# Egypt PSC Modernization

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# Delivering on Egypt’s Vision for Modernization

## Benefits of Modernized PSC Agreement and Long-Term Partnership

- ✓ Aligns APA’s investment priorities with Egypt’s oil growth objectives
- ✓ Promotes efficient development of highly economic resource base
- ✓ Increases long-term value for all stakeholders, including the people of Egypt
- ✓ Advances ESG initiatives focus & implementation of best practices
- ✓ Enhances governance & talent management programs
- ✓ Incentivizes more consistent investment levels through the commodity price cycle

# Modernization Executive Summary

- Effective date of April 1, 2021
- Returns Egypt program to APA's most economic investment opportunity
  - Increasing to 15 drilling rigs in 2022
- 90% of gross production in a single, simplified PSC
- Refreshed development & exploration terms
  - 20-year development term for current development leases
  - 5-year exploration term
- Improved cost recovery & profit share for APA / Sinopec JV
  - Single cost pool provides improved access to cost recovery & reduces the probability of future stranded backlog
  - Cost recovery fixed at 40%
  - Profit share fixed at 30%
- Facilitates increased ESG investment & focus
- Signature bonus of $100 million to EGPC

# Near-Term Impacts of Modernization

2022 plan to double average drilling rig count & increase well completions by ~3x compared with 2021

Gross oil production forecasted to increase 13 – 15% in 2022

APA / Sinopec Free Cash Flow[1] of $850 – $900 MM anticipated in 2022 (assuming $72 Brent)

- CFFO[2] to increase ~$450 MM, upstream capital investment to increase ~$235 MM compared to 2021 under prior PSC terms
- A $10/bbl move in Brent pricing results in an estimated $170 million change in CFFO

25%+ uplift in proved reserves

Advancing a number of ESG initiatives focused on emissions reduction & water handling

(1) APA / Sinopec Free Cash Flow defined as cash flow from operations before changes in operating assets and liabilities minus upstream capital investment (including Sinopec's minority interest).
(2) CFFO represents cash flow from operations before changes in operating assets and liabilities (including Sinopec's minority interest).

# Background & Need For Modernization

- PSC discussions began over 2 years ago
- Integrated effort aligned with Ministry of Petroleum’s vision for Modernization
- Signed by authority of the President of Egypt on December 26, 2021

- Why it was necessary?
  - Basic PSC structure established over 50 years ago
  - Numerous ringfenced concessions with differing terms (cost recovery, profit splits, duration, etc.)
  - Contractor profit share fell as production volumes increased under certain concessions
  - Through 2014, rising oil prices masked eroding underlying economics
  - Since 2014, lower oil prices exposed “leakage points”
    - Many concessions were in backlog & not recovering their historical costs
    - Concessions with less attractive fiscal terms were disproportionately impacted
    - Some economic opportunities failed to attract investment due to risks of “trapped costs”

