	Total number of staff employed with the company of the bidder	

IV. INFORMATION ON FINANCIAL CAPACITY

Together with all of the documentation, certificates and documents listed in the bidding instructions, which prove that the bidder has met the financial requirements, it is also necessary to provide information on the balance categories stated below, for the purpose of calculating the net value of the company.

If the bidder is a consortium, then the net value of each consortium member must be equal to or greater than their share in the minimum financial obligations in the work programme.

Table 1. Calculation of net value: *(Company name)*

Financial capability (for the previous three years)	I Previous year	II Previous year	III Previous year
a) Value of assets, in millions of EUR			
b) Value of liabilities, in millions of EUR			
c) Net value, in millions of EUR (a - b)			

V. ELEMENTS OF THE BID

The following elements must be provided for each exploration block separately:

(A) MINIMUM WORK OBLIGATIONS FOR EACH EXPLORATION PERIOD

Precise definitions of the minimum obligations of the work programme for the first and second phase of the exploration period must be stated, in the sense of profile/km^2 of seismic surveys and number of exploratory holes (with purpose of drilling indicated). A realistic assessment of the probable pecuniary costs (in EUR) of meeting minimum work obligations must also be indicated. The likely pecuniary costs stated by the bidder must be included in the agreement. If the committee has reason to believe that the bidder has provided a low or unrealistic assessment of costs for meeting minimum work obligations, the committee may use its own assessments of costs for meeting minimum work obligations, and the qualification criteria of net value may also be evaluated in this sense. We would like to stress that uncertain and condition-dependent work programmes, as well as work programmes that have not been precisely elaborated, will be evaluated with a lower value. Furthermore, bidders must offer their minimum obligations of the work programme in the format presented below.

Remark: All cost estimates shall not be subject to any kind of escalations.

Table 2. Minimum work programme for each exploration phase

	First exploration phase – all items in the first phase of the exploration period are mandatory	**Value**	**Estimated cost (in EUR)**
1.	2D seismic surveys (lines)		
2.	3D seismic surveys (km^2)		
3.	Other activities:		
	Reprocessing of existing seismic data		
	Gravimetry/magnetometry		
	Other		
4.	Exploratory drilling (please state depth of drilling)		
Drilling works			
(a) 1st well			
(b) 2nd well			
(c) 3rd well			
(d) etc.			
Total estimated cost			

	Second exploration phase– in your bid, please clarify whether the work programme for this period is fixed, or if it depends on any conditions	**Value**	**Estimated cost (in EUR)**
1.	2D seismic surveys (lines)		
2.	3D seismic surveys (km^2)		
3.	Exploratory drilling (please state depth of drilling)		
Drilling works			

(a) 1st well						
(b) 2nd well						
(c) 3rd well						
(d) etc.						
Total estimated cost						

Remarks:

- Details on the obligations of the minimum work programme, together with the values and estimated costs, must be delivered for the second exploration phase. As admission to this phase depends on the results of the first exploration phase, the stated obligations do not represent fixed work obligations at this point.
- For exploratory drilling, please take into consideration that the evaluation of bids is based on the obligation of drilling (in metres).

(B) FEE FOR CONCLUSION OF AGREEMENT (SIGNATURE BONUS)

Signature bonus (amount): EUR _____

(Minimum amount in accordance with the Decree on the Fee for Exploration and Production of Hydrocarbons)

VI. PRIORITY ORDER OF EXPLORATION BLOCKS

If the bidder has submitted a bid for more than one exploration block, the priority order in relation to the relative interest of the bidder in each exploration block should be provided as follows

Priority order of exploration blocks

Number of exploration block	Priority order
	1
	2
	3

VII. GEOLOGICAL ASSESSMENT AND GEOLOGICAL MODEL

Pursuant to the requirements under Article 4.3 of these bidding instructions, the bidder must enclose a geological assessment and geological model in the broadest scope possible.

This document must contain the following information, to the broadest extent possible:

(a) For each exploration block, a description of the regional position and its geological importance within the basin/area

(b) Written summary of the potential of the area, the traces and perspectives spotted in the exploration blocks for which an application has been submitted, together with a forecast of data on accumulation and estimate of hydrocarbons at each exploration block

(c) Forecast of stratigraphy/lithology and target horizons

(d) Structural map (or isopach map, if it is of importance for the stratigraphic lead/prospect) of each potential horizon

(e) Short description of maps and summary of lead/prospect

(f) If possible, estimate of the future resources for each lead/prospect

Remarks:

– Bidders are expected to supply as many details as possible for the previously requested items, in order to make comparing bids as easy as possible for the committee. If this is not possible, please provide the reasons for this.

CHECKLIST OF REQUIREMENTS AND DOCUMENTATION	Yes	No	N/A
1. Cover letter (in accordance with the form in Annex 6 of these bidding instructions), the original of which has been filled in and signed by the representative of the bidder			
2. Power of attorney issued to the representative of the bidder which authorises them to perform certain actions in this bidding round on the behalf of and for the account of the bidder (if the bidder is a consortium, then all members of the consortium must issue a power of attorney to the representative of the bidder, i.e. the representative of the consortium)			
3. Consortium or association agreement, where applicable			
4. Consent of the controlling company for applying for the bidding round (document by virtue of which the controlling company confirms their familiarity with the bid and expresses their support, as well as their approval of the conditions of the draft agreement of its affiliated company/subsidiary, where applicable)			
5. Certificate on the payment of the bid fee in the amount of five thousand euro (EUR 5,000.00)			
6. Bid guarantee in the amount of five hundred thousand euro (EUR 500,000.00) in accordance with the form in Annex 7			
7. Excerpt from the court register and copy of memorandum/articles of association of the company from which it is evident that the bidder is registered to perform the activity of exploration and production of hydrocarbons. In the stated documents, the jurisdiction where the bidder is registered or was incorporated must be visible, together with the legal form of the bidder, the activities for which the bidder is registered, in which it has to be visible, where applicable, that the operator is registered for performing the activity of exploration and production of hydrocarbons, the jurisdiction where the bidder performs their business activities, management board, capital structure and management structure, including the legal relation between the bidder and the controlling company, if applicable, as well as the relation between the bidder and the other members of the group, if the bidder is the member of a group.			
8. Certified statement from a person legally authorised to represent the bidder on the non-existence of the circumstances under Article 17, paragraph 1, subparagraph 1,			

items a) through f), which must not be older than three (3) months prior to the end date for submitting bids. In such a certified statement, all of the circumstances listed in the mentioned items must be exhaustively listed.			
9. Certificates proving that the bidder does not have any outstanding debts pursuant to Article 17, paragraph 1, subparagraph 2 of the Act, which must not be older than three (3) months prior to the end date for submitting bids. (Remark: Bidders that do not have their seat in the Republic of Croatia shall prove the non-existence of such circumstances with corresponding certificates issued by the authorities of the country in which they have seat. In case a certain country does not issue certificates or documents of the previously described type, the bidder may give a suitable affidavit before a notary public or a competent court, administrative or commercial authority in the country of the seat of the bidder. In this case, instead of the stated certificates or documents, the bidder must enclose the corresponding certified affidavits to their bid. If the bidder is a consortium, all of the aforementioned information and documentation must be supplied for every consortium member separately)			
a) Certificate from the tax administration on the non-existence of debt, which proves that the bidder has no outstanding debts related to public levies, taxes and/or contributions for pension and health insurance in the Republic of Croatia			
b) Certificate from the energy inspection of the State inspectorate which certifies that the bidder has not been caught engaging in unlawful exploration and/or production of hydrocarbons. If the bidder was engaged in unlawful exploration and/or production of hydrocarbons, they are obliged to submit valid proof that they have reimbursed the Republic of Croatia for the incurred damages. A settlement shall also be considered to be valid proof, providing that the bidder has met all the due obligations defined by the settlement			
c) Certificate from the ministry in charge of energy affairs and the ministry in charge of finances which proves that the bidder has no outstanding debts in relation to fees for the exploration and production of hydrocarbons in the Republic of Croatia			
d) Certificate from the authority in charge of the management of state assets as a legal person with public authority which certifies that the bidder does not have any outstanding debts related to exploitation of forests and/or forestland, i.e.			

agricultural land, for the purpose of production of hydrocarbons in the Republic of Croatia			
e) Certificate from the ministry in charge of environmental protection which certifies that the bidder does not have any defaulted obligations related to the restoration and protection of the natural environment			
10. Certificate by which the bidder proves that they are not in the procedure of liquidation and that they have not suspended their business activities in the Republic of Croatia, issued by the competent court, in accordance with the requirements under Article 17, paragraph 1, subparagraph 4 of the Act, which must not be older than three (3) months prior to the end date for submitting bids. (Remark: Bidders that do not have their seat in the Republic of Croatia shall prove the non-existence of such circumstances with corresponding certificates issued by the authorities of the country in which they have seat. In case a certain country does not issue certificates or documents of the previously described type, the bidder may give a suitable affidavit before a notary public or a competent court, administrative or commercial authority in the country of the seat of the bidder. In this case, instead of the stated certificates or documents, the bidder must enclose the corresponding certified affidavits to their bid)			
11. A statement from a person that is legally authorised to represent the bidder, certifying the non-existence, i.e. possible existence of the circumstances under Article 17, paragraph 5, subparagraphs 1 through 5, in which all of the circumstances listed in the mentioned subparagraphs must be exhaustively listed. If the bidder happens to be in one of the situations listed in the stated subparagraphs, the bidder may supply proof to prove that the measures they have taken are sufficient to attest to their reliability. In case of this, the committee shall evaluate whether such proof is sufficient not to exclude the bidder from the bidding round, while taking into consideration the severity and the extenuating circumstances of the omission.			
12. Revised annual financial statements for the last three (3) years, which include the following: balance sheets, profit and loss accounts, summaries of the notes accompanying financial statements which briefly describe the accounting policies, i.e. provided information on the methods and standards pursuant to which the financial statements were drafted, and opinions of an independent auditor			
13. Calculation of the net value of the company made pursuant to the delivered revised financial statements. The net value of the company is calculated according to the method in Table 3,			

Annex 5. Alternatively, a certificate from an eminent and recognized institution in the form of a letter of intent or equivalent document, guaranteeing provision of the necessary amount of funds for the purpose of meeting the minimum working and financial obligations throughout the duration of the exploration period.			
14. Information on their ongoing projects in other countries related to the activities of exploration and production of petroleum and gas, if applicable, information on the total area held by the bidder (by state), if applicable, annual reports, production amounts and investments in exploration and production, for the period of the previous three (3) years if applicable, in which the role and level of responsibility for each project (operator or consortium member) must be stated. It is necessary to present a short summary of the bidder's experience in relevant projects in research, development and management, in which the role and level of responsibility for each project (operator or consortium member) must be stated.			
15. Statement issued by a person that is legally authorised to represent the bidder concerning whether, in the past five (5) years, any authority imposed on them a penalty or other measure due to harm inflicted on the environment, in relation to the activities of the bidder, regardless of the scope of activities			
16. The number of permanently employed staff involved in the exploration and production of hydrocarbons and a summary of information on key permanent technical staff for a period of five (5) years, including their roles in different projects			
17. A short report of the possible impacts of exploration and production on the environment, together with the planned measures and monitoring programme			
18. Geological assessment and geological model in the broadest possible sense, in accordance with the instructions under Annex 5			
19. Description of the concept and approach for the implementation of the research: with a detailed plan of works to be performed in the first exploration phase, detailed plan of works to be performed in the second exploration phase			
20. Minimum work programme for the research, by type and scope with estimated costs for each exploration phase (Annex 5, Table 4)			

21. Proposal of the plan for restoring the exploration block, with cost estimate and specification of the type of guarantee for decommissioning			
22. Fee for the conclusion of a production sharing agreement contained in Annex 5 (Item V, part B)			
23. Statement signed by the representative of the bidder, as defined in Annex 5, by virtue of which they confirm that they have reviewed and familiarised themselves with the provisions of the proposed draft agreement (Annex 8), and by which they consent for these provisions to constitute the basis of the production sharing agreement that is to be signed			
24. Filled Annex 5			

Bidders may not make proposals to change any condition of the bid after the end date for submitting bids has expired.

Bidders may be invited to clarify their technical approach to the exploration blocks which they have applied for.

ANNEX 6 COVER LETTER

Bidding round for the granting of licences for the onshore exploration and production of hydrocarbons – application for exploration block(s)

After having carefully studied the bidding instructions and the applicable legal regulations, and after having gained full knowledge of the scope of the bidding round, we, the company/consortium _____ hereby apply for this bidding round for granting of licences for the exploration and production of hydrocarbons at the exploration block(s) stated previously, in accordance with the bidding instructions. Please find our bid enclosed herewith.

We/I hereby confirm that we/I do not meet any of the categories listed in Article 3.1 of the bidding instructions, in the chapter ˝Reasons for exclusion from the bidding round˝.

If our/my bid is successful, we/I shall assume the obligation of concluding an agreement with the Government, in accordance with the content of the licence.

We/I accept to be bound by this bid for a period of three hundred and sixty (360) days, which starts elapsing on the day following the end date for submitting bids, as is stated in the bidding instructions (or in any period where the validity of the bid is extended, in accordance with these bidding instructions).

Signature of the representative of the bidder:

Name and function of the signatory:

Name of bidder/consortium members:

Bidder/consortium members:

Seat (full address):

Contact address (if different from the one previously stated):

Phone:

E-mail:

Date:

Remarks:

- The representative of the bidder must enclose proof of authorisation (power of attorney for performing certain actions within this bidding round on the behalf of and for the account of the bidder)
- If the bidder is a consortium, the representative of the bidder must enclose a power of attorney given by all of the consortium members
- All empty fields must be filled in

ANNEX 7 BID GUARANTEE

To: Republic of Croatia, Ministry of Economy and Sustainable Development, Radnička cesta 80, 10 000 Zagreb

From: [information on bank] ("Bank")

[Date]

BANK GUARANTEE no. [ ]

To: [name of bidder] ("Bidder ")

Value: five hundred thousand euro (EUR 500,000.00)

Subject: participation in the second bidding round for the granting of licences for the onshore exploration and production of hydrocarbons ("Bidding round")

The Bidder has notified us that they needed to obtain a bank guarantee in your favour, as provided for by the bidding instructions.

Bearing in mind the aforementioned, we, _____, at the request of the Bidder, issue this guarantee and irrevocably and unconditionally undertake to, at your first request, and without questioning the legal relationship between the Bidder and yourself, transfer a cash amount in the maximum amount of five hundred thousand euro (EUR 500,000.00) if you refer to the number of our guarantee and notify us of the onset of one of the following circumstances:

1. The Bidder withdrew their bid during the validity period of the bid;
2. The Bidder supplied false information in their bid;
3. The Bidder failed to deliver a guarantee for performing minimum work obligations;
4. .

The Bidder refused Licence and/or signing of agreement

For the purpose of identification, your request for payment must be submitted in fully written form and sent via your bank.

Your request will also be acceptable if it was sent by confirmed SWIFT via your bank, which confirms that the original request was sent by registered post or courier post, and that the signatures on the original request are legally binding to you.

Your request will be considered submitted once we are in possession of your written request for payment or confirmed SWIFT as previously described, sent to our address: _____.

We will accept each request that you make pursuant to this guarantee as conclusive proof that the amount being demanded pursuant to this guarantee is due, regardless of any disputes between the Bidder and yourself.

Payment shall be made regardless of any objections made by the Bidder, within five days from the receipt of the request in the form described above.

Any agreements made between the Bidder and yourself shall not cause our obligation pursuant to this guarantee to cease or have any other effect on it, and neither shall any changes in the obligations of the Bidder pursuant to the bid or any waiver in relation to payment, deadline execution or anything else do so (regardless of whether such an agreement, change or waiver was executed with our knowledge or approval).

This guarantee is valid and fully effective starting from the date thereof, lasting up to [date]. If, due to any reason, the end date for submitting bids is changed, the term of validity of this guarantee shall be changed accordingly.

In case of any dispute between the Bidder and yourself, the amounts payable pursuant to this guarantee shall not be deposited at a court or any other institution and will be paid directly to you instead.

Croatian law shall be applied to this guarantee, and it shall be interpreted in accordance with the same. Any disputes stemming from or in relation to this guarantee will be resolved according to the Arbitration Rules of the Permanent Arbitration Court at the Croatian Chamber of Commerce ("**Zagreb Rules**"), by a council composed of three arbitrators appointed in accordance with the stated Rules. The place of arbitration is Zagreb, Croatia.

For the Bank

ANNEX 8 DRAFT PRODUCTION SHARING AGREEMENT

Agreement made by and BETWEEN:

THE GOVERNMENT OF THE REPUBLIC OF CROATIA, represented by , Minister responsible for energy (hereinafter referred to as the "Government"),

and

, a company incorporated under the laws of the , represented by , which expression shall mean and include its successors and such assigns as are permitted hereunder (hereinafter referred to as the "Investor"),

on in Zagreb.

The Government and the Investor hereinafter are referred to either individually as "Party" or collectively as "Parties", and references to "Ministry" hereinafter are references to the Ministry acting on behalf of the Government, and references to the Ministry acting in its capacity as the ministry responsible for energy pursuant to the Act on the Exploration and Production of Hydrocarbons (Official Gazette of the Republic of Croatia no. 52/2018, 52/2019 and 30/2021) (Hereinafter referred to as the “Act”), as the context requires.

WITNESSETH:

WHEREAS, by virtue of the Act as amended or replaced from time to time, the ownership of Petroleum reserves wherever they are located in the Republic of Croatia, including the land, territorial waters, the continental shelf, and the exclusive economic zone, is vested in and is deemed to always have been vested entirely and solely in the Republic of Croatia; and

WHEREAS, the Act makes provision with respect to exploring for and producing Petroleum and authorises the Government to hold a bidding procedure, grant Licences for Petroleum recovery and conclude Agreements with Investors for an Exploration Block; and

WHEREAS, the Republic of Croatia aims to promote the development of Petroleum resources within and throughout the Exploration Block and the Investor desires to join and assist the Republic of Croatia in evaluating the Petroleum potential and promptly and efficiently developing Petroleum resources which may be discovered within the Exploration Block; and

WHEREAS, the Investor represents that it has the financial ability, technical competence, and professional skills necessary to carry out the Petroleum Operations hereinafter described; and WHEREAS, the Investor recognizes and accepts content of the Strategic Study of Environment Impact

of the Framework Plan and Programme of the Exploration and Production of Hydrocarbon as well as

terms and limitations which are defined in the Framework Plan and Programme for Exploration and Production of Hydrocarbons; and

WHEREAS, the Investor applied for and was granted the Licence for the Exploration and Production of Hydrocarbons over the Exploration Block described in Article 3 and shown on the map in Supplement B hereof and this Agreement has been approved by the Government decision for granting consent on Production Sharing Agreements from .

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

1 DEFINITIONS

1.1 In this Agreement, words importing the singular include the plural and vice versa, and except where the context otherwise indicates, shall have the meaning set forth in this Article.

1.2 Words that are not defined herein, but are defined in the Act and Regulations in force at any given time in the Republic of Croatia, shall have the meanings set forth in the aforementioned Act and regulations.

1.3 Any legislation and regulation referred to in this Agreement shall mean legislation or regulation in force on the Effective Date and includes any amendment(s) thereto.

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

1.5 Unless otherwise defined in the Agreement, the technical terms and standards used herein, but only in relation to the performance of Petroleum Operations, have the meaning given by the American Petroleum Institute.

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

Accounting Procedure means the rules and procedures aimed at establishing a method of classifying and determining the costs of Hydrocarbons for the purpose of reimbursement of costs, as set out in Annex C to this Agreement and form an integral part thereof.

Affiliated Company means a legal entity that has a mutual relationship with one of the Parties, such as: company holding majority of shares or majority of voting rights, dependent and controlling company, concern company, companies with mutual shares or companies connected by entrepreneurial agreements, as described and defined by the regulation governing tradingl companies.

Agency means the Croatian Hydrocarbon Agency currently acting as a public authority as defined in the Act and/or any amending or succeeding act thereto or other body or person as its legal successor or which has overtaken its responsibilities under this Agreement.

Agreement Area means the area on which Investor has the right to conduct Petroleum Operations, and whose surface is reduced over the time during the term of this Agreement. Originally, the Agreement Area is equivalent to Exploration Block which is during the term of this Agreement subject to relinquishment, and in the case of Commercial Discovery subject to the determination of Exploitation Field(s) pursuant to the terms of this Agreement.

Agreement Year means a period of twelve (12) months commencing on the Effective Date, or on any anniversary of it, and ending on the calendar day immediately before the next anniversary thereof.

Agreement means this present document and pertaining Supplements which are made an integral part hereof and any amendments made thereto pursuant to the terms thereof.

Applicable Environment and Nature Protection Legislation means environmental and nature protection legislation, whether primary or secondary, national, European Union or international, applicable from time to time in the Republic of Croatia, and includes judgments, rulings and orders of any competent court.

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

Appraisal Area means a geographical area within the Exploration Block, encompassing the surface of the Geological Structure(s) or prospect(s) where Appraisal is intended to be performed within Exploration and a reasonable margin surrounding such Discovery.

Appraisal Works means any and all works performed as part of the Exploration, within the Appraisal Area in order to delineate one or more Reservoirs in terms of the thickness and lateral reach, and for the purposes of determining the physical reach (areal extensions), Reservoirs and the probable capacity of production from the Petroleum Reservoir(s).

Appraisal Well means a Well drilled within Exploration, in the Appraisal Area, for the purposes of delineating a Reservoir (or several Reservoirs), in terms of thickness and lateral extent and estimating the quantity of recoverable Petroleum therein as well as the production conditions.

