LICENSE

AGREEMENT

For the Development and Production of Petroleum in

Kucova Oilfield

Between

The Ministry of Economy, Trade and Energy

As represented by

The National Agency of Natural Resources

And

"Albpetrol" Sh. A., Fier

Dated 26/06/2007
<table>
<thead>
<tr>
<th>Art.</th>
<th>Title</th>
<th>Pg</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>DEFINITIONS AND INTERPRETATION</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>ANNEXES TO THE LICENSE AGREEMENT</td>
<td>13</td>
</tr>
<tr>
<td>3</td>
<td>SCOPE OF THE LICENSE AGREEMENT</td>
<td>14</td>
</tr>
<tr>
<td>4</td>
<td>TERM</td>
<td>18</td>
</tr>
<tr>
<td>5</td>
<td>RELINQUISHMENT</td>
<td>19</td>
</tr>
<tr>
<td>6</td>
<td>PA AND OPERATOR</td>
<td>20</td>
</tr>
<tr>
<td>7</td>
<td>ANNUAL PROGRAMS AND BUDGETS</td>
<td>23</td>
</tr>
<tr>
<td>8</td>
<td>PETROLEUM OPERATIONS AND APPROVAL OF THE DEVELOPMENT PLAN</td>
<td>28</td>
</tr>
<tr>
<td>9</td>
<td>LICENSEE’S RIGHTS AND OBLIGATIONS</td>
<td>31</td>
</tr>
<tr>
<td>10</td>
<td>ALLOCATION OF AVAILABLE PETROLEUM</td>
<td>34</td>
</tr>
<tr>
<td>11</td>
<td>ASSOCIATED GAS</td>
<td>38</td>
</tr>
<tr>
<td>12</td>
<td>CUSTOMS EXEMPTION</td>
<td>39</td>
</tr>
<tr>
<td>13</td>
<td>LOCAL SUB-CONTRACTORS</td>
<td>40</td>
</tr>
<tr>
<td>14</td>
<td>TAX ON PROFIT</td>
<td>41</td>
</tr>
<tr>
<td>15</td>
<td>BOOKS OF ACCOUNT, ACCOUNTING AND AUDIT</td>
<td>43</td>
</tr>
<tr>
<td>16</td>
<td>RECORDS, REPORTS, INSPECTION AND CONFIDENTIALITY</td>
<td>45</td>
</tr>
<tr>
<td>17</td>
<td>TITLE TO AND SALE OF ASSETS</td>
<td>49</td>
</tr>
<tr>
<td>18</td>
<td>FINANCIAL RIGHTS</td>
<td>50</td>
</tr>
<tr>
<td>19</td>
<td>EMPLOYMENT AND TRAINING OF PERSONNEL</td>
<td>52</td>
</tr>
<tr>
<td>20</td>
<td>OFFICE AND SERVICE OF NOTICE</td>
<td>53</td>
</tr>
<tr>
<td>21</td>
<td>NATIONAL EMERGENCY OR OTHER TAKINGS</td>
<td>54</td>
</tr>
<tr>
<td>22</td>
<td>TRANSFER OF RIGHTS AND OBLIGATIONS</td>
<td>56</td>
</tr>
<tr>
<td>23</td>
<td>FORCE MAJEURE</td>
<td>58</td>
</tr>
<tr>
<td>24</td>
<td>BREACH OF LICENSE AGREEMENT</td>
<td>59</td>
</tr>
<tr>
<td>25</td>
<td>DISPUTES AND ARBITRATION</td>
<td>61</td>
</tr>
<tr>
<td>26</td>
<td>GOVERNING LAW</td>
<td>64</td>
</tr>
<tr>
<td>27</td>
<td>APPROVAL OF THE LICENSE AGREEMENT</td>
<td>65</td>
</tr>
<tr>
<td>28</td>
<td>MISCELLANEOUS</td>
<td>66</td>
</tr>
<tr>
<td>A</td>
<td>CONTRACT AREA</td>
<td>69</td>
</tr>
<tr>
<td>B</td>
<td>EVALUATION PERIOD MINIMUM WORK PROGRAM</td>
<td>70</td>
</tr>
</tbody>
</table>
LICENSE AGREEMENT

THIS LICENSE AGREEMENT is made and entered into this day of , 2007

By and between:

(1) The Ministry of Economy, Trade and Energy (hereinafter called “Ministry”), as represented by the National Agency of Natural Resources (hereinafter called “AKBN”), and

(2) “Albpetrol” Sh. A., a state company organized and existing under the laws of the Republic of Albania (hereinafter called “Albpetrol”).

RECITALS

A. WHEREAS pursuant to the agreement between the Ministry and Albpetrol, dated 26 July 1993 (the “Albpetrol Agreement”), the Ministry authorized Albpetrol to perform Petroleum Operations, among other areas, in the Contract Area. Albpetrol has so far developed and produced Petroleum in the Contract Area in conformity with the Albanian Law (Legislation);

B. WHEREAS ARTICLE 3 of the law No.7746, dated 28.7.1993 “Petroleum Law (Exploration and Production)” envisages that all petroleum deposits existing in their natural condition in strata lying within the jurisdiction of Albania, including the maritime areas, are the exclusive property of the Albanian State, represented by the appropriate Ministry and all such resources are to be used for the benefit of the people of Albania;

C. WHEREAS, pursuant to ARTICLE 12 of the law No.7746, dated 28.7.1993 “Petroleum Law (Exploration and Production)”, the Ministry may grant a License Agreement which will authorize Albpetrol, under the terms and conditions defined therein, to lawfully, develop and produce Petroleum in the Contract Area, and it is intended that such grant be made in this License Agreement;

D. WHEREAS, pursuant to ARTICLE 12 of the law No.7746, dated 28.7.1993 “Petroleum Law (Exploration and Production)”, and without any prejudice to the general character of Recital C, this License Agreement may permit Albpetrol, with the Ministry's approval, to transfer or to delegate all or part of its rights, title and interests hereunder to a foreign or local juridical person or international financial institution with which Albpetrol wishes to cooperate in accordance with the Petroleum Law and the Albpetrol Agreement;
E. WHEREAS, pursuant to ARTICLE 4 and ARTICLE 12 of the law No.7746, dated 28.7.1993 “Petroleum Law (Exploration and Production)”, and for purposes of implementing this License Agreement, Albpetrol may enter into a Petroleum Agreement with a partner(s) in accordance with this License Agreement, which petroleum agreement is subject to approval from the Council of Ministers of Albania;

F. WHEREAS Albpetrol, in conformity with the law No.7746, dated 28.7.1993 “Petroleum Law (Exploration and Production)”, now seeks the authorization to perform Petroleum Operations in the Contract Area according to the terms and conditions contained herein;

G. WHEREAS this License Agreement will enter into full force and effect upon the approval by the Council of Ministers of Albania of a Petroleum Agreement Albpetrol may enter with its partner(s);

H. WHEREAS the Albanian Government wishes that oil and gas Reservoirs underlying the Contract Area be exploited with high efficiency and in a rational manner, in conformity with the generally accepted practices of the international petroleum industry;

I. WHEREAS LICENSEE agrees to be bound to the terms and conditions of this License Agreement;

J. WHEREAS this License Agreement is a “license” as mentioned in the Albpetrol Agreement and will have the effect of a contract between the parties; and

K. WHEREAS AKBN, on the basis of the Decision of the Council of Ministers, No.547, dated 9 August 2006, will act on behalf of the Ministry and on the Ministry’s behalf will give necessary approvals and issue the necessary authorizations to make possible the completion of the Petroleum Operations in the Contract Area.

NOW THEREFORE, in consideration of the premises and the mutual agreements contained herein and for other good, valuable and binding consideration, the receipt and sufficiency of which are hereby acknowledged, and subject to the terms hereto, the Parties, intending to be legally bound, hereby agree as follows:
STATEMENT OF AGREEMENT

ARTICLE 1
DEFINITIONS AND INTERPRETATION

1.1. Defined Terms.

In this License Agreement, including its Recitals and Annexes and this ARTICLE 1, except where the context otherwise indicates, the following terms appearing in initial capitalization shall have the respective meanings herein ascribed.

"Abandonment" means the final abandonment through decommissioning, removal, and/or disposal of wells, facilities and equipment used for Petroleum Operations and the rehabilitation of the land in the immediate vicinity of an abandoned well to a condition not worse than its condition as of the time immediately before commencement of Petroleum Operations in respect of such well or facilities, and the term "to Abandon" shall have the corresponding meaning.

"Abandonment Costs" means costs and expenditures (whether of a capital or operational nature) incurred or to be incurred in connection with the Abandonment of wells, facilities or equipment.

"Abandonment Plan" means a plan prepared by the LICENSEE or anyone designated by and in (on) behalf of the LICENSEE for the Abandonment of the wells, facilities and equipment used for the Petroleum Operations.

"Accounting Procedure" means the accounting procedure mentioned in ARTICLE 15, Section 15.5 and set forth as Annex B to the Petroleum Agreement.

"Affiliate" means a subsidiary company, a parent company or a sister company to a Party or an entity comprising a Party. For the purposes of the foregoing definitions:

(a) a subsidiary company is a company controlled by a Party or an entity comprising a Party;

(b) a parent company is a company that controls a Party or an entity comprising a Party;
(c) a sister company is a company that is controlled by the same Person as a Party or an entity comprising a Party.

