

I. TERMS AND CONDITIONS FOR APPLICATION UNDER PRODUCT SHARING CONTRACT (PSC) AND LEGAL FRAMEWORK

The Ministry of Energy and Industry, acting by and through the Agjensia Kombetare e Burimeve Natyrore (AKBN) has announced the opening of available onshore and offshore areas for petroleum operation. The Ministry of Energy and Industry and AKBN invites interested parties for applications in areas subject of the opening. In accordance with the "Petroleum Law", No. 7746, date 28.07.1993, which authorizes the Ministry to enter into a Production Sharing Contract (PSC), for exploration, development and production of oil & gas in the territory of Albania, the Ministry of Energy and Industry has announced the opening of the procedures for applications for the available areas for exploration.

II. SPECIFIC TERMS AND CONDITIONS

1. Form of Contract

The Petroleum Contract will be Production Sharing Contract type, signed between the Ministry of Energy and Industry, represented by the AKBN and the Contractor. The PSC main terms and condition are based and governed by:

- Law No. 7746 dated 28 July 1993 "Petroleum Law (Exploration and Production)", as amended by Law No. 7853 dated 29 July 1994 "For Some Additions to Law No.7746, dated 28 July 1993 "Petroleum Law (Exploration and Production)"; and as further amended by Law No. 8297, dated 4 March 1998 "For a Change to Law No.7746, dated 28 July 1993 "Petroleum Law (Exploration and Production)", Law No. 31/2012 "For a change to Law No.7746, dated 28 July 1993 "Petroleum Law (Exploration and Production)", and
- Law No. 7811, dated 12 April 1994 "On the Approval with Amendments of the Decree No. 782 dated 22.2.1994 "On the Fiscal System in the Petroleum Sector (Exploration-Production)"; as amended by Law No. 8345, dated 13 May 1998 "For a Change to Law No.7811, dated 12.04.1994 "On the Approval with Amendments of the Decree No. 782 dated 22.02.1994 "On the Fiscal System in the Petroleum Sector (Exploration-Production)", as amended by Law No. 10049 dated 24.12.2008 "For a Change to Law No. 7811, dated 12.04.1994, On the Approval with Amendments of the Decree No. 782 dated 22.02.1994 "On the Fiscal System in the Petroleum Sector (Exploration-Production)", as amended;
- Law No. 92/2014 "On Value Added Tax in the Republic of Albania", and
- Law No 31/2012 " On Excise in the Republic of Albania", and
- Decision of Council of Ministers No. 547, dated 09.08.2006 "On Setting-up the National Agency of Natural Resources"
- Law No.9946, dated 30.06.2008 "On the sector of natural gas";
- Law No. 9975, dated 28.07.2008 "On national taxes", as amended;

The legislative framework guaranties considerable incentives to attract international petroleum companies, thus stimulating petroleum exploration in the country and gives enough flexibility to the contractors for negotiating contracts.

All petroleum deposits existing in their natural condition in strata lying within the jurisdiction of the Republic of Albania are the exclusive property of the Albanian State. All natural resources, including minerals and hydrocarbons in Albania are the property of Albania State.

"The Petroleum Law (Exploration and Production)" expressly permits the Ministry of Energy and Industry to enter into a PSC, under which a petroleum legal entity may be granted exclusive rights to explore, develop and produce oil and gas.

The Government's objective is to negotiate terms with the petroleum industry, which are fair and balanced, bearing in mind the usual risk associated with exploration and the State's legitimate right for revenues as owner of natural resources. At the same time, based on the fiscal law the Albanian Government seeks to encourage the development of small and marginal discoveries.

2. Terms of the Contract

2. A Duration of Exploration Period

The duration of the exploration period is up to 5 years and can be extended up to 7 years in conformity with the "Petroleum Law". The exploration period may be divided in several exploration phase, with work obligations and financial commitments for each of them. The contractor may not pass to the subsequent phase without completion of work obligations and financial commitments. The duration of each phase of the Exploration Period is subject to negotiations.