Arm's Length Sale means sales of Petroleum in freely convertible currencies between sellers and buyers having no direct or indirect relationship or common interest whatsoever with each other that could reasonably influence the sales price, and shall, inter alia, exclude sales (whether direct or indirect, through brokers or otherwise) involving Affiliates, sales between companies which are Parties to this Agreement, sales between governments and government-owned entities, counter trades, restricted or distress sales, sales involving barter arrangements and generally any transactions motivated in whole or in part by considerations other than normal commercial practices.

Produced Gas means natural gas produced from the Exploitation Field, measured at the Measurement Point.

Produced Oil means crude oil produced from the Exploitation Field, measured at the Measurement Point.

Produced Hydrocarbons means recovered oil, gas or condensate produced from the Exploitation Field, measured at the Measurement Point.

Barrel means a quantity or unit of Crude Oil equal to 158.9874 litres (forty-two [42] United States gallons) at a temperature of 15 degrees centigrade (sixty [60] degrees Fahrenheit) under one atmosphere of pressure.

Budget means the estimated costs expected to be incurred during the implementation of an approved Work Programme and forming an integral part of any Work Programme.

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

Capital Expenses means those expenses, other than Operating Expenses, incurred by the Investor in conducting Petroleum Operations, both within the Agreement Area and up to the Delivery Point(s), and shall include all capital expenses related to Exploration, appraisal, Development and Production Operations, as determined in accordance with the Accounting Procedure attached hereto as Supplement C.

Commercial Discovery means every Discovery or a number of Discoveries of reserves of Petroleum laid down in the Reserves Study that, pursuant to the Act, justify the production of discovered Petroleum reserves.

Production Licence for Hydrocarbons shall have a meaning as defined in the Act and or any amending or succeeding legislation thereto.

Cost Gas means the portion of the Produced Gas, less the quantity required for Royalty payment, as set out in accordance with Article 14 that the Investor may retain each Calendar Year for the purposes of recovery of its Petroleum Costs.

Cost Oil means the portion of the Produced Oil, less the quantity required for Royalty payment, as set out in accordance with Article 14 that the Investor may retain each Calendar Year for the purposes of recovery of its Petroleum Costs.

Cost Petroleum means Cost Oil and/or Cost Gas.

Crude oil means produced, unrefined petroleum at a temperature of 15 °C and pressure of 1 atmosphere and the Crude Oil known as condensate and Natural Gas liquids and other Hydrocarbons obtained from Natural Gas by condensation or extraction as well as non-petroleum liquid or liquids produced in association with liquid or gaseous petroleum.

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

Decommissioning Cost has the meaning given in Article 9.1.1.

Decommissioning Plan means a plan of works, and the estimate of those costs for the purposes of Decommissioning, in accordance with the verified Development and Production Plan.

Decommissioning means all works necessary for the relinquishment and rehabilitation of the Exploration Block or Exploitation Field, i.e. area no longer required for Petroleum Operations in accordance with this Act and regulations adopted pursuant to this Act, as well as the International Good Oilfield Practice.

Delivery Point means the point or points, located either inside or outside the Exploitation Field, located beyond the Measurement Point, at which petroleum or Geothermal Waters reach the outlet flange of the delivery facility, and may be the entry point into the Local Pipeline or main pipeline or an outlet flange of the Well or another case as specified in the verified Development and Production Plan, or such other point or points which may be agreed by the Ministry and the Investor.

Designated Area means the area pertaining to a Discovery that does not merit Appraisal or is not a Commercial Discovery or a Significant Gas Discovery, as provided for in Article 5.3.

Development and Production Costs means all approved costs the Investor shall bear as part of the development and production, excluding costs incurred on the corresponding Exploration Area before the Discovery has been declared as Commercial Discovery, all as determined in accordance with the Accounting Procedure attached hereto as Supplement C.

Development and Production Plan means the petroleum plan that shall be developed in accordance with the Act and Regulations.

Development and Production Operations means, without limitation:

– all the works and activities with respect to the drilling of Wells other than Exploration Wells and Appraisal Wells, the deepening, plugging, sidetracking of such Wells, including the plan, construction and installation of such equipment, pipeline or lines, plants, production units and all other systems that relate to such Wells and may be necessary pursuant to the verified Development and Production Plan; and

(ii) all operations and activities relating to the servicing and maintenance of pipelines, lines, installations, production units, and all related activities for Production and management of Wells conducted to facilitate and enable the extraction and the production of Petroleum.

Discovery Well means an Exploration Well that hits a Discovery.

Discovery means an occurrence of Petroleum recovered at any drilled structure, which was not previously known to have existed and which is measurable by conventional petroleum industry practices.

Effective Date means the date of execution of this Agreement by the Parties, as set out in Article 40. Environmental Damage means any damage, disturbance or hindrance to the environment, such as significant soil erosion, removal of vegetation, destruction of wildlife, marine organisms, pollution of groundwater, pollution of surface water, land or sea contamination, air pollution, noise pollution, bush fire, disruption of water supplies, disruption of natural drainage, damage to archaeological, paleontological and cultural sites, in accordance with the regulations on environmental protection, nature and preservation of cultural objects, as well as other regulations.

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

EU or European Union means the political and economic union of member states that are located in Europe originally established by the Treaty of Lisbon under its current name in 2009.

Exploitation Field means an onshore or offshore area confined by the geographic coordinates of its peak points and restricted in its depth, following the borders of a Reservoir of Hydrocarbons.

Production Period means a period of time running from the Government issuing of a Production Licence.

Exploration Block means a part of an area confined by the geographic coordinates of its peak points on land or at sea, which has been, after an implemented Licence round, designated for Petroleum Exploration based on the Licence.

Exploration Costs means all eligible costs that the Investor shall bear during the Exploration pursuant to the issued Licence for the Exploration and Production of Hydrocarbons and the concluded Production Sharing Agreement.

Exploration means all Exploration Operations and activities aimed at the determination of the presence, position and shape of Petroleum Reservoirs, their quantity, quality and the production conditions, including but not limited to:

– geophysical and other geological surveys, the interpretation of collected data and their study treatment;

– drilling, deepening, deviation, completion, testing, suspension or the abandonment of Exploration Wells;

– Decommissioning;

– purchase or procurement of the goods, services, materials and equipment required by the aforementioned works.

Exploration Period means the period specified in the Agreement during which the Investor may carry out Exploration Operations.

Exploration Phase or phase means a period within the Exploration Period during which the Investor undertook to perform Minimum Work Obligations pursuant to the concluded Agreement on the Exploration and Production of Hydrocarbons; there are two Exploration Phases - the first Exploration Phase lasts for the first three years of Exploration and the second Exploration Phase lasts for two years of Exploration following the end of the first Exploration Phase.

Exploration Well means any Well drilled for the purpose of confirming the existence, location and shape of a Petroleum Reservoir, and Petroleum volume and quality.

Field means a hydrocarbon Reservoir or multiple hydrocarbon Reservoirs all grouped into or related to the same individual geological structural features or stratigraphic conditions.

FOB means Free on Board at the Delivery Point and has the meaning set out in the ICC's international rules for the interpretation of commercial terms (Incoterms 2010), and refers to the realised sales price for the Investor’s Production Share at the point of sale less transportation, insurance and handling costs beyond the Delivery Point.

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

Government means the Government of the Republic of Croatia.

Gross Negligence or Wilful Misconduct shall have a meaning as defined in the act which regulates civil obligations.

Development and Production Preliminary Plan means the Development and Production Preliminary Plan as defined in accordance with Article 7.1 herein. The Development and Production Preliminary Plan shall be developed pursuant to the Act and regulations.

International Good Oilfield Practice means practices and procedures, recognised and continuously updated by the Society of Petroleum Engineers (SPE) used internationally by prudent operators in conditions and circumstances similar to the ones relating to the Petroleum Operations in the Exploration Block or Exploitation Field, all in accordance with the European Union practice, with the aim to:

– conserve Hydrocarbons by increasing the recoverability of Hydrocarbons in a technically and economically sustainable manner, with a corresponding control of reserves decline and minimization of losses at the surface;

– improve operational safety and protection from accidents; and

– protect the environment and nature by minimizing the impact of Petroleum Operations on the environment and nature.

Investor Parties means any party with a participating interest in the Investor's rights and obligations under this Agreement.

Act means the Act on the Exploration and Production of Hydrocarbons (Official Gazette of the Republic of Croatia, No. 52/2018) and/or any other act amending or succeeding Act thereto.

Licence means a Licence for the Exploration and Production of Hydrocarbons and shall have the meaning as defined in the Act and/or any amending or succeeding Act thereto.

Lifting Schedule means the planned Programme of Petroleum lifting by each Party approved by the Ministry.

Market Price means the price as specified in Article 16.2 in relation to Crude Oil and 16.3 in relation to Natural Gas.

Measurement Point means the place or places designated in the verified Development and Production Plan where appropriate equipment shall be located for the purpose of performing volumetric measurements and other determinations, temperature and other adjustments, determination of water and sediment and other appropriate measurements, all to establish the recovered quantities of Hydrocarbons.

Minimum Financial Obligation means the minimum monetary cost to which the Investor committed in respect to Minimum Work Obligations, as defined in Article 5.2 of the Agreement.

Minimum Work Obligations means the minimum of Hydrocarbon Exploration obligations that the Investor undertook to perform during an individual Exploration Phase, as defined in Article 5.2 of the Agreement.

Petroleum Plans means plans developed for the purposes of performing Petroleum Operations in accordance with this Act and regulations adopted pursuant to this Act.

Ministry means the ministry competent for energy.

Natural Gas means a mixture of petroleum gases, petroleum gases with additions of other natural gas, and other natural gas mixture.

Negligence shall have the meaning as defined in the act regulating civil obligations.

Operating Costs means those costs described in Article 2.4 of the Supplement C.

Operator means the company appointed pursuant to Article 12 to serve as Operator with responsibility for carrying out Petroleum Operations in the Agreement Area, in accordance with the provisions of this Agreement on behalf of the Investor.

Initial Agreement Area means the Exploration Block, as described in Article 3.2 and delineated on the map attached as Supplement B.

Person means any individual, company, partnership, joint venture, association, trust or other legal entity.

Petroleum costs means all costs, expenditures and obligations incurred to the Investor during the performance of petroleum operation determined hereunder, determined in accordance with the Accounting Procedure attached hereto as Supplement C.

Petroleum Operations means all Hydrocarbon Exploration and Production works pursuant to the Act, including hydrocarbon lifting from the Exploitation Field, but excluding the storage, transport or processing after the Delivery Point.

Petroleum means oil, natural gas and gas condensate.

Production means the recovery of Hydrocarbons from Reservoirs, treating of Hydrocarbons, transport of Hydrocarbons to the Delivery Point, including the pipelines when they have a technological connection to the established Exploitation Fields and Decommissioning. Production shall include but not be limited to:

– all the works and activities with respect to the drilling of Wells other than Exploration Wells and Appraisal Wells, the deepening, plugging, sidetracking of such Wells, including the plan, construction and installation of such equipment, pipeline or lines, plants, production units and all other systems that relate to such Wells and may be necessary pursuant to the verified Development and Production Plan; and

– all the works and activities relating to the servicing and maintenance of pipelines, lines, installations, production units, and all activities relating to Production and management of Wells conducted to facilitate and enable the extraction and the production of Petroleum.

Production Share means, in relation to the Investor, the total share of Petroleum production from the Exploitation Field that the Investor is entitled to under the cost recovery provisions of Article 14 and the Profit Petroleum provision of Article 14, as appropriate.

Profit Gas means the Produced Gas, less the quantity required for Royalty payment and after the Investor has taken the Cost Gas pursuant to the provisions of Article 14.2.

Profit Oil means the Produced Oil, less the quantity required for Royalty payment after the Investor has taken the Cost Oil pursuant to the provisions of Article 14.2.

Profit Hydrocarbons means Profit Oil and/or Profit Gas.

Corporate Income Tax means the tax on profits from Petroleum Operations payable by the Investor Parties pursuant to Article 24.

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

R-factor means the profitability mechanism used by the Parties to determine profit Petroleum allocations, as defined in Article 14.

Regulations means the regulations issued under the Act and any other acts and regulations adopted in the Republic of Croatia and applicable to Petroleum Operations.

Reserves Study means categorising and classifying hydrocarbon reserves and confirming the commercial potential of the Reservoir.

Reservoir means any sedimentary, igneous or metamorphic porous rocks that contain natural accumulation of Hydrocarbons or Geothermal Waters, but are confined by cap rocks and represent a single Hydrodynamic Unit.

Royalty means the Fee defined in Article 14.1.

Significant Gas Discovery Area means the area within the Exploration Block, encompassing the surface of the Significant Gas Discovery.

Significant Gas Discovery means a Discovery of Natural Gas from an Exploration Well within the Exploration Block which has tested significant flow rates and/or has potential for commercial production of Natural Gas (predominantly methane) from one or more Reservoirs, and which is estimated to be capable of continuous production from the said Reservoir(s) over a reasonable period and which in the opinion of the Investor could be declared a Commercial Discovery in the future, provided inter alia that:

(a) adequate Natural Gas pipeline transportation facilities are installed; or

(B) commercially accessible markets have been sufficiently developed for sale of Natural Gas on a commercial basis.

Subcontractor means any company or person contracted by the Investor or its Subcontractor to provide goods, works or services in connection with Petroleum Operations.

Supplement means any and all of the supplements:

Supplement A – Coordinates of the Exploration Block;

Supplement B – Map of the Exploration Block;

Supplement C – Cost Accounting Procedure;

Supplement D – Form of Bank Guarantee;

Supplement E – Form of Parent Company Guarantee or Corporate Guarantee.

Each and all of them being an integral part of this Agreement.

Area means the land territory, the internal waters, the territorial waters, the continental shelf and the exclusive economic zone of the Republic of Croatia.

Unit development plan means the plan for unit development of the hydrocarbon Reservoir located partly in the Discovery area within one Exploration Block or Exploitation Field, and partly within a neighbouring Exploration Block or Exploitation Field on the territory of the Republic of Croatia in which other parties have the right to perform Petroleum Operations or within the borders of a neighbouring country.

Well means a petroleum facility constructed by drilling in underground formations from a starting point on ground surface or at the bottom of water bodies to a final depth, for the purposes of Exploration and Production of crude oil or natural gas or Geothermal Waters or for injecting any kind of fluid in a hydrocarbon Reservoir, other than a seismic Well or a structure test Well or stratigraphic test Well.

Work Programme means the annual specification of Petroleum Operations that the Investor intends to carry pout in accordance with this Agreement during the Calendar Year or a part thereof.

2 GRANT OF RIGHTS, TITLE TO PETROLEUM

2.1 Grant of Rights

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

2.2 Title to Petroleum

The Republic of Croatia shall remain the sole owner of all Petroleum produced pursuant to the provisions of this Agreement except as regards that part of Petroleum, the title whereof has passed to the Investor in accordance with the provisions of this Agreement.

Title to Cost Oil and Cost Gas and the Investor's share of Profit Gas and Profit Oil shall pass to the Investor at the Delivery Point.

3 TERM OF THE AGREEMENT AND AGREEMENT AREA

3.1 Term of the Agreement

3.1.1 This Agreement shall remain in force for a term of duration of the Licence issued pursuant to requirements of the Act. The total duration of the Agreement shall not exceed thirty (30) years unless extended upon mutual Agreement of the Parties at the request of the Investor for the purpose of a rational Production of Hydrocarbons and protection of the Reservoirs.

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

3.1.3 The Agreement may be extended upon mutual Agreement of the Parties pursuant to provisions of the Act.

3.2 Original Agreement Area

3.2.1 The Original Agreement Area covers the Exploration Block and extends over an area of , delimited by the coordinates detailed in Supplement A, and as detailed and indicated on the map attached in Supplement B.

3.2.2 The Government, by execution of this Agreement, hereby validates and approves the foregoing coordinates of the Exploration Block.

4 WORK PROGRAMMES AND BUDGETS

4.1.1 No later than ninety (90) days prior to the beginning of each Calendar Year, and for the first Calendar Year, no later than one (1) month after the Effective Date, the Investor shall prepare and submit to the Agency a detailing by the Quarters itemized annual Work Programme and Budget for the Agreement Area, setting forth the Petroleum Operations the Investor proposes to carry out during the ensuing Calendar Year. Where appropriate, the annual Work Programme and Budget shall be aligned with Minimum Work Obligations and Mining plans. The Agency gives approval by written opinion on the annual Work Programme and Budget.

4.1.2 Each annual Work Programme and the corresponding annual Budget shall be divided into the various Exploration Operations and, as the case may be, the Appraisal with respect to

each Appraisal Area, and the Development and Production Operations with respect to each Exploitation Field. The Work Programme(s) submitted by the Investor for each Calendar Year shall be accompanied by an indicative schedule of operations to be conducted in the coming year.

4.1.3 The Agency may propose amendments to the annual Work Programme and corresponding annual Budget by notice to the Investor, including all justifications deemed necessary, within thirty

(30) days following receipt of said Work Programme. In such a case, the Agency and the Investor shall meet as soon as possible to review the requested amendments and establish by mutual Agreement the annual Work Programme and corresponding annual Budget in final form, in accordance with International Good Oilfield Practice. The date of the favourable opinion on the annual Work Programme and the corresponding annual Budget shall be the date of the above-mentioned mutual Agreement. If the Agency and the Investor do not reach an Agreement regarding the amendments or modifications proposed by the Agency before the end of the Calendar Year in which the annual Work Programme and corresponding annual Budget were submitted, the Investor shall be allowed to proceed under its proposed annual Work Programme and Budget to the minimum extent necessary to complete its Minimum Work Obligations specified in Article 5 or to ensure safe operations.

4.1.4 Failing notice by the Agency to the Investor of the need to amend or modify the annual Work Programme and corresponding annual Budget within the abovementioned period of thirty (30) days, said Work Programme and Budget shall be deemed approved by the Agency by its favourable opinion upon the expiry date of said period.

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

4.1.6 In that case, after notification to the Agency, the Investor may make such modifications provided the basic objectives of the annual Work Programme are not modified and that those modifications are in accordance with the Petroleum Plans.

4.1.7 In any case, the costs incurred for purposes of such modifications shall not be higher than initial Annual Budget for which the Agency issued a favourable opinion by more than five percent (5 %) or ten percent (10 %) for any individual item within the initial Annual Budget, without its written consent, which shall not be unreasonably withheld. Such consent shall be given within maximum fifteen (15) days from the date the modification is submitted for consideration.

4.1.8 The Investor shall, within thirty (30) days after the end of each calendar Quarter, deliver to the Agency a status report on the conducted operations and incurred costs under the approved Work Programme and Budget during the calendar Quarter in question. The status report shall forecast any significant changes to such approved Work Programme and Budget that Investor anticipates may be necessary during the balance of the Calendar Year. The report for the final Quarter of each Calendar Year shall also include a year-end summary of operations and costs during the Calendar Year in question.

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

5 Exploration

5.1 Exploration Period

5.1.1 The Exploration Period shall commence on the Effective Date and have a duration of five (5) Years, which shall be divided into Exploration Phases as follows:

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

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

The Exploration Period can be extended pursuant to the requirements of the Act twice for a further period of six (6) months each in accordance with the provisions of the Act by submitting written request for extension ninety (90) days prior to the expiry of the current phase. Extension of the Exploration Period for two periods of six (6) months can be consecutive or singular.

5.1.2 At the expiry of Phase I of the Exploration Period, provided that the Investor has completed the Minimum Work Obligation for that Exploration Phase, the Investor shall have the option, exercisable by filing a written application to the Agency at least two (2) months prior to the expiry of Phase I:

(a) to proceed to Phase II on presentation of the required securities as provided for in Article 15; or

(b) to relinquish the entire Exploration Block except for any Appraisal Area and any Exploitation Field, whether granted or with applications submitted, and to conduct Appraisal Operations and/or Development and Production Operations in relation to any Commercial Discovery in accordance with the terms of this Agreement, and the Investor shall have no further obligation in respect of the Minimum Work Obligation for the subsequent Exploration Phase of the Exploration Period.

The Agency shall give its opinion on the relevant claim with prior approval by the Ministry. If neither of the options is exercised by the Investor, this Agreement shall terminate at the end of Phase I and the Licence shall cease to be valid.

5.1.3 The application for the Phase II Exploration Period shall be accompanied with a map specifying the Exploration Block retained by the Investor, defined in accordance with the provisions of Article 6, together with a report specifying the work performed on the area to be

relinquished in accordance with Article 6.1(a) from the Effective Date and the results obtained therefrom.

5.1.4 For any Discovery made at any point during the Exploration Period, the Investor shall have the right to retain such Discovery and its resulting Appraisal Area in order to appraise and submit a Development and Production Preliminary Plan, in accordance with provisions of Article 7. The Exploration Period of the resulting Appraisal Area shall be extended in order to complete such work as further detailed in Article 5.4.5.

5.1.5 If the Investor requests an extension of the Exploration Period, the Government shall decide on such extension by the end of the current Exploration Phase. The approval for such extension shall not be unreasonably withheld.

5.2 Exploration Operations, Minimum Work and Expenditure Obligations

5.2.1 Pursuant to Article 5.2.11, the Investor shall initiate the Exploration Operations within thirty (30) days from the approval of the Work Programme and Budget for the first Agreement Year by the Agency.