“Control” means that a Person owns share capital, either directly or through other Persons, which confers upon it a majority of the votes at the stockholders’ meetings of the company, which is controlled.

“Albania” means the Republic of Albania.


“Albanian Law” means any law or statute or any judgment, order, decree, rule or regulation in force in Albania, which the LICENSEE is subject to or is obliged to follow.

“Albpetrol” has the meaning set forth in the introductory paragraph to this License Agreement, and shall include its permitted successors and assignees.

“Albpetrol Agreement” means the agreement entered between the Ministry and Albpetrol, dated 26 July 1993 as it is mentioned in the law No.7746, dated 28.7.1993 “Petroleum Law (Exploration and Production)”.

“Albpetrol Share” has the meaning given to that term in the Petroleum Agreement entered into between Albpetrol and Contractor.

“Annual Program” means an itemized statement of the Petroleum Operations to be carried out within or with respect to the Contract Area and the time schedule thereof.

“Associated Gas” means Natural Gas found in association with Crude Oil if such Crude Oil can by itself be commercially produced.

“Available Petroleum” has the meaning set forth in ARTICLE 10, Section 10.1.

“Budget” means any estimate of expenses in respect of an Annual Program.

“Calendar Quarter” means a period of three (3) consecutive Months beginning January 1, April 1, July 1 or October 1 and ending March 31, June 30, September 30 or December 31, respectively.

“Condensate” means blends mainly consisting of pentanes and heavier hydrocarbons, directly recovered from the hydrocarbon reservoirs or obtained from gas conditioning, which are liquid under ambient conditions of temperature and atmospheric pressure.
“Contract Area” means on the Effective Date, the area described in Annex A, and thereafter, such area in respect of which at any particular time LICENSEE continues to have rights and obligations under this License Agreement.

“Contractor” means a Person who may enter into a Petroleum Agreement with Albpetrol in relation to the Contract Area.

“Cost Recovery Petroleum” has the meaning set forth in ARTICLE 10, Section 10.2(a).

“Crude Oil” has the same meaning ascribed to this term in the law No.7746, dated 28.7.1993 “Petroleum Law (Exploration and Production)”.

“Delivery Point” means whichever point(s) within Albania as may be agreed between AKBN and LICENSEE. Such point(s) may or may not be the same as the Measurement Point.

“Deemed Production” has the meaning given to that term in the Petroleum Agreement entered into between Albpetrol and Contractor.

“Development” means the Petroleum Operations performed after the approval of the Development Plan and shall include, but is not limited to:

(a) the drilling, plugging, deepening, side tracking and redrilling, completing and equipping of development wells, and completing and changing of the status of a well, and

(b) designing, engineering, construction, procurement and installation of equipment, lines, system facilities, plants and global changes of panels and the related operations which will enable LICENSEE to exploit and operate the said development wells, and the collection, gathering, processing, manipulation, storing, transportation and delivering of Petroleum, and the implementation of IOR/EOR Methods on a large scale throughout the Contract Area.

“Development and Production Operations” means all operations and related administrative and other activities, within or outside the Contract Area, which are carried pursuant to an approved Development Plan in connection with the development, production, extraction, separation, processing, gathering, transportation, storage and disposition of Petroleum.

“Development and Production Area” has the meaning given to that term in the Petroleum Agreement entered into between Albpetrol and Contractor.
“Development and Production Period” means the period described as such in Section 8.3.

“Development Plan” means a plan, including the works, relevant activities, and the budgets therefore setting forth the overall strategy for the development and production of Petroleum from the Contract Area.

“Effective Date” has the meaning set forth in ARTICLE 27.

“Evaluation” means the evaluation of the technical and economic data produced pursuant to previous Operations for purposes of determining the commercial viability of implementing the Development Plan.

“Evaluation Area” has the meaning given to that term in the Petroleum Agreement entered into between Albpetrol and Contractor.


“Evaluation Program” has the meaning given in Annex B.

“Evaluation Period” has the meaning set forth in ARTICLE 7, Section 7.3(a).

“Expert” means an individual or an entity who is not and has never been employed by AKBN or LICENSEE and who, by training and extensive experience, has highly developed knowledge in the technical area wherein lies the dispute or disagreement which he is to resolve and who is appointed pursuant to the provision of ARTICLE 25, Section 25.4.

“Fiscal Year” means the period of twelve (12) consecutive months according to the Gregorian calendar starting January 1st and ending December 31st, both dates inclusive, for which tax returns or reports are required according to any applicable income, Profits or other tax law or regulation in accordance with applicable Albanian Law.

“Improved/Enhanced Oil Recovery Methods” or “IOR/EOR Methods” means Petroleum Operations which aim at reaching the Maximum Efficient Recovery from a Reservoir through improving its natural energy system and its hydrocarbon drainage by applying, without being limited to, recompletion, reworking, cold heavy oil production methods, steam-assisted gravity drainage methods, water injection, repressuring, thermal heating, vertical and horizontal drilling and other enhanced production methods.

“Leke” means the lawful currency of the Republic of Albania.
"LICENSEE" means Albp petrol and, in conformity with "Albp petrol Agreement" provisions, any its permitted transferee, successor or assignee.

"License Agreement" means this document, including the Annexes attached to it, as the same may be amended or supplemented from time to time.

"Maximum Efficient Recovery" means recovery of Petroleum, which equals the maximum overall extraction of Petroleum from a Reservoir having regard to generally accepted international petroleum industry practice.

"Measurement Point" means the point mutually determined by AKBN and LICENSEE, where appropriate equipment and facilities will be located for the purpose of performing all volumetric measurements and other determinations, temperature and other adjustments, determination of water and sediment content and other appropriate measurements, to establish, for the various purposes of this License, the volumes of Petroleum. All said measurements and determinations will be acknowledged in writing by AKBN and LICENSEE's representatives at the Measurement Point. The Measurement Point may or may not be the same as the Delivery Point.

"Natural Gas" means any hydrocarbons or mixture of hydrocarbons consisting essentially of methane in a gaseous state under normal conditions of pressure and temperature, extracted from the subsoil separately or together with liquid hydrocarbons.

"New Evaluation Area" has the meaning set forth in Section 8.4(a).

"New Evaluation Program" has the meaning set forth in Section 8.4(a).

"AKBN" means the National Agency of Natural Resources of Albania as further specified in Recital K and ARTICLE 3, Section 3.6.

"Operator" has the meaning set forth in ARTICLE 6, Section 6.2(a).

"Party" means AKBN or LICENSEE.

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, Albanian governmental authority, or other form of entity.

"Petroleum" means Crude Oil, Condensate and Natural Gas.

"Petroleum Agreement" means a petroleum agreement as defined in the Petroleum Law and the Albp petrol Agreement, and as described in Recital E and ARTICLE 6, herein.
“Petroleum Costs” means costs and expenditures incurred for the performance of or in connection with the Petroleum Operations.


“Petroleum Operations” means all or any of the operations including the Abandonment aimed or authorized by this License Agreement and operated by the LICENSEE on or after the Effective Date, including without limitation the testing, development, extraction, production, treatment, transportation and storage of Petroleum of or from the Contract Area pursuant to this License Agreement.

“Petroleum Profit Tax” means the tax assessed pursuant to Law 7811 dated April 12, 1994, as amended by Law 8345 dated May 13, 1998, and as may be amended from time to time.

“Production” means every type of operations to produce Petroleum and operate wells, and taking, saving, treating, handling, storing, transporting, metering, and delivering of Petroleum, and any other type of operation required to obtain primary and enhanced recovery of Petroleum, and transportation, storage and any other work or activities necessary or ancillary to such operations. (The verb “Produce” means conducting Production).

“Profit” has the meaning set forth in ARTICLE 10, Section 10.3(a).

“Project” means the rehabilitation and redevelopment of the Contract Area through IOR/EOR Methods.

“Project Area” means:

(a) during the Evaluation Period, that portion of the Contract Area which is designated from time to time as the Evaluation Area;

(b) during the Development and Production Period, that portion the Contract Area which is designated from time to time as Development and Production Area; and
(c) if LICENSEE undertakes a New Evaluation Program, that portion of the Contract Area which is designated from time to time as the New Evaluation Area.

“Reservoir” means a porous and permeable stratum capable of producing Petroleum and which must be considered, because of the character of the substances it holds (similitude of physical properties, density, gas-oil ratio, viscosity and a pressure relationship) as a unit in regard to its natural exploitation.

“Six Month Period” means, respectively, the period of the first six consecutive months of the Fiscal Year and the period of the last six consecutive months of the Fiscal Year.

“Taxes and Duties” means all taxes, duties, tariffs, fees and other payments of whatever nature payable to the Albanian Government (or to any of its agencies) or to any of territorial or administrative sub-divisions of Republic of Albania (or agencies).

“U.S. Dollars” or “USD” means the lawful currency of the United States of America.

“Willful Default” means, with respect to a Person, an intentional and conscious or reckless act or omission made by any director, supervisory or managerial personnel of such Person, its agents or contractors, not justifiable by any special circumstance, but shall not include any error of judgment or mistake made by any director, supervisory or managerial personnel, agent or contractor of such Person, as the case may be, in the exercise, in good faith, of any right conferred upon such Person under this License Agreement.

