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MONTHLY REPORT NOVEMBER 2014

LEGAL ADVISORY SUPPORT FOR LNG PROCUREMENT

December 2014

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WATSON FARLEY
&
WILLIAMS

M E M O R A N D U M

To:	Akbar Yusuf, Masood Bhatty, Jim Hicks, Tahawar Hussain, AEAI	**Date:**	10 December 2014
From:	Heike Trischmann, WFW	**Our Ref:**	5416482254164822v1 1
Cc:	Andrew Baird		

Monthly Report - November 2014

Watson, Farley & Williams LLP ("**WFW**") has been engaged as international legal counsel by Advanced Engineering Associates International, Inc. ("**AEAI**") under Subcontract No. EPP-C1-SC-008 (dated 26 July 2014), Delivery Order No. EPP-C1-DO-001 (25 July 2014) and Task Order-1 (effective 30 July 2014) to advise various stakeholders in, and the Government of (together the "**Client**"), the Islamic Republic of Pakistan ("**Pakistan**") on, negotiate on their behalf and help them finalise, as applicable, predominantly the following:

(1) all outstanding conditions subsequent under the LNG Services Agreement (the "**LSA**") dated 30 April 2014 between Engro Elengy Terminal (Private) Limited ("**EETPL**") and Sui Southern Gas Company Limited ("**SSGC**"), with particular focus on the direct agreements and option agreements required under clauses 4.1(e) and 4.1(f) of the LSA;

(2) LNG supply agreement(s) for LNG importation into Pakistan under the LSA regime and the necessary tender documentation to satisfy regulatory requirements in Pakistan.

To enable WFW to fully perform these tasks, WFW subcontracted Vellani & Vellani Advocates and Legal Consultants ("**V&V**") in Karachi, Pakistan, to resolve questions involving Pakistan law and the Pakistan regulatory regime.

WFW's and V&V's work on this assignment started on 30 July. We have previously reported on the progress we made on the above referred to tasks in the period from August to October 2014. In this memo, we set out below the work we have carried out during the month of November 2014 and key issues we faced and continue to face:

1. Conditions subsequent under the LSA

(a) Our work on closing the LSA continues. We conducted a number of calls on smaller points discussed them directly with SSGC's external legal counsel, Liaquat Merchants Associates ("**LMA**"), Tariq Nasir of the Pakistan lawfirm HMCOBNR on behalf of EETPL/Engro and Allen & Overy on behalf of Excelerate as well as a number of calls within our WFW team, to discuss and negotiate, where applicable, outstanding issues on the:

(i) FSRU charter direct agreement;

(ii) generic direct agreement;

(iii) FSRU option agreement; and

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(iv) fixed assets option agreement.

(b) Since our last monthly report for October, we have prepared further redrafts of the agreements set out under (a)(i) to (iv) above. Please see latest drafts of each document attached. In particular, we made the following progress:

(i) As previously reported, the generic direct agreement was finalised in September and sent as a draft document to EETPL's lenders for early comments. As the lenders have not yet finalised their due diligence etc. and can therefore not enter into the agreements straight away but will have to accede to them later on. To avoid having to renegotiate points with the lenders at the time of their accession, EETPL had sensibly decided to ask for their early comments to ensure a smooth accession process later on.

Although we were never told the identity of the lenders (i.e. local or international banks), comments were received in October and these have been agreed between EETPL and WFW on behalf of SSGC. After these comments and our agreed further amendments, other issues came to light so, the agreement needed to be reviewed and agreed by EETPL (which has only happened early this week).

As previously reported, the generic direct agreement will have to be "cloned" into four agreements, specific information for each contractual counterparty to EETPL and for each specific underlying contract needs to be included and then each draft direct agreement needs to be sent to the individual contractual counterparties to EETPL for their comments and approval.

However, we were only sent an incomplete draft by Tariq Nasir that had not yet taken into account our previous comments and contained no specific information in relation to the underlying contracts/the contractual counterparties. We were only told that that draft was now agreed with the lenders and would be sent to the contractual counterparties and asked for our confirmation. It came then to our attention through Mr Masood Bhatty of AEAI that a copy had in fact been sent the Port Qasim Authority (the "**PQA**") without in fact waiting for WFW's further comments or, as the case may be, confirmation of that draft. As previously stated, that draft did not contain any contract specific information.

