

Due Diligence

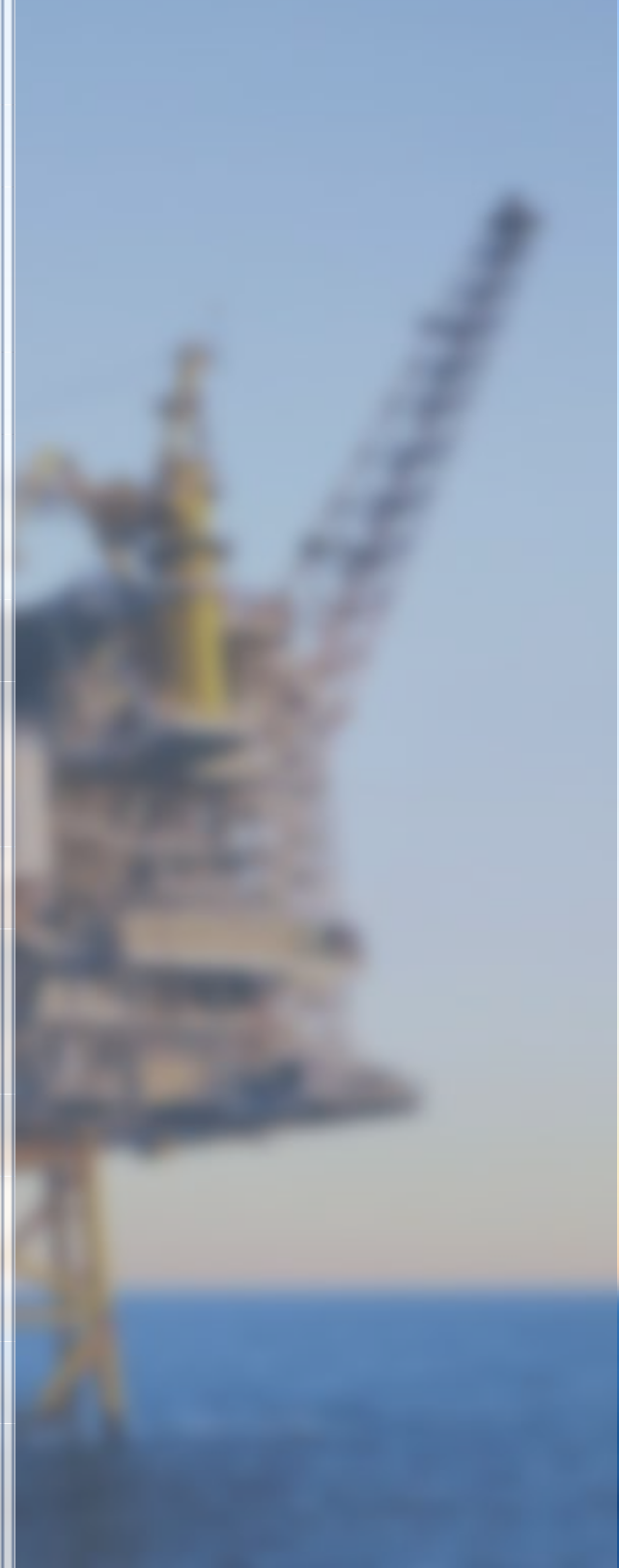


Table of Contents

1 Introduction 2

2 Iranian Petroleum Contract (IPC)..... 3

3 CBC’s Scope of Service 4

4 Due Diligence Categories 4

 4.1 Local partner Due Diligence 4

 4.2 Local Content Due Diligence 5

 4.3 Site Assessment Due Diligence 5

 4.4 Constitutional and Administrative Law Due Diligence..... 6

 4.5 Legal investigation Due Diligence 6

 4.6 Technical Due Diligence (Assistance)..... 6

5 Other Due Diligence Services..... 6

 Appendix I: Due Diligence Checklist..... 7

1 Introduction

By lifting the sanctions following the 5+1 negotiations, new windows of opportunities are opening up to international companies in the Iranian Oil & Gas market. Ample international industry leaders are seeking to invest in post-sanctions Iran, and it is imperative for these companies to gain up-to-date and trustworthy information on Iran's current Oil and Gas industry dynamics.

CBC Oil & Gas is a client driven, independent consultancy firm liaising between Europe and Iran, providing in-depth market intelligence and strategic advice for Oil and Gas projects. CBC provides a comprehensive range of consultancy services in the Oil and Gas industry among which providing impartial and reliable due diligence services for Oil and Gas projects allowing you to gain valuable insight into prospective clients and projects by performing a multi-layered audit.

