

Oleska block

Production Sharing Agreement

05 November 2013 - Production Sharing Agreement for hydrocarbons to be recovered within the Oleska block (hereinafter referred to as “PSA”) between the State of Ukraine, **Chevron Ukraine B.V.** (hereinafter referred to as “**Chevron**”) and Nadra Oleska LLC (“Nadra Oleska”) was concluded.

PSA term – 50 years (with right to extend the term as the Parties agree)

PSA acreage – 6,324 sq.km.

Type of mineral resources – natural gas, shale gas, basin-centered gas, coal bed (mine) methane, oil, condensate.



Investors Shares of the PSA:

- Nadra Oleska – 100%

Current Status

According to the PSA provisions, Chevron unilaterally withdrew from the PSA, thus Nadra Oleska obtained all rights and obligations under the PSA. As of today, the PSA is in force. Nadra Oleska has a valid concession license.

Upon attraction of a new investor for implementation of the PSA, such investor, Nadra Oleska and the State can make amendments to the PSA and bring its provisions in compliance with the current standing. After re-signing of Oleska PSA, the process of reissuing of a concession license will take place with new investor being indicated.

Payments by Investors

- License cost – \$ 3 mln. (*paid*)
- Costs of Geological Data, 2d seismic – \$ 2 mln. (*paid*)

Minimum Work Program: The minimum work program provides for drilling of 13 wells (8 vertical and 5 horizontal side rill holes) and 1,500 km² 2D seismic surveys over 5 years.

Production sharing principles

Produced Hydrocarbons – all produced hydrocarbons

Cost recovery hydrocarbons – up to **60%** of Produced hydrocarbons

Profit hydrocarbons = Produced hydrocarbons – (minus) Cost recovery hydrocarbons

The share of the State in the Profit production stage depends on the production volume and the real rate of return. Distribution principles are determined by provisions of the PSA.

Oleska PSA Advantages

General Advantages

- a **long-term contract** (*50 years with the right of prolongation*), the terms of which are unchanging and guaranteed by the State (of Ukraine)
- guarantees of a **free oil and gas export at market price**
- a guaranteed **access to the gas transportation system** of Ukraine
- **State support**, including at the administrative level (*the state provides issuance of all necessary approvals, quotas, permits and licenses, mining lease acts, documents for land and other permission documents for investors*)
- **stabilization clause** – protection of PSA projects from negative amendments in the legislation (*including additional tax/customs burden*)
- possibility of consideration of disputes in **international arbitration**, not in Ukrainian courts; waiver of the State from sovereign immunity.



Financial and Fiscal Advantages

- all taxes are replaced by **production sharing** (except for profit tax, VAT and subsoil use fee)
- royalty rate – **1,25%** for gas, **2%** for oil and condensate
- production to be sold at a **market price** (regulated tariff shall not be applied)
- export-import transactions are **exempted from export/import charges and fees** (excluding excise). **VAT shall not be charged** or it is calculated at zero rate
- no taxes on income repatriation
- **automatic VAT refund**
- amortization of capital expenditures **shall not be applied**. All costs are **recoverable from the date of incurring**
- non-refunded compensation expenses are subject to **indexation**
- (Rate = LIBOR + 5% per annum).



Legal Guarantees of Stability

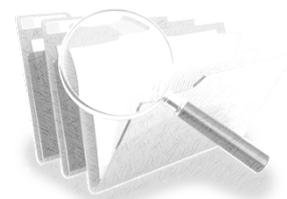
Art. 27 of the Law "On Production Sharing Agreements", art. 340 of the Tax Code of Ukraine, art. 8 of the Law "On Regime of Foreign Investment" contain the so-called "**stabilization clause**", in compliance to which:

- new legislation that worsens business conduction conditions shall not be applied to Investors as per PSA
- Improved legislation shall apply from the date of its entry into force



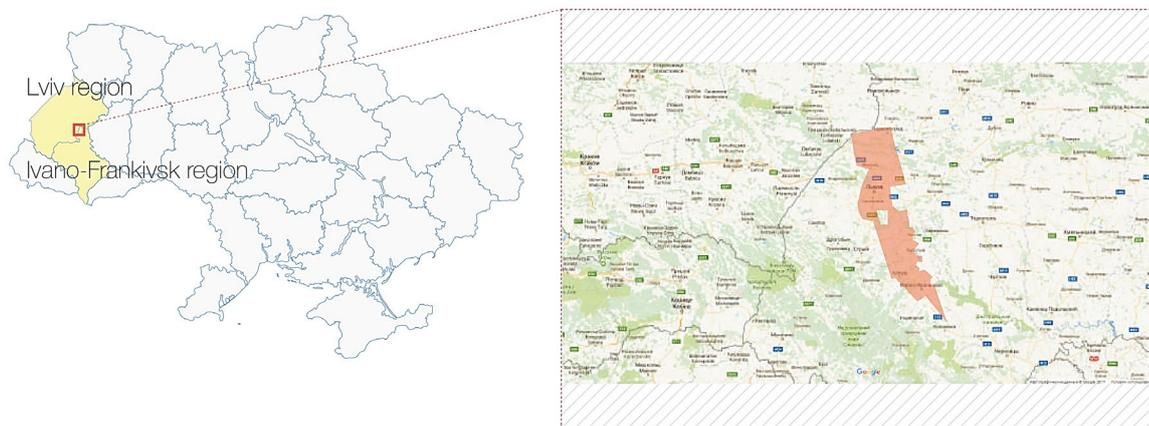
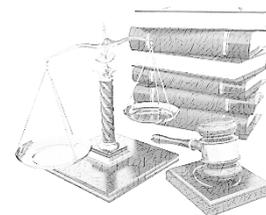
Licensing Advantages