Through Masood Sb. we received an unofficial copy of the PQA's response to EETPL which basically dismissed that draft direct agreement as not applicable and unnecessary for the PQA's purposes. Although latest events occurred in early December we have included these here for completion. We are now working with Masood Sb. to try and rescue the situation. During all this time there has been no communication on the issue at hand from EETPL or Tariq Nasir. We do not know whether the generic direct agreement has been sent to the other contractual counterparties to EETPL or not and when comments may be forthcoming. We attach a copy of the latest draft.

Altogether we have had hardly any comments from Tariq Nasir and no comments at all from his clients EETPL on this and the FSRU charter direct agreement. Given that EETPL has a deadline on 31 December to finalise these agreements, this is surprising. Presumably, EETPL expects to be able to negotiate another extension of the Long-stop Date with SSGC.

In order to help move forward the direct agreement with the PQA, we prepared a description of the provisions of the generic direct agreement that can be forwarded to the PQA. Please see copy attached. We are trying to coordinate this with Tariq Nasir / EETPL but seem to be unable to communicate with them.

(ii) The FSRU charter direct agreement was also finalised in September between EETPL and SSGC and sent to Excelerate, their UK counsel, Allen & Overy, and their US counsel, FD Law for further comments. During October and November the document was finalised by all parties. Minor issues arose when notice provisions turned out not to have been properly aligned. Also, the more finalised the provisions of the direct agreement and the option agreements become, the more small gaps between them come to light.

Tariq provided two sets of new comments, some of which were rejected by Excelerate and us on behalf of SSGC. We are not sure whether these are also "lenders' comments". These points have still not been agreed because there has been no communication on this at all from Tariq Nasir or his clients, EETPL. WFW received a call from Allen & Overy (Excelerate's) English law counsel to ask whether WFW knew what was going on and why there was this complete lack of communications, indicating that they are also totally in the dark on what is going on. We have still not heard any confirmation or further comments on this draft. Please see attached latest draft.

(iii) The FSRU option agreement was finalised during the month of October and has not changed since then. For completion, we attach a copy of that draft.

Currently, the only outstanding point on this document is to finalise some wording that needs to be inserted to reflect the position under the fixed assets option agreement as it affects the FSRU option agreement. However, the fixed assets option agreement is still being negotiated between SSGC and EETPL. Please see paragraph (iv) below.

(iv) The provisions of the fixed assets option agreement have not been developed further since October.

As previously mentioned, there are still a number of commercial points that remain outstanding. Negotiations have been made impossible because, as it has now transpired, Rahat Kamal Sb is no longer available for this project or does not work at SSGC anymore. We have not been given any specific information in relation to his departure.

We are now facing a new team at SSGC who need to negotiate these points and agree the other direct agreements and the FSRU option agreement. In order to help them understand these agreements and be in a position to negotiate any outstanding issues, we prepared a summary note on these agreements. Please see attached. Please also see attached WFW's last draft awaiting SSGC's input and an Email from WFW to SSGC explaining the outstanding issues.

(c) Although the extension and amendment agreement to the LSA was signed in October, it is subject to two side letters, one by each party to the other. The side letter by SSGC to EETPL states that a small part of the rights of way that SSGC should have obtained some time ago, had not yet been contractually transferred to it and therefore SSGC had to give the promise that it would construct the pipeline for which this right over the relevant land was needed, by 15 December 2014 otherwise this may impact the overall timelines of the project. We have now been given the update by SSGC that this deadline will be achieved. Please see the relevant Email attached.

(d) Clause 4.1(g) of the LSA requires all permits which the Operator requires to be able to provide to the Customer the services under the LSA to be in the name of the Operator. We have asked Tariq for any update on this but to date we are not aware that any of these permits and/or notices have in fact been transferred to EETPL. This is still work in progress and there has not been any change since October.

(e) We previously reported that in the early days of October we finalised and submitted to SSGC and their Pakistan lawyers, LMA, our due diligence report in respect of the Project Documents (as defined in the LSA). We have not yet received any comments or questions on it by SSGC or LMA. We have resent this report to the new LNG team at SSGC but again, we have not received any comments from them.

(f) We wrote a large number of Emails in support of the above.