1.2. Other Terms.

In this License Agreement, including its Recitals and Annexes and this ARTICLE 1, unless the context otherwise requires:

(a) words denoting the singular number shall include the plural and vice-versa;

(b) reference to a law is the same as also regarding amendments, modifications or the replacements made now and then and regarding any legal act deriving from laws, regulation, rule, order or right delegated by law or order in compliance with them;
(c) reference to an agreement or instrument shall be deemed to include references to such agreement or instrument as amended, supplemented or replaced from time to time;

(d) reference to any Party is to a Party to this License Agreement its successors and permitted assigns;

(e) references to Recitals, Articles, Sections, Appendices and Annexes are references to Recitals, Articles, or Sections of, or Appendices or Annexes to this License Agreement, unless otherwise indicated;

(f) "included", "other than" and other similar phrases will not be interpreted as definitions;

(g) reference to numbered or lettered paragraph "above" or "below" is to the paragraph so numbered or lettered immediately above or below such reference; and

(h) if not otherwise defined in this License Agreement, the words and phrases adopted in the Petroleum Law will carry the same meaning in this License Agreement.

1.3. Headings.

As used herein, the headings are used as a facility and are not part of, and will be ignored in interpreting this License Agreement.
ARTICLE 2
ANNEXES TO THE LICENSE AGREEMENT

2.1 Annexes

The Annexes A and B to this License Agreement are hereby made a part of this License Agreement and they shall be considered as having equal force and effect with the provisions of this License Agreement. However, in the event of any conflict between the Annexes and the body of this License Agreement the provision as described in the body of this License Agreement shall prevail.

Annex A: CONTRACT AREA
Annex B: EVALUATION PERIOD MINIMUM WORK PROGRAM
ARTICLE 3
SCOPE OF THE LICENSE AGREEMENT

3.1. Application of Law and Stability of Terms.

(a) The provisions of this License Agreement shall have full legal effect in accordance with ARTICLE 27.

(b) Subject to Section 3.1(c) below, to the extent that any provision of Albanian Law conflicts or is inconsistent with a provision of this License Agreement, the provision of the Albanian Law shall prevail.

(c) Notwithstanding Section 3.1(b) above, if, as a result thereof, any right or benefit granted (or which is intended to be granted) to LICENSEE under this License Agreement is infringed in some way, a greater obligation or responsibility shall be imposed onto LICENSEE or, in whatever other way the economic benefits accruing to LICENSEE from this License Agreement are negatively influenced by Section 3.1(b), and such an event is not provided for herein, the Parties will immediately amend this License Agreement, or the Ministry and AKBN will immediately undertake other necessary actions to eliminate the negative economic effect on the LICENSEE.

3.2. Grant of Rights.

Pursuant to and in accordance with the terms and conditions of the Petroleum Law and this License Agreement the Ministry authorizes and grants the LICENSEE the exclusive right:

(a) to conduct Petroleum Operations in the Contract Area;

(b) to treat, store and transport the Petroleum extracted from the Contract Area;

(c) to construct and install all facilities and equipment (including storage, treatment, pipelines and other means of transportation) required for the Petroleum Operations; and

(d) to use for its own account, sell, exchange, export, realize or possess the Petroleum extracted from the Contract Area, and take Profit from and title to such extracted Petroleum.
Notwithstanding Section 3.2(a), (b), (c), and (d), any other contractor may conduct petroleum operations for development and production of Petroleum outside of the Contract Area in accordance with any agreement reached between a contractor and AKBN. Ministry, AKBN and the contractor shall ensure LICENSEE that those petroleum operations will not interfere and unreasonably prevent the normal development of Petroleum Operations of the LICENSEE in the Contract Area, nor shall LICENSEE unreasonably prevent or interfere with the petroleum operations of such other contractor.

3.3. The Primary Obligations of the LICENSEE.

(a) The LICENSEE shall:

(i) secure all financial resources and pay one hundred percent (100%) of all costs and expenses associated with the Petroleum Operations in respect to the Contract Area subject to the Cost Recovery Petroleum provisions of this License, and

(ii) secure all technical resources and employ advanced scientific methods, procedures, technologies and equipment generally accepted in the international petroleum industry necessary to carry out Petroleum Operations in compliance with this License Agreement at its sole risk and cost, and

(iii) indemnify the Albanian Government, the Ministry and AKBN, and their employees, officials, officers, directors and respective agents, for all claims by third parties for personal damage or property damage resulting from the performance of the Petroleum Operations, including without limitation, reasonable attorneys fees and costs of defense unless such third party claims are as a direct or indirect result of any fault or breach of legal duty by the Albanian Government, the Ministry or the AKBN. In the event of such claims the LICENSEE shall be notified within thirty (30) days.

(b) LICENSEE may perform the Petroleum Operations itself or by employing sub-contractors. LICENSEE shall not be relieved of any obligation under this License Agreement and Albanian Law by reason of employing sub-contractors.

(c) If LICENSEE is comprised of more than one party, each such party shall be jointly and severally liable and responsible for LICENSEE’s obligations under this License Agreement including without limitation LICENSEE’s indemnification obligations unless specifically provided otherwise in this License Agreement.
(d) Unless otherwise stated herein or otherwise agreed, LICENSEE shall receive no compensation for its services, nor any reimbursement of its expenditures under this License Agreement, except for the share of Petroleum from the Contract Area to which it may be entitled under ARTICLE 12.

(e) This License Agreement does not award LICENSEE ownership rights to the Petroleum in situ in the Contract Area. However, LICENSEE shall have the right to receive in kind, dispose of and freely export its share of Petroleum from the Contract Area in accordance with the provisions of this License Agreement. Title to LICENSEE's portion of Petroleum hereunder shall pass to LICENSEE at the relevant Delivery Point.

3.4. Entitlements of LICENSEE.

As of the Effective Date, and during the term of this License Agreement, LICENSEE will be entitled to use:

(a) exclusively, free of charge, all the existing facilities and equipment in the Contract Area for the performance of the Petroleum Operations for:

(i) the implementation of the Evaluation Operations and the Development and Production Operations;

(ii) application of IOR/EOR Methods in the whole Contract Area and in accordance with the conditions and terms of this License Agreement; and

(iii) Production of Petroleum in the Contract Area;

(b) free of charge and for the performance of the Petroleum Operations, all other assets, equipment, means and infrastructure (including roads, electricity power lines and water, oil and gas pipelines) existing on the Effective Date of this License Agreement in the Contract Area or elsewhere as described in ARTICLE 12 of the Petroleum Agreement, on an "as is" basis and available for delivery, but (unless otherwise agreed with the supplier) subject to payment, as applicable, on a non-discriminatory basis, at reasonable cost for electricity, water, oil and gas used;

(c) under commercially reasonable terms and conditions, the pipelines that transport the Petroleum produced in the Contract Area to the ports and refineries in Albania; and
(d) all technical data available to AKBN pertaining to the Contract Area provided that LICENSEE shall reimburse AKBN for all reasonable cost incurred for the preparation of such data transfer and the cost of copying such data.

3.5. Use of Entitlements.

(a) The Ministry and AKBN shall ensure that there is no change in the intended use or operation of any of the equipment, means and infrastructure (including pipelines) referred to in Section 3.4, without prior approval of the LICENSEE which approval not to be unreasonably withheld.

(b) The Ministry and AKBN shall ensure that LICENSEE has use of the railways, roads, highways, water, land surface, timber, electricity, sanitary structures and other infrastructures in Albania property of the Albanian state, at commercially reasonable rates and on a non-discriminatory basis, so as to be able:

(i) to perform the Petroleum Operations in compliance with this License Agreement; and

(ii) to produce, transport, export and sell Petroleum in or from Albania as provided in this License Agreement and the Law No.7746 dated 28.07.1993 “Petroleum Law (Exploration and Production)”.

(c) The Ministry and AKBN shall ensure that the LICENSEE is granted, in accordance with ARTICLES 7 and 10 of the Petroleum Law, all the rights, permits, licenses, approvals and other authorizations that it may reasonably require in order to perform the Petroleum Operations in conformity with this License Agreement, and that any compensation which LICENSEE may be required to pay, pursuant to ARTICLE 10(2) of the Petroleum Law, shall be reasonable and non-discriminatory.

3.6. AKBN Authority.

On the basis of the Decision of the Council of Ministers, No. 547 dated August 9th 2006, following the Effective Date, AKBN will, on behalf of the Ministry, provide approval or issue the necessary authorizations for the performance of the Petroleum Operations in the Contract Area.
ARTICLE 4
TERM

Unless sooner terminated in accordance with the terms hereof, this License Agreement shall remain in effect during the Evaluation Period and any extension hereof (Section 7.3) and any Development and Production Period if entered pursuant to Section 7.4 and ARTICLE 8.

Pursuant to ARTICLE 5(3)(a)(ii) of the Petroleum Law, at the end of any Development and Production Period the Parties may agree to further five (5) year extensions in accordance with the procedures set forth in ARTICLE 8, Section 8.3(c) hereof.
ARTICLE 5
RELINQUISHMENT

5.1. Relinquishment.

(a) LICENSEE may relinquish its rights under this License Agreement to conduct Petroleum Operations in all or any part of the Contract Area by providing AKBN with written notice thirty (30) days in advance of such relinquishment. Once LICENSEE has notified AKBN of its decision, LICENSEE shall relinquish all its rights and obligations with regard to this License Agreement and the Petroleum Agreement.