- a **“sole” concession license** is issued: for Geological Survey and development simultaneously
- **Each investor is an owner** of a license and part of extracted products belonging to him
- license is issued **for the whole term of a PSA** (*up to 50 years*) and in case of the PSA extension, it will be prolonged for the same period



Dispute Resolution, Arbitration

- Any disputes, including those with public authorities, shall be settled in **international arbitration**
- If a foreign investor is a party to a PSA, **waiver of the State from sovereign immunity** is envisaged (*waiver applies to all court rulings, arbitration awards of the international commercial arbitrations, decisions on provisional remedies and execution of the arbitration awards and court rulings*)



The Project Indicators

The analysis of geological and geophysical information makes it possible to predict the discovery of oil and gas fields within this area with total prospective resources:

- conventional hydrocarbons - 27.0 billion m³;
- shale gas - 1.6 trillion m³;
- tight gas - 1.4 trillion m³.

Depth of pay zones - from 2000 to 4000 m.

The target zone - is black sea shale rock of the Lower Silurian, thickness 200-500 m.

GEOLOGICAL CHARACTERISTICS

Tectonically the area is located in the Lviv Paleozoic depression of the Volyn-Podilsky outskirts of the Eastern European platform.

Within the area in the geological structure involved sedimentary formations of the Upper Proterozoic (Riphean, Wend), Paleozoic (Cambrian, Ordovician, Silurian, Devonian, Carboniferous), Mesozoic (Jurassic, Cretaceous) and Cenozoic (Paleogene, Neogene). They lie on the Archean-Proterozoic crystalline basement.

AVAILABLE GEOLOGICAL INFORMATION

Within and near the square 8 parametric wells were drilled. All of them revealed Silurian and Cambrian deposits.

Near the village of Velyki Mosty is the Velykomostivske gas field which is confined to the Lower and Middle Devonian deposits.

The Rivne sandstone horizon is covered with clay deposits and lies at depths of 3000-4800 m. In the well №1-Peremyslyany when testing the interval 3746-3776 m received an influx of water. Inflows of formation waters with dissolved gas were obtained from the sandstones of the Berezhkov world. Gas gushing was obtained in the well №1-Peremyslyany from the interval 3480-3520 m (middle Cambrian).

In the east of the territory of Volyn-Podillya the carbonate type of section of rocks of the Silurian complex is widespread, and in the west - carbonate-clay. According to geochemical studies (177 samples from 17 areas) in Volyn-Podillya in Silurian deposits high values of the average content of dispersed organic matter and chloromorphic bitumoid.

Well №1 Zagaypil discovered Silurian deposits in the interval of 1710-2911m, Ordovician deposits in the interval of 2911-2921m and Cambrian deposits in the interval of 2921-3740m. When testing the interval 2954-3366 m, an inflow of water was obtained, and the release of combustion gas was observed at the mouth.

The thickness of the Cambrian sediments varies from 500 to 900 m. Ordovician rocks occur locally on the blurred surface of the Cambrian and are composed of terrigenous-carbonate strata. The thickness of the sediments varies from a few meters to 100 m. When testing the interval 4090-4046 m in the well №30-Velyki Mosty, an inflow of water was obtained.

Wells drilled in the North-Western part of the area revealed and tested Cambrian deposits in the range of 4212-4113 m and are characterized by brines with a salinity of 202.04 g / l of chloride, sodium-calcium composition and chlorocalcium type.

The waters of the Lower Devonian aquifer complex are characterized by high mineralization, high metamorphosis and low sulfate.

Objects of the upper part of the Lower Devonian stratum were also studied in the area. This part of the section is the most water abundant. The waters of the upper part of the Lower Devonian sediments are the groundwater of the Middle Devonian gas deposit, the composition of water-soluble gases is methane.

Reservoir waters of the Lower Devonian sediments are in the zone of difficult water exchange by all indicators and under favorable structural conditions the reservoirs can be gas-saturated.

Reservoir waters of the Upper Devonian aquifer complex are opened by almost all wells. Waters by type are calcium chloride, by chemical composition - sodium chloride.

The geochemical parameters of the Upper Devonian aquifers generally indicate quite favorable conditions for the storage of hydrocarbons in this area in the presence of favorable conditions.

In the raised part of the platform in the Upper Devonian sediments water manifestations were observed at depths of 416-580 m.

In the process of drilling of structural exploration wells in the area, aquifers in the Upper Cretaceous deposits were discovered.

The aquifer of Cretaceous sediments is confined to the marls of the Senonian and Cenomanian sandstones. Low-mineralized fresh water, hydrocarbonate-sodium type with a total mineralization of 330-550 mg / kg and is a source of water supply throughout the territory.

The analysis of the data of geophysical researches testifies to rather high prospects of the territory in the oil and gas relation and necessity of its geological studying, including prospects for gas of conventional and unconventional collectors.