# Egypt Production Sharing Contract (PSC) Overview

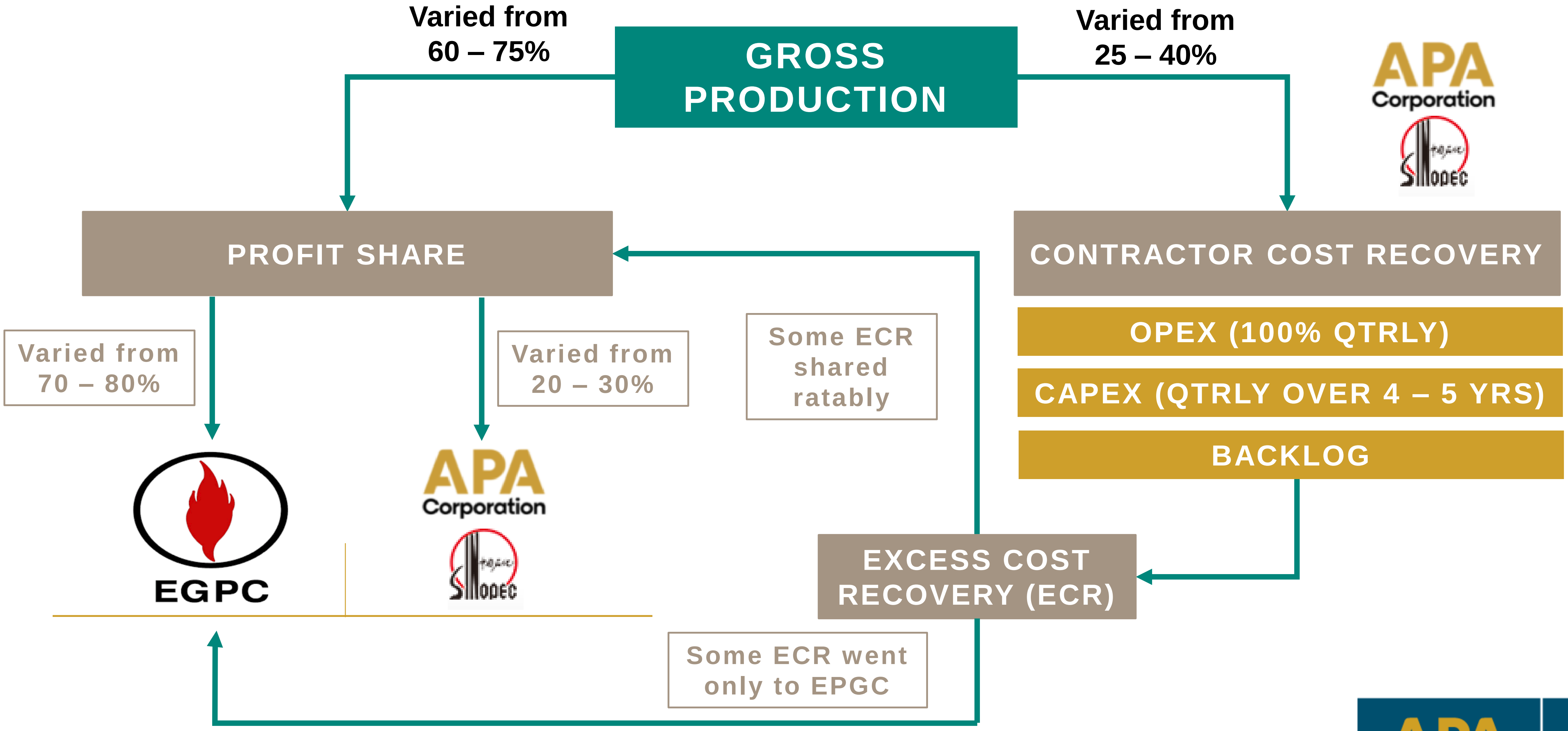
## Basic structure of PSC

- Grants Contractor the right to explore and produce petroleum from a defined concession area
- Contractor incurs all costs & exploration risk
- Approved costs are recoverable from a portion of produced petroleum in defined development areas
- Profit share split between Contractor and Egyptian General Petroleum Corporation (EGPC)
- EGPC pays Egyptian income taxes on Contractor's behalf