(b) In case LICENSEE intends to relinquish any part of the Contract Area the LICENSEE shall provide AKBN with written note describing the portions of the Contract Area to be relinquished at least thirty (30) days in advance and shall ensure that each individual portion of the Contract Area relinquished shall, so far as reasonably possible, be of sufficient size and shape to enable further petroleum operations to be conducted thereon.

(c) Upon the date on which any relinquishment is due or is to take effect or upon the termination of this License Agreement the LICENSEE shall have no further rights or obligations in regard to the relinquished area(s).

(d) No relinquishment made in accordance with this License Agreement and this ARTICLE 5 shall relieve LICENSEE from its unfulfilled minimum commitments or any other unfulfilled obligation accrued prior to such relinquishment written notice.
ARTICLE 6
PETROLEUM AGREEMENT AND OPERATOR

6.1. Petroleum Agreement.

In compliance with the Petroleum Law, the Albpetrol Agreement, and this License Agreement, LICENSEE is authorized to conduct Petroleum Operations for the Project in the Contract Area only on the basis of a Petroleum Agreement, which:

(a) shall be in full accordance with this License Agreement and, in accordance with ARTICLE 13(2) of the Petroleum Law, will enter into full force and effect only upon and following the Effective Date;

(b) shall incorporate the exclusive rights to the Contract Area granted in accordance with this License Agreement;

(c) notwithstanding the definitions set forth within the Petroleum Law, will contain and/or define, but not be limited to, the following matters:

(i) the obligations and schedules of the Evaluation Period as well as of other phases of the performance of the Petroleum Operations, which shall be in conformity with the schedules and obligations of this License Agreement;

(ii) contents of the procedure of selection and determination of the Operator by the parties to such agreement and the Operator's primary rights and duties, provided that replacement of Operator, if necessary, will be conducted in conformity with ARTICLE 6, Section 6.2(b) herein;

(iii) the Accounting Procedure, which will be subject to ARTICLE 15, Section 15.5 of this License Agreement and Annex B of the Petroleum Agreement;

(iv) the relations among parties to the Petroleum Agreement, procedures for making and implementing decisions, contributions, individual and collective liabilities, duties and rights, form and share of Profit, obligations, and similar matters; and

(v) the organization and performance of the Petroleum Operations.
6.2. Project Area

In the event LICENSSEE is comprised of more than one party, such parties may provide in the Petroleum Agreement for an area (the "Project Area") within the Contract Area where Operator will be solely responsible for conducting Petroleum Operations described herein, separately from Petroleum Operations conducted in the balance of the Contract Area. The Petroleum Agreement may provide for the allocation between or among the parties comprising LICENSSEE of the rights, obligations, liabilities and indemnities relating to the Project Area separately from the balance of the Contract Area. In the event of such allocation, and notwithstanding anything to the contrary in this License Agreement:

(a) each of such parties comprising LICENSSEE will be separately responsible for activities in the Project Area and the balance of the Contract Area to the extent set forth in the Petroleum Agreement; and

(b) Operator shall be liable and responsible only for Petroleum Operations conducted in the Project Area and not elsewhere (including without limitation: obligations pertaining to Abandonment; paying costs and expenses of Petroleum Operations; indemnities; the preparation of the Development Plan and Annual Programs and Budgets for the Project Area; the calculation and payment of Petroleum Profit Tax; compliance with operational and environmental standards; the preparation of baseline studies; the preparation of books, records and accounts of Petroleum Costs, Cost Recovery Petroleum and revenues; force majeure and termination for force majeure; and breach and termination provisions).

6.3 Operator.

(a) "Operator" is defined as the LICENSSEE or, subject to ARTICLE 5(2) of the Petroleum Law and Section 6.3(b) of this License Agreement, as such other Person duly appointed by the LICENSSEE for executing and implementing the Petroleum Operations in the name of, for the account of, and under the responsibility of LICENSSEE.

(b) Any eventual Operator nomination and/or replacement can be made as follows:

(i) by way of prior notification of AKBN if the proposed Operator is a LICENSSEE or an Affiliate of a LICENSSEE, and
(ii) with the prior approval of AKBN, which approval will not be unreasonably withheld, if the proposed Operator is not a LICENSEE or an Affiliate of a LICENSEE.

(c) Subject to Section 6.3(a) and (b), LICENSEE shall inform AKBN of the identity of Operator's Director General and deputies, all of whom shall be technically and administratively competent.

(d) LICENSEE shall not be relieved of any intentional and conscious or reckless act or omission made by any director, technical, supervisory or managerial personnel of the Operator, its agents or contractors, not justifiable by any special circumstance.


Once approved by the Council of Ministers, the Petroleum Agreement, together with its appendices and exhibits in each of the languages in which it is written and is valid, shall be provided to AKBN. The provisions of this License Agreement will prevail in case of a conflict or disagreement with the Petroleum Agreement provisions.
ARTICLE 7
ANNUAL PROGRAMS AND BUDGETS


(a) The Petroleum Operations under this License Agreement will start on the Effective Date; however, LICENSEE will start the Evaluation Operations in the Contract Area not later than sixty (60) days from the Effective Date.

(b) For the purpose of the proper implementation of both this License Agreement and the Petroleum Agreement, the LICENSEE shall establish an Advisory Committee which, among others, shall have the rights and duties as set forth in the Petroleum Agreement.

(c) The Advisory Committee shall meet at least twice each Fiscal Year and whenever required by each of the Parties composing the LICENSEE. Operator shall give at least fifteen (15) days prior written notice to AKBN of each Advisory Committee meeting, which notice shall include the proposed agenda and supporting materials as distributed to the Advisory Committee. At its own cost and decision, but however giving LICENSEE ten (10) days prior written notice, AKBN may attend, but shall not be entitled to vote, at the Advisory Committee meetings.

7.2. Annual Program and Budget.

(a) No later than sixty (60) days after the Effective Date of this License Agreement and, thereafter, no later than sixty (60) days before the beginning of every Fiscal Year, or according to such other schedules as may be agreed upon by AKBN and LICENSEE, LICENSEE will prepare and submit to AKBN a proposed Annual Program and Budget providing the Petroleum Operations to be carried out during the succeeding Fiscal Year. Unless otherwise provided herein LICENSEE shall only conduct Petroleum Operations in accordance with the approved Annual Programs and Budgets pursuant to this License Agreement. Annual Programs and related Budgets shall be prepared in accordance with good international oilfield practice.

(b) A proposed Annual Program shall contain, but will not be limited to:

(i) the Petroleum Operations and the related Budget LICENSEE aims to carry out according to the phase in which LICENSEE happens to be in that Fiscal Year, such as the conduct of Evaluation or Development and Production Operations;
(ii) an appraisal of the investments and activities for the subsequent fiscal years and for the entire period of performance of the Petroleum Operations in the Contract Area;

(iii) in the event LICENSEE has concluded the Evaluation Period and has entered or is conducting the Development and Production Period, the proposed Annual Program shall be in compliance with the Development Plan, and shall also include:

- an estimate of the capital and operating costs and activities for the subsequent Fiscal Year that LICENSEE proposes to perform in the Contract Area;
- details and the extent of the Development Area relating to the said Annual Program and Budget
- a description of IOR/EOR Methods selected to be applied throughout the Contract Area and/or other procedures to be undertaken;
- an appraisal of the Available Petroleum forecasted production profile for the relevant Fiscal Year, broken down by Calendar Quarters;
- the average daily production planned to be achieved for each quarter during the said Fiscal Year;
- any other data that AKBN may reasonably require from time to time;
- a statement of environmental and safety principles to be employed in the Petroleum Operations including plans for environmental impact assessments as part of an environmental management plan; and
- Details of any Crude Oil sales contracts relating to Production from the Development and Production Area

(c) In accordance with Sections 7.2(a) and 7.2(b), LICENSEE will submit to AKBN a proposal for an Annual Program within the schedules designed for each year for the Petroleum Operations during the Evaluation Period and the Development and Production Period and AKBN will inform LICENSEE of any amendment to be made to such proposal and the reasons for it within thirty (30) days of its receipt. Proposed amendments may only be made to the extent that the Annual Program does not comply with the Evaluation Program or the Development Plan as the case may be. If there is a disagreement about the proposed amendments, then the dispute shall be submitted for determination to an Expert which would be appointed according to the proceeding described in ARTICLE 25.4. The Expert shall dispose of sixty (60) days as of his nomination to come to a decision. Prior to the
resolution of any such dispute, Operator may continue with existing operations as previously approved.

If AKBN does not inform LICENSEE of any amendment within thirty (30) days, such proposal shall be deemed to be approved. LICENSEE shall take into consideration the amendments, if any, suggested by AKBN and will reflect those amendments it deems necessary. Thereafter, LICENSEE will once again forward its proposal to AKBN for approval, which approval shall not be unreasonably withheld. If AKBN does not inform LICENSEE of any additional amendments within fifteen (15) days following such resubmission, such revised proposal shall be deemed to be approved.

(d) The Parties are aware that the details of an approved Annual Program may require modifications in light of the circumstances and nothing herein will limit LICENSEE’s right to make such modifications (with the prior approval of AKBN, which shall not be unreasonably withheld or delayed) it deems necessary with the condition that such modifications should not change the general objective of the approved Annual Program and Budget, but also providing that nothing herein may limit the right of the LICENSEE to take actions it deems necessary in the event of emergencies to protect the safety and welfare of individuals and the economic viability of the Project. If: (i) Annual Program modifications have been approved by AKBN; or (ii) there are differences between budgeted and actual revenues, costs and expenses in implementing the Annual Program approved by the AKBN, then AKBN approval is not required for any consequential modifications to the Budget.