5.2.2 During Phase I of the Exploration Period the Investor shall meet the following Minimum Work Obligations:

(a) undertake at least ; with an estimated value of ;

(b) undertake at least ; with an estimated value of ;

(c) all other Exploration ; with an estimated value of ;

(d) drill at least of minimum target depth , with an estimated value of .

The Investor shall have a Minimum Expenditure Obligation of for the purpose of the Minimum Work Obligations in the Phase I of the Exploration Period.

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

If changes in the Minimum Work Obligations are necessitated pursuant to Article 5.2.2 or Article

5.2.3 as a result of legal, environmental, safety, operational or permitting constraints or International Good Oilfield Practice considerations, the Agency shall evaluate and, if justified, with prior consent from the Ministry, confirm in a written opinion any request for an adjustment to the Minimum Work Obligations carried out in a specific phase of the Exploration Period. If approved, any such Agency opinion shall be deemed an amendment to the Minimum Work Obligations. The Agency shall be under no obligation to agree a modification to the Minimum Work Obligations based on increased costs or other commercial considerations

5.2.3 During the Phase II of the Exploration Period the Investor shall carry on the following Minimum Work Obligations:

(a) undertake at least ; with an estimated value of ; and

(b) all other Exploration ; with an estimated value of ; and

(c) drill at least , with an estimated value of ;

(i) one Exploration Well to minimum target depth of , with an estimated value of ; and

(ii) one Exploration Well to minimum target depth of , with an estimated value of .

The Investor shall have a Minimum Expenditure Obligation of for the purpose of the Minimum Work Obligations in the Phase II of the Exploration Period.

5.2.4 Each Exploration Well mentioned above shall be drilled to the minimum target depth as indicated above, or to a lesser depth, or if discontinuing drilling according with International Good Oilfield Practice if authorised by the Ministry, which is justified by one of the following reasons:

(a) Well reaches its objective formation or basement is encountered at a depth less than the above- mentioned minimum target depth;

(b) technical problems are encountered which make further drilling impracticable or continued drilling is clearly dangerous due to abnormal formation pressure;

(c) rock formations are encountered, the hardness of which makes it impractical to continue drilling with appropriate equipment;

(d) Petroleum formations are encountered prior to objective formation or reaching the target depth, or requiring the installation of protective casings which prevent reaching the above- mentioned minimum target depth; or

(e) conditions are encountered which render further commercial hydrocarbon potential highly unlikely.

In each case, the Investor shall obtain prior approval of the Ministry, prior to discontinuing drilling, which approval shall not be unreasonably withheld, and by this approval, the Well in question shall be deemed to have been drilled to the above-mentioned minimum target depth.

5.2.5 If in an Exploration Phase the Investor drills a number of Exploration Wells and/or conducts a number of seismic surveying greater than the minimum drilling obligations or seismic surveying specified for said phase in the Minimum Work Obligation, the excess Exploration Wells and seismic surveying may be carried forward to a subsequent Exploration Phase and shall be deducted from the minimum drilling obligations specified for the next Exploration Phase.

5.2.6 In the event of a Discovery, all subsequent Wells drilled, in the associated Appraisal Area or Exploitation Field, shall be either Appraisal Wells or Development Wells and shall not count toward a Minimum Work Obligation unless approved by the Ministry.

5.2.7 Within sixty (60) Days following the completion of the Minimum Work Obligations for each phase of the Exploration Period, the Investor shall notify the Ministry and the Agency that Minimum Work Obligations have been fulfilled regarding the respective phase of the Exploration Period. The Agency shall have the right to review the Minimum Work Obligations performed by the Investor.

5.2.8 The Agency shall within thirty (30) Days of receiving such notice, with prior written consent from the Ministry, confirm in writing that the Investor has fulfilled such Minimum Work Obligations of the relevant phase of the Exploration Period.

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

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

5.2.11 The Investor shall obtain, prior to any Exploration activities, all approvals required by or under the Strategic Environmental Assessment of the Framework Plan and Programme of Exploration and Production of Hydrocarbons, and applicable environmental and nature protection legislation, the Act and the regulations. If there is a delay in obtaining any required approvals with respect to environmental and nature protection matters or any other required permit, approval or obligation from the competent authorities of the Republic of Croatia due to reasons not attributable to the Investor, and/or if there are any actions taken by the Government relating to procedure of obtaining the mentioned approvals, which results in a delay of Investor's Exploration Work Programme, the Exploration Period and/or the Exploration Phase shall be suspended at the request of the Investor and based on the approval by the Ministry, which shall not be unreasonably withheld for a period of time equal to the duration of such delay. Without prejudice to the right of any Party pursuant to Article 34, for the avoidance of any doubt, any suspension, delay or pending approval with respect to the Exploration Period or Exploitation Phase or any other occurrence which may hinder or limit the Investor in carrying out its obligations in any manner under this Agreement, whether caused by the Government or the Investor, shall not affect the Investor's obligation to make payments of applicable Fees as defined in Article 13.3.

5.2.12 Subject to provisions of this Article and Article 15 of this Agreement, if the Investor fails to meet the Minimum Work Obligations with regard to the applicable Exploration Phase, the Investor shall pay the Government the amount equal to the unexpended balance of the Minimum Expenditure Obligation with respect to the activity not performed pursuant to Article 5.2.2 or 5.2.3 concerning such Exploration Phase. Once the Investor pays the amount of such Minimum Expenditure Obligation to the Government, the Investor shall be deemed to have fulfilled the subject Minimum Work Obligation for all intents and purposes of this Agreement, including, but not limited to, the right to start the next Exploration Phase. For the avoidance of

any doubt, once the Minimum Work Obligation has been fulfilled and approved as defined in this Article 5, the Minimum Expenditure Obligation shall also be deemed to have been fulfilled.

5.2.13 The spud of a Well shall be regarded as the start of the Well drilling process by removing rock, dirt and other sedimentary material with the drill bit.

5.3 Discovery

5.3.1 In the event of a Discovery of Petroleum in the Exploration Block, the Investor shall inform the Ministry and the Agency within seventy-two (72) hours of such Discovery, followed by a written notification within thirty (30) Days of the Discovery. The notice shall include all relevant information on the Discovery and particulars on any testing Programme which the Investor intends to carry out pursuant to the Act, as well as in accordance with International Good Oilfield Practice, to contribute to the evaluation of the Petroleum encountered during drilling.

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

(a) all the results of the drilling of the Discovery Well;

(b) the results of any tests being made of the Discovery Well;

(c) a preliminary classification of the Discovery as Crude Oil or Natural Gas; and

(d) a recommendation with respect to any Appraisal Works to be made of the Discovery.

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

(a) comprises the vertical projection to the surface of the Geological Structure on which the Discovery Well was drilled; and

(b) is determined based on geophysical and other technical information obtained from the Discovery.

5.4 Appraisal

5.4.1 If the Investor considers that the Discovery merits Appraisal, the Investor shall no later than four (4) months following the submission of the report referred to in Article 5.3.2 diligently submit to the Agency a detailed Appraisal Work Programme and the estimated corresponding Budget for approval in a written opinion, designed to determine:

(a) without delay, and in any event within the period specified above whether such Discovery is a Commercial Discovery; and

(b) with reasonable precision, the borders of the area to be delineated as the Exploitation Field.

If the Agency fails to submit the written opinion, with prior consent from the Ministry, on the Work Programme with the estimated corresponding Budget submitted by the Investor approving or requesting amendments within thirty (30) days after its submission, the Work Programme with the estimated corresponding Budget shall be deemed approved.

5.4.2 The Work Programme with the estimated corresponding Budget shall:

a) specify in reasonable detail the Appraisal work including seismic, drilling of Wells and studies to be carried out, the estimated cost of these works and the time frame within which the Investor shall commence and complete the Programme; and

b) specify the presumed extension of said Discovery which shall not exceed the area encompassing the Geological Structure or feature and a reasonable margin surrounding such structure or feature proposed within the Appraisal Area.

5.4.3 The Investor shall implement the Work Programme with the estimated corresponding Budget with due care and within the deadline defined in the Work Programme. The Investor may amend the Work Programme with the estimated corresponding Budget with prior approval in the form of a written opinion of the Agency for which prior consent from the Ministry is required. The approval of the Agency in the form of a written opinion on the Work Programme with the estimated corresponding Budget and the proposed amendments shall not be unreasonably withheld or postponed.

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

(a) geological conditions, such as structural configuration;

(b) physical properties and extent of Reservoir rocks;

(c) pressure, volume and temperature analysis of the Reservoir fluid;

(d) fluid characteristics and qualities, including gravity and composition of liquid and gaseous petroleum, sulphur percentage, sediment and water percentage, and product yield pattern;

(e) production forecasts (per Well and per Field); and

(f) estimates of recoverable reserves, planed delivery rate and pressure, quality specifications and other relevant technical and economic factors including economic feasibility studies carried out by the Investor in respect of its declaration made under Article 5.5.

5.4.5 If upon expiry of the Phase II of the Exploration Period an Appraisal Work Programme with respect to a Discovery is under progress, the Investor may obtain, upon an application to the Government through the Agency, with respect to the Appraisal Area related to the said

Discovery, the extension of the Exploration Period for a period of time necessary to complete the relevant Appraisal Works.

5.4.6 If the Investor, after completion of Appraisal, notifies the Ministry and the Agency, in accordance with the provisions of Article 5.5.1, in writing that the Discovery is not commercial, the Government may at the proposal by the Ministry, with a three (3) months' prior notice, require the Investor to relinquish the Designated Area related to the said Discovery.

5.4.7 Where the Government makes use of the right provided in Article 5.4.6, the Investor shall forfeit its rights to all Petroleum which could be produced from said Discovery, and the Republic of Croatia may then carry out, or cause to be carried out, all the appraisal, development, production, treatment, transportation and marketing work relating to that Discovery, without any compensation to the Investor, provided, however, that said work shall be in accordance with International Good Oilfield Practice and not cause prejudice to the performance of the Petroleum Operations by the Investor.

5.4.8 Any Petroleum quantities produced from the Discovery prior to declaring it a Commercial Discovery are owned by the Republic of Croatia. Such quantities may be used for Petroleum Operations and may be sold if royalty is paid for them pursuant to Article 14.1.

5.4.9 Subject to the provisions of Article 5.4.5, 5.5 and 6.2, if no Commercial Discovery has been made in the Agreement Area by the end of the Exploration Period, which is extended pursuant to this Agreement, this Agreement shall terminate.

5.5 Publication of a Commercial Discovery

5.5.1 In addition to the evaluation report on the work performed pursuant to Article 5.4.4 herein, the Investor shall submit a written statement to the Agency indicating one of the following:

a) that based on the results of its Appraisal Work Programme it has determined that the Discovery is a Commercial Discovery; In that case, the Investor shall submit a reserves study pursuant to the Act and regulations; or

b) that based on the results of its Appraisal Work Programme it has determined that the Discovery is not a Commercial Discovery;

c) that based on the results of its Appraisal Work Programme it has determined that the Discovery is a Significant Gas Discovery which may become a Commercial Discovery conditional on the outcome of further work that the Investor commits itself to carry out under a further Exploration or Appraisal Work Programme in specified areas within or outside the Appraisal Area.

5.5.2 If pursuant to Article 5.5.1(a) the Ministry confirms that the Discovery is a Commercial Discovery in a decision on determining the quantity and quality of the reserves, the Investor shall initiate the procedure for delineating the Exploitation Field pursuant to the Act.

5.5.3. If the Exploitation Field for which the procedure for delineating the Exploitation Field is being initiated is not within the area planned for production pursuant to the Spatial Plan, the Investor shall initiate the procedure for adjusting the production areas with the Spatial Plan in

accordance with the borders referred to in the decision on determining the quantity and quality of the reserves.

5.5.4 The Investor shall, within a deadline not exceeding six (6) months from delineating the Exploitation Field, submit to the Ministry for approval the Development and Production Preliminary Plan. The Development and Production Preliminary Plan shall be updated as the engineering and planning work progresses to the stage where the Investor can make a final investment decision regarding whether to proceed with the development and production of the Commercial Discovery.

5.5.5 In case of a Commercial Discovery the Government may propose to establish an operating company responsible for Development and Production Operations of the said Discovery, subject to a separate and express written Agreement with the Investor. In the event of such mutual Agreement, the parties' organisational structure and detailed rights and obligations regarding such operative company shall be described in a written Agreement and would become an annex to this Agreement.

6 RELINQUISHMENT

6.1 Periodic Relinquishment

6.1.1 The Investor shall:

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

(b) at the end of Phase II of the Exploration Period relinquish the remaining portion of the Exploration Block.

6.1.2 Notwithstanding paragraph 6.1.1 above, the Investor shall not relinquish any part of the Exploration Block which has been made an Appraisal Area or an area for which an Appraisal Work Programme has been submitted to the Agency or an Exploitation Field or a Significant Gas Discovery Area.

6.1.3 Subject to paragraph 6.1.9, the Investor may at any time without the consent of the Ministry and the Agency with at least three (3) months prior written notice to the Ministry and the Agency relinquish all or a part of the Exploration Block with the fulfilment of the legal obligations concerning the area being relinquished. Such voluntary relinquishment of a part of the Exploration Block during the Exploration Period shall not reduce the Minimum Work Obligations defined in Article 5 for the Exploration Phase during which a part of the Exploration Block was relinquished, as well as the amount of the subject security if not otherwise agreed between the Government and the Investor. For the avoidance of any doubt, the relinquishment of the entire Exploration Block at the end of Phase I of the Exploration Period releases the Investor from all Minimum Work Obligations concerning Phase II of the Exploration Period. The area relinquished before the end of Phase I of the Exploration Period shall account for twenty-five percent (25 %) of the Exploration Block which the Investor shall relinquish at the end of Phase I of the Exploration Period.

6.1.4 The Investor shall, subject to paragraphs 6.1.1, 6.1.2 and 6.1.5, propose the size, shape and location of the portion of the Exploration Block which it intends to relinquish pursuant to the provisions of this Agreement.

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

6.1.6 The block which the Investor is relinquishing according to the provisions of this Agreement shall be confined by the geographic coordinates of its peak points as set out in the official Croatian Terrestrial Reference Coordinate System (HTRS), of sufficient size and appropriate form to enable Petroleum Operations. This applies correspondingly to the areas retained by the Investor.

6.1.7 The Government shall approve the size and form of the Exploration Block that shall remain after relinquishment, and it may allow an exemption from the relinquishment that the block be within a single area.

6.1.8 If the Investor does not relinquish a portion of the Exploration Block at the time and in the manner required by this Article 6.1, all of the Exploration Block shall be deemed relinquished at the end of the Agreement Year concerned, with prior fulfilment of all legal obligations concerning the Exploration Block being relinquished.

6.1.9 Without the consent of the Government, and notwithstanding paragraph 6.1.1, the Investor shall not relinquish all of the Exploration Block if it has not fulfilled the Minimum Work Obligations or is in breach of any provision of this Agreement.

6.1.10 If the Investor fails to obtain all the required approvals and Licences pursuant to the valid legal regulations concerning environmental and nature protection, as well as to conduct the Strategic Environmental Impact Assessment of the Framework Plan and Programme for Exploration and Production of Hydrocarbons and all other location permit required for the performance of Petroleum Operations and only if such approvals may not be obtained in accordance with the existing administrative or legal procedure or a procedure pursuant to applicable acts, the Investor shall not be obligated to perform Petroleum Operations (i) by limiting them to the operations that were not approved and (ii) only within the Exploration Block included in such approval being withheld. Furthermore, in the case of such approval being withheld, the Investor may, at its own discretion, fully or in part, amend its proposed approach and propose a new approach.

6.2 Final Relinquishment of an Exploration Block

6.2.1 After the expiry of the Exploration Period, the Investor shall relinquish the entire Exploration Block, except for the part in which the Exploitation Field has been delineated.

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

(a) for such area as the Investor proposes and the Ministry may determine to be necessary for Appraisal of the Discovery;

(b) for such period as is reasonably necessary to permit the Investor to Appraise (or to complete the Appraisal of) the Discovery; and

(c) for the Investor to decide whether to declare a Commercial Discovery and, if it does so, for the Ministry to declare an Exploitation Field in respect of it pursuant to the Act.

6.3. Exploitation Field Relinquishment

6.3.1 In addition to receiving the approval of the Government, the Exploitation Field is also considered to be relinquished in the following cases:

(a) production from the Exploitation Field ceasing permanently or for a continuous period of eighteen (18) months or such greater period as determined by the Act; save where such cessation is due to a Force Majeure event, or

b) in case of the expiry of the Production Period.

6.4 Continuing Obligations in respect of the Relinquished Area

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

6.4.2 The relinquishment of all or a part of the Agreement Area is without prejudice to the obligations of the Investor related to Decommissioning.

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

6.4.4 The Investor shall be liable and shall bear the cost and expenses for all claims, damages or losses arising out of or related to Environmental Damage resulting from suspended and abandoned Wells and other facilities for a period of five (5) Calendar Years following the relinquishment of a portion of the Exploration Area or the relinquishment of a Exploitation Area that includes such Wells or facilities unless Investor can demonstrate that the pollution and damages are caused by Force Majeure or by actions or omissions of others.

7 DEVELOPMENT AND PRODUCTION

7.1 Development and Production Preliminary Plan

7.1.1 After confirming a Commercial Discovery, as defined in Article 5.5.2, the Investor shall prepare and submit to the Ministry for consent the Development and Production Preliminary

Plan for the determined Exploitation Field and all amendments thereto. The Investor may not perform any activities with reference to the Development and Production Preliminary Plan prior to such approval being obtained save with the express permission to enter into specific activities granted by the Ministry. The approval of the Development and Production Preliminary Plan by the Ministry shall not be unreasonably withheld or postponed. Failing notice by the Ministry to the Investor of a requirement to amend or modify the Development and Production Preliminary Plan within sixty (60) days following submission, the Development and Production Preliminary Plan shall be deemed approved as submitted.

7.1.2 The Development and Production Preliminary Plan shall include but not be limited to:

(a) description and a map of the area of the Exploitation Field;

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

(c) a description of the proposed Reservoir development and management Programme;

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

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

(f) an assessment and presentation of the possible outlets for the Natural Gas from the Discovery in question, both on the local market and for export;

(g) proposals as to the possibility of a joint marketing of the Parties shares of Petroleum;

(h) details of:

I. the geological and the Reservoir work done, together with the production profiles simulated, in order to reach the optimum hydrocarbon extraction;

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

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

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

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

vi. the Delivery Point;

vii. The Measurement Point;

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

(j) an estimated Decommissioning Plan, including an estimated calculation of the Decommissioning Costs, the estimated annual amount in the Decommissioning Fund provided for in Article 9 and the Investor's opinion for the Decommissioning security;

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

(l) an emergency response an emergency response plan prepared in accordance with the requirements of regulations and Applicable Environment and Nature Protection Legislation, including measures to respond to any accident that may occur at the location of Petroleum Operations, medical assistance and evacuation of workers and the surrounding population, and environmental protection;;

(m) the Investor's proposals for:

i. the use of local goods, operations services; and

ii. training and employment;

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

(o) the Investor's proposals for financing, hereunder full information as to the Investor's current financial status, technical competence and experience;

(p) the Programme and time-schedule for the performance of the Development and Production Operations, including the estimated date of the commencement of Petroleum Production;

(q) where any Reservoir(s) extend beyond the Agreement Area, a suggested unitization or unit development plan;

(r) such other data and information (including in respect of insurance to be obtained by the Investors, and buyers and shippers of Petroleum) as the Act and regulations require and as the Ministry and the Agency otherwise requires.

7.1.3 From time to time, and in like manner, the Investor shall submit, for the approval of the Ministry, amendments to the Development and Production Preliminary Plan.

7.1.4 In determining whether to approve a Development and Production Preliminary Plan or an amendment to it properly submitted by the Investor, the Ministry shall give due consideration to the Investor's proposal to secure the implementation of the activity described in 7.1.2(j) in respect of the Exploitation Field.

7.1.5 The Ministry may propose amendments to the Development and Production Preliminary Plan, as well as the requested Exploitation Field.

7.1.6 The Ministry may request that the Investor amend the Development and Production Preliminary Plan to stipulate that the Hydrocarbons are to be transported in pipeline systems in accordance with Article 19.2.1 provided that such transportation is not economically or otherwise damaging to the Investor. In that case the Ministry may, at the request of the Investor, extend the term for submitting the Development and Production Preliminary Plan. The Ministry shall specify its reasons for not approving the Development and Production Preliminary Plan or an amendment to it. However, in no case such approval shall be unreasonably withheld.

7.1.7 The Development and Production Preliminary Plan shall be such as would be undertaken by a person seeking diligently to develop and exploit (in accordance with this Agreement, the Act and International Good Oilfield Practice) the Petroleum in the Exploitation Field to the best interests of the Parties during the term of this Agreement.

7.2 Supplementary Development and Production Plan

7.2.1 After delineating the Exploitation Field and approving the Development and Production Preliminary Plan, the Investor shall prepare the plan's Environmental Impact Assessment and obtain a location permit pursuant to the act governing spatial planning.

7.2.2 After obtaining the decision on determining of the Exploitation Field, the Investor is obliged to obtain a location permit for petroleum facilities and plants in accordance with the law regulating spatial planning.

7.2.3 After obtaining the location permit, the Investor shall submit to the Ministry the Development and Production Plan for verification pursuant to the Act and regulations.

7.2.4. The Development and Production plan must comply with all conditions and measures stipulated in the location permit, as well as all other elements prescribed by the law and regulations.