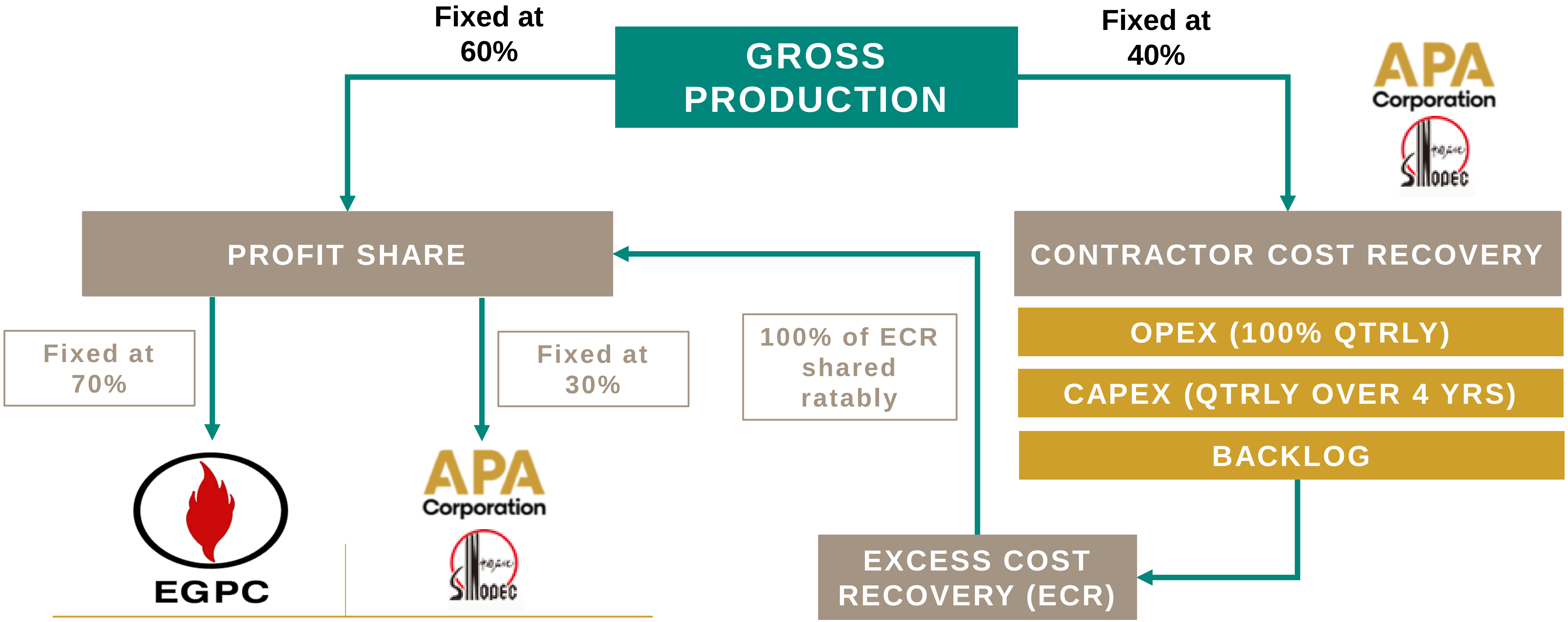
## Contractor entitlement volumes consist of 3 types of barrels (BOEs)

1. **Cost Recovery Barrels**
   - Operating costs are recovered in the period incurred
   - Capital expenditures are amortized over specified periods of time and recovered accordingly
   - Total Cost Recovery in a given period (typically a calendar quarter) is limited to a specified % of gross production
     - Costs in excess of the limit create "backlogged costs" to be carried forward into future periods for recovery
     - Excess Cost Recovery is created if costs are below the limit
2. **Excess Cost Recovery** (ECR) **Barrels**
   - Contractor typically shares a % of ECR in some concessions
3. **Profit Barrels**
   - % of gross production shared between EGPC and Contractor

# Production Allocation Under **Previous PSCs**



# Production Allocation Under **Modernized PSC**



# Modernized PSC Simplifies & Improves Production Allocation

## 1 How Cost Recovery Improves

- Nearly all in-country costs are eligible for recovery[1]
- Single cost pool provides access to formerly “trapped” costs
- Single cost pool will also include future development leases that are awarded under the new PSC
- All capital expenditures are recovered over 4 years (previously 4-5 years)

## 2 How Excess Cost Recovery Improves

- All excess cost recovered at same rate as profit split (70% EGPC / 30% Contractor)
- Previously in some concessions, Contractor did not receive any portion of ECR

## 3 How Profit Share Improves

- Standard profit share % across single consolidated concession (70% EGPC / 30% Contractor)
- Eliminates tiered profit splits as production increases

(1) Subject to EGPC approval.