7.3. Evaluation Period.

(a) Pursuant to ARTICLE 6, Sections 6.1(c)(i) and this ARTICLE 7, Section 7.1, 7.2 and 7.3(b), LICENSEE will conduct the Evaluation Operations within or in respect with the Contract Area in compliance with the generally accepted practices of the international petroleum industry.

(b) The Evaluation Period commences on the Effective Date and shall last for a period of up to twenty-four (24) months. However, upon written request of the LICENSEE that a six-month extension is required to complete the evaluation of results or activities conducted in the Contract Area, AKBN may approve, which approval will not be unreasonably withheld or delayed, that the Evaluation Period be extended for an additional six-month period. Such a written request must be delivered to AKBN at least forty five (45) days prior to the Evaluation Period expiration.
(c) During the Evaluation Period the LICENSEE shall carry out the Evaluation Program as described and detailed in the Annex B, providing however that if, at the expiration of twenty four months following the Effective Date or upon termination of this License Agreement, whichever first occurs, LICENSEE has failed to carry out in accordance with this License Agreement, in whole or in part, the minimum capital expenditure stated in Annex B then LICENSEE shall pay to AKBN and amount equal to the non fulfilled part of the minimum capital expenditure defined in the Petroleum Agreement according to the Minimum Work Program stated in Annex B.

(d) If LICENSEE cancels and surrenders this License Agreement during a Fiscal Year of the Development and Production Period to which an approved Annual Program and Budget applies, LICENSEE shall pay to AKBN the amount of any unexpended capital expenditures contemplated under the Annual Program and Budget for that Fiscal Year.

(e) Payments under the ARTICLE 7.3(c) shall only be due in respect of any unfulfilled commitment related to the Evaluation Program. Payments under the ARTICLE 7.3(d) shall only be due in respect of any unexpended capital expenditures contemplated under the Annual Program and Budget. In the event of delay in the payment of the indemnity to be paid to AKBN in application of ARTICLE 7.3(c) or ARTICLE 7.3(d), the amount owing in this respect will bear interest calculated from the final date on which the indemnities should have been paid, and up to the time on which the payment is done by the LICENSEE, at the annual discount rate of the London Inter Bank Offered Rate (LIBOR) plus one percent.


Within sixty (60) days following the completion of the Evaluation Period or any extension thereof, the LICENSEE shall either:

(a) inform AKBN that the Evaluation Operations were successful and provide AKBN with a proposed Development Plan, which may also be an amendment to an existing Development Plan (which shall include therein the lands within the Contract Area pertinent to such Development Plan, the proposed Measurement Point as well as the proposed Delivery Point, the respective Production costs, the Petroleum production levels and other data as may be requested by AKBN in compliance with the generally accepted practices of the international petroleum industry) in connection with IOR/EOR Methods selected for the development of the Contract Area and meeting the requirements of ARTICLE 8, Section 8.1. During the period following the completion of the Evaluation Program
and prior to the approval of a Development Plan, LICENSEE may continue the Petroleum Operations which were being conducted during the Evaluation Program, and this License Agreement shall continue to be in effect as though the Evaluation Period had been extended; or

(b) inform AKBN that the Evaluation Operations were not successful, but, nevertheless, LICENSEE wishes to continue the evaluate the Contract Area using new ideas, as may be stipulated in the Petroleum Agreement, or LICENSEE may ask AKBN for another extension, in addition to that set forth in Section 7.3(b), which in any case will not be longer than six (6) months. At the end of such extension LICENSEE may proceed in accordance with Section 7.4(a) or 7.4(d); or

(c) inform AKBN that the Evaluation Operations, concluded in conformity with the terms and conditions of this License Agreement, did not yield commercial and profitable results for a full scale implementation of IOR/EOR Methods throughout the Contract Area and LICENSEE is of the opinion that a change of fiscal system can make the Project commercially viable, in which case LICENSEE and AKBN (once the latter is convinced of such a conclusion), shall endeavor to make the Project commercially viable on the basis of Decree No. 782, dated 22 February 1994, ARTICLE 1(3), provided that, in the event a decision by the Council of Ministers pursuant to such provision (and acceptable to LICENSEE) is not issued within six (6) months following completion of the Evaluation Period, LICENSEE shall have the right to relinquish the Contract Area at any time thereafter, subject to ARTICLE 5 and upon seven (7) days notice to AKBN, or

(d) Subject to the requirements of ARTICLE 5, relinquish the Contract Area. If LICENSEE so relinquishes the Contract Area, all wells, operations and assets (moveable and immovable) will be returned to AKBN and LICENSEE shall be released from all liabilities associated with this Agreement, except for unfulfilled obligations accrued prior to the relinquishment.
ARTICLE 8
PETROLEUM OPERATIONS AFTER APPROVAL OF THE DEVELOPMENT PLAN


(a) Subject to ARTICLE 7, Section 7.4(a), LICENSEE will be entitled to undertake the Development of the Contract Area and extract Petroleum from a Reservoir pursuant to the Development Plan with the objective of achieving extraction of Petroleum at Maximum Efficient Recovery. The Development Plan shall be prepared on the basis of sound engineering and economic principles in accordance with generally accepted international petroleum industry practice.

The Development Plan shall contain but not limited to:

(i) details and the area extent of the proposed Development and Production Area;

(ii) proposals relating to the spacing, drilling and completion of wells, the production and storage installations, and transportation and delivery facilities required for the production, storage and transportation of Petroleum;

(iii) proposals relating to necessary infrastructure investments;

(iv) a production forecast and an estimate of the investment and expenses involved;

(v) an estimate of the time required to complete each phase of the Development Plan;

(vi) the proposed Delivery Point and Measurement Point.

(b) AKBN may, within sixty (60) days following receipt of the proposed Development Plan submitted by LICENSEE pursuant to ARTICLE 7, Section 7.4, request LICENSEE of any amendment it deems necessary to the Development Plan and the reasons therefore. If AKBN fails to inform LICENSEE of any amendment within such forty-five (45) days, the proposed Development Plan shall be deemed to be approved. The LICENSEE shall consider the amendments (if any) suggested by AKBN and incorporate those amendments it deems necessary.
(ii) In the event AKBN requests any amendment to the proposed Development Plan then LICENSEE and AKBN shall meet within fifteen (15) days of receipt by LICENSEE of AKBN’s written notifications as to these requested changes to try in good faith to reach an agreement on the Development Plan. Revision to the Development Plan, if agreed, within a further period of sixty (60) days, should be incorporated in a revised plan which shall then be deemed approved by AKBN.

(iii) If no agreement is reached, pursuant to ARTICLE 25, Section 25.4, the dispute shall be submitted for determination to an Expert which would be appointed according to the proceeding described in ARTICLE 25.4. The Expert shall dispose of sixty (60) days as of his nomination to come to a decision.

(c) If LICENSEE desires to materially amend the Development Plan as approved by AKBN, it will provide AKBN with the proposed amendments pursuant to the procedures set forth in Section 8.1(b).


During the Development and Production Period the Petroleum Operations will be performed according to the Annual Programs in conformity with the Development Plan as set forth in ARTICLE 7, Section 7.2(a).

8.3. The Development and Production Period.

(a) Subject to ARTICLE 4, Section 4.1 and Sections 8.3(b) and 8.3(c), the Development and Production Period will commence upon approval by AKBN of the Development Plan and will end on the 25th anniversary of the Effective Date.

(b) (i) Subject to ARTICLE 5, by providing notification ninety (90) days in advance, LICENSEE may relinquish all or part of the Contract Area.

(ii) Following termination of the Development and Production Period or relinquishing a part of the Contract Area, such portion of the Contract Area will cease to exist as part of the Contract Area.

(iii) LICENSEE will not be bound to continue Petroleum Operations with respect to any such portion of the Contract Area which has ceased to exist as part of the Contract Area.
So long as LICENSEE has not breached any material clause of this License Agreement, upon the request of LICENSEE and approval of AKBN (which approval will not be unreasonably withheld or delayed) the Development and Production Period will be extended for successive periods of five (5) years each, for as long as any portion of the Contract Area continues to produce Petroleum in commercial quantities. Every request for extension should be made to AKBN in writing no later than one hundred and eighty (180) days prior to the termination of the Development and Production Period (as it may have previously been extended). Failure of AKBN to respond to any such request for extension within sixty (60) days following the date of receipt of such request shall be deemed to be approval of the requested extension.

8.4 New Evaluation Area(s)

(a) During the implementation of the Development Plan, but no later than five (5) years from the date of the Development Plan approval, LICENSEE may further propose and design new evaluation areas within the Contract Area but outside of any existing Development and Production Area for a new Evaluation Period. Upon AKBN approval, which approval will not be unreasonably withheld or delayed, such new Evaluation Period will have an initial term of twelve (12) months from commencement, and shall involve a relevant evaluation program (the "New Evaluation Program") involving a minimum work program and capital expenditure commitments and an Evaluation area (the "New Evaluation Area") at LICENSEE's assessment. The New Evaluation Program shall be appended to Annex B and the New Evaluation Area shall be appended to Annex A. The New Evaluation Area may include the lands within the Contract Area where the new Evaluation and subsequent development and production activities may occur. After completion of each new Evaluation Period, an addendum of the Development Plan must be submitted or the New Evaluation Area relinquished.