7.3 Issuing the Production Licence for Hydrocarbons

7.3.1 After verifying the Development and Production Plan, the Investor shall be issued a Licence for hydrocarbon recovery. Such Licence for hydrocarbon recovery shall be issued by the Ministry, pursuant to the Act, without conducting any other procedure, provided that the Investor meets all of the requirements provided for in the Act. The Licence for hydrocarbon recovery shall constitute an inseparable integral part of the Licence and this Agreement, and shall enable the Investor to commence and carry out Development and Production Operations in the Exploitation Field in accordance with the Development and Production Plan if the Investor has obtained all the required approvals and Licences.

7.3.2 Where a part of a Reservoir in respect of which a Commercial Discovery has been declared extends beyond the Agreement Area, such area shall, with consent by the Government, be included in the proposed Exploitation Field, in relation to the Licence for hydrocarbon recovery, provided that such area is:

(a) not subject to a Licence for hydrocarbon recovery granted to any other Person;

(b) not the subject of negotiations/bidding procedure for a Licence for hydrocarbon recovery; and

(c) available for licensing (i.e. is not an area over which Petroleum Operations are excluded).

The Parties may agree on the terms and conditions of inclusion of such additional area into the Exploitation Field pursuant to the Act and regulations.

7.4 Production Rate and Lifting

7.4.1 The Investor shall use all reasonable efforts to produce Petroleum in the most efficient manner which is economic and in accordance with International Good Oilfield Practice in compliance with Article 20 of this Agreement. The Investor shall submit to the Ministry and the Agency not later than sixty (60) days prior to commencement of Production from each Exploitation Field and then prior to commencement of each Calendar Year an estimated production schedule for each Exploitation Field.

7.4.2 In the case of more than one Commercial Discovery in the Exploration Block or more than one quality of Crude Oil in a Field, the Government and Investor shall, unless they mutually agree that the Crude Oils should be commingled, lift from each Commercial Discovery Crude Oil quantities in proportion to their respective total lifting from the Agreement Area. Natural Gas deriving from more than one Commercial Discovery in the Agreement Area shall to the extent feasible be lifted and transported in one commingled stream.

8 UNIT DEVELOPMENT AND JOINT OPERATIONS

If a Reservoir that exists in a Discovery Area is situated partly within the Agreement Area and partly in an area in the Republic of Croatia over which other parties have an Agreement to conduct Petroleum Operations pursuant to the Act and regulations, the Investor shall notify the Ministry and

the Agency and provide such information as the Ministry and the Agency may reasonably request in connection therewith.

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

(a) to cooperate and reach an Agreement with such parties pursuant to International Good Oilfield Practice concerning the unit development of the Reservoir as a whole;

(b) to submit an Agreement on unit development concluded between the Investor and such parties to the Ministry for approval within twelve (12) months from the date of receiving the notification by the Ministry. Within sixty (60) days from the date of submitting the Agreement on unit development, the Ministry shall submit a notification on approval, denying approval and/or required amendments to the Agreement on unit development to the Investor and the parties concerned; and

(c) to prepare a preliminary plan for unit development of the Reservoir within twelve (12) months from the date of approving the Agreement referred to in (b) above.

8.1.3 If no plan is submitted within the period specified or such longer period as the Ministry and the Agency and the Investor and the other parties may agree, or, if such plan, as submitted, is not acceptable to the Ministry and the Agency and the parties cannot agree on amendments to the proposed unit development of the Reservoir, the Agency may cause to be prepared by an expert, at the expense of the Investor and such other parties a plan for such unit development of the Reservoir, consistent with International Good Oilfield Practice. If the Ministry and the Investor can’t agree on an expert, the Government or the Investor may refer the matter for Dispute Resolution pursuant to Article 35.

8.1.4 If a proposed unit development plan for the Reservoir is agreed and adopted by the parties, or adopted following determination by the expert, the plan, as finally adopted, shall be the approved unit development plan for the Reservoir and the Investor shall comply with the terms of the said plan.

8.1.5 The provisions of this Agreement shall apply mutatis mutandis to a Discovery of a Reservoir located partly within the Agreement Area, which, although not equivalent to a Commercial Discovery if developed alone, would be a Commercial Discovery if developed

together with that part of the Reservoir which extends outside the Agreement Area to the areas subject to Agreement for Petroleum Operations by other parties pursuant to the Act.

8.1.6 Where otherwise non-commercial volumes of Petroleum in the Agreement Area would, if exploited together with Reservoirs in an area adjacent to the Agreement Area, be commercial and not economically or otherwise damaging to the Investor, the Ministry may require the Investor and the Investor of that adjacent area to share facilities pursuant to the Act and in accordance with International Good Oilfield Practice. The request of the Ministry shall not be binding to the Investor, and the Investor shall consider the request bona fide and its consent shall not be unreasonably withheld.

8.1.7 If the Government enter into negotiations for unit development plan for the Reservoir or an Agreement for a unit development zone with a neighbouring country involving a Reservoir that exists in a Discovery Area that is situated partly within the Agreement Area and partly within the borders of the neighbouring country, the Government shall submit such unit development plan for the Reservoir or Agreement for a unit development zone to the Investor prior to execution, and the Investor shall have the right to propose modifications of such unit development plan or Agreement for unit development of the Reservoir. If the Government and the Investor fail to reach an Agreement concerning the proposed amendments and/or modifications within sixty (60) days from the date on which the unit development plan for the Reservoir or the Agreement on unit development of the Reservoir was submitted to the Investor, then the Government and the person appointed and authorised by the Investor to act on behalf of the Investor with regard to this Agreement, or the Investor's licensees shall meet in order to reach an Agreement on the terms of the unit development plan for the Reservoir or an Agreement on unit development of the Reservoir, whereby the Investor shall in no event accept the proposed unit development plan if such plan is economically or otherwise damaging to the Investor.

9 Decommissioning

9.1 Decommissioning Plan, Budget and Fund

9.1.1 No later than six (6) years prior to the anticipated date of Decommissioning of a Field or as soon as possible prior to the termination of, or relinquishment of a part of, any Agreement Area, the Investor shall in accordance with applicable Act and regulations submit to the Agency the relevant detailed Decommissioning Plan with the corresponding Budget prepared in accordance with the verified Development and Production Plan, and which shall include a detailed technical and engineering description of the Decommissioning, removal and disposal of the facilities and installations, and of the site clean- up and restoration measures including the estimated Decommissioning Costs (hereinafter: Decommissioning Cost). The Agency shall approve the Decommissioning Plan in a written opinion.

9.1.2 The Agency may request amendments to the above-mentioned Decommissioning Plan, by notice to the Investor including all the justifications deemed necessary, within ninety (90) days following receipt of said plan. In such a case, the Agency and the Investor shall meet as soon as possible to review the requested amendments and establish by mutual Agreement the plan in final form, pursuant to the Act and regulations and in accordance with International Good Oilfield Practice. The date of the favourable opinion shall be the date of the above-

mentioned mutual Agreement. Failing notice by the Agency to the Investor of the need to amend or modify the Decommissioning Plan within the above mentioned period of ninety (90) days, Decommissioning Plan shall be deemed approved by the Agency in its favourable opinion upon the expiry date of said period.

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

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

9.1.5 The Investor shall start paying the amounts in the Decommissioning fund in accordance with estimated Decommissioning Plan contained in the reviewed Development and Production Plan, but in any case not before the first anniversary of the commencement of commercial production.

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

9.1.7 In the event that the actual Decommissioning Costs exceed the total amount paid into the fund, the remaining balance of the relinquishment costs shall be borne by the Investor. If actual Decommissioning Costs are lower than the total accumulated provisions, the remaining balance of the reserve fund shall be vested in the Republic of Croatia, and shall be deemed to be Petroleum Costs recoverable pursuant to Article 14.

9.1.8 The Investor shall continue to be liable pursuant to the applicable Act and regulations, after the term of this Agreement, for any damage, claim, cost, or expense arising from the Petroleum Facilities relating to Decommissioning, due to causes which have arisen or which have accrued during the term of this Agreement and which are attributable to the Gross Negligence or Wilful Misconduct of the Investor.

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

9.1.10 During the Exploration Period, and prior to the commencement of operations, the Investor shall issue a security in accordance with the Decommissioning Plan which is an integral part of the verified Exploration Well drilling project.

9.2 Scope of the Decommissioning Obligation

9.2.1 Except for those facilities and assets, which the Ministry has notified the Investor should not be removed, the Investor shall, in accordance with the Decommissioning Plan and pursuant to the Act and regulations, on expiry of the Agreement or relinquishment of a part of the Agreement Area:

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

(b) perform all necessary site restoration and Decommissioning activities.

10 HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION

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

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

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

(c) take all necessary and adequate steps to:

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

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

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

(d) act in accordance with obtained decisions related to Environmental Impact Assessment, employ an effective monitoring Programme as provided in this Agreement and applicable legislation and regulations of the Republic of Croatia.

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

(f) at all-times comply with requirements of current health, safety and environmental legislation and regulations of the Republic of Croatia and treaties adopted by the Republic of Croatia as well as with any protection of health, safety and environment (HSE) standards and rules agreed between the Parties.

10.2 In the event of:

(a) an emergency or accident arising from Petroleum Operations affecting the environment, the Investor shall forthwith notify the Ministry and the Agency accordingly and deal with it pursuant to approved intervention plans and pursuant to the legislation and regulations of the Republic of Croatia;

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

(c) any other emergency or accident arising from Petroleum Operations affecting the environment, Investor shall take such action as may be prudent and necessary in accordance with International Good Oilfield Practice in such circumstances and as may be required under international obligations entered into by the Republic of Croatia, as well as all other measures ordered in such case by the competent authorities of the Republic of Croatia.

10.3 If Investor’s failure to comply with certain provisions of this Agreement results in Environmental Damage, the Investor shall take all necessary measures to remedy the failure and effects thereof in accordance with Applicable Environmental Legislation.

10.4 When entering into an Agreement, the Investor shall ensure that its Subcontractors and suppliers are qualified to fulfil the legal requirements relating to the protection of health, safety and the environment. Any Agreement entered into between the Investor and its Subcontractors relating to Petroleum Operations shall include the terms set out in this Agreement and any established measures and methods for the implementation of Investor's obligations in relation to the health, safety and environmental protection under this Agreement.

11 INVESTOR’S GENERAL RIGHTS AND OBLIGATIONS, GOVERNMENT ASSISTANCE AND CONTROL

11.1 Investor’s General Rights

11.1.1 The Investor holds the exclusive right to perform Petroleum Operations within the Exploration Block and the Exploitation Field.

11.1.2 For purposes of performing the Petroleum Operations, the Investor shall have the right to lay pipelines and build communication and infrastructure facilities, access available infrastructure of the Republic of Croatia, subject to a prior approval, and exercise other ancillary rights as may be reasonably necessary for the conduct of Petroleum Operations subject to

obtaining the required approvals and in compliance with the legislation and regulations of the Republic of Croatia.

11.1.3 The Investor shall have other rights as provided in this Agreement, the Act and other legislation and regulations of the Republic of Croatia.

11.2 Investor's General Obligations

11.2.1 The Investor shall conduct Petroleum Operations in accordance with the Act, the regulations and individual administrative decisions issued by virtue of the Act as well as with all other applicable legislation and regulations at any time in force in the Republic of Croatia.

11.2.2 The Investor shall assure that anyone performing work for him, either personally, through personnel or through Subcontractors, shall comply with the provisions of Article 11.2.1.

11.2.3 The Investor shall supply all the necessary funds and purchase or rent all the equipment and materials required for the performance of the Petroleum Operations. The Investor shall also supply

all the technical expertise, including the engagement of the foreign personnel and Subcontractors required for the performance of the Petroleum Operations, subject to provisions of Article 28. The Investor shall be responsible for the preparation and implementation of the Work Programmes which shall be performed in the most appropriate way in accordance with Article 4 of this Agreement and International Good Oilfield Practice.

11.2.4 The Investor shall provide good working conditions, appropriate living accommodations, and access to medical attention and nursing care for all personnel employed by it or its Subcontractors in Petroleum Operations pursuant to the Act and regulations and in accordance with International Good Oilfield Practice.

11.2.5 The Investor shall furnish the Ministry, the Agency and its authorised representatives of the Government with such information, reports, records and accounts relating to the Petroleum Operations in the Agreement Area pursuant to the timeline and procedures as may be required and detailed in provisions of this Agreement, the Act and any other applicable acts and regulations of the Republic of Croatia.

11.3 Government Assistance

11.3.1 At the Investor's request, and in the prescribed manner and pursuant to applicable acts and regulations of the Republic of Croatia, within its competence and to the extent possible, the Government shall, acting through the Agency or all other persons appointed by the Government, provide the Investor with assistance:

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

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

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

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

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

11.3.2 Upon presentation of appropriate documentation to Investor, the Government shall be promptly reimbursed by Investor for all reasonable costs incurred in providing the assistance requested by Investor as per Article 11.3.1, assuming that the Investor and the Agency have previously agreed on the amount of such costs.

11.4 Government Control

11.4.1 At all times during the term of this Agreement the competent authorities of the Republic of Croatia shall have over the right to control and inspect the activities of the Investor pursuant to provisions of this Agreement and applicable legislation and regulations of the Republic of Croatia.

12 OPERATOR AND ADVISORY COMMITTY

12.1 Operator

12.1.1 is designated the Operator under this Agreement.

12.1.2 The Operator shall diligently and in accordance with this Act and regulations, as well as with International Good Oilfield Practice perform Petroleum Operations on behalf of the Investor. The Operator shall be the only legal entity which may, on behalf of the Investor, execute Agreements, incur costs, assume commitments and implement other actions in connection with the Petroleum Operations.

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

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

12.1.5 The Investor shall at any time have the right to appoint another legal entity as the Operator, upon giving prior written notice of such appointment to the Government not less than thirty (30) days in advance. Such new Operator shall be approved by a Government decision, provided that such approval is not unreasonably withheld or delayed.

12.1.6 The Government may decide that the Operator is no longer capable of performing this function if:

a) it has become insolvent or declared bankrupt;

(b) it committed (i) a substantial violation of the Agreement and (ii) failed to initiate the resolution of this violation within thirty (30) days upon receipt of the Ministry's notification stating the details of the violation and/or failed to resolve the violation within six (6) months upon receipt of the Ministry's notification.

12.1.7 If, pursuant to paragraph 12.1.6 of this Article, the Operator is no longer considered capable of performing its role, the Ministry may request that a new Operator be nominated by sending a written notification to the Operator and the legal entities constituting the Investor. Then the Investor shall propose a new Operator to the Ministry within thirty (30) days.

12.2 Advisory Committee

12.2.1 Within sixty (60) days from the Effective Date the Agency shall establish the Advisory Committee (hereinafter: Advisory Committee) for the purpose of providing orderly advice and coordination of all matters pertaining to the Petroleum Operations and the Work Programmes and agree on the procedures to govern activities of this Commission. Within such period, the Agency and the Investor shall by written notice nominate its respective members of the Advisory Committee and their deputies.

12.2.2 The Advisory Committee shall comprise two (2) members designated by the Agency and two (2) members designated by the Investor.

12.2.3 Either Party may replace any of its representatives or designate a different representative by written notice to the other Party. The chairman of the Advisory Committee shall be the chairman of the Board of the Agency (hereinafter: the Chairman). The vice-chairman of the Advisory Committee shall be one of the members designated by the Investor (hereinafter: the Vice-Chairman). In the absence of the Chairman, the Vice-Chairman shall chair the meeting of the Advisory Committee.

12.2.4 Each Party shall have the right to invite a reasonable number of observers as deemed necessary to attend the meetings of the Advisory Committee.

12.2.5 The Advisory Committee shall review, deliberate, and give advice, suggestions and recommendations regarding the following subject matters as the case may be for the following:

a. Work Programmes and Budgets; and on any subsequent amendments thereto; as proposed by the Investor;

b. relinquishment of areas;

c. the Investor's activity reports;

d. the determination of any Discovery as a Commercial Discovery, providing Declaration of Commerciality remains at a sole discretion of the Investor;

e. production levels submitted by the Investor, based on International Good Oilfield Practice;

f. Accounts of Petroleum Costs;

g. Procurement procedures for potential Subcontractors, goods and/or services, submitted by the Investor;

h. the Investor's Accounting Procedures, the presentation of the statements of Recoverable Costs, and on the form and maintenance of operating records and reports on Petroleum Operations;

i. the Development and Production Preliminary Plan, the Development and Production Plan and relative Budgets, and on any subsequent amendments thereto, as proposed by the Investor;

j. the Decommissioning Plan and each Decommissioning Work Programme and Budget and all its subsequent amendments, at the Investor’s proposal;

k. any material revision to the Development and Production Plan, the production schedule, Lifting Schedule and Development and Production Work Programmes and Budgets;

l. any material revision to, procurement procedures for goods and/or services, submitted by the Investor;

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

n. any proposed Decommissioning Plan submitted pursuant to Article 9 on any Decommissioning Work Programme and Budget;

o. any Terms of Reference which shall be prepared and agreed for the purposes of expert determination, pursuant to Article 35;

p. any costs in excess of five percent (5 %) of the total Budget or ten percent (10 %) for any individual item above any Budget; and

q. any matter having a material effect on Petroleum Operations.

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

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

12.2.8 Through its members of the Advisory Committee, the Agency shall advise the Investor on the regulatory framework issue concerning the Petroleum Operations and shall provide guidelines on the legal obligations resulting from the Act and regulations.

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

12.2.10 If required, the Advisory Committee may request the creation of a technical subcommittee or any other sub-committee to assist it. Any such sub-Commission shall be composed of a reasonable number of experts from the Agency and the Investor. After each meeting, the technical sub- Commission or any other subcommittee shall deliver a written report to the Advisory Committee.

12.2.11 Any costs and expenditure incurred by the Investor for meetings of the Advisory Committee or any technical sub-Commission or any other sub-Commission shall be considered as Petroleum Costs and shall be recovered by the Investor in accordance with the provisions of Article 14.

12.2.2 The Advisory Committee shall have only an advisory role and shall not be authorised to bind the Investor in any manner.

13 BONUSES AND FEES

13.1 Payments

13.1.1 All payments by the Investor shall be made in Kuna (HRK). If the Kuna ceases to be the official currency of the Republic of Croatia, any amounts indicated herein in Kuna (HRK) shall be converted to the new currency in the manner specified in Article 32.1.4.

13.1.2 In the event of a change in the exchange rate of the Kuna (HRK) by more than 5% (5%) in relation to the Euro (EUR), for the purpose of paying bonuses and Fees set out in this Article 13, they shall be converted to ensure the same relationship and the establishment of an equilibrium exchange rate, taking into account the valid exchange rate in Euro (EUR) at the date of signing the Agreement, determined by applying the middle exchange rate published by the Croatian National Bank.

13.2 Bonuses

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

(a) Signatory Bonus: no later than ten (10) days from the date of entry into force of this Agreement, payable in Kuna as defined in Article 13.1 of this Agreement, by applying the exchange rate pursuant to Article 32.1.3;

(the minimum signatory bonus is defined by the provision of Article 51 of the Act and is subject to the bidding procedure pursuant to Article 19 of the Act).

(b) Production Bonuses:

Oil Fields

i. kuna at the beginning of daily production;

ii. kuna after cumulative production of Barrels of oil equivalent;

iii. kuna after cumulative production of Barrels of oil equivalent;

iv. kuna after cumulative production of Barrels of oil equivalent;

v. kuna after cumulative production of Barrels of oil equivalent.

Gas Fields

i. kuna at the beginning of daily production;

ii. kuna after cumulative production of Barrels of oil equivalent;

iii. kuna after cumulative production of Barrels of oil equivalent;

iv. kuna after cumulative production of Barrels of oil equivalent;

v. kuna after cumulative production of Barrels of oil equivalent.

(the production bonuses are defined by the provision of Article 51 herein).

The procedure and formula for conversion of natural gas into oil equivalent shall be agreed by the Investor and the Agency three (3) months before commencement of production, and shall be submitted to the Ministry for consent. The formula shall be expressed in a number of Barrels of Crude Oil on a BTU equivalent energy content basis. All adjustments on a monthly basis referring to the price of natural gas and oil shall be agreed between the Agency and the Investor.

Such payments shall be made within thirty (30) calendar days after the cumulative production levels specified above have been reached.

13.3 Fees

13.3.1 The Investor shall pay the Republic of Croatia the following surface Fees:

(a) Kuna per square kilometre of Exploration Block annually during the Exploration Period;

(the surface Fees are defined by the provision of Article 51 herein).

(b) Kuna per square kilometre of Exploitation Field annually during the period of exploitation of each Exploitation Field.

(the surface Fees are defined by the provision of Article 51 herein).

For the Calendar Year in which this Agreement is executed, the surface Fee set forth in paragraph (a) above shall be prorated annually and paid in accordance with the applicable regulation governing the payment of fees for the Exploration and Production of Hydrocarbons.

For succeeding Calendar Years the surface Fees set forth in paragraph (a), shall be paid in accordance with the applicable regulation governing the payment of fees for the Exploration and Production of Hydrocarbons.

For the Calendar Year in which a Licence for the Exploration and Production of Hydrocarbons is granted for a given area, the surface Fee set forth in paragraph (b) shall be prorated annually from the date of granting said Licence for the Exploration and Production of Hydrocarbons and paid in accordance with the applicable regulation governing the payment of fees for hydrocarbon exploration and production.

For succeeding Calendar Years the surface Fees set forth in paragraph (b), shall be paid in accordance with the applicable regulation governing the payment of fees for the Exploration and Production of Hydrocarbons.

The basis of computation of said surface Fees shall be the surface of the Exploration Block and, where applicable, of the Exploitation Field(s), kept by the Investor on the date of payment of said surface rentals.