# How Backlog Recovery Improves

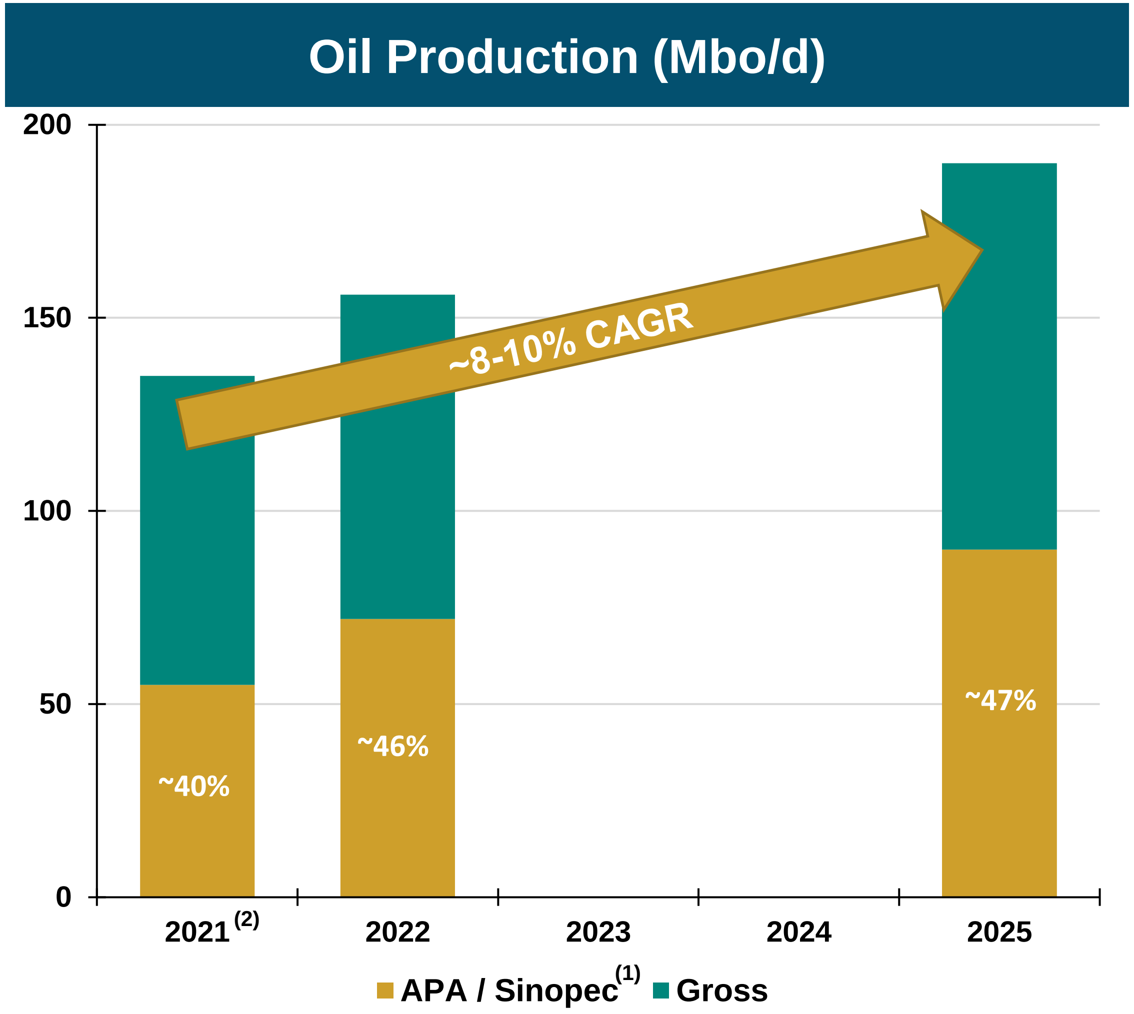
## Nearly $900 million in unrecovered costs as of the effective date of Modernized PSC

- Revenue not sufficient in some concessions to enable full cost recovery under prior PSC
- Previously backlogged costs will be recoverable over 20 quarters starting on effective date (~$44 million per quarter)
- Subject to the 40% Cost Recovery limit each quarter

## Single Cost Recovery pool significantly reduces potential for backlogged costs going forward

- Do not anticipate generating backlogged costs if Brent pricing remains above ~$45/bbl

# Egypt Oil Production Returning to a Growth Trajectory




- Anticipate significant increase in long-term oil production from 15-rig program
- Gross gas production expected to remain relatively stable at 550 – 600 mmcf/d
- Net Contractor entitlement % steps up in 2022 with modernization

(1) Represents estimated net production to APA / Sinopec JV excluding tax barrels and assumes $72/bbl Brent oil price.
(2) Before any affects of modernization.

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# Proforma Impact on 2021 / Looking Ahead to 2022

| APA / Sinopec JV | 2021 @ ~$72 Brent Previous Terms | 2021 @ ~$72 Brent Modernized Terms | 2022 @ ~$72 Brent Modernized Terms |
|---|---|---|---|
| **Gross Volume (Mboe/d)** | **232 - 234** | | **250 - 255** |
| **Reported Volume[(1)] (Mboe/d)** | **114** | **141** | **158** |
| **Net Volume Ex Tax bbl[(1)] (Mboe/d)** | **90** | **106** | **119** |
| **Oil & Gas Revenue[(1)] ($MM)** | **~$1,620** | **~$1,870** | **$2,150** |
| **JV Capital Investment[(1,2)] ($MM)** | **~$490** | | **$700 - $750** |
| **JV CFFO[(1,3)] ($MM)** | **~$1,150** | **~$1,370** | **$1,550 – $1,650** |