2. B Duration of the Development and Production Period

In case of a commercial discovery, the period for development and production of the area shall be twenty five years and can be further extended as provided for in the "Petroleum Law".

2. C Minimum Work Obligations and Financial Commitments

These obligations will be defined by the Contractor in its application to AKBN and are subject to negotiations before entering the agreement.

2. D Training and Administration Funds.

The applicant must submit in the application process details of the offering fee for training and administration Funds, which may be subject of further negotiations.

2. E Cost Recovery and Petroleum Sharing

The terms for cost recovery and petroleum sharing will be specified by the contractor in its application, subject to negotiations with AKBN before the signing of the Agreement.

2. G The Contractor shall have the right to receive and retain abroad the proceeds from its export sales, to the extent that they are not required to meet on a current basis its local currency costs in Albania. The Contractor shall have the right to convert foreign currency into local currency at the generally applicable rate of exchange for commercial transactions.

2. H Bonus

Under the Petroleum Sharing Contract the Bonus is payable in various stages, including the signature bonus. The production bonus and the signature bonus per square kilometer are subject to negotiations.

III. APPLICATION PROCEDURE 1.

The Applications deadline is as follows:

- 30th of October 2016 for any of the Blocks: Panaja and Block 5.

2. Address for submitting Applications

Agjensia Kombetare e Burimeve Natyrore
Bulevardi "Bajram Curri", Blloku "Vasil Shanto"
Tirana, Albania

Website: www.akbn.gov.al

Attention to: **Mr. Dael Dervishi**
Tel +355 4 2257117
Fax +355 4 2257382

3. Method of the Application:

The application including all documents and materials, subject to the application must be delivered in a sealed envelope delivered by registered mail or in person at the protocol department of AKBN.

The envelope must be clearly marked as follows:

Petroleum Exploration Project
CONFIDENTIAL

There is no application fee.

4. Presentation of applications shall be in accordance with the provisions of Item IV below, taking into account the specific terms and conditions specified in the "Petroleum Law", No. 7746, date 28.07.1993.
5. For any additional information or clarification for the application process you may contact:

Agjensia Kombetare e Burimeve Natyrore
Bulevardi "Bajram Curri", Blloku "Vasil Shanto"
Tirana, Albania
Att. Dael Dervishi
Executive Director

IV. PRESENTATION FORM OF APPLICATIONS

1. An application will be presented in a sealed envelope.
2. An applicant may present applications for more than one Area, but each application must be sent in separate envelopes.
3. A company or a group of companies may apply for a contract
4. An application shall contain the following:
 - 4.1 The contract area to which the application applies.
 - 4.2 In respect of each applicant:
 - 4.2. A The applicant's full name.
 - 4.2. B The nature of its business.
 - 4.2. C The place of incorporation.
 - 4.2. D The countries in which the applicant or applicants operate.
 - 4.2.E Evidence of the registration of the company, financial standing and technical qualifications of the applicant, including the most recent audited accounts and those for the previous three years of the applicant and of any corporate body having control of such applicant.
 - 4.3. The main terms proposed by the applicant with respect to the major aspects of the model Production Sharing Contract i.e:
 - 4.3. A Duration of exploration periods.
 - 4.3. B Minimum exploration work obligations and financial commitments.
 - 4.3. C Raining and Administration Funds offered.
 - 4.3. D Cost recovery and the net profit oil for the Contractor.
 - 4.4. Each application may contain the applicant's technical evaluation of the area and an explanation of the adequacy of the proposed minimum work commitment in support of the Contractor's exploration concepts for the area.

A. Terms and Conditions of Production Sharing Contract

A.1 According to the "Petroleum Law", "Petroleum Operations" means all or any of the operations related to the exploration for development, extraction, production, separation and treatment, storage and transportation and sale or disposal of petroleum up to the point of export, or to the agreed delivery point in Albania or the point of entry into a refinery and includes natural gas processing operations but does not include petroleum refining operations.