In the event of relinquishing an area during a Calendar Year or in the event of Force Majeure, the Investor shall have no right to be reimbursed for the surface Fees already paid.

13.3.2 The Investor shall pay an administration Fee of Kuna during the first year of this Agreement increasing annually at a rate of four per cent (4 %) for the unexpired term of the Agreement. Such charges shall be payable within thirty (30) days of the Effective Date of this Agreement and thereafter within the first thirty (30) days of each Agreement Year: In the event of suspending operation during a Calendar Year or in the event of Force Majeure, the Investor shall have no right to be reimbursed for the administrative Fees already paid.

(the pecuniary fee for administrative costs is defined by the provision of Article 51 of the Act).

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

14 ROYALTY, RECOVERY OF PETROLEUM COSTS AND Production Sharing

All Recovered Petroleum from each Exploitation Area shall be measured at the applicable Measurement Points. The value of Recovered Petroleum determined pursuant to the provisions of Article 16 shall be distributed in the following order and shares:

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

(the royalty is defined by the provision of Article 51 herein).

(b) the remaining percent (%) of all Recovered Petroleum shall be sub-divided between the Republic of Croatia and the Investor:

i. first as a recovery of Petroleum Costs from all Discoveries in aggregate by the Investor with a cost recovery ceiling of percent (%) as provided in Article 14.2, and

ii. then as a profit sharing between the Republic of Croatia and the Investor (based on the "R" Factor calculations) as provided in Article 14.3.

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

14.1 Royalty

14.1.1 Equivalent of percent (%) of the value of Recovered Petroleum at the Measurement Point shall be payable to the Republic of Croatia in cash as a Royalty after the end of each month. The Investor may sell that Petroleum on an Arm's Length basis pursuant to Article 16 in order to fulfil this obligation. If such Arm's Length Sales is not possible or cannot be performed, the current Market Price defined by Article 16 shall be applied.

14.1.2 If the Investor has received a written notification no later than one hundred eighty (180) days in advance, provided that such right does not apply to Petroleum the Investor undertook to deliver under the existing Agreements with third parties, other than the Affiliates, the Government shall have the right to royalty in kind and shall inform the Investor of its intention. The Investor shall define the priority in sales and a reasonable delivery schedule and duly inform the Government thereof. The Royalty when taken in kind shall be delivered to the Government, which shall take possession thereof at the Delivery Point.

14.2 Recovery of Petroleum Costs

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

14.2.2 The Investor shall be entitled to recover its Petroleum Costs out of the sales proceeds or other disposition of Recovered Oil and Recovered Gas, to the extent permitted under the provisions of this Article 14.2.3.

14.2.3 For purposes of recovery of its Petroleum Costs, the Investor may freely retain each Calendar Year Cost Oil and/or Cost Gas of up to percent (_ %) of the Recovered Oil and of the Recovered Gas respectively, (where Royalty as defined in Article 14.1 has first been deducted from Recovered Oil and/or Recovered Gas), or only any lesser percentage which would be necessary and sufficient.

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

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

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

14.3 Profit Sharing

14.3.1 Recovered Petroleum remaining after the deduction of Royalty in accordance with Article

14.1.1 and the deduction of Petroleum Costs in accordance with Article 14.2.2 shall be deemed Profit Petroleum.

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

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

14.3.4 The “R” Factor shall be calculated as follows: R = X / Y where:

X: is equal to the “Cumulative Net Revenues” actually received by the Investor;

Y: is equal to the “Cumulative Capital Expenses” actually incurred by the Investor.

For the purpose of this Article 14.3.4:

“Cumulative Net Revenues” means total Net Revenues, as defined below, received by the Investor

from the Effective Date until the end of the Quarter preceding the relevant Quarter;

“Net Revenues” means the total amount actually received by the Investor for its share of Profit Petroleum and recovery of its Petroleum Costs in the Agreement Area, less, inter alia, all Operating Expenses, and excluding area rentals, Bonuses and the Administration Fee pursuant to Article 13, actually incurred by the Investor in the Agreement Area until the end of the Quarter preceding the relevant Quarter;

“Cumulative Capital Expenses” means all Development and Production Costs and all Exploration Costs in the Agreement Area, less, inter alia, the Operating Expenses, and excluding the area rentals, Bonuses and Administration Fee pursuant to Article 13, actually incurred by the Investor from the Effective Date until the end of the Quarter preceding the relevant Quarter.

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

(the fluctuations in the “R” factor value are defined by the provision of Article 51 herein).

14.3.6 The Investor shall account separately for all components for the calculation of the values of X and Y, pursuant to the Accounting Procedure referred to in Supplement C.

14.4 Calculations

14.4.1 The Quarter and annual calculations of recoverable Petroleum Costs and Profit Petroleum shall be performed in accordance with the methods and principles referred to in Articles 5 and 6 of Supplement C so that all calculations are performed in such a manner that ensures: (i) compliance with applicable competition act; (ii) there is no inappropriate exchange of commercially sensitive information; and (iii) the protection of each Investor Party’s commercially sensitive information. The Investor has the right to have an independent auditor (from a reputable firm of chartered accountants) calculate the R-Factor.

15 GUARANTEE

15.1 The Investor shall submit to the Ministry (i) an irrevocable, unconditional, on demand bank guarantee substantially in the form set forth in Supplement D hereto (hereinafter: Bank Guarantee) no later than ten (10) days from the date of entry into force of the Agreement and (ii) a parent company guarantee or a corporate guarantee, as applicable, in the appropriate form specified in Supplement E of this Agreement, on the date of entry into force of the Agreement for the amount specified in this Article 15. The bank guarantee shall be issued by a first class bank Licenced to operate in any of the following countries: the Republic of Croatia, any member state of the European Union, any country that had signed the Government Procurement Agreement (GPA) and any country that had signed and ratified Association

Agreements or Bilateral Agreements with the European Union or the Republic of Croatia and has the right to do so, according to the legislation of those countries.

15.2 The amount of the Bank Performance shall be an amount equal to thirty percent (30%) of the total Minimum Expenditure Obligation in respect of Phase I of the Exploration Period to be undertaken by the Investor in the Exploration Block, while the Parent Company Guarantee or Corporate Guarantee shall be an amount equal to seventy percent (70%) of the total Minimum Expenditure Obligation in respect of Phase I of the Exploration Period to be undertaken by the Investor in the Exploration Block. The aggregate amount of the Bank Guarantee and the Parent Company Guarantee or Corporate Guarantee shall be an amount equal to the amount of one hundred percent (100%) of the total Minimum Expenditure Obligation in respect of Phase I of the Exploration Period to be undertaken by the Investor in the Exploration Block. If Phase I of the Exploration Period is extended pursuant to this Agreement, the Investor shall extend the validity period of the subject guarantees accordingly if the Investor has not fully fulfilled its Minimum Work Obligations.

15.3 Before the commencement of Phase II of the Exploration Period the Investor shall deliver to the Ministry a similar bank guarantee and a parent company guarantee or a corporate guarantee. The amount of the bank guarantee shall be an amount equal to thirty percent (30%) of the Minimum Expenditure Obligation in respect of the Phase II of the Exploration Period to be undertaken by the Investor in the Agreement Area whereas the amount of the parent company amount shall be an amount equal to seventy percent (70%) of the Minimum Expenditure Obligation in respect of the Phase II of the Exploration Period to be undertaken by the Investor in the Agreement Area. The amount of the bank guarantee shall be an amount equal to One Hundred percent (100%) of the total Minimum Expenditure Obligation in respect of the Phase II of the Exploration Period to be undertaken by the Investor in the Agreement Area. If Phase II of the Exploration Period is extended pursuant to this Agreement, the Investor shall extend the validity period of the subject guarantees accordingly if the Investor has not fully fulfilled its Minimum Work Obligations.

15.4 Any Bank Guarantee or Parent Company Guarantee or Corporate Guarantee referred to above shall provide that after the completion and due performance of the Minimum Work Obligations of a particular Exploration Phase, the parent company guarantee or corporate guarantee and the bank guarantee shall be released and returned in favour of the Investor on presentation to the parent company of a Certificate from the Ministry, that the obligation of the Investor has been fulfilled and the relevant guarantees may be released. Such Certificate shall be provided by the Ministry within thirty (30) days from the completion of the Minimum Work Obligations for the corresponding Phase under this Agreement.

15.5 The Bank Guarantee and Parent Company Guarantee or Corporate Guarantee shall further provide that at the end of each Quarter and upon the completion and due performance of relevant activity in the Minimum Work Obligation of a particular Exploration Phase, the applicable value of the Bank Guarantee or Parent Company Guarantee or Corporate Guarantee shall be reduced in favour of the relevant Investor on presentation of a Certificate from the Ministry (such Certificate not to be unreasonably withheld) to the effect that the relevant Guarantees may be reduced. If, upon expiry of Phase I of the Exploration Period or any further Phase or extension thereof, or in the event of relinquishment of the entire Exploration Area or termination of the Agreement, the Exploration work has not reached the applicable Minimum Work Obligations if the Investor has not paid to the Government the

unexpended balance of the Minimum Expenditure Obligations as set out in Article 5.2.12, the Ministry shall have the right to call on the guarantee in full or in part as compensation for the non-performance of the Minimum Work Obligations. Such compensation shall not exceed the Minimum Expenditure Obligation less the amount approved in accordance with this Article 15.5 towards the completed work of the Minimum Work Obligations.

15.6 After the payment of the Minimum Expenditure Obligation (reduced in accordance with 15.5) has been made, the Investor shall be deemed to have fulfilled its Minimum Work Obligations for the relevant Exploration Phase under this Agreement and the Bank Guarantee and the Parent Company Guarantee or Corporate Guarantee shall be returned to the Investor.

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

15.8 Notwithstanding any Change in Control pursuant to Article 31.2 of the Investor furnishing a guarantee as provided herein, Investor shall not, under any circumstances, be absolved of its obligations contained in the guarantees so provided.

15.9 The Ministry shall release the guarantee given by the Assignor pursuant to Articles 15.2 and 15.3 to the extent of the amount of the guarantee provided by the Assignee if:

(a) a Party (hereinafter: Assignor) assigns all or a part of its Participating Interest to another (hereinafter: Assignee) in accordance with Article 31; and

(b) the Assignee provides an irrevocable, unconditional bank guarantee from a reputed bank of good standing, acceptable to the Ministry, in favour of the Republic of Croatia, for an amount equal to thirty (30 %) percent of the unexpended Minimum Expenditure Obligation at the Effective Date of the assignment in accordance with the Assignee's share; or

(c) the Assignee provides a parent company guarantee or a corporate guarantee for an amount equal to seventy (70 %) percent of the unexpended Minimum Expenditure Obligation at the Effective Date of the assignment in accordance with the Assignee's share; and

(d) the addendum to the Agreement giving effect to the assignment of Participating Interest is executed by all Parties.

16 VALUATION OF CRUDE OIL AND NATURAL GAS

16.1 Petroleum shall be valued for the purposes of determining (a) the amount of the Royalty paid in cash or in kind; (b) the recovery of Cost Petroleum, (c) the share of Profit Petroleum; and (d) the Investor's Gross Revenues in computing the Investor's income tax liability. All valuations shall be done in a manner which ensures: compliance with applicable competition law; there is no inappropriate exchange of commercially sensitive information; and the protection of each Investor's commercially sensitive information.

16.2 Valuation of Crude Oil

16.2.1 Crude oil shall be valued at the FOB realised sales price at the Delivery Point expressed in US Dollars per Barrel at the date of the bill of lading, as determined for each month and

referred to as Market Price. The value shall be established for each grade of crude oil or for each crude oil blend, if any.

16.2.2 The Market Price applicable to liftings of crude oil during a certain month shall be calculated at the end of that month and shall be equal to the weighted average of the FOB prices obtained by the Investor and the Republic of Croatia at the Delivery Point for crude oil sold to third parties during that month, on an arm's length basis, adjusted to reflect the variances in quality, grade, as well as FOB delivery terms and conditions of payment. The quantities sold on an Arm's Length Sales basis during the month shall represent at least thirty per cent (30 %) of the total quantities of Crude Oil obtained from all the Fields under this Agreement and sold during said month.

16.2.3 In the event no such sales on an arm's length basis are made during the month in question or such sales represent less than 30% of the total quantities of crude oil obtained from all the fields pursuant to the Agreement on the Exploration and Production of Hydrocarbons and sold during said month, the Market Price shall be determined as the average of the prevailing daily prices realised per Barrel on an arm's length basis in such month through the sale of a basket of the three internationally traded crude oils in the Mediterranean of a similar gravity and sulphur content, as published in the Platts Oilgram Price Report, adjusted to reflect variances in gravity, sulphur and transportation and any special terms and conditions relating to the sale of such crude oils.

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

a) sales in which the buyer is an affiliate of the seller as well as sales between legal entities constituting the Investor;

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

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

16.2.5 The Commission for determining the value of Hydrocarbons appointed by the minister competent for energy pursuant to the Act comprised of representatives of the Ministry and the Agency and, as required, the representative from other public law authorities of the Republic of

Croatia and the representatives of the Investor, shall meet without delay after the end of each Quarter, and in any case no later than twenty (20) days after the expiry of the Quarter, for the purpose of determining the Market Price of recovered Crude Oil applicable to the months of the previous Quarter pursuant to the provisions of Article 16.

The Investor and representatives of the Republic of Croatia in charge of selling crude oil shall submit to the Commission evidence that the sales of crude oil are arm's length sales.

16.2.6 In the event no decision is taken by the Commission within thirty (30) days after the end of the Quarter in question, the Market Price of the Crude Oil produced shall be determined

by an expert appointed with the mutual Agreement of the Parties within ten (10) days. Failing reaching Agreement within ten (10) days, any one of the Parties may request the ICC's International Centre for Expertise of the ADR International Chamber of Commerce to appoint such expert in accordance with the Rules for Expertise in force on the Effective Date of this Agreement. The expert, meeting the requirements set out in Article 35.2, shall establish the price in accordance with the provisions of this Article 16 within twenty (20) days from his appointment.

16.2.7 Pending the determination of the price, the Market Price provisionally applicable to a certain month shall be the Market Price of the preceding month. All necessary adjustments are made no later than thirty (30) days after the end of the Quarter in which the sales were made.

16.3 Valuation of Natural Gas

16.3.1 If there are Arm's Length Sales Agreements in place for the sale of natural gas, the Market Price of natural gas shall be the actual sales price obtained under such Agreements, calculated at the Delivery Point, which may take into account quantities to be sold, quality, geographic location of markets to be supplied as well as costs of production, transportation, treatment and distribution of natural gas from the Delivery Point to the relevant market, in accordance with Good International Oilfield Practice.

16.3.2 If there is no arm's length Agreement in place for the sale of natural gas, the Market Price is determined as that which permits the natural gas sold to reach, at the treatment or consumption places, a fair Market Price equivalent to that of natural gas of comparable quality.

16.3.3 The Investor shall make any and all natural gas sales Agreements, including all the terms and conditions contained therein or related thereto together with any pertaining annexes concluded for the sale of natural gas extracted in accordance with the provisions herein, available to the Agency and shall ensure that the natural gas sales Agreements contain provisions to this effect.

17 MEASUREMENT OF PETROLEUM

17.1 The petroleum produced in Petroleum Operations on the determined Exploitation Field(s) are measured through methods and devices generally accepted and customarily used in Good International Oilfield Practice, which are set by the verified Development and Production Plan. Hydrocarbons produced from the Exploitation Field shall be measured at the Measurement Point.

17.2 The Investor shall develop and submit for approval by the Agency Petroleum Measurement Procedures prepared in compliance with the Act and regulations.

17.3 The Investor shall keep all the records of analysis and measurement of Petroleum calibrations and proving of the measurement systems and make available to the Ministry and the Agency such records on request.

17.4 Through officially appointed representatives, the Ministry shall, in defined intervals, control whether the measurements were performed pursuant to the provisions of the Act and regulations.

18 MARKETING OF THE REPUBLIC OF CROATIA'S PROFIT OIL AND PROFIT GAS

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

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

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

Subject to the applicable Act and regulations, the Ministry or the Agency or any Person authorised by the Government therefore may require the Investor to market any part of the share of Profit Oil and Profit Gas owned by the Republic of Croatia under normal commercial terms and conditions agreed with the Investor in the international Petroleum industry and at fair market value achieved through Arm's Length Sales pursuant to Article 16 for Crude Oil and Natural Gas, in force at the time the Petroleum in question are lifted.

The right referred to in the previous paragraph shall be exercised by the Investor informing the Ministry or the Agency or the Persons authorised by the Government concerning the Petroleum sales Agreements the Investor plans to conclude with a third party or has concluded with a third party. The Ministry or the Agency or the Persons authorised by the Government are entitled to request the Investor to sell any share in Profit Oil and Profit Gas owned by the Republic of Croatia under the same conditions applicable to the Investor in Petroleum sales Agreements concluded with third parties. If the Government fails to adhere to the conditions of the Petroleum sales Agreements concluded by the Investor with third parties, the Government shall indemnify the Investor for any damage incurred due to failure to adhere to the Petroleum sales Agreements with third parties by the Government.

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

(a) at least ninety (90) days prior to the start of a Quarter, the Ministry and the Agency shall give written notice to the Investor that they require the Investor to market a specified quantity of Petroleum to be lifted rateably over a period of two (2) consecutive Quarters;

(b) the Parties shall meet and discuss possible commercial obligations and conditions concerning the activities referred to in Article 18.2(a) as soon as possible; and

(c) if an Agreement pursuant to Article 18.2(b) is reached, the Investor's obligation to market Petroleum from the Republic of Croatia shall continue mutatis mutandis from Quarter to Quarter after the initial two (2) consecutive Quarters until and unless the Ministry or the Agency fail to give the Investor written notice of termination which, subject to the above mentioned minimum period, shall take effect six (6) months after the end of the Quarter in which such written notice was given.

19 SUPPLY TO THE DOMESTIC MARKET AND USE OF INFRASTRUCTURE

19.1 Supply to the Domestic Market

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

19.1.2 If Crude Oil and Natural Gas available to the Government pursuant to Article 19.1 is insufficient for fulfilling the Republic of Croatia's domestic requirements, the Investor, if requested in writing by the Government, the Investor shall sell to the legal entity determined by the Government a portion of the Investor's share of Profit Oil and/or Profit Gas not committed to existing contracts up to the full amount of Investor's entitlement for the domestic consumption of the Republic of Croatia. Such sales shall be effected in accordance with obligations and conditions previously agreed in writing between the parties, including the Market Price to be agreed in accordance with the principles stipulated in Article 16 herein.

19.1.3 When the Republic of Croatia no longer requires supply from the Investor's share of Profit Oil and/or Profit Gas pursuant to Article 19.1.2 it shall give notice to the Investor of the date on which such supply shall cease, in accordance with commercial obligations and conditions agreed between the Parties pursuant to Article 19.1.2 (including a reasonable deadline for such notice), after which the Investor shall be entitled to freely lift and export its share of Profit Oil and/or Profit Gas.

19.1.4 In case of war or expectation of war or grave national emergency, the Government may request in writing all or a part of the Crude Oil and Natural Gas produced from the Exploitation Field(s) and require the Investor to increase such production to the extent required. In such event, the price to be paid by the Republic of Croatia for the Crude Oil and Natural Gas shall be the value determined in accordance with Article 16 of this Agreement.

19.1.5 In the event referred to in Article 19.1.4, the Republic of Croatia shall indemnify the Investor in full for the period, during which the requisition is maintained, including all reasonable damages, if any, which result from such requisition.

19.2 Use of Republic of Croatia Infrastructure

19.2.1 For transporting Crude Oil and Natural Gas the Investor may request and/or be required to connect its production facilities to the pipeline systems of the Republic of Croatia at the expense of the Investor. Such connections shall be agreed on at the moment of approving the Development and Production Preliminary Plan, provided that it is not commercially damaging or does not have an opposite effect on the Investor's rights and interests deriving from Petroleum Operations and considering the services and alternative at the Investor's disposal.

20 CONSERVATION OF PETROLEUM AND PREVENTION OF LOSS

20.1 The Investor shall adopt all those measures which are necessary and appropriate and consistent with International Good Oilfield Practice to prevent loss or waste of Petroleum above or under the ground during Petroleum Operations, gathering and distribution, storage or

transportation operations, which have been determined in the verified Development and Production Plan.

20.2 The Investor shall utilise the hydrocarbon Reservoirs in a rational manner, in accordance with this Agreement. Hydrocarbon Reservoirs shall be utilised in a rational manner if the Hydrocarbons are produced and enriched with minimum losses of Hydrocarbons pursuant to international good practice in Petroleum Operations and valid regulations governing nature and environment protection.

20.3 Petroleum shall not be produced from multiple independent Petroleum productive zones simultaneously through one string of tubing, unless if not otherwise defined in the verified Development and Production Plan.

21 NATURAL GAS

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

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

21.3 Subject to Article 21.4, the Republic of Croatia domestic market shall have the first call on the utilisation of Natural Gas discovered and produced from the Exploitation Field(s) at a price pursuant to Article 19.1.2. of this Agreement. Accordingly, any proposal by the Investor relating to Discovery and Production of Natural Gas from the Exploitation Field(s) shall be made for the utilisation of Natural Gas and shall take into account the objectives of the Government to develop its resources in the most efficient manner and to promote conservation measures. In the event of the Government not exercising the first call on the utilization of Natural Gas pursuant to provisions of Article 19 of this Agreement, the Investor may propose to the Government to sell Natural Gas outside of the Republic of Croatia

21.4 The Investor shall have the right to use Natural Gas produced from the Exploitation Field(s) for the purpose of Petroleum Operations including reinjection for pressure maintenance or enhance recovery in oil fields, gas lifting and power generation required for Petroleum Operations subject to provisions of this Agreement.