**2022 CFFO Sensitivity of $170 million to a $10/bbl move in Brent pricing**

- 2021 information in the table is a Proforma look at anticipated 2021 full year results as if the PSC terms were never changed (Previous Terms) or were signed into effect on the effective date of April 1, 2021 (Modernized Terms).
- Since the modernized terms will be accounted for in operational results only from the actual signing date, neither 2021 column represents actual anticipated 2021 results under Generally Accepted Accounting Principles.

(1) Includes Sinopec minority interest. APA owns 2/3.
(2) Excludes effect of $100 million signature bonus associated with modernized PSC.
(3) JV CFFO represents cash flow from operations before changes in operating assets and liabilities (including minority interest).

# Egypt is a Core Contributor to APA's Portfolio

- **Largest oil producer** and **onshore acreage holder**
- Strong track record of resource discovery & efficient development since 1994
- PSC modernization creates **win-win relationship** for next 20 years
- Returns Egypt to most economic investment opportunity in the portfolio

# Appendix

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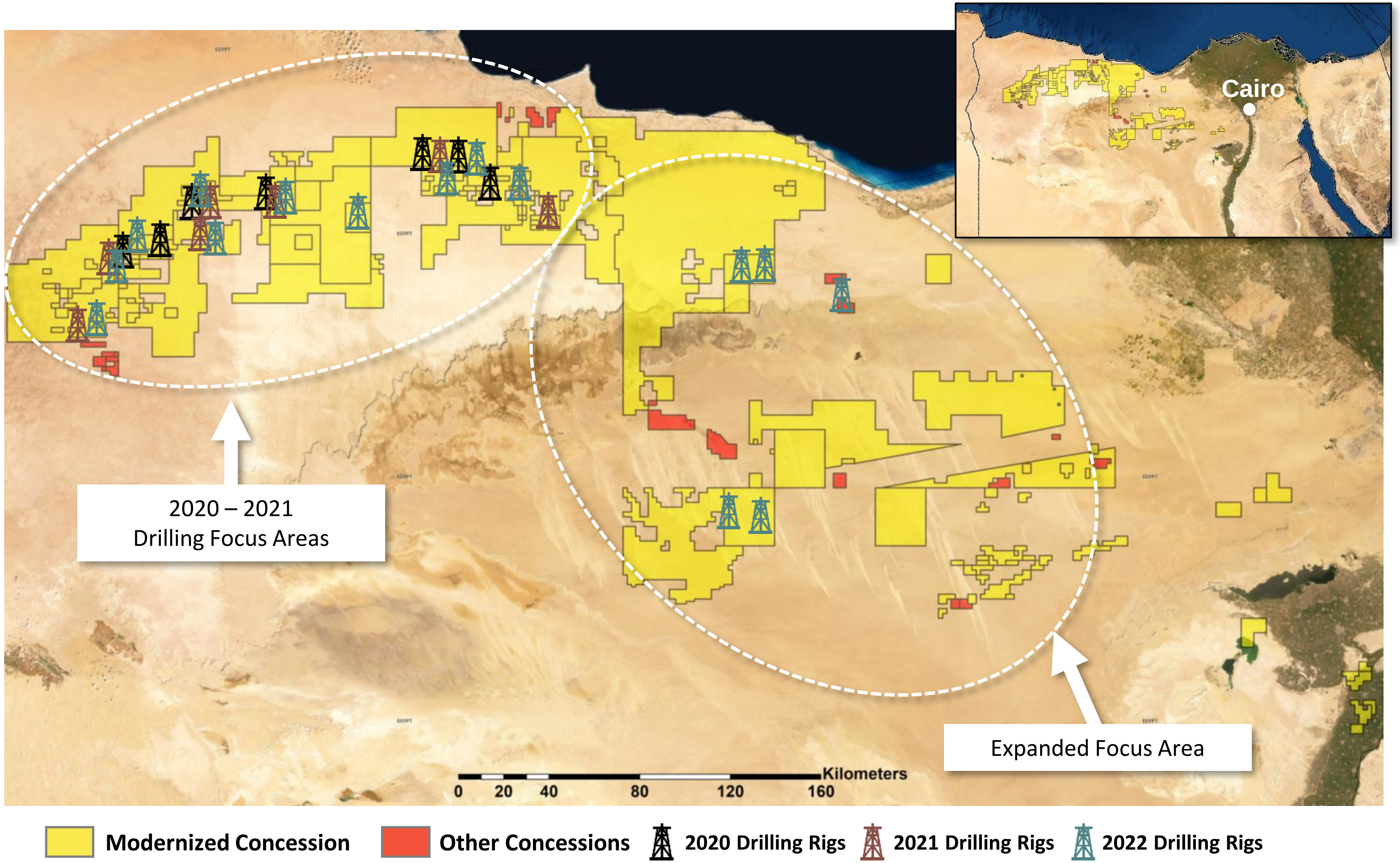
# Significant Activity Increase Underway Across ~5 Million Acre Footprint