A.2 Hydrocarbons existing in their natural state are the property of the Albanian State. The Government represented by the AKBN (Decision No. 547 dated 09.08.2006), authorizes the performance of petroleum operations by the National Oil Company (Albpetrol) in its exclusive areas, or a Contractor in remainder of the territory of Albania.
The AKBN is authorized to make available to interested oil companies the existing geological and geophysical data on the free areas in order to give oil companies the opportunity to evaluate the data before submitting applications.

A.3 The contract type is the Production Sharing Contract between the AKBN, acting on behalf of the Albanian Government and the Contractor.

According to the "Petroleum Law", "Production Sharing Contract " means a Petroleum Agreement which provides for the recovery of Contract Costs from Petroleum produced in the Contract Area or from a proportionate part thereof and for the division between the State and the Contractor of the balance of petroleum remaining after the recovery of Contract Costs in accordance with a scale or formula specified in the Petroleum Agreement.

A.4 The Production Sharing Contract includes provisions such as:

A.4.1 The performance of a minimum work program, backed by a performance guarantee.

A.4.2 The presentation of an annual work program and budget for each phase.

A.4.3 Preference is given to local employment and supplies during petroleum operations, when these are competitive in terms of quality, availability and cost.

A.4.4 The opportunity for local service companies to bid and preference is given to them, when the offer is comparable or better than other third parties.

A.4.5 Indemnify the State or the Ministry against all claims made by third parties in respect of injury, loss or damage resulting from the conduct of any operation carried out by the Contractor or by any subcontractor.

A.4.6 "The Petroleum Law" deals with access to private land after giving the occupier and the owner a minimum time notice. However, the Contractor must pay fair, just and equitable compensation with regard to any disturbance or damage caused during the conduct of petroleum operations.

A.4.7 The PSC provides for the establishment of a training and administration fund, which is used for the training of the AKBN employees and for administrative purposes.

A.4.8 The Contractor shall conduct petroleum operations in a safe and proper manner in accordance with the generally accepted international petroleum industry practice and shall cause as less damage as is reasonably practicable to the general environment including (inter alia) the surface, air, seas, lakes, rivers, marine life, animal life, plant life, crops, other natural resources and property and shall forthwith repair any damage caused to the extent reparable and shall pay reasonable compensation for all damage which is beyond repair.

B. Technical Clauses

B.1 Under the petroleum agreement, the Contractor is authorized to conduct petroleum operations during an Initial Exploration period, which can be extended.

It is preferred for the Exploration Period to include a drilling commitment by the Contractor.

B.2 If the Contractor declares a commercial discovery during the exploration period, it has the right to extend for a development/production period of twenty-five years, which can be prolonged according to the "Petroleum Law".

B.3 During the exploration period, the Contractor is subject to minimum work programs and expenditure obligations. In the case of either the Initial Exploration period or the additional Exploration period expiring and the Contractor not having fulfilled its obligations for the said period, the Contractor must pay to the Government the monetary equivalent in respect of the work not carried out. All monetary obligations are expressed in US Dollars.

B.4 Before the end of each Contract year, the Contractor must submit and present to the AKBN the exploration program and budget for the next Contract year. The AKBN may suggest modifications to the said work program and budget and the Contractor shall implement them when found in accordance with good international petroleum industry practice.

B.5 In the event of a discovery, the Contractor shall notify the AKBN and evaluation of this discovery will be carried out pursuant to an approved appraisal work program. After the appraisal, the Contractor will declare to the AKBN the commercial implications of the discovery.

B.6 If the Contractor considers the discovery commercial, the area in respect of that commercial discovery is set apart from the Contract area as a Development Area. The Contractor prepares then a development plan, which is submitted for approval by the AKBN.

B.7 For the exploitation of discovered marginal fields, or fields that have become marginal due to their exploitation, pursuant to the Council of Ministers may issue special decisions to alleviate the fiscal system in order to render possible the exploitation of the marginal fields.

B.8 In the case of an oil discovery together with the flow of associated gas, the Contract considers the utilization of such gas. (Provisions concerning the flare and use of such gas either in petroleum operations or in the local economy are open for negotiations).