(b) During the new Evaluation Period the LICENSEE shall carry out the minimum work program and capital expenditure commitments as described and detailed in the New Evaluation Program and appended to Annex B, providing however that if, at the expiration of the new Evaluation Period, or any extension thereof, or upon termination of this License Agreement, whichever first occurs, LICENSEE has failed to carry out in accordance with this License Agreement, in whole or in part, the minimum work program and capital expenditure commitments as appended to Annex B, then LICENSEE shall pay to AKBN and amount equal to the non fulfilled part of the minimum capital expenditure commitment as appended to Annex B.
ARTICLE 9
LICENSEE'S RIGHTS AND OBLIGATIONS


LICENSEE shall conduct Petroleum Operations diligently and in accordance with generally accepted practices of the international petroleum industry. LICENSEE shall ensure that all equipment and facilities used by LICENSEE comply with generally accepted engineering rules and standards, are of proper and accepted construction, and are maintained in proper working order.

LICENSEE shall take all reasonable measures within its control according to generally accepted standards in the international petroleum industry to prevent the loss or waste of Petroleum above or under the ground during the performance of Petroleum Operations.

During the conduct of the Petroleum Operations, LICENSEE will undertake, in particular, all reasonable measures in conformity with such standards in order to prevent:

(a) loss or waste of Petroleum;

(b) damage to Petroleum and water-bearing formations close to or adjacent to the Contract Area; and

(c) non-intentional introduction of water into Petroleum Reservoirs.

9.2. Environment and Safety.

(a) LICENSEE shall conduct Petroleum Operations in a safe and proper manner in accordance with Albanian Law and generally accepted international petroleum industry practice.

(b) In the event of an accident or other emergency, LICENSEE shall take all immediate steps to bring the emergency situation under control and protect against loss of life and loss of or damage to property and prevent harm to natural resources and the general environment.

(c) In the event AKBN reasonably determines that any works or installations erected by LICENSEE or any Petroleum Operations conducted by LICENSEE endanger or may endanger persons or third party property or cause pollution or harm the environment to an unacceptable degree, AKBN may require LICENSEE to take remedial measures within a reasonable period and to repair any damage to the environment.
(d) In the event AKBN deems it necessary, it may also require LICENSEE to discontinue Petroleum Operations in whole or in part until LICENSEE has taken such remedial measures or has repaired any damage.

(e) In the event that LICENSEE fails to take the remedial measures required by AKBN within the time period established therefore, AKBN may carry out such remedial measures for LICENSEE’s account.

(f) LICENSEE shall as soon as reasonably possible after the Effective Date submit for the approval from the Environmental Authority a report on the environmental baseline status of the Project Area as at the Effective Date. With each expansion of the Project Area, LICENSEE shall submit for the approval from the Environmental Authority a report on the environmental baseline status of the expanded portion of the Project Area as at the relevant date. LICENSEE shall not then be liable for any environmental damages incurred prior to the effective date of the approved environmental baseline study, and AKBN shall indemnify and hold harmless LICENSEE from any third-party claims with respect thereto.

9.3. Abandonment.

(a) At the election of AKBN, any portion or all of the equipment and immovable (including the wells) in the Contract Area, which are possessed by the LICENSEE and are exclusively used to conduct the Petroleum Operations, will become the property of AKBN on the termination or relinquishment of the Petroleum Operations with respect to the Contract Area or cancellation of this License Agreement in accordance with ARTICLE 24, Section 24.1. The Ministry and AKBN will be held responsible for all obligations arising following the date of their receipt of such property and will protect, indemnify and hold the LICENSEE harmless against costs and claims based on such obligations.

(b) Subject to ARTICLE 5, and notwithstanding Section 9.3(a), all equipment and facilities (including wells) used exclusively in the Petroleum Operations will be Abandoned, upon AKBN instruction and approval, in conformity with the generally accepted practices of the international petroleum industry. However, nothing contained in this License Agreement will oblige the LICENSEE to Abandon the unused equipment or facilities in the Petroleum Operations, and AKBN and the Ministry will protect, indemnify and hold the LICENSEE harmless against costs and claims based on such obligations.
(c) The Abandonment Costs will be included in the Petroleum Costs. In order to enable the LICENSEE to recover the Abandonment Costs, five years prior to the date set by the LICENSEE to Abandon all the Petroleum Operations in the Contract Area (or at such earlier times as may be reasonable to obtain such a recovery), the Abandonment Costs estimated by the LICENSEE and the time of their recovery in compliance with the following paragraph of this Section 9.3(c) shall be included in an Abandonment Plan and shall be submitted to AKBN for approval. AKBN will immediately consider the estimation of the LICENSEE and will not unreasonably delay or withhold its approval. If, after ninety (90) days of receipt of the LICENSEE's estimate, AKBN has failed to forward comments to the LICENSEE in writing, the estimated Abandonment Costs proposed by the LICENSEE will be deemed to have been approved by AKBN.

Upon approval of the estimate by AKBN, the estimated Abandonment Costs will be included in Petroleum Costs and recovered in accordance with ARTICLE 10 and at the time provided in the estimate. However, amounts equal to the estimated Abandonment Costs will be deposited in an interest bearing escrow account in a mutually accepted international financial institution in London, England, or in such other location as AKBN and LICENSEE may agree. Once the Abandonment Costs are covered, LICENSEE will withdraw its Abandonment Costs from the escrow account. Upon the termination of the Abandonment, any surplus funds in the escrow account after payment of the Abandonment Costs shall be released to LICENSEE and taxed under ARTICLE 14.

(d) In the event LICENSEE is comprised of more than one party, such parties may provide in the Petroleum Agreement for an allocation between or among them, by way of indemnity or otherwise, of LICENSEE's responsibility or liability for Abandonment Costs or claims and losses related to abandonment activities, including without limitation with respect to rehabilitation of the land in the immediate vicinity of an abandoned well. In the event of such allocation, each of such parties will be individually and jointly responsible for such obligations of LICENSEE only to the extent set forth in the Petroleum Agreement.

(e) Notwithstanding Section 9.3(c), in any other unpredictable case of voluntary or obligatory relinquishment or cancellation in accordance with ARTICLE 5 or ARTICLE 24 of this License Agreement and if there is not any or enough such funds as predicted under Section 9.3(c) LICENSEE shall afford all the necessary expenditures from its own sources and be held responsible in order to abandon Petroleum Operations in accordance with Sections 9.3(a) and (b).
ARTICLE 10
ALLOCATION OF AVAILABLE PETROLEUM


All Petroleum produced and saved, after deducting Deemed Production, and not used in Petroleum Operations or flared or injected ("Available Petroleum") will be delivered by LICENSEE at the Delivery Point.

LICENSEE shall have the right to use free of charge Petroleum produced from the Contract Area to the extent it considers necessary for Petroleum Operations under this License Agreement.

Subject to Section 10.3(b)(i), all Available Petroleum may be taken by LICENSEE, and the title shall pass to LICENSEE and allocated as set forth in the Petroleum Agreement, at the Delivery Point.

10.2. Cost Recovery. Non recoverable Costs

(a) LICENSEE shall recover all Petroleum Costs under this License Agreement out of one hundred (100) per cent of the Available Petroleum after deducting the Albpetrol Share (hereinafter referred to as "Cost Recovery Petroleum").

(b) To the extent that, in a Fiscal Year, costs and expenses recoverable exceed the value of the Cost Recovery Petroleum for such Fiscal Year, the excess shall be carried forward for recovery in the succeeding Fiscal Year or Fiscal Years until fully recovered, but will in no case be carried forward after the termination of this License Agreement.

(c) Costs and expenditures which are incurred as a result of Willful Default of LICENSEE or Operator shall not be considered as Petroleum Costs and shall not be recoverable pursuant to this Section 10.2.

(d) The following costs and expenses shall not be recoverable under this License Agreement:

- cost incurred prior to the Effective Date and related to the performance of the minimum work commitment, unless approved by AKBN; and
- costs incurred beyond the Delivery Point; and
- donations and contributions, unless approved by AKBN; and
- fines or penalties duly levied by an agency of the government of Albania and paid by LICENSEE.
- interest expenses.
10.3. Profit.

(a) The difference, if any, in any Fiscal Year between (i) the Available Petroleum after deducting the Albpetrol Share, and (ii) the Cost Recovery Petroleum taken by LICENSEE pursuant to Section 10.2(a), shall be the "Profit" and LICENSEE shall be liable to taxation as mentioned in ARTICLE 14, Section 14.1.

(b) (i) The portion of Available Petroleum allocated to the Petroleum Profit Tax in conformity with ARTICLE 14 shall be delivered to AKBN by LICENSEE at the Delivery Point. However, AKBN may require to LICENSEE, by written notice at least ninety (90) days prior to the commencement of each Fiscal Year or at any other time in accordance with ARTICLE 14, Section 14.2(b), the portion of the Petroleum Profit Tax to be paid in cash during such year. In such a case the balance of the entitlements not delivered in kind to AKBN shall be paid in cash by LICENSEE at the value as per Section 10.5.