| | 2020 | 2021 | 2022E |
|---|---|---|---|
| Drilling Rig count | ~7 | ~7 | ~14 |
| Workover Rig count | 14 | 10 | 15 |
| Well spuds | 62 | 70 | ~145 |

- Modernization unlocks previously underinvested areas
- Extensive seismic & technical investment and recently awarded acreage have generated a robust inventory

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# Representative Example of Excess Cost Recovery & Backlog Scenarios

## Excess Cost Recovery Scenario (High Oil Price)

Total Revenues **$1,300**

Profit Share (60%)

Cost Recovery Share (40%)

| | | |
|---|---|---|
| | $520 | Recoverable Costs |
| Operating Costs | ($100) | $300 |
| Capital Cost Amort. | ($200) | |
| Excess Cost Recovery | $220 | |

| | |
|---|---|
| | $780 |
| Excess Cost Recovery | $220 |
| | $1,000 |

Profit Split

30% APA/Sinopec

70% EGPC

| | |
|---|---|
| $300 | Profit Share |
| $300 | Recoverable Costs |
| **$600** | APA/Sinopec Share (46%) |
| **$700** | EGPC Share (54%) |
| **$1,300** | Total Revenues |

## Backlog Scenario (Low Oil Price)

Total Revenues **$650**

Profit Share (60%)

Cost Recovery Share (40%)

| | | |
|---|---|---|
| | $260 | Recoverable Costs |
| Operating Costs | ($100) | $260 |
| Capital Cost Amort. | ($200) | |
| Excess Cost Recovery | ($40) | To Backlog Balance |

| | |
|---|---|
| | $390 |
| Excess Cost Recovery | $0 |
| | $390 |

Profit Split

30% APA/Sinopec

70% EGPC

| | |
|---|---|
| $117 | Profit Share |
| $260 | Recoverable Costs |
| **$377** | APA/Sinopec Share (58%) |
| **$273** | EGPC Share (42%) |
| **$650** | Total Revenues |

Note: Hypothetical example assuming 50,000 Bopd at $72/bbl (High Oil Price) and $35/bbl (Low Oil Price). Assumes same operating cost & capital cost amortization for both scenarios.

# Glossary of Terms

- **Contractor**: an oil company party to a PSC and when used in the context of the new APA PSC, a subsidiary of Egypt Joint Venture LP owned 2/3 by Apache Corporation (APA) and 1/3 by Sinopec
- **Cost Recovery Share**: volume of oil & gas allocated to Contractor for recovery of costs incurred
- **Cost Recovery Limit**: maximum amount of cost recovery allowed for recovery of costs incurred in a given period as defined by the PSC
- **Excess Cost Recovery**: amount of cost recovery available in a given period when cost recovery limit has not been reached
- **Backlogged Costs**: cost incurred in prior periods which exceeded the cost recovery limit and have been carried forward for recovery in a future period
- **Profit Share**: percentage of revenue shared between Contractor and EGPC, defined in the PSC
- **APA / Sinopec Upstream Capital Investment:** Includes exploration, development, gathering, processing, and transmission capital, capitalized overhead, and settled asset retirement obligations, and excludes capitalized interest, non cash asset retirement additions and revisions, in each case associated with APA's upstream business.
- **APA / Sinopec CFFO**: represents cash flow from operations before changes in operating assets and liabilities
- **APA / Sinopec Free Cash Flow**: cash flow from operations before changes in operating assets and liabilities minus upstream capital investment (including Sinopec's minority interest)

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