In this document, CBC proposes its scope of performance for providing a detailed due diligence investigation on Iran's Oil and Gas industry for its Clients, in accordance with Iran's Ministry of Petroleum's new contractual framework named IPC (Iran Petroleum Contract).



2 Iranian Petroleum Contract (IPC)

Iran's Ministry of Petroleum has defined and released the general structure of the new upstream oil and gas contracts, IPC, on September 30th, 2015. The IPC is designed to assist and facilitate the exploration and development of Oil and Gas projects in the upcoming licensing round in Iran.

Iran has introduced its new generation of Oil and Gas industry's model of contract, IPC, to attract foreign capital and technology to Iran and to engage the Iranian state and private sectors in future energy participation on a global scale. The IPC introduces a new mechanism of Joint Operations, connecting the international energy market to the local market of Iran.

IPC mainly concentrates on the increased percentage of oil and gas recovery through implementation of EOR (Enhancement Of Recovery) and IOR (Improvement Of Recovery) projects. IPC also opens an opportunity for the IOCs (International Oil Companies) to enter into the development of unfinished oil development projects. The progress on the unfinished oil and gas projects ranges from 10-90%¹ and collaboration of IOC's joined with the existing Iranian developers of these fields, through the injection of capital or the introduction of enhanced technology is needed. In this regard, IPC opens an opportunity to the foreign investors, IOC's and OSC's (Oil Service Companies) to enter into the three types of contracts, namely:

- IPC E&P (Exploration and Production) contracts
- IPC D&P (Development and Production) contracts
- IPC IOR/EOR contracts

Hence there will be ample choice for foreign companies to decide which type of contract matches their strategic objectives best, and based on that establish their cooperation in Iran.

Following the mentioned policy, the National Iranian Oil Company (NIOC) introduces 52 hydrocarbon fields and 18 exploration blocks. NIOC's priorities for development are cross-border fields, high potential green fields and renewal of the highly productive brown fields respectively.

¹ www.ipc.nioc.ir

3 CBC's Scope of Service

CBC will deliver a valid and comprehensive Due Diligence service which can assist the Client to obtain an accurate and transparent vision on the IPC and relevant matters related to this new model of contract; as IPC is merely a pattern for new a generation of contracts which holds fundamental differences from Buy-Back contracts. This model has indicated some local, legal, financial, contractual issues and more which should be broken down in a structured manner and then be further explained and described in accordance with the locally gathered information. Therefore, in this proposal CBC will provide a check list to show the areas and categories in which we can provide the Client with reliable and valid data. The specific areas and reason why they should be investigated will be discussed in following sections.

4 Due Diligence Categories

CBC believes that providing precise data on the below mentioned areas can provide the Client with a broad perspective on the current situation of national regulations, procedures and local capabilities besides the quality definition of a Gas and Oil field's local, environmental, social rules and other related issues. In this regard, CBC will provide data and information on the below listed main categories:

1. Local Partner Due Diligence
2. Local Content Due Diligence
3. Site Assessment Due Diligence
4. Constitutional and Administrative Law Due Diligence
5. Legal investigation Due Diligence

Note: the full check list of above mentioned categories is available in the provided appendix.

4.1 Local partner Due Diligence

One of the IPC's core purposes is to create an environment which stimulates cooperation between local and international companies. E.g., in accordance with the IPC, Article 4-1 "Iranian competent companies will participate in each contract"; therefore, one of the crucial subjects that the Client should take into consideration is selecting the right Iranian partner. For this purpose, CBC can provide fully monitored and authenticated information about capable Iranian Oil and Gas companies including: Company's Base information, Documents for any subsidiary, Assets and properties, Securities issuances, Financial audit, Running project status, Back logs and so on.



4.2 Local Content Due Diligence

One of the Iranian government’s main considerations is making optimal use of local facilities; in this perspective, IPC’s Article 4-2 has obligated foreign companies to make the best use of technical, engineering, production, industrial and executive potentials of the country on the basis of “Law Requiring the Best Use of Production and Services Potentials in Meeting the Needs of the Country and Promoting Export and Article 104 of Amendment to Direct Taxation Act” as approved on 23.07.2012 by the Islamic Parliament and its concerned instructions and bylaws. The 4th article of this law has noted that in performing all portfolios and projects of Iran’s Ministry of Petroleum, the planning should result in that at least 51% of every project’s or portfolio’s budget is spent on Iran’s national resources. Thus, another essential subject is monitoring and evaluating the quality, quantity and availability of local resources. In this regard CBC will scrutinise the local content such as: Vendors identification, Local skills, Local capabilities, Local supply chain information, and more.