(ii) All costs, risk and obligations incurred in respect of the portion of Available Petroleum allocated to the Petroleum Profit Tax and delivered to AKBN will pass to AKBN at the Delivery Point and AKBN and the Ministry will protect, indemnify and hold LICENSEE harmless against all such costs, risk and obligation. Prior to such delivery, all costs, risk and obligations regarding such portion of the Available Petroleum will be borne by the LICENSEE.

(iii) The portion of Available Petroleum to be allocated to the Petroleum Profit Tax shall be estimated for each Calendar Quarter and delivered in accordance with such estimates. Development Plans established under this License Agreement, and the LICENSEE’s proposals thereof, shall include detailed delivery procedures appropriate to the circumstances, including the consequences of AKBN’s failure to accept delivery.

10.4. Export.

Subject to Section 10.3(b)(i), LICENSEE may freely use, sell, export, realize or otherwise dispose of all Available Petroleum and keep the income accrued there from.

10.5. Valuation of Petroleum.
(a) Petroleum from the Contract Area will be valued in USD at the weighted average of the sale prices pursuant to Section 10.5(b) (where sales are made to a third party) and/or base prices determined pursuant to Section 10.5(c) (for non-third party sales).

(b) (i) The value of Petroleum for sales to third parties by a Party constituting LICENSEE will be determined at the price realized from F.O.B. point of sales by that Party for such Petroleum.

(ii) Sales to third parties referred to in Section 10.5(b)(i) will mean:

(aa) in respect of sales by a Party concerned other than Albpelog, sales to buyers who at the time of the sale are not Affiliates of the Party concerned or persons with whom the seller is not related in any manner which affects or is likely to affect the price paid, and the price of sale converted into money is the only consideration for the said sale;

(bb) regarding sales by Albpelog, sales to buyers who at the time of the sale are not Affiliates of Albpelog or persons with whom the seller is not related in any manner which affects or is likely to affect the price paid, and the price of sale converted into money is the only consideration for the said sale.

(c) (i) The base price of Petroleum used or otherwise possessed, besides sales to third parties, will be determined by AKBN and LICENSEE. AKBN and LICENSEE shall mutually select, as soon as possible, at least one reference Petroleum with similar gravity and quality to the Petroleum produced under this License Agreement, after taking account of quality and freight differences. Every petroleum chosen as a petroleum reference, shall be one that is sold in considerable amounts in arm’s length transactions, if suitable and capable of delivery into markets into which Petroleum produced under this License Agreement is also suitable and capable of delivery and has a spot assessment published weekly in Platt’s Oilgram Price Report.

(ii) The base price for each sale of Petroleum from the Contract Area shall be determined as the arithmetic average of the market estimation published in Platt’s Oilgram Price Report for each petroleum reference for the week prior to and for the week after the date on the voucher of quantity of Petroleum sold, plus or minus the respective quality and freight differentials between the
reference Petroleum and Petroleum produced under this License Agreement.

(iii) In the event AKBN and LICENSEE are unable to establish a base price in accordance with the procedures of Sections 10.5(c)(i) and 10.5(c)(ii), the base price shall be an average of all of the weekly Spot F.O.B. prices for OPEC crude oil contained in the Feeder Crude Table published on page 9 of Platt’s Oilgram Price Report every Monday. If Platt’s Oilgram Price Report is not published in a week when market estimation is required, then market estimation of the next succeeding issue will be applied.
ARTICLE 11
ASSOCIATED GAS

11.1. Reinjection and Use of Associated Gas.

LICENSEE may freely reinject Associated Gas into the subsurface structure of the Contract Area or use it for other Petroleum Operations under this License Agreement.

11.2. Flaring.

The LICENSEE may flare the Associated Gas which is not required for use in Petroleum Operations under Section 11.2 (i) if, in LICENSEE's opinion, such Associated Gas production is not economical and commercially viable or (ii) when it is in accordance with good Oilfield practice. However, if AKBN believes that such Associated Gas should be utilized, AKBN may take this Associated Gas free of charge and use it if the costs, risk and expenses for the installation of equipment, as required in order to deliver Associated Gas to AKBN, are borne by AKBN, and such delivery causes neither an interruption of Petroleum Operations nor a negative effect on LICENSEE's economic benefits.
ARTICLE 12
CUSTOMS EXEMPTION

According to the 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 12.04.94 ‘On the Approval with Amendments of the Decree No. 782 dated 22.02.94 “On the Fiscal System in the Petroleum Sector (Exploration-Production)”, the LICENSEE and its subcontractors engaged in carrying out Petroleum Operations under this License Agreement shall be permitted to import, and shall be exempt (with the exception of normal port and warehouse charges of general application in Albania for actual services rendered to LICENSEE) from Custom Duties as for the equipments, machineries, materials, etc, to be used in carrying out Petroleum Operations under this License Agreement.

The same exemption is valid even for the articles of personal use of the foreign employees of the contractor and its subcontractors, having relations with the Petroleum Operations.

Nevertheless the LICENSEE and its sub-contractors shall give priority to the goods and materials produced in Albania if these goods and materials are being offered under equally favorable conditions regarding the quality, price and availability, and in the quantities required.
ARTICLE 13
SUB-CONTRACTORS

13.1. The right to employ Sub-Contractors.

LICENSEE may perform the Petroleum Operations itself or by employing sub-contractors. LICENSEE shall not be relieved of any obligation under this License Agreement and Albanian Law by reason of employing sub-contractors.

13.2. Priority to Local Sub-Contractors.

In order to ensure the services required in the Petroleum Operations LICENSEE can employ sub-contractors, but the LICENSEE shall give priority to services performed by Albanian sub-contractors if such services are offered under equally favorable conditions regarding the quality, price and availability they may be offered by foreign sub-contractors.

13.3. Taxes and Duties.

LICENSEE's foreign contractors will not be responsible for Taxes and Duties to the extent that they apply, directly or indirectly, to the Petroleum Operations. LICENSEE's Albanian sub-contractors will not be discriminated against with regard to Taxes and Duties to the extent that they apply, directly or indirectly, to the Petroleum Operations.
ARTICLE 14
TAX ON PROFIT

14.1. Obligation to Pay Tax.

LICENSEE shall be liable to tax on Profit in conformity with Law No.7811, date 12.04.1994 “On approval of decree No.782, date 22.2.1994 “On the fiscal system in the hydrocarbons sector (Exploration-Production)”.

14.2. Payment.

(a) Pursuant to ARTICLE 10, Section 10.3(b)(i) and Section 14.2(b) LICENSEE shall pay the Petroleum Profit Tax in cash or in kind. AKBN shall annually notify LICENSEE in writing, no later than October 1st of each Fiscal Year, whether LICENSEE shall pay Albanian tax on profit for the immediately following Fiscal Year in cash or in kind. Should AKBN fail to notify LICENSEE as required by, and within the term specified in this Section 14.2, LICENSEE will make the payments for the relevant period in cash.

(b) LICENSEE shall pay tax on Profit for each Fiscal Year, whether in cash or in kind, as determined under Section 14.2(a), in accordance with the procedure set forth in Section 10.3(b)(iii).

(c) When required to make payments in kind, and when LICENSEE is comprised of more than one party, the aforesaid parties will each pay its tax on Profit in kind to AKBN at the Measurement Point, and AKBN will transfer this payment to the appropriate Albanian authorities. AKBN will provide LICENSEE with official documents for the full payment of the tax on Profit LICENSEE has paid on the basis of the Law mentioned by Section 14.1.

(d) At the beginning of each Calendar Quarter, the LICENSEE shall prepare and furnish to AKBN a production forecast setting out the total quantity of Available Petroleum that is estimated can be produced from the Contract Area in each of the next four (4) Calendar Quarters based on the production rate designed to maximize the ultimate recovery of Petroleum (Maximum Efficient Recovery) from the Contract Area in accordance with practices generally accepted in the international Petroleum industry. LICENSEE shall give due consideration to any comments or recommendations made by AKBN representatives in respect of such forecast. LICENSEE shall endeavor to produce each Calendar Quarter the forecasted quantity.
(e) For purposes of calculating the monetary value of the amount of Petroleum delivered to AKBN for payment of CONTRACTORS’ tax on Profit and the amount of tax on Profit payments in cash, as the case may be, for any Calendar Quarter, the value of Crude Oil shall be the weighted average price for said Calendar Quarter determined in accordance with ARTICLE 10.5.

(d) If LICENSEE is comprised of more than one party, the preceding clauses of this ARTICLE 14 and the clauses of ARTICLE 10 will apply separately with respect to each such party and its share of Available Petroleum as agreed between them and as made known to AKBN, and despite anything contained elsewhere in this License Agreement, according to this License Agreement each of such parties will not be individually responsible for LICENSEE's entire obligations under this ARTICLE 14, but will be responsible for such obligations only to the extent agreed between such parties and made known to AKBN. AKBN shall be entitled to rely upon the most recent notification of any allocation of such responsibility between parties comprising LICENSEE, notwithstanding any dispute between such parties with respect to such allocation. Any dispute between parties comprising LICENSEE with respect to any such allocation of responsibility shall not relieve LICENSEE or the parties of which it is comprised of the obligation to comply with the requirements of this ARTICLE 14, nor shall the existence of any such dispute defer LICENSEE’s obligation to make any payments required under this ARTICLE 14.
ARTICLE 15
BOOKS OF ACCOUNT, ACCOUNTING, AUDIT

15.1. Accounting Procedure.

(a) At the Effective Date Parties must have determined in good faith and agreed on an accounting procedure which will be in conformity with Albanian Law, Law Nr. 7661, dated January 19, 1993 “On Accounting” as amended time after time, this License Agreement and the standards of the international petroleum industry (the “Accounting Procedure”), and in conformity with Section 6.1(c)(iii) and it will become a constituent part of (and will be appended to) the Petroleum Agreement.