21.5 Associated Natural Gas

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

21.5.2 Based on the principle of full utilisation of Associated Natural Gas, a proposed Development and Production Preliminary Plan for a Discovery shall, to the extent practicable, include a plan for utilisation of any Associated Natural Gas including estimated quantities to be flared, re-injected, and to be used for Petroleum Operations; and, if the Investor proposes to commercially exploit the Excess Associated Natural Gas for sale.

21.5.3 If the Investor wants to produce the Excess Associated Natural Gas the Investor shall submit its proposals for such exploitation to the Ministry.

21.5.4 If the Investor does not want to produce the Excess Associated Natural Gas, the Investor should not consider the exploitation of the excess of Natural Gas as justified and if the Government, at any time, would want to utilise it, the Agency shall notify the Investor thereof, in which event:

(a) the Investor shall make available to the Republic of Croatia free of charge at the Crude Oil and Natural Gas separation facilities all of the Excess Associated Natural Gas that the Republic of Croatia intends to lift, to the extent that such usage does not interfere with Investor's existing usage;

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

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

(d) all costs related to facilitating the use of the natural gas referred to in paragraph (a) shall, for the avoidance of any doubt, constitute recoverable costs pursuant to this Agreement.

21.6 Non-Associated Natural Gas

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

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

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

21.6.4 In addition, the Parties shall jointly assess the possible outlets for the Natural Gas from the Discovery in question, both on the local market and for export, together with the necessary

means for its marketing, and they shall consider the possibility of a joint marketing of their shares of production in the event the Discovery of Natural Gas would not otherwise be commercially exploitable, to the extent permitted by the applicable Act and regulations.

21.6.5 After completing the Appraisal Works associated with the Discovery, and if it is determined that such Discovery constitutes a Commercial Discovery, the Investor shall submit to the Ministry the Development and Production Preliminary Plan pursuant to the provisions of Article 7 herein.

21.6.6 After issuing the Licence for hydrocarbon recovery pursuant to the provisions of Article 7.3, the Investor shall then proceed with the Development and Production of that Natural Gas and the provisions of this Agreement applicable to Crude Oil shall apply, mutatis mutandis, to Natural Gas, unless otherwise specifically provided in this Agreement.

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

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

21.6.8 In both cases, the Investor shall forfeit its rights on all Petroleum which could be produced from said Discovery, and the Ministry may then carry out, or cause to be carried out, all the appraisal, development, production, treatment, transportation and marketing work relating to that Discovery, without any compensation to the Investor, provided, however, that said work shall not cause prejudice to the performance of the Petroleum Operations by the Investor.

22 TITLE TO ASSETS

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

22.2 The full title to each fixed and moveable asset shall be transferred from the Investor to the Republic of Croatia automatically at the time of termination of this Agreement, regardless of whether their total cost has been recovered by the Investor in accordance with the provisions of Article 14.

22.3 At the moment of transfer of title pursuant to Article 22.2, the Agency and the Investor shall register the property that is being transferred to the Republic of Croatia as well as the fact that the title has been transferred.

22.4 The Investor shall be responsible for proper maintenance, insurance and safety of all property required for Petroleum Operations and for keeping them in good order and working condition at all times.

22.5 Without prejudice to the provisions of this Article, any fixed and moveable assets for which title has transferred to the Republic of Croatia in accordance with Article 22 shall, unless otherwise agreed, be subject to Decommissioning in accordance with the Decommissioning Plan which is approved pursuant to Article 9.

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

23 CUSTOMS DUTIES

23.1 The Investor and its Subcontractors engaged in carrying out operations under this Agreement with respect to the importation of such machinery and equipment as may be required to be used by Investor or its Subcontractors for Petroleum Operations shall be subject to the provisions of the EU legislation as well as legislation and regulations of the Republic of Croatia effective at the time of the application.

24 TAXATION

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

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

24.3 The costs incurred in respect of Petroleum Operations shall be allowable in accordance with the provisions of the tax legislation.

25 IMPORT AND EXPORT

25.1 The Investor shall have the right to import or export from third countries or into third countries or transfer from a member state of the European Union into the Republic of Croatia, all the goods, materials, machinery, equipment, spare parts and consumable directly necessary for the proper conduct of the Petroleum Operations according to the provisions of the European Union legislation and pursuant to provisions of Article 23 herein.

25.2 It is understood that the Investor and its Subcontractors imports the materials and equipment in observance with requirements of Article 28 herein.

25.3 The foreign personnel and their families assigned to work in the Republic of Croatia for the account of the Investor or its subcontractors shall have the right to import goods and items to the Republic of Croatia from a third country or transfer from another member state of the European Union their personal use according to the provisions of the European Union legislation as well as legislation and regulations of the Republic of Croatia.

26 BOOKS, ACCOUNTS, AUDITS

26.1 Books and Accounts

26.1.1 The Investor shall maintain its records and books in accordance with the provisions of applicable corporate and taxation legislation and the regulations of the Republic of Croatia, and the Accounting Procedure provided hereto in Supplement C.

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

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

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

26.1.5 The original records and business books referred to in this Article 26.1 shall be kept and stored at the Operator's branch office/office in the Republic of Croatia.

26.1.6 Within ninety (90) days after the expiry of a Calendar Year, the Investor shall submit to the Agency for approval in a written opinion detailed accounts showing the Petroleum Costs which the Investor has incurred during said past Calendar Year. Within one hundred and twenty (120) days after expiry of a Calendar Year, he accounts shall be certified by an independent external auditor acceptable to the Parties, who is authorised to carry out the statutory audit of annual and consolidated accounts in accordance with the legal provisions of the Republic of Croatia.

26.2 Audits

26.2.1 After notifying the Investor in writing, the Agency may cause to be examined and audited the records and books relating to Petroleum Operations and any sale of Petroleum produced in accordance with this Agreement by experts of his election or by agents of the

Republic of Croatia. The Agency shall have a period of two (2) years from the end of a given Calendar Year to perform such examinations or audits with respect to said Year and notify his objections to the Investor for any contradictions or errors found during such examinations or audits. The Investor shall provide the Agency with its explanations the soonest possible and in any case not later than sixty (60) days from receipt of the audit findings.

26.2.2 The Investor shall provide any necessary assistance to the persons designated by the Agency for that purpose and facilitate their performance.

26.2.3 Nothing in this Article shall be construed as limiting the right of the Government and or its agents pursuant to any statutory power to audit or cause to be audited the books of accounts of the Investor.

27 DATA, RECORDS, CONFIDENTIALITY, SUPERVISION AND Inspections

27.1 Data and Records

27.1.1 The Investor shall have the right to use and have access to all geological, geophysical, drilling, Well production, Well location maps and other information held by the Ministry and the Agency related to the Agreement Area and areas adjacent to the Agreement Area.

27.1.2 The Investor shall prepare and, at all times while this Agreement is in force, maintain accurate and current records of its operations in the Agreement Area hereunder. The data management procedure shall be submitted by the Investor to the Agency for approval in four (4) months after Effective Date of this Agreement to be approved in a written opinion. Upon approval by the Agency, the Investor may cease submitting any or all of the above items and maintain them for the review by the Agency in its files in the Republic of Croatia.

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

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

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

(b) Well data, including, but not limited to, daily drilling reports, electric logs and other wire line surveys, mud logging reports and logs, samples of cuttings and cores (whereby the Investor has the right to retain a reasonable portion of the samples of cuttings and cores required for own Exploration) and analyses made thereof;

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

(d) all original Well completion and Well testing reports;

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

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

(g) Quarterly reports on Petroleum Operations as agreed between the Agency and the Investor;

(h) final reports upon completion of each specific plan or operation;

(i) contingency Programmes and reports dealing with health, safety, and the environment;

(j) plan drawings, criteria, specifications and construction records;

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

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

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

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

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

27.1.4 The Republic of Croatia shall have title, subject to the application of the provisions of Article 27.2, to all original data and information resulting from Petroleum Operations under this Agreement, including but not limited to geological, geophysical, petrophysical and engineering data; Well logs and completion status reports; and any other data that the Investor or anyone acting on its behalf may compile or obtain during the term of this Agreement pursuant to the Act. The Investor is entitled to retain and use a copy of all such data, subject to the provisions of this Article 27.

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

27.2 Confidentiality

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

27.2.2 Notwithstanding the provisions set out above, disclosure may be made by Investor to:

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

(b) personnel, professional consultants, advisers, data processing centres and laboratories, where required, for the performance of functions in connection with Petroleum Operations for any Party comprising the Investor;

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

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

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

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

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

Any disclosure by the Investor to any third party pursuant to the Agreement, following the notification of the Agency, shall be made with a written undertaking given to the Investor by the third party stating that it shall treat such data, information or reports as confidential.

27.2.3 The Investor may disclose information as and to the extent required by a regulatory or judicial authority having proper jurisdiction over the Investor, provided that the Agency is first notified of such disclosure and of the information so disclosed.

27.32.4 The confidentiality obligations of the Investor with respect to geological, geophysical and all other data and information acquired or obtained from and related to Petroleum Operations shall remain in force and effect throughout the life of the Agreement and a period of five (5) Calendar Years thereafter.

27.3 Supervision and Inspections

27.3.1 Petroleum Operations shall be subject to inspection pursuant to provisions of the Act and regulations. The authorised officers shall have the right, inter alia, to monitor Petroleum Operations and to inspect the facilities, equipment, materials, records and books relating to Petroleum Operations.

27.3.2 For purposes of permitting the exercise of the above-mentioned rights, the Investor shall provide the authorised officers with reasonable assistance regarding transportation and accommodation.

28 EMPLOYMENT, TRAINING, GOODS, WORKS, SERVICES AND PROCUREMENT

28.1 Employment and Training

28.1.1 From the commencement of the Petroleum Operations and subject to applicable law, the Investor and its Subcontractors shall give preference employment for Croatian and EU personnel, under the same conditions with respect to skills and professional competence, where qualified and trained Croatian and EU nationals are available for employment in the conduct of Petroleum Operations and contribute to the training of those personnel in order to allow them access to any position of skilled employee, foreman, executive and manager. For the avoidance of any doubt, in terms of this provision, personnel also includes personnel of the Investor's Affiliates.

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

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

28.1.4 If the Agency determines that the Investor and its subcontractors do not adhere to the provisions of Article 28.1.2, the employment costs shall be considered costs not eligible for cost recovery and shall not be approved pursuant to the provisions of Article 14.

28.2 Goods, Works and Services

28.2.1 The Investor and its Subcontractors undertake, subject to applicable law, to give preference to Croatian and EU enterprises and their goods, works and services under equivalent conditions in terms of price, quantity, quality, conditions of payment and delivery

time. For the avoidance of any doubt, this provision on preference to be given to Croatian and EU enterprises and their goods, works and services also refers to the Investor's Affiliates.

28.2.2 The Investor has the right to use qualified Subcontractors to provide specialized goods, works and services. The Investor and its Subcontractors undertake, subject to applicable law, to give preference to Croatian and EU enterprises and their materials, goods, works and services, under equivalent conditions in terms of price, quantity, quality, conditions of payment and delivery time. In this regard Investor shall maintain records and accounts and provide reports in accordance with the provisions Supplement C.

28.2.3 If the Agency determines that the Investor and its subcontractors do not adhere to the provisions of Articles 28.2.1 and 28.1.2, the costs of the goods, works and services shall be considered costs not eligible for cost recovery and shall not be approved pursuant to the provisions of Article 14.

28.3 Procurement

28.3.1 Within four (4) months from the Effective Date of this Agreement, the Investor shall submit to the Agency for approval a procurement procedure, which shall be developed in compliance with provisions of this Article 28.3, International Good Oilfield Practice and applicable acts and regulations of the Republic of Croatia.

28.3.2 The Investor and its Subcontractors undertake to issue calls for biddings to Croatian and foreign candidates for supply of goods, works and services, construction and other contracts in accordance with such procurement procedure referred to in Article 28.3.1 and the rules on public procurement applicable to the Investor in the Republic of Croatia. It is understood that the Investor shall not unduly break down said contracts.

28.3.3 The Agency shall have a right to be included in all procurement procedures upon its request for the contracts with a value exceeding an equivalent One Hundred Thousand Euro (EUR 100,000.00); provided, however, that such inclusion of the Agency: (i) shall not delay the Investor's ability to finalize its procurement of goods, works and services as required by this Agreement and (ii) that the stated threshold of One Hundred Thousand Euro (EUR 100,000.00) as of the Effective Date shall be periodically reviewed and escalated as appropriate to represent any increase in procurement costs in the petroleum industry.

28.3.4 The copy of contracts shall be provided at request to the Agency upon execution thereof.

29 STABILISATION PROVISIONS

29.1 The Agreement shall be entered into on the basis of the legislation and regulations of the Republic of Croatia prevailing at the time of entry into force of the Agreement.

29.2 The terms and conditions of the Agreement shall remain valid for the whole term of the Agreement and may only be amended, modified or supplemented by way of written Agreement between each of the parties thereto.

29.3 If during the validity period of the issued Licence for the recovery of Hydrocarbons and the concluded Agreement there are amendments to the acts and regulations of the Republic of Croatia which were in force when the Licence for the recovery of Hydrocarbons and the Agreement came into effect, including amendments to the acts and regulations resulting from the concluded international Agreements to which the Republic of Croatia is a party and which have great impact on the economic or commercial provisions of the Licence for the recovery of Hydrocarbons or the Agreement and/or other important interests of the Parties, the Government and/or the Investor shall enter into negotiations for the purpose of possible amendments to the Licence for the recovery of Hydrocarbons or the Agreement which would ensure a balance of interests and planned economic results of the Parties that existed at the moment the Licence for the recovery of Hydrocarbons was issued or the Agreement was concluded, and which are in accordance with the issued Licence for the recovery of Hydrocarbons or the concluded Agreement.

29.4 For that purpose the Investor shall submit a formal letter to the Government, priority mail with a return receipt, informing on the one hand the Government of the change in the act and its effect on the economic balance that had existed on the date of entry into force of the Agreement, and on the other requesting the Government to take appropriate measures to maintain the economic balance of the Agreement that had existed on the Effective Date of the Agreement. The Government has a deadline of three (3) months at the most from the date of receiving the Investor's notice to notify the Investor of the measures it is considering in order to restore the economic balance that had existed on the Effective Date of the Agreement. After the expiry of the aforementioned deadline the Parties shall meet within the deadline of fifteen (15) days at the most in order to find a solution that would enable the restoration of the economic balance that had existed at the Effective Date of the Agreement. If the Parties fail to reach an Agreement within ninety (90) days, each Party may refer the subject matter to dispute resolution as provided under Article 35 herein.

29.5 The provisions of Article 29.3 shall not apply in case of any amendment, modification, enactment, re-enactment, repeal or other change or addition to acts and regulations governing labour relations, protection of nature and the environment, the protection of human health, occupational safety and the safety of Petroleum Operations.

30 TERMINATION OF THE AGREEMENT

30.1 This Agreement may be terminated prior to expiration of its term by written consent of the Parties, or following the Investor's relinquishment of the entire Exploitation Field pursuant to Article 6.3.1.

30.2 This Agreement shall automatically terminate in case of terminating, revoking or annulling the Licence pursuant to the Act and regulations.

30.3 In addition to the above, this Agreement may be terminated by the Government if one of the following circumstances pursuant to this Article 30 occur:

(a) material breach or recurrent breach by the Investor of the provisions of the Act and/or the regulations and/or the provisions of this Agreement;

(b) delay exceeding three (3) months incurred by the Investor with respect to a payment due to the Republic of Croatia (except the payment which is under dispute in respect of this Agreement);

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

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

(e) failure of the Investor to comply, within the prescribed period, with an arbitration award rendered in accordance with the provisions of Article 35;

(f) bankruptcy, settlement with creditors or liquidation of Investor's assets or that of its parent company or any other Investor party, as the case may be, unless the Investor party which is not subject to bankruptcy, agrees with creditors or liquidates the assets to assume all the rights and obligations of the so affected subject, arising out of this Agreement;

(g) if the Investor has knowingly submitted false statement given to the Republic of Croatia which were of a material consideration for the execution of this Agreement; or

(h) If the Investor fails to pay the signatory bonus pursuant to Article 13.2.1a) and/or fails to submit the Bank Guarantee pursuant to Article 15.1.

30.4 Except with respect to the occurrence set forth in Articles 30.1(f) and 30.3(h) above, the Government shall pronounce the forfeiture provided for in Article 30.3 only after having served formal notice on the Investor, by registered mail with acknowledgement of receipt, to remedy the breach in question within three (3) months (or within six (6) months with respect to the occurrences set forth in Articles 30.1(c) and 30.1(d) above) from the date of receipt of such notice.

30.5 Should the Investor fail to comply with such prescription within the prescribed time period, the Agreement shall be considered terminated.

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

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

(b) does not declare the Discovery as a Commercial Discovery within nine (9) months after completion of appraisal work with respect to said Discovery.

30.7 The Government may then perform or cause to be performed any appraisal, development, production, treatment, transportation and marketing work with respect to said

Discovery, without any compensation to the Investor; provided, however, it shall not cause prejudice to the performance of the Petroleum Operations by the Investor in the remaining part of the Agreement Area.

30.8 Any dispute as to whether any ground exists to justify the termination of this Agreement pronounced by the Ministry due to the forfeiture may be subject to arbitration in accordance with the provisions of Article 35. In that event, the Agreement shall be suspended until the execution of the arbitration award by the Parties, unless the subject matter of the arbitration does not prevent the Petroleum Operations from continuing.

30.9 When the Agreement is terminated the Parties shall observe requirements provided in this Agreement and the acts of the Republic of Croatia.

30.10 Within ninety (90) days after the termination of this Agreement or such longer period as the Ministry may agree, the Investor shall comply with Article 10 and carry out any necessary action pursuant to the acts and regulations of the Republic of Croatia, and in accordance with International Good Oilfield Practice to avoid Environmental Damage or hazards to human life or to the property of others.

31 ASSIGNMENT OF RIGHTS AND OBLIGATIONS AND CHANGE OF CONTROL

31.1 Assignment of rights and obligations

31.1.1 The Investor may assign completely or partially the rights and obligations under this Agreement provided that the Government, based on the Ministry proposal, had provided its written consent to such assignment, which it issues based on the modification of the License for the Exploration and Production of Hydrocarbons

31.1.2 The Investor shall also request a prior written consent referred to in Article 31.1.1 of this Agreement from the Government when the rights and obligations under the Agreement are assigned to an Affiliated Company or when a status change of the Investor would result in such assignment.

31.1.3 In case of an assignment referred to in Article 31.1.2 of this Agreement, the Investor and the Affiliated Company shall remain jointly and severally liable for all rights and obligations under the Agreement.

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

31.1.5. If, notwithstanding Article 31.1.1, any assignment of rights and obligations is effective under the acts of the Republic of Croatia, or any other place without any required consent, the Government may terminate the rights of such Investor Party under this Agreement.

31.1.6. The Investor shall notify the Government through the Ministry of its intent to assign its rights and obligations under this Agreement without delay and indicate the commercial conditions of such intended assignment, including the potential assignor, price and other relevant commercial conditions. The Government, through the national oil company, has the right of pre-emption with regard to the Investor’s share in the Agreement under conditions that

are not less favourable than the commercial conditions offered by the potential assignor. The Government shall notify the Investor of its right of pre-emption with regard to the Investor's share under this Agreement within ninety (90) days from the date of submitting the notice of the Investor's intention of assignment. The Government shall adopt a decision on giving or refusing consent which shall not be unreasonably withheld and shall also modify the Licence so that it is issued to the new licensee.

31.2 Change of Control

31.2.1 No change of control of the Investor or the Investor Party can be of any force or effect with respect to this Agreement, except with the consent of the Ministry, which shall not be unreasonably withheld.

31.2.2 The Investor shall without delay notify the Ministry of any change of control of the Investor or the Investor Party.

31.2.3 If there is a change in control of the Investor or the Investor Party, except with the consent of the Ministry, the Government may serve notice on the Investor or the Investor Party within thirty

(30) days after the Investor or the Investor Party has advised the Ministry in reasonable detail of the change in control, that this Agreement shall be terminated unless such a further change in control of the Investor or the Investor Party as is specified in the notice takes place within the period specified in the notice.

31.2.4 The obligations out of this Article 31.2 shall not apply if the change in control is the direct result of an acquisition of shares or other securities listed on a recognised stock exchange.

31.2.5 For the purposes Article 31.2:

(a) "control" means ownership of more than fifty percent (50%) of the shares authorised to vote at a general meeting of shareholders, or the ability to pass or procure the passing of a decision (whether by casting of votes or otherwise) at a general meeting of shareholders, or at any meeting of the executive or management body, of an Investor Party, as the case may be; and

(b) "change of control" includes direct or indirect change in the control of the Investor Party (whether through merger, sale of share or interest or otherwise) in a one-off transaction or a series of transactions, from one or several assignors to one or several successors, except to an Affiliate by the Investor Party, as the result of which one or several successors, except the Affiliate of the Investor Party, would acquire direct or indirect control of such Investor Party.