2. LNG supply agreements and tender procedures

Our work in respect of this task during November 2014 involved the following:

(a) As previously reported, the combined comments of FGE and WFW on the Qatargas draft long-term LNG sale and purchase agreement ("**LNG SPA**") were discussed with all the stakeholders during the Islamabad meetings at the end of October/beginning of November. FGE and WFW together with the Pakistan lawyers for each of the stakeholders then developed a high level issues paper that was sent to Qatargas shortly after the meetings. As part of the discussions, other issues also came to light during the Islamabad meetings and WFW prepared a note on the risks and potential liabilities that may be connected with some of those issues. Please see copy of the Email attached (including the relevant attachments) that was sent to ISGS (Mr Mobin Saulat).

(b) Pakistan State Oil ("**PSO**") as the contractual counterparty under the LNG SPA was then invited by Qatargas for detailed discussions of the points that were included in the note referred to in paragraph (a) and FGE and WFW accompanied PSO to these meetings. The meetings took place in Doha on 16th November 2014. Please see our meeting report attached.

Some progress was made on discussing the more high level commercial points, however, no points were actually agreed at that meeting and PSO was told that a price for the LNG would only be revealed once "all the dots had been put on the i-s of the LNG SPA". This means that the later this contract will be finalised, the closer this date will be to actual start-up of the terminal, the more leverage Qatargas will have over GOP and PSO and the higher the risk of the LNG price going up closer to start-up.

It was agreed as part of the Doha meetings that PSO would send to Qatargas a summary of all the changes PSO would like to have made to the LNG SPA and that Qatargas would review and amend the LNG SPA accordingly. Although the meeting took place in mid-November we have still not received any confirmation that this letter has in fact been sent to Qatargas. This is a concern as the LNG SPA must be finalised by end of January latest. Please see attached the last draft we commented on together with FGE.

(c) Another ongoing concern is also how to deal with the commissioning cargo(es). We need to understand when the terminal and Port Qasim may be ready for testing and how the terminal may best be commissioned. Discussions have been held by FGE/WFW with Excelerate and also by PSO/FGE/WFW with Qatargas and there seem to be a couple of workable options but as long as we do not know whether PSO will be able to negotiate an acceptable deal with Qatargas and when the terminal will in fact be ready, it is difficult to move this forward with certainty. However, WFW prepared a first draft commissioning agreement that is designed to work alongside either the LNG SPA or the MSPA should GOP need to tender for the commissioning quantities. A copy of this has only been shared with FGE so far and their comments are still outstanding. Please see a copy of this first draft agreement attached.

(d) As previously stated, WFW/FGE presented the first draft MSPA to the stakeholders as part of the Islamabad meetings and explained our rationale behind certain provisions and highlighted the main differences between the provisions of the MSPA and those of a longer term LNG supply agreement generally and the LNG SPA in particular. Stakeholders were invited to comment on the draft MSPA and such comments were received in

relation to the original draft and 2 further redrafts. WFW/FGE provided detailed comments in relation to the original full set of comments received from stakeholders, which is attached for completeness.

The current draft MSPA is also attached but please note that we have not yet received final comments from PSO, particularly in relation to the provisions involving SSGC/SNGPL, any supplier credit support and insolvency provisions.

(e) As part of the Islamabad meetings at the end of October/beginning of November, it was decided to cancel the EOI tender process in respect of the 5-year midterm LNG supply tender. This process had been initiated in the summer of 2014 when FGE/WFW had not yet been selected and contracted as project advisers for the LNG supply phase. Due to commercial considerations and regulatory restrictions, this process could not be changed or extended further without issuing a new tender and it was decided that this should be undertaken at a time when the terminal had actually started to successfully receive LNG. A letter was sent to all the interested parties that had participated in the process and FGE/WFW reviewed that letter and suggested amendments to its contents. Please see attached the relevant Email and last draft.

(f) Our comments on the LNG SPA and the MSPA draft made it obvious that the project requires the continued input of technical advisers, Granada, of whom we do not know whether they have now been allowed full access to the project. In any case, Masood Bhatty has also been instrumental in obtaining timely input from Granada (and the PQA) on any port or shipping related issues.

(g) We had various calls with FGE to move these matters forward and update each other on progress, prepare the meetings, discuss the LNG SPA, the tender process for MSPAs and the contents of the MSPA itself, as well as the commissioning process and other matters of importance.

(h) We wrote a large number of Emails in support of the above.

(i) We also conducted a long and detailed call with the stakeholders on their comments to the MSPA.

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