4.3 Site Assessment Due Diligence

Every operational activity in Oil and Gas fields is performed in a special context which refers to the cultural, social, environmental, natural and geographical aspects of that site and when a company intends to do a feasibility study for each site, each site’s specific conditions and circumstances should be taken into account and consideration. As mentioned before, the IPC is concentrated on 52 hydrocarbon fields and 18 exploration blocks (Figure 1) and CBC will document the comprehensive and validated information about these fields including: Environmental regulations and laws, Climate, Local labor, Social considerations, Ethnic issues and etc.



Figure 1: NIOC Projects
Source: www.ipc.nioc.ir

4.4 Constitutional and Administrative Law Due Diligence

Every investigation in a foreign country will bring different administrative and legal local issues into consideration. CBC is able to gather a full scope and authenticated information about: Financial issues, Administrative process, Procedures, Insurance requirements, Authorities obligations and so on.

4.5 Legal investigation Due Diligence

Compliance with every contract's content and phrases is compulsory. IPC as a model for a multitude of contracts has mentioned some issues regarding the contract's different facets; Article 5-8 requires attention when companies are preparing their context of the contract. However, the critical matter is assessing these contracts' drafts regarding their adaption to local upstream regulations and laws. CBC will verify the compliance of the contracts from the Iran's governing laws and regulations and will demonstrate the deviations and contrasts, besides doing a SWOT analysis on them.

4.6 Technical Due Diligence (Assistance)

In addition to the non-technical Due Diligence, CBC is able to assist in performing the technical Due Diligence. In doing so, CBC can provide consulting services to major projects in the domain of IOR/EOR studies and planning. This allows for quantification and qualification of the opportunities, and to develop risk mitigation plans, analyse the return of each project and help engage in long term oil contracts in Iran. In doing so, CBC with engaging the right experts, can accumulate documents and information in the field of: geology, geophysics and reservoir engineering, Field and project development, etc.

5 Other Due Diligence Services

The range of Due Diligence services that CBC provides is not limited to the above mentioned areas. CBC is ready to receive the Client's RFP (Request For Proposal) concerning any other areas which can facilitate their decision making process for investment in Iran's Oil and Gas industry.



Appendix I: Due Diligence Checklist

1. Local Partner Due Diligence Checklist
Basic Information
Ownership information, corporate structure, place of incorporation and names of officers and directors
Official registry of organizations
Documents for any Subsidiary
A list of all states, provinces, or countries where the Company owns or leases property, maintains employees, or conducts business
Active status reports in the state of incorporation for the last three years.
Field work
Description of the competitive landscape within each market segment
Credit rating
Organizations certificate
Business and financial references
Business and employment references
Ownership and interests in other organizations
Business, government and political affiliations
Qualifications, corporate membership of professional bodies
Post J.V status
Active status reports
Back logs
Archiving
Shareholder Information
Electoral records, local government business records, etc.
Copies of all articles and press releases relating to the Company within the past three years
Intellectual Property
Schedule of domestic and foreign patents and patent applications
Schedule of trademark and trade names
Schedule of copyrights.
Description of important technical know-how
Description of methods used to protect trade secrets and know-how.
Any "work for hire" agreements
Schedule and copies of all consulting agreements, agreements regarding inventions, and licenses or

assignments of intellectual property to or from the Company
Any patent clearance documents
Schedule and summary of any claims or threatened claims by or against the Company regarding intellectual property
Physical Assets
Schedule of fixed assets and the locations thereof
All leases of equipment
Schedule of sales and purchases of major capital equipment during last three years.
Real State
Schedule of the Company's business locations
Copies of all real estate leases, deeds, mortgages, title policies, surveys, zoning approvals, variances or use permits.
Licenses and Permits
Copies of any governmental licenses, permits or consents
Any correspondence or documents relating to any proceedings of any regulatory agency
Financial statement
Taxes
Audited financial statements for three years, together with auditor's reports.
The most recent unaudited statements, with comparable statements to the prior year
Financial projections and strategic plans.
The company's credit report
Capital Structure
The company's general ledger
Schedule of inventory
Schedule of accounts receivable and payable
Description of depreciation and amortization methods and changes in accounting methods over the past five years.
Description of the Company's internal control procedures
Any analysis of fixed and variable expenses
Any analysis of gross margins.
Range of Products/services
A list of all existing products or services and products or services under development
Description of each product/service
Copies of all correspondence and reports related to any regulatory approvals or disapprovals of any