32 CURRENCY AND EXCHANGE CONTROL, PAYMENTS

32.1 Currency and Exchange Control

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

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

32.1.3 All transactions, payments and valuations made in currencies other than the currency of the Republic of Croatia shall be recorded in Kuna on the basis of standard exchange rates in effect during the period the transaction or valuation is made determined by applying the middle rate published by the Croatian National Bank. For transactions made on dates when no exchange rate is published, the exchange rate shall be established by reference to the middle rate published by the National Bank of Croatia on the immediately preceding the publishing date.

32.1.4 If the Kuna ceases to be the official currency of the Republic of Croatia, any amounts indicated herein in Kuna (HRK) shall be converted to the new currency by applying the exchange rate based on the middle rate published by the Croatian National Bank on the date of the transaction, unless the exchange rate is stipulated by an act or by the Government and/or in an administrative decision in which case the subject exchange rate shall be applied.

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

(a) return to its country, in Kuna or another freely convertible currency, the net profits from Petroleum sales under this Agreement, after settling its tax liabilities in the Republic of Croatia;

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

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

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

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

32.2 Payment Mechanism

32.2.1 All payments that the Investor shall make to the Republic of Croatia under this Agreement shall be effected in favour of the state Budget pursuant to valid regulations defining the payment details and procedure.

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

32.3 Late Payment

Any amount not paid in full when due shall bear legal default interest, compounded on a daily basis, at annual rate determined in accordance with the provisions of the applicable legislation of the Republic of Croatia, from the due date until the amount is paid in full.

33 INDEMNITY, INSURANCE AND LIABILITY

33.1 The Investor shall be entirely and solely liable under law to the Republic of Croatia and third parties and shall compensate for any damage or loss to the Republic of Croatia and third parties which the Investor, its personnel or Subcontractors and their personnel may cause to the person, the property or the rights of other persons, caused by or resulting from Petroleum Operations, including any Environmental Damage.

33.1.2 The Investor shall indemnify, defend and hold the Republic of Croatia harmless against all claims, losses and damages of any nature whatsoever by any personnel of the Investor or of any Subcontractor for the loss or damage to personal property or injury or death to Persons caused by or resulting from any Petroleum Operations conducted by or on behalf of the Investor.

33.1.3 The Investor shall contract and keep in force for the duration of this Agreement appropriate liability insurance policies with regard to all risks concerning Petroleum Operations, in particular:

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

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

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

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

(e) the Investor’s and/or the Operator’s liability to its personnel engaged in Petroleum Operations as required by applicable acts and regulations of the Republic of Croatia; and

(f) other insurance policies in compliance with the Act and other applicable acts and regulations of the Republic of Croatia.

The Investor shall be responsible for its Subcontractors insurance against the risks referred to in this Article relating mutatis mutandis to such Subcontractors.

33.1.4 The Investor is free to select its insurer provided that the insurer has the appropriate financial capacity. The Investor shall provide the Agency with the certificates proving the subscription and maintenance of the above-mentioned insurances. The Agency shall, in a written opinion, approve the said insurance policies for exclusions and verify the financial capacity of Insurers. All insurance policies taken out pursuant to this Article shall be made available to Agency for opinion prior to operations commencing. The Agency has the right to request amendments to the above mentioned insurance policies when customary or usual in International Good Oilfield Practice during Petroleum Operations in order to ensure compliance with the requirements referred to in this Article.

33.1.5 The Investor shall act as a prudent expert in performing Petroleum Operations:

33.1.6 The Investor is liable for any loss or damage resulting from Negligence, Gross Negligence or Wilful Misconduct of Investor, of Investor's Subcontractors or their personnel, acting in the scope of their employment in the performance of Petroleum Operations, or any other Persons for whom Investor is responsible with regard to Petroleum Operations. Except for Environmental Damage, the Investor or its Affiliates shall in no event be liable to the Government under this Agreement for indirect damage, including, but not limited to the loss of opportunity, i.e. loss of profit.

33.1.7 The Parent Company shall be liable jointly and severally with the Investor for obligations and liabilities under this Agreement.

33.1.8 The Republic of Croatia shall be liable for any damage or loss due to improper or illegal actions of the government administration authorities pursuant to the provisions of the act regulating the system of government administration, as well as the provisions of the act regulating civil obligations. For the avoidance of any doubt, the Republic of Croatia shall in no event be liable to the Investor under this Agreement for indirect damage, including, but not limited to the loss of opportunity, i.e. loss of profit.

34 FORCE MAJEURE

34.1 Force Majeure Relief

Any obligation or condition arising from this Agreement which either Party is prevented from performing whether in whole or part, except with respect to the payments such Party is liable to, shall not be considered as a breach of this Agreement if said non-performance is caused by a case of Force Majeure, provided, however, that there is a direct cause-and-effect relationship between the non-performance and the case of Force Majeure invoked and that such Party has taken appropriate precautions and exercised due care, to carry out the terms and conditions of this Agreement. For purposes of this Agreement, cases of Force Majeure are considered to include all circumstances which could not be foreseen, avoided or prevented and which are beyond the control of the Party referring to them, such as, but not limited to, earthquake, typhoon, fire, riot, insurrection, civil disturbances, acts of war or acts attributable to war, invasions, blockades, riots, strikes, drilling rig unavailability due to force majeure, but shall not include the lack of financial assets. Any other Investor’s financial instability, as well as insolvency and/or initiating bankruptcy/liquidation proceedings over the Investor shall not

be considered Force Majeure. The intent of the Parties is that the term Force Majeure shall be interpreted in accordance with the Act and act regulating civil obligations.

34.2 Procedure

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

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

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

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

34.2.5 In case of the Force Majeure the Parties are, at all-times, subject to provisions of the Act and the act regulating civil obligations.

35 DISPUTE SETTLEMENT

35.1 Amicable Settlement

35.1.1 In the event of any dispute between the Republic of Croatia and the Investor arising out of, relating to, or connected with this Agreement or the operation and activities carried out under this Agreement, including any dispute regarding the construction, validity, interpretation, enforceability, breach, termination or implementation of any provisions of this Agreement (hereinafter: Dispute), other than a Dispute to be referred to expert determination in accordance with Article 16, the Parties shall first attempt to resolve the Dispute amicably through negotiations which shall not exceed a period of thirty (30) days after the receipt by one Party of a notice in writing from the other Party of the existence of such a Dispute.

35.1.2 If any Dispute under Article 35.1.1 has not been settled through such negotiations within the established period either Party may (i) by written notice to the other Party, refer it to expert determination if the other Party so agrees in accordance to Article 35.2, or (ii) submit the Dispute to arbitration in accordance with Article 35.3.

35.2 Expert Determination

35.2.1 Without prejudice to Article 16, the Parties may refer a Dispute to expert determination by mutual Agreement. In such case, the Parties shall, within thirty (30) days, by mutual Agreement, appoint an expert to provide his expert decision on the dispute. The expert shall be an independent and impartial person of international standing with relevant qualifications and experience, appointed by a written Agreement between the Parties. The expert shall not, by virtue of nationality, personal connection or commercial interest, have a conflict between his/her own interest and his/her duty as a sole expert.

35.2.2 Failing reaching such an Agreement within the aforementioned period of thirty (30) days, any one of the Parties may refer the Dispute to arbitration pursuant to Article 35.3.

35.2.3 The expert shall render his decision no later than ninety (90) days after his or her appointment. The Parties agree to cooperate fully in the conduct of such expert determination and to provide the expert with all necessary information to make a fully informed decision in an expeditious manner. Should the expert fail to render a decision within ninety (90) days after his or her appointment, and should the Parties fail to extend the deadline for such decision, the Dispute may be referred to arbitration pursuant to Article 35.3 by either Party.

35.2.4 The expert’s decision shall be final and binding upon the Parties unless the Parties refer the dispute to arbitration pursuant to Article 35.3 within sixty (60) days of the date on which the expert’s decision is received.

35.2.5 The expert's Fees and costs shall be borne in the manner determined by the Parties and if the Parties disagree, in the manner determined by the decision of the expert.

35.3 Arbitration

35.3.1 Each Dispute not resolved amicably and/or not referred to determination by the expert shall be resolved exclusively and finally in arbitration, and any Party may refer such Dispute to arbitration.

35.3.2 The arbitration shall be held and determined in accordance with the Rules of Arbitration of the International Chamber of Commerce (ICC) as in effect at the time the proceeding is started.

35.3.3 Unless otherwise expressly agreed in writing by the Parties:

(a) the place of arbitration is Zagreb, Republic of Croatia;

(b) the arbitration proceedings shall be conducted in English language and the arbitrators shall be fluent in English language.

(c) the number of arbitrators shall be three. The arbitrators shall be and remain at all times wholly independent and impartial.

(d) any procedural issues not determined under the arbitral rules selected pursuant to this Article shall be determined by the law of the place of arbitration, other than the legislation which would refer the matter to another jurisdiction.

(e) the costs of the arbitration proceedings (including attorney's Fees and costs) shall be borne in the manner determined by the Parties and if the Parties disagree, in the manner determined by the arbitrators.

(f) the decision of a majority of the arbitrators shall be final and binding without the right of appeal.

(g) It is the intent of the Parties that the arbitration proceeding shall be conducted expeditiously, without initial recourse to the courts and without interlocutory appeals of the arbitrators' decisions to the courts.

(h) A Party's breach of this Agreement shall not affect this Agreement to arbitrate. Moreover, the Parties' obligations under the arbitration provisions that have not been fulfilled are enforceable even after this Agreement has terminated.

36 APPLICABLE LAW AND LANGUAGE OF THE AGREEMENT

36.1.1 This Agreement shall be governed and interpreted in accordance with the legislation of the Republic of Croatia, excluding the application of collision rules that would refer to the law of another country. The legislation shall also include amendments, revisions, and modifications and re- enactment.

36.1.2 Nothing in this Agreement shall entitle the Investor to exercise the rights, privileges and powers conferred upon it by this Agreement in a manner that shall be contrary to the legislation of the Republic of Croatia.

36.1.3 The conduct of the Petroleum Operations by the Investor shall be subject at any time to the legislation in force in the Republic of Croatia.

36.1.4 In case there is any issued not regulated by the Croatian legislation, the principles of international law shall apply.

36.1.5 This Agreement shall be executed in the Croatian and English languages, and the Croatian version shall prevail, including any arbitration proceedings.

37 AMENDMENTS

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

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

38 MISCELLANEOUS

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

38.1.2 The Annexes form an integral part of this Agreement. In case of conflict between the provisions, the provisions of any Article in this Agreement shall prevail over the provisions contained in the Annexes thereto.

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

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

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

39 NOTICES AND IMPLEMENTATION OF THE AGREEMENT

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

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

(a) if to the Government:

(b) if to the Ministry:

(c) if to the Agency:

(b) if to the Investor:

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

All notices may, as agreed by the Parties, be submitted also by email if the Party receiving the email has confirmed the receipt.

The Government or the Investor may at any time change their authorized representative, or modify the addresses mentioned in this Article, subject to at least ten (10) days' prior notice.

40 Effective Date

This Agreement shall become effective upon execution of this Agreement by each Party (Effective Date).

In witness whereof, the Parties hereto have concluded this Agreement in four (4) originals in the English and the Croatian language. Each Party shall retain two (2) originals of the Agreement.

Government of the Republic of Croatia

Investor

SUPPLEMENT A – Coordinates of the Exploration Area

SUPPLEMENT B – Map of the Exploration Area

SUPPLEMENT C – Costs of Hydrocarbon Exploration and Exploitation Subject to Cost Recovery in Case of Production Sharing – Method of Cost Recording

ARTICLE 1. GENERAL PROVISIONS

1.1 Purpose

The purpose of this Supplement C is to establish the manner in which the Petroleum Costs will be classified and determined, and the Investor's books and accounts will be prepared and maintained.

This Accounting Procedure shall not apply to Investor's Profit Tax obligations in accordance with the law which regulates Profit Tax.

The costs listed in this Supplement C will be approved if they are part of the Minimum Work Obligations, Reserves Study and/or Petroleum Plans.

1.2 Accounting Records

The Investor shall maintain complete accounts, books and records, on an accrual basis, of all costs, expenses and revenues of, or relating to, Petroleum Operations in accordance with applicable accounting laws and regulations, Generally Accepted Accounting Standards which are valid in the Republic of Croatia and in accordance with the charts of accounts under the following paragraph.

Within sixty (60) days after the Effective Date of the Agreement, the Investor shall submit to the Agency for the insight an outline of charts of accounts, books, records and reports to be used for the purposes of this Accounting Procedure and for reporting to the Agency thereon.

Notwithstanding the generality of the foregoing, the Investor shall submit to the Agency, at regular intervals, statements relating to the Petroleum Operations, with respect to exploration, production, value of production and pricing, Petroleum Costs, production sharing, annual budget, final end-of-year statement.

In order to determine the R-Factor, the Investor shall keep a particular system of accounts to record, in Euros (EUR), income and expenditure related to the Petroleum Operations. This system shall consist of two main accounts: the R-Factor Income Account, and the R-Factor Expenditure Account as defined in this Supplement C.

1.3 Language and Units of Account, Currency Exchange

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

The accounting records will be in Euros. For the avoidance of doubt, the Euro shall be the main currency for accounting records and the currency to be used for cost recovery purposes.

Any amount incurred in another currency than Euro shall be converted into Euros at the exchange rate specified in Article 32. of this Agreement.

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

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

1.4 Revision of the Accounting Procedure

By mutual agreement between the Parties, this Accounting Procedure may be revised in justified cases.

1.5 R-Factor Income and Expenditure Accounts

1.5.1 R-Factor Income Account

The following shall be recognized as income and recorded in the R-Factor Income Account:

a) Income from Arm's Length Sales of Petroleum production as set out in Article 16. of this Agreement.

b) Deemed income from non-Arm's Length Sales of Petroleum production valued and measured as set out in Article 16. of this Agreement.

c) Income from sales of assets acquired by the Investor for Petroleum Operations which are not passed into the ownership of the Republic of Croatia and whose costs are not subject to cost recovery, and the cost of which was recorded in the R-Factor Expenditure Account.

d) Income from services rendered to third parties involving personnel whose remuneration and benefits are recorded in the R-Factor Expenditure Account and/or involving goods whose acquisition cost has been recorded in the R-Factor Expenditure Account.

e) Income from letting assets belonging to the Investor, whose acquisition cost has been recorded in the R-Factor Expenditure Account or subletting of goods whose hire is charged to the R-Factor Expenditure Account.

f) Compensation received from insurance policies taken out in relation to Agreement activities for damaged goods, including compensation for loss of profits. The income obtained as a result of a hedging, provided that such hedging was carried out within the scope of this Agreement.

g) Other income representing credits applicable to charges to the R-Factor Expenditure Account.

1.5.2 R-Factor Expenditure Account

Petroleum Operations Expenditures may consist of capital and operating expenditures as follows:

a) Capital Expenditures

Capital Expenditures are those Petroleum Operations expenditures for assets that normally have a useful life that extends beyond the year in which the asset was acquired.

In addition to expenditures relating to assets that normally have a useful life beyond the year in which the asset was acquired, the costs of Exploration and Development and Production Operations will be classified as Capital Expenditures.

Capital Expenditures include in particular the following:

i. Costs of all facilities, plants, equipment, tools, devices and fittings used for performing Petroleum Operations.

ii. Cost for construction utilities and auxiliaries such as, for example, workshops, power and water facilities, warehouses, field roads and similar.

iii. Drilling costs such as, for example, labour, materials and services used in drilling Wells.

iv. Surveys costs such as, for example, labour, materials and services used in aerial, geological, topographical, geophysical and seismic surveys, and core hole drilling.

v. Other possible Exploration Expenditures such as, for example, auxiliary or temporary facilities having lives of one year or less used in Exploration.

b) Operating Expenditures

Operating Expenditures are all Petroleum Operations expenditures other than Capital Expenditures.

ARTICLE 2. CLASSIFICATION OF PETROLEUM COSTS

2.1 Principles of Classification

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

2.2 Exploration Expenditures

Exploration Expenditures are those costs, whether of a capital or operating nature, which directly relate to Exploration and Apprisal for Petroleum incurred under the Agreement, including in particular:

a) Surveys, including labour, material and services, used in aerial, geophysical, geochemical, geological and seismic surveys and core hole drilling, including desk studies and interpretation of survey data.

b) Drilling Wells, including labour, material and services, provided such Wells are not completed as producing Wells.

c) Facilities used solely in support of the performance of activities mentioned in paragraphs (a) and (b).

Appraisal Expenditures are those Exploration Expenditures which directly relate to the Appraisal of a Petroleum Discovery.

2.3 Development and Production Expenditures

Development and Production Expenditures are those costs, whether of a capital or operating nature, which directly relate to the Development and Production of Hydrocarbons in the Exploitation Field under the Agreement, including in particular:

a) Drilling Wells, including labour, material and services, provided such Wells are completed as producing Wells or as injection Wells, including the facilities used in support of the performance of the activities in question.

b) Production facilities and the Decommissioning thereof including Petroleum Facilities, wellhead production tubing, pumps, flow lines, gathering equipment, delivery lines, treatment facilities, storage facilities, export terminal and piers, enhanced recovery facilities.

c) Pipelines and related facilities for transporting Petroleum produced in the Exploitation Area to the Delivery Point including any pipelines, facilities and tie-ins required under Article 19.2 of the Agreement, or Investor costs associated with Article 19.1.

d) Engineering and design studies for facilities mentioned in paragraph (c) and (b).

2.4 Operating Expenditures

Operating Expenditures are, with respect to an Exploitation Area and after the start of commercial production therefrom, those costs of an operating nature which directly relate to the development and production thereof.

2.5 Apportionment

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

Where any cost or receipt relate to more than one of Exploration, Appraisal, Development and Production, and Operating Expenditures, or to more than one Exploitation Area, the cost or receipt shall be apportioned in an equitable manner, with all supporting elements.

ARTICLE 3. ALLOWABLE PETROLEUM COSTS FOR COST RECOVERY

The following costs and expenses incurred by the Contactor for the purposes of the Agreement, shall be classified in accordance with the provisions of Article 2. of this Accounting Procedure and shall be included as Petroleum Costs allowed for cost recovery under Article 14.2 of the Agreement and in Article 3.15 of this Accounting Procedure.

3.1 Surface Rights

All direct costs necessary for the acquisition and maintenance of surface rights acquired and maintained in force for the purpose of the Agreement, excluding all fees paid to the Republic of Croatia for the use of its real estates or for the use of the common good.

3.2 Labour and Associated Labour Costs

a) Investor's locally recruited employees based in the Republic of Croatia:

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

Such costs shall include the costs of salaries, wages and other personnel expenses in accordance with laws and regulations of the Republic of Croatia.

If such employees are also engaged in activities other than the Petroleum Operations, in addition, the cost of such employees shall be apportioned on a time sheet basis according to sound and acceptable accounting principles.

b) Assigned personnel:

Such costs shall include the cost of salaries, wages and other Investor's personnel costs in accordance with generally accepted accounting standards, which are directly engaged in the conduct of the Petroleum Operations, whether temporarily or permanently assigned, irrespective of the location of such employees. For the avoidance of doubt, in the case of assigned personnel, personnel cost is allocated on the basis of time spent on work related to the Petroleum Operations under this Agreement and the basis of such pro-rata allocation shall be specified.

3.3 Transportation and Employee Relocation Costs

The Cost of transportation of employees, equipment, material and supplies necessary for the conduct of the Petroleum Operations under the Agreement along with other related costs, including duties, customs fees, unloading changes, dock fees, and inland and ocean freight charges.

3.4 Charges for Services

a) Third Parties

The actual costs of the services necessary for the conduct of the Petroleum Operations performed by third parties other than an Affiliate of the Investor.

b) Affiliates of the Investor

(i) Professional and Administrative Services Expenses:

Cost of professional and administrative services provided by Affiliates of the Investor for the direct benefit of the Petroleum Operations, including services connected with the Petroleum Operations, other than those covered by Article 3.4 (b)(ii) below or Article 3.6 and 3.8 (b) below, which the Investor may use in lieu of having its own employees.

Above mentioned services expenses shall not include any element of profit and shall reflect the real cost of providing those services. Moreover, services expenses shall be no less favourable than similar charges for above mentioned services carried on by the Investor and its Affiliates.

Where the work is performed outside the home office base of such personnel, the daily rate shall be charged from the date such personnel leave the home office base where they usually work up to their return thereto, including days which are not working days in the location where the work is performed, excluding any holiday entitlements derived by such personnel from their employment at their home office base.

(ii) Scientific or Technical Personnel:

Cost of scientific or technical personnel services provided by any Affiliate of the Investor for the direct benefit of the Petroleum Operations, which cost shall be charged on a cost of service basis and shall not include any element of profit. Unless the work to be done by such personnel is covered by an approved annual Work Programme and Budget, the Investor shall not authorize work by such personnel.

(iii) Equipment and Facilities:

Use of equipment and facilities owned and furnished by the Investor's Affiliates, at rates commensurate with the cost of ownership and operation; provided, however, that such rates shall not exceed those currently prevailing for the supply of like equipment and facilities on comparable terms in the area where the Petroleum operations are being conducted.

3.5 Communications

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

3.6 Office and Miscellaneous Facilities

Net cost to the Investor of establishing, maintaining and operating office and other facilities in the Republic of Croatia directly serving the Petroleum Operations. If any such facility is used for agreement areas other than the Agreement Area, the net costs thereof shall be allocated on an equitable basis.