(b) LICENSEE shall maintain at its business offices in Albania books of account in accordance with the Law on Accounting, Accounting Procedure, accounting practices required under Albanian law and accounting practices generally used in the international petroleum industry and such other books and records as may be necessary to show the work performed under this License Agreement, including the amount of all Available Petroleum. Petroleum Operations in the Contract Area will be calculated in conformity with the Accounting Procedure. The clauses of this License Agreement will nevertheless predominate in case of a conflict or inconsistency with the Accounting Procedure.

(c) For all purposes of this License Agreement, the calculating operations will be translated into both the U.S. Dollar and the Albanian Leke. LICENSEE will be obliged to keep in Albania all of the accounting records which reflect all Petroleum Costs as well as the income arising from the sale or other disposition of Petroleum, in conformity with the practice of the international petroleum industry. If necessary, LICENSEE will keep separate accounting records in conformity with Albanian Law. Every disagreement on accounting submitted to arbitration pursuant to ARTICLE 25 will be considered in conformity with the practices of the international petroleum industry.

15.2. Records Provided to AKBN.

No less than forty five (45) days following the end of each Six Month Period, LICENSEE will provide to AKBN copies of the accounting records reflecting Petroleum Costs that LICENSEE incurred in the course of such Six Month Period. The accounting records provided by LICENSEE will be sufficiently detailed so as to permit AKBN to define the regularity of Petroleum Costs
incurred. In addition to the foregoing, LICENSEE will provide to AKBN copies of records of main Petroleum Costs as they are incurred.

15.3. AKBN Audit Right.

At the sole expense and cost of AKBN, AKBN shall have the right to inspect and audit the LICENSEE's books of account and accounting records with regard to the Petroleum Operations, but no more than once in a Fiscal Year, except as otherwise agreed with Operator. Such audit right will cease three (3) years after closure of such Fiscal Year. Any exception to the LICENSEE's accounting records shall be communicated to LICENSEE in written form within three (3) years from the date on which LICENSEE hands over his accounting records for such Fiscal Year, otherwise such accounting records shall be deemed to be correct and, thereafter, may not be subject to objection.

15.4. Declaration of Income and Losses.

LICENSEE will provide AKBN with a declaration on income and losses in a Fiscal Year no later than ninety (90) days following the end of such Fiscal Year in order to reveal its net Profit or loss with respect to Petroleum Operations for that Fiscal Year.
ARTICLE 16
RECORDS, REPORTS, INSPECTION AND CONFIDENTIALITY

16.1. Records and Reports.

(a) LICENSEE will keep in Albania accurate books and records in order to reflect Petroleum Operations in a way and in conformity with the practice of the international petroleum industry.

(b) LICENSEE shall record data on the quantities of Petroleum, water and sand produced every month from the Contract Area. Such data will be sent to AKBN, both in hard copy and electronic format, no later than thirty (30) days after the end of the month concerned. Daily and weekly statistics and reports on the production and extraction from the Contract Area shall be available at any reasonable time for examination by AKBN.

(d) LICENSEE will provide AKBN with data and information on Petroleum Operations in a way that is in conformity with the practice of the international petroleum industry, and any other data and information as reasonably requested by AKBN.

16.2. Samples.

LICENSEE will reserve and retain every sample and sludge obtained from the drilling of a well in the manner, place and time determined by AKBN according to the regulations in power. All samples obtained by LICENSEE for its own purposes will be considered subject to inspection by AKBN at any time that AKBN requests, within the official working time.

16.3. Sub-contractors.

LICENSEE will inform AKBN of the name and address of every sub-contractor and the identity of its authorized representative, and will provide AKBN with a copy of the contract within thirty (30) days after this sub-contractor has been employed by LICENSEE. In its reports on the basis of this ARTICLE 16 LICENSEE will include reports on the work of all sub-contractors. In conformity with Section 16.7 below, AKBN will keep the confidentiality of all contracts and information related to them, which the LICENSEE will provide according to this Section 16.3.

16.4. Export of Data.

Copies of the technical and periodical data can be exported only with the prior written permission of AKBN.
16.5. Access to the Contract Area.

LICENSEE will enable AKBN to be fully present in the Contract Area at any time with the right to observe the Petroleum Operations under way, and to inspect all the assets, records and data to be retained by the LICENSEE. The representatives and the employees of AKBN should abide by the regulations on the LICENSEE's safety standards when visiting the Petroleum Operations, and they will reasonably schedule such visits with LICENSEE so as not to hinder or interfere with the Petroleum Operations. LICENSEE will place at the disposal of such representatives of AKBN all the equipment, facilities, computers and instruments which are already installed and are necessary in order to accomplish their task of inspection and technical, economic and financial control.

16.6. Copy of the Data.

LICENSEE will provide AKBN with a copy, both in hard and electronic format, of all the data (including, but not limited to, the geological and geophysical reports, seismic recording tapes, record books and documents of wells, reports of development and production, any other and all information and interpretation of such data and all the other information or other work products belonging to LICENSEE or in possession of the LICENSEE’s Affiliates). LICENSEE will provide AKBN with extra copies of the above data and information when requested by AKBN at the latter's expenses.

16.7. Confidentiality.

The terms and conditions in this License Agreement are strictly confidential. During the term of this License Agreement and for five (5) years thereafter, the LICENSEE will never and in no circumstance render public the terms and conditions of this License Agreement or any data or information obtained in compliance with this License Agreement to a third party without the prior written approval of the AKBN, which approval will not be unreasonably withheld. The above will not be applied:

(a) to the extent that a Party that constitutes the LICENSEE is required by the laws, rules and regulations of a government or a government department or agency or stock market which has jurisdiction over this Party or its Affiliates, to disclose this information or data;

(b) to disclose to an Affiliate of a Party that constitutes the LICENSEE, provided that such Affiliate shall agree that the clauses of this Section 16.7 are binding before such disclosure is made;
(c) in case of a Party that constitutes the LICENSEE, concerning disclosure to a financial institution, bank, audit, auditing company, legal adviser, consultant or sub-contractor in the ordinary course of business of the Parties, including financing purposes, as long as the said financial institution, bank, audit, auditing company, legal adviser, consultant or sub-contractor submits, in writing, in a similar way, to maintain such information and data as confidential;

(d) to a bona fide prospective assignee of LICENSEE, on the condition that the prospective assignee similarly undertakes in writing to keep confidential the information and data disclosed;

(e) for purposes of enforcement of any provision of this License Agreement; or

(f) in the case of AKBN, to disclosure of the data related only to parts of the Contract Area which the LICENSEE has relinquished before such disclosure.

A Party may require that any damage resulting from the violation of this Section 16.7 be determined by arbitration.


During the Petroleum Operations, authorized representatives of AKBN will be entitled to inspect the devices, machinery and instruments used for measurement of the Petroleum. This inspection will be performed in a reasonable way so as not to hinder the safety and efficiency of Petroleum Operations. LICENSEE will offer the authorized representatives of AKBN reasonable assistance for the purpose of conducting this inspection. These representatives should abide by the LICENSEE's safety rules and standards when visiting the Petroleum Operations, and will reasonably schedule such visits with LICENSEE so as not to hinder the operations. LICENSEE will offer such representatives all privileges and facilities, within reason, accorded to its own employees in the field and will provide them, free of charge, the use of reasonable office space and of adequately furnished housing while they are in the field for the purpose of facilitating the objectives of this Section 16.8.

16.9. Title to Data.

With the termination of this License Agreement, LICENSEE will hand over to AKBN all original data. All such original data (including but not limited to seismic, geophysics, geologic, gravimetric, magnetometric, logging, drilling, production, construction, design, etc.) will be the property of the Albanian Government.
All intangible property in the possession of AKBN shall be provided to LICENSEE free of charge.
ARTICLE 17
TITLE TO AND SALE OF ASSETS

17.1 Reporting of Asset Acquisition.

The accounting book value of the assets acquired or created during each Fiscal Year shall be communicated by LICENSEE to AKBN within ninety (90) days after the end of such year.

17.2. Title to Assets.

Title to assets in possession of LICENSEE in connection with the Petroleum Operations shall, by virtue of this License Agreement, be transferred to AKBN at the time the costs of such fixed and movable assets have been fully recovered as Petroleum Costs in accordance with ARTICLE 10, Section 10.2, or at the time of termination or relinquishment of Petroleum Operations in accordance with ARTICLE 9, Section 9.3(a), whichever first occurs, all such assets being in good working order, normal wear and tear excepted. In any event, LICENSEE retains the right to full and free use of the aforementioned assets during the term of this License Agreement, including those installed before the Effective Date.

Notwithstanding the preceding paragraph, it is expressly agreed that any assets belonging to a third party or rented by LICENSEE for the purpose of Petroleum Operations, and any assets owned by LICENSEE's subcontractors or their Affiliates, will not become the property of AKBN.

17.3. Sale of Assets.

Any movable asset may be sold to a third party with the prior approval of AKBN, which approval shall not be unreasonably withheld. The proceeds from the sale of any asset shall be used by LICENSEE as a