B.9 The Contractor has the right to develop and produce the natural gas discovered in the Contract Area. Preferably such gas will be utilized in the internal market or exported.

In case of a commercial Natural Gas discovery, the AKBN and the Contractor will negotiate additional terms in the PSC, which will endeavor to ensure that the proportion of economic returns for both parties is similar to that for an oil discovery.

The AKBN may process and utilize the natural gas with no compensation to the Contractor where the Contractor considers that either the natural gas is not required for use in petroleum operations, or there is no possibility of exporting it, or its utilization is not economical.

B.10 Unitization

According to the "Petroleum Law", if a petroleum reservoir is located partly in the Contract Area and partly in another Contract Area and where it appears to the Ministry that gains in efficiency may be achieved through the joint development and operation of that reservoir, the Ministry shall have the right to order the Contractors to develop and operate the reservoir jointly under an agreement entered into by them for that purpose.

If at any time during which a Petroleum Agreement is in force the petroleum bearing strata in the Contact Area, forming part of a single Commercial Discovery, overlap an area over which the Government of Albania has jurisdiction and in respect of which no contact or license has been entered into or is in force, the AKBN and the Contractor shall enter into an agreement to enlarge the Contact Area accordingly and to provide for the proper development of the Commercial Discovery.

C. Cost Oil and Profit Oil Sharing

- C.1 Exploration expenditures and capital expenditures are recoverable only in the case of a commercial discovery but not before the start-up of production.
- C.2 The timing of the Operation Expenditures recovery are subject of negotiations.
- C.3 Reasonable and necessary administrative expenditures of the Contractor are recoverable.
- C.4 A negotiable set of a sliding scale of daily production for the part of oil referred to as "profit oil" can be used to share the profit. Based on that model, the oil from which costs are recovered is referred to as "Cost Oil". The remaining part of production, which is referred to as "Profit Oil" is shared between AKBN and the Contractor according to the sliding scale (bbl/day);

Or an "R" factor model can be also used to Profit Share. The "R" factor is defined as the ratio between the cumulative revenues of Contractor reduced by cumulative tax assessed on Contractor and the cumulative costs and expenses incurred in Petroleum Operations. Based on different negotiated "R"- factor values, after the Cost Oil is recovered, the remaining part of production, which in this case is referred to as "Excess Cost Oil", is shared between the AKBN and the Contractor.

- C.5 The Contractor is subject to tax on profit, according to the Law No. 7811, April 12, 1994, "On approval of Decree No. 782, February 22, 1994, "On the fiscal system in the hydrocarbons sector (Exploration-Production)", and the Royalty according to the Law No. 9975, July 28, 2008, "On the National Taxes".

The tax is at the rate of 50% of the realized profit and the Royalty is 10% of sales revenues.

- C.6 In compliance with the above mentioned Law, The AKBN takes the Government's tax and/or its share of profit oil in cash.
- C.7 The Contractor shall have the right to receive and retain abroad the proceeds from its export sales to the extent not required to meet on a current basis its local currency costs in Albania. The Contractor shall have the right to convert foreign currency into local currency at the generally applicable rate of exchange for commercial transactions.

D. Miscellaneous

- D.1 The Contractor and its sub-contractors are allowed to import into Albania all equipment and materials required for use in petroleum operations provided that the AKBN has certified that equipment and materials are to be used solely in petroleum operations.

-
- D.2 The Contractor may export the share of production to which he is entitled.
- D.3 The Contractor may assign all or part of its interest under the contract to any affiliate or third party, which assignation is subject to a guarantee for the performance of Contractor's obligations to be submitted by the assignee, as well as subject to the consent of the AKBN.
- D.4 The petroleum agreement and petroleum operations are governed by the laws of Republic of Albania and the generally accepted practices of International Oil Industry.
- D.5 Arbitration shall be in accordance with the UNCITRAL arbitration rules, preferably under English Law.
- D.6 All international oil industry investments are fully protected (as are all foreign investors) pursuant to Law No. 7764, November 22, 1993, "On Foreign Investments".

Map of Exploration Blocks