company's products or services.
A summary of all complaints or warranty claims
A summary of results of all tests, evaluations, studies, surveys, and other data regarding existing products or services and products or services under development.
Client Information
List of top 15 clients for the past two fiscal years and current year-to-date by application
A description of the company's major competitors
List of top 10 suppliers for the past two fiscal years and current year-to-date with contact information
Any supply or service agreements
A description or copy of the company's purchasing policies
A description or copy of the company's credit policy
A schedule of unfilled orders or projects
A list and explanation for any major client lost over the last two years
All surveys and market research reports relevant to the Company or its products or services
List of strategic relationships
Revenue by Client
Brief description of any significant relationships severed within the last two years
KPI
Projects delivery reports
Final acceptance by client reports
Research and Development
Description of R&D organization
New product pipeline
Management and Personnel
Organization Chart
Summary biographies of senior management, including employment history, age, service with the Company, years in current position
A list of employees including positions, current salaries, salaries and bonuses paid during last three years, and years of service
All employment, consulting, nondisclosure, non-solicitation or noncompetition agreements between the Company and any of its employees
Historical and projected headcount by function and location
Personnel Turnover
A description of all employee problems within the last three years, including alleged wrongful termination, harassment, and discrimination

A description of any labor disputes, requests for arbitration, or grievance procedures currently pending or settled within the last three years
A description of worker’s compensation claim history
A description of unemployment insurance claims history
The Company’s personnel handbook and a schedule of all employee benefits and holiday, vacation, and sick leave policies.
Summary plan descriptions of qualified and non-qualified retirement plans
A list and description of benefits of all employee health and welfare insurance policies or self-funded arrangements
Copies of collective bargaining agreements, if any
Compensation arrangements
Copies of all stock option and stock purchase plans and a schedule of grants thereunder
Legal and Related Matters
Litigation and Audits
Criminal records
Court judgments
Legal disclosures
Compensation
Pending lawsuits against the Company
Pending lawsuits initiated by Company
Description of environmental and employee safety issues and liabilities
List of material patents, copyrights, licenses, and trademarks
Summary of insurance coverage/any material exposures
Summary of material contacts
History regulatory agency problem, if any
Debarred or restricted parties lists

2. Local Content Due Diligence Checklist

Vendors List
List of manufacturers
Materials disposal assessment
Material specifications
Quality & Regulatory compliance
Cost/Procurement aspects

Local labor assessment
Local supply chain information
Access to the Technology
Logistic information

3.Site Assessment Due Diligence Checklist
Site Specifications
Field type and its properties
Climate
Local labor disposal
Laboratory capabilities
Accommodation facilities
Storage capacity
Fuel availability
Site access conditions
Waste disposal
Local Government laws
Surface discharge permits
Groundwater discharge permits
Reclamation obligations
Climate change legislation
Air permits
HSE rules
Social issues
Traditions
Ethic problems
Local labor

4.Constitutional and Administrative Law Due Diligence Checklist
Taxation
Administrative process
Procedures

Governmental rules and regulations
Insurance requirements
Authorities identification
Required certificates and standards

5.Contract Legal Investigation Due Diligence
Degree of compliance from governmental laws
SWOT analysis

6.Technical Due Diligence (Assistance)
Geology studies
Geophysics studies
Reservoir engineering
Petrophysics engineering
Field and project development
Seismic services
Evaluation of hydrocarbon
Drilling engineering



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Bridging Iran & Europe

CBC is a client driven, independent consultancy firm liaising between Europe and Iran by providing in-depth market intelligence and strategic advice for Oil & Gas projects.

CBC provides a comprehensive range of consultancy services in the Oil & Gas industry

From in-depth market analysis > strategic advice

Step 1. Market Analysis

Outcome > understanding the market potential and entry alternatives

Step 2. Business Plan

Outcome > selecting the optimal market entry strategy

+ shortlist for partner candidates = business plan for market entry

Step 3. Business Operation

Outcome > facilitation of hands-on project support services

Solid business plan + the right network > deal

Are you considering (re) entering the Iranian market? CBC Oil&Gas is your trusted partner, ensuring a smooth entry and solid establishment...

CBC offers a unique combination of hands-on experience & strategic insight in:

- Upstream and Downstream
- EPC, EPCC, EPCM, EPCF, LUMPSUM & Markup structure

CBC de-stresses its clients by continuously providing professional and hands-on support throughout the project lifecycle.

Due diligence / auditing reports for partnerships

CBC provides impartial, reliable and confidential due diligence services for oil& gas projects. Allowing you to gain valuable insight into a client's full scope of performances by performing a multi-layered audit.

CBC conducts any feasibility study with an unbiased and objective approach, carefully evaluating a project's potential for success, whilst taking all available data and information into consideration.

CBC provides a full range of services, related to the legal and administrative aspects of your offshore business activities in Iran. With an excellent understanding of the local rules and requirements, CBC is your trusted partner when it comes to establishing your activities in Iran, providing professional and reliable advise