3.7 Ecological and Environmental

a) Costs incurred when performing Petroleum Operations due to the protection of cultural and historical heritage.

b) Costs incurred in environmental and nature surveys required by the Agreement or by the regulations of the Republic of Croatia.

c) Costs to provide or have available pollution containment and removal equipment.

d) Costs of actual control and clean-up of oil spill, and of such further responsibilities resulting therefrom as may be required by applicable laws and regulations unless such activities are caused by Negligence, Gross Negligence or Willful Misconduct of the Investor and its Sub-Contractors or other Persons for which they are liable.

3.8 Material Costs

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

a) Acquisition:

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

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

Material purchased by the Investor in arm's length transactions in the open market for use in the Petroleum Operations shall be valued to include purchase price from point of supply to the point of delivery. Invoice price shall be reduced for trade and cash discounts, purchase and procurement fees and increased for freight and forwarding charges between point of supply and point of shipment, freight of port of destination, insurance, taxes, customs duties, consular fees, excise taxes, other than items chargeable against important materials and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site.

c) Accounting:

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

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

(i) New material, including used new material moved from inventory (Condition "A"), shall be valued at the current international net price which shall not exceed the price prevailing in normal arm's length transactions in the open market.

(ii) Used material in good condition (Condition "B"):

Material which is in sound and serviceable conditions and is suitable for re-use without reconditioning shall be classified as Condition "B" and priced at seventy-five percent (75%) of the current price of new material defined in paragraph (i) above.

(iii) Used material in poor condition (Condition "C"):

Material which cannot be classified as Condition "B" but which after reconditioning will be further serviceable for its function shall be classified as Condition "C" and priced at not more than fifty percent (50%) of the current price of new material as defined in paragraph (i) above. The cost of reconditioning shall be charged to the reconditioned material provided that the value of Condition "C" material plus the costs of reconditioning does not exceed the value of Condition "B" material.

(iv) Scrap and discard (Condition "D"):

Material which cannot be classified as Condition “B” or Condition “C” shall be classified as Condition “D” and priced at a value commensurate with its use by the Investor. If material is not fit for use by the Investor it shall be disposed of as junk.

(v) Material involving erection costs shall be charged at the applicable conditions percentage of the current knocked-down price of new material as defined in paragraph (i) above.

(vi) When the use of materials is temporary and its services to the Petroleum Operations does not justify reduction in price as provided for in paragraph (iii) above, such material shall be priced with the value of the service rendered.

(vii) Premium prices:

Whenever material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Investor has no control, the Investor may charge the Petroleum Operations for the required material at the Investor’s actual costs incurred in providing such material, in making it suitable for use, and in moving it to the Agreement Area; provided notice in writing is furnished to the Agency of the proposed charge prior to charging the Petroleum Operations for such material and the Agency shall have the right to challenge the transaction on audit.

(viii) Credit of the material furnished by the Investor:

In case of defective material, credit shall not be passed to the Petroleum Operations until adjustment has been received by the Investor from the manufacturers of the material or their agents.

3.9 Insurance and Losses

Insurance premiums and costs incurred for insurance pursuant to the Investor and the Law, provided that such insurance is customary, affords prudent protection against risk and is at a premium no higher than that charged on a competitive basis by insurance companies which are not Affiliates of the Investor.

Except in cases when actual incurred losses are not completely covered with insurance policy, costs for casualty losses and connected costs shall be allowable to the extent not covered by insurance. Such costs may include repair and replacement of property in the Agreement Area resulting from damages or losses incurred by fire, flood, storm, theft, accident or such similar cause, except such damages are result of Negligence, Gross Negligence or Willful Misconduct of the Investor and its Sub-Contractors or other Persons for which they are liable. For the avoidance of doubt, in the event damages and/or losses in connection with this provision are covered by and reimbursed under the Investor’s insurance policy, they shall not be subject to cost recovery under this Agreement.

3.10 Claims

Expenditures made in the settlement or satisfaction of any loss, claim, damage, judgment or other expense arising out of or relating to the Petroleum Operations to any third party shall be allowable with the consent of the Agency, except as may otherwise be covered elsewhere in this Accounting Procedure.

3.11 Overheads

The overhead costs, other than direct charges included in the foregoing paragraphs, shall be included as Petroleum Costs under the Agreement and shall be determined by a statement with detailed overhead costs specifications, submitted by the Investor to the Agency.

In any case, the total overhead costs shall be a percentage of the total recoverable Petroleum Costs agreed upon between the Investor and the Agency. Upon the Effective Date such percentage is set at three percent (3%) for the Exploration Expenditures and will be reduced to one point eight percent (1,8%) for the Development and Production Expenditures. Such limit may be reviewed and adjusted from time to time where appropriate, in particular for the Development and Production Expenditures, by mutual agreement in writing between the Agency and the Investor.

3.12 Other Expenditures

Other justifiable expenditures not covered or dealt with in the foregoing provisions of this Article 3. which are necessarily incurred by the Investor for the proper, economical and efficient conduct of the Petroleum Operations shall be authorised only with the approval of the Ministry, whereby the Ministry may request the opinions of other state administration authorities. The Ministry shall issue such consent within 30 days.

3.13 Miscellaneous Proceeds

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

(a) Proceeds received from the sale or other disposal of Petroleum from production testing activities performed in exploration and appraisal Wells.

(b) Proceeds received for the disposal, loss or destruction of property, the cost of which is a Petroleum Cost charged to the accounts.

(c) Proceeds of any insurance or claim or judicial awards in connection with the Petroleum Operations or any assets charged to the accounts under the Agreement where such operations or assets has been insured and the premiums charged to the accounts.

(d) Proceeds received from the hiring or leasing of property or assets, the cost of which is a Petroleum Cost charged to the accounts.

(e) Proceeds received from any adjustment made by the suppliers or manufacturers or their agents in connection with a defective material, the cost of which is a Petroleum Cost charged to the accounts.

(f) Proceeds received from rentals, refunds or other credits which apply to any charge which has been made to the accounts, but excluding any award granted to the Investor under arbitration or sole expert proceedings referred to in Article 3.16 of this Accounting Procedure.

(g) Proceeds for materials which costs were originally charged to the accounts for material subsequently exported from the Republic of Croatia or transferred to another member state of the European Union without being used in the Petroleum Operations under the Agreement.

(h) Proceeds received for the use of employee amenities, the cost of which has been charged to the accounts.

3.14 Duplication of Charges and Credits

There shall be no duplication of charges and credits.

3.15 Expenditures Not Eligible for Cost Recovery

All other expenditures which not allowable Petroleum Costs for cost recovery are as defined in Article 3. of this Accounting Procedure shall not be eligible as Petroleum Costs for cost recovery under this Agreement, and in particular:

(a) The bonuses, and fees referred to in Article 13. of the Agreement and Royalty referred to in Article 14. of the Agreement.

(b) All fees paid to the Republic of Croatia for the use of its real estates or for the use of the common good.

(c) Any payments made to the Republic of Croatia for failure to fulfill the Minimum Work Obligations or for any fines incurred for infringing the laws and regulations of the Republic of Croatia.

(d) Costs incurred prior to the Effective Date.

(e) Interest, or any charge or payment in the nature of, in lieu of, or having the commercial effect of, interest related to the financing of the Petroleum Operations.

(f) Costs incurred in respect of Petroleum after passing the Delivery Point.

(g) Costs incurred as a result of non-compliance by the Investor with the legislation or the Agreement incurred as a result of Negligence, Gross Negligence or Willful Misconduct of the Investor and its Sub-Contractors or other Persons for which they are liable.

(h) Payment or compensation for damage incurred as a result of Negligence, Gross Negligence or Willful Misconduct of the Investor and its Sub-Contractors or other Persons for which they are liable under this Agreement.

(i) Costs incurred in respect of arbitration and other proceedings under this Agreement.

(j) Costs which are not adequately supported and documented.

(k) Cost of maintaining a guarantees as specified in Article 15. of the Agreement.

(l) Costs incurred without the consent or approval of the Agency where such consent or approval is required.

ARTICLE 4. INVENTORIES

Inventories of property in use in the Petroleum Operations shall be taken at reasonable intervals but at least once a year.

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

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

ARTICLE 5. COST RECOVERY STATEMENTS

5.1 Quarterly Statement

The Investor shall prepare and submit to the Agency for approval a quarterly cost recovery statement in Euro containing the following information with respect to the Agreement Area, showing the Petroleum Costs as classified pursuant to Article 2. of this Accounting Procedure and separated for each Field, if any:

(a) the recoverable Petroleum Costs carried forward from the previous Quarter,

(b) the recoverable Petroleum Costs for the Quarter in question,

(c) the credits under the Agreement for the Quarter in question,

(d) the total recoverable Petroleum Costs for the Quarter in question, equal to the sum of (a) plus (b) less (c),

(e) the quantity and value of the production of Petroleum taken by the Investor for cost recovery pursuant to the provisions of Article 14. of the Agreement in the Quarter in question,

(f) the amount of Petroleum Costs to be carried forward into the next Quarter.

The quarterly statement shall be submitted to the Agency no later than thirty (30) days after the end of each Quarter. In addition, Investor shall have an audit of Petroleum Costs conducted by its auditors semi-annually and such report shall be provided to the Agency. The reasonable costs associated therewith shall be cost recoverable.

5.2 Annual Statement

The Investor shall prepare an annual cost recovery statement containing the same information, separated into the Quarters of the year in question, and showing the cumulative amounts at the opening and closing of the year in question.

The annual statement shall be submitted to the Agency for approval by written opinion no later than ninety (90) days after the end of each Calendar Year.

ARTICLE 6. PRODUCTION STATEMENTS

6.1 Production Information

From the start of production from the Exploitation Area, the Investor shall submit a monthly production statement to the Ministry and the Agency showing the following information separately for each Exploitation Area and in aggregate for the Agreement Area:

a) the quantity of Crude Oil produced and saved;

b) the quality characteristics of such Crude Oil produced and saved;

c) the quantity of Natural Gas produced and saved;

d) the quality characteristics of such Natural Gas produced and saved;

e) the quantities of Crude Oil and Natural Gas used for the purposes of carrying on drilling and production operations and pumping to field storage;

f) the quantities of Crude Oil and Natural Gas unavoidably lost;

g) the quantities of Natural Gas flared and vented;

h) the size of Petroleum stocks held at the beginning of the month in question;

i) the size of Petroleum stocks held at the end of the month in question;

j) the quantities of Natural Gas re-injected into the Reservoirs; and

all quantities shown in this statement shall be expressed in both volumetric terms (barrels of Crude Oil and cubic meters of Natural Gas) and in weight (metric tonnes).

6.2 Submission of Production Statement

The Production Statement for each month shall be submitted to the Ministry and the Agency no later than ten (10) days after the end of such month.

ARTICLE 7. VALUE OF PRODUCTION AND PRICING STATEMENT

7.1 Value of Production and Pricing Statement Information

The Investor shall, for the purposes of Article 16. of the Agreement, prepare a Value of Production and Pricing Statement providing calculations of the value of Available Oil and Available Gas produced and sold during each Quarter. This Value of Production and Pricing Statement shall contain the following information:

a) the quantities and the price payable in respect of sales of Natural Gas and Crude Oil delivered to third parties during the Quarter in question; and

b) the quantities and price payable in respect of sales of Natural Gas and Crude Oil delivered during the Quarter in question, other than to third parties.

7.2 Submission of Value of Production and Pricing Statement

The Value of Production and Pricing Statement for each Quarter shall be submitted to the Ministry and the Agency not later than thirty (30) days after the end of such Quarter.

SUPPLEMENT D: FORM OF BANK GUARANTEE

Applicant:

_____, OIB: _____

(hereinafter: Investor)

Beneficiary:

Ministry of Economy

Ulica grada Vukovara 78

10000 Zagreb, Republic of Croatia

(hereinafter "Ministry")

In consideration of your having contracted by way of an Production Sharing Agreement for exploration and exploitation of hydrocarbons in the Exploration Block _____dated..... (hereinafter called “the Agreement”) with_____, a company formed and existing in accordance with the laws of the _____(hereinafter called “the Investor”) for the execution of the Minimum Work Obligations (“The Obligations”) as identified in accordance with Article 5. of the Agreement, the value of which for purposes of this Bank Guarantee is calculated in accordance with Article 15. of the Agreement at EUR _____(in words: _____ Euro) and since it being a condition of the Agreement that a Bank Guarantee equal to thirty percent (30%) of the total amount to be spent with respect to Phase I of the Exploration Period, as determined by the Agreement (the “Applicable Term”), we hereby issue our Bank Guarantee no. (insert number).

We, (insert bank name and address) (hereinafter Called "the Guarantor"), waiving all objections and defenses under the aforesaid Agreement, hereby irrevocably, unconditionally and independently guarantee to pay to you without delay on first written demand any amount claimed by you up to the extent of EUR _____(in words: _____Euro) (“Maximum Guaranteed Value“) reduced for the recoverable amount spent by the Investor for the purpose of fulfilling the Obligations, based on your written demand stating that the Investor has refused or failed to perform the Obligations with respect to the Applicable Term as set out in Article 5. of the Agreement, in accordance with its provisions.

The Maximum Guaranteed Value shall reduce on presentation to the Guarantor of a certificate from the Ministry confirming that the relevant Bank Guarantee may be reduced and confirming the revised Maximum Guaranteed Value.

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

Any reference to the "Agreement" is for information purposes only and does not in any way affect the terms and conditions of this Bank Guarantee.

This Bank Guarantee for the Obligations with respect to the Applicable Term is unconditional and irrevocable and will be discharged not later than thirty (30) days following the date of completion of such Obligations ("Expiry"), as provided for in Article 5. of the Agreement, and in any event upon entering in Phase II of the Exploration Period and/or upon granting of the Production License as provided for under the Agreement, but not later than five (5) years from the Effective Date of the Agreement (being [insert date]), by which date we must have received any claim by hand delivery or by registered mail.

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

Your demand will be considered as having been made once we are in possession of your written demand for payment to this effect sent to our address: (insert Bank name and address).

It is understood that you will return this Bank Guarantee to us on Expiry of this Bank Guarantee as specified below or settlement of the Maximum Guaranteed Value to be claimed. However, our Bank Guarantee will be considered null and void at Expiry or when the Maximum Guaranteed Value had been paid whether the Bank Guarantee has been returned to us or not.

Notwithstanding the above, this Bank Guarantee will expire on the earlier of the following dates:

- date of Expiry;
- date of receipt of a copy of award of the Production License;
- date when the original Bank Guarantee is returned to us before the Expiry date.

This Bank Guarantee is issued in 3 (three) identical copies, of which 1 (one) is the original copy and 2 (two) are considered duplicates.

This Bank Guarantee shall be construed in accordance with and governed by the laws of the Republic of Croatia. This Guarantee is subject to the Uniform Rules for Demand Guarantee ICC Publication No. 758.

Date: _____

Signature_____

SUPPLEMENT E: FORM OF PARENT COMPANY GUARANTEE

Dear Sirs,

This Guarantee (this "Guarantee") is being delivered by_____, a company organized under the laws of _____(the "Guarantor"), in favour of the Government of the Republic of Croatia represented by the _____Minister of Economy, in connection with the

Exploration and Production Sharing Agreement signed by _____("the Debtor") and the Government, dated_____ (the "Agreement"), for the execution of the Minimum Work Obligation in respect of Phase I of the Exploration Period, identified in accordance with Article 5.2 of the Agreement.

Capitalized terms used but not defined shall have the meaning ascribed to them in the Agreement.

1. OBLIGATIONS

Since it is a condition precedent of the effectiveness of the Agreement the issue of one or more parent company guarantee(s) in favor of the Government for an aggregate amount of seventy percent (70%) of the Minimum Expenditure Obligation for the purposes of the Minimum Work Obligations in respect of Phase I of the Exploration Period as defined in Article 5.2 of the Agreement (the "Obligation"), the Guarantor hereby irrevocably and unconditionally guarantees to the Government, on the terms and conditions set forth herein, the payment, on first written demand, of any amount claimed by the Government up to an aggregate maximum amount of EUR _____(in words: _____ Euro) reduced for the recoverable amount spent by the Investor for the purpose of fulfilling the Obligations, corresponding to the Obligation ("Guaranteed Amount") against declaration that the obligation of the Investor, under Article 5.2 of the Agreement, has not been fulfilled by the Investor. For avoidance of doubt, the Guarantor's obligation under this Guarantee shall not exceed (i) the Debtor's Obligations as amended, supplemented or modified and (ii) in any case the Guaranteed Amount.

2. NATURE OF THE OBLIGATIONS

With respect to the Obligation, the guarantee provided in this Guarantee shall be a guarantee of payment. In order to obtain the payment under this Guarantee, the Government shall refer first to the Debtor and, in case of failure to pay by the Debtor, to the Guarantor. At the end of each Quarter and upon the completion and due performance of relevant activity of the Obligation of Phase I of the Exploration Period, the applicable value of the Guarantee will be reduced in favour of the Investor according to Article 15. If, upon expiry of the Phase I of the Exploration Period, or in the event of whole relinquishment or termination of the Agreement, the Minimum Work Obligations in connection with Phase I of the Exploration Period has not been fulfilled, the Government shall have the right to call for the Guarantee as compensation for the non-performance of the Minimum Work Obligations.

3. DEMAND FOR PAYMENT

Only if Debtor fails to perform the Obligation and to pay the Government the unexpended balance of the Minimum Expenditure Obligations, the Ministry shall make a written demand on Guarantor (a "Payment Demand"). A Payment Demand shall identify the Agreement under which demand is being made, identify the amount and the basis of the demand and shall contain a statement that the Ministry is calling upon Guarantor under this Guarantee. A Payment Demand conforming to the foregoing requirements will be sufficient notice to Guarantor to pay under this Guarantee.

4. CHANGES IN OBLIGATIONS, CERTAIN WAIVERS

The Guarantor agrees that its obligations under this Guarantee are absolute and unconditional and shall not be affected by any circumstance which constitutes a legal or equitable discharge of a guarantor or surety other than payment in full of the Obligations.

In furtherance of the foregoing, and without limiting the generality thereof, the Guarantor agrees that its obligations hereunder shall not be released or discharged, in whole or in part, or otherwise affected by: (a) any amendment, supplement, or modification, of any of the terms or provisions of the Agreement made in accordance with the terms thereof; (b) any change in the organizational existence, structure or ownership of the Debtor; (c) any insolvency, bankruptcy, reorganization or other similar proceeding affecting Debtor.

5. NO WAIVER; CUMULATIVE RIGHTS

No failure on the part of Government to exercise, and no delay in exercising, any right, remedy or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by Government of any right, remedy or power hereunder preclude any other or future exercise of any right, remedy or power. Each and every right, remedy and power hereby granted to Government shall be cumulative and not exclusive of any other, and may be exercised by Government at any time or from time to time

6. REPRESENTATIONS AND WARRANTIES

The Guarantor hereby represents and warrants that:

(i) Guarantor is a limited liability company, duly formed, validly existing and in good standing under the laws of the _____ and has all powers and all material governmental licenses, authorizations, permits, consents and approvals necessary for the due execution, delivery and performance of this Guarantee by the Guarantor;

(ii) the execution, delivery and performance by Guarantor of this Guarantee and the consummation of the transactions contemplated hereby are within the powers of Guarantor and have been duly authorized by all necessary board of directors' action on the part of Guarantor;

(iii) this Guarantee constitutes a legal, valid and binding obligation of the Guarantor enforceable against the Guarantor in accordance with its terms.

7. NO ASSIGNMENT

Neither the Guarantor nor Government may assign its rights, interests or obligations under this Guarantee to any other person (except by operation of law) without the prior written consent of Government or the Guarantor, as the case may be; provided, however, that the Guarantor may release this Guarantee according to the provision of Article 15.9 of the Agreement.

8. NOTICES

All notices required or permitted under this Guarantee must be in writing and delivered by mail (postage prepaid) to the address of the receiving party set out below (or such other address as shall be specified by such party by notice to the other party given in accordance with these provisions).Notice may also be delivered by facsimile sent to the facsimile number of the

receiving party set out below provided that the original notice is promptly sent to the recipient by mail (postage prepaid). Notices sent by email are ineffective. Notices are effective when delivered to the address of the recipient, if delivery occurs before 5:00 p.m. local time (of the recipient) on any business day or, if delivery does not occur by such time, or on a business day, on the next succeeding business day.

If to the Guarantor:

[_____]

[_____]

[_____]

[_____]

Attention:

[_____]

Facsimile:

[_____]

with a copy to (which shall not constitute notice):

[_____]

[_____]

[_____]

Attention:

[_____]

Facsimile:

[_____]

If to the Government:

Ministry of Economy

Attention: Office of the Minister

Ulica grada Vukovara 78

10000 Zagreb, Republic of Croatia

Phone:

Fax:

with a copy to (which shall not constitute notice):

Croatian Hydrocarbon Agency

Miramarska cesta 24

10000 Zagreb, Republic of Croatia

Phone: +385(0)1 6431 920

Fax: +385(0)1 6431 925

9. CONTINUING OBLIGATION

This Guarantee shall enter into force and effect on the Effective Date of the Agreement and remain in full force and effect until the earlier of (a) date of Expiry which is thirty (30) days after the date of completion of such Obligations ("Expiry"); (b) date of receipt of a copy of award of the Production License; (c) date when the original Bank Guarantee is returned to us before the Expiry date (each, an "Expiry Date""). On the Expiry Date, the Guarantor shall be released from all the obligations and liabilities hereunder against the Government which shall return the original of this Guarantee to the Guarantor.

11. GOVERNING LAW

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

12. DISPUTE RESOLUTION

Any dispute arising out of, relating to, or connected with this Guarantee shall be exclusively and finally settled by the dispute resolution procedure set forth in Article 35. of the Agreement.

By:_____

Name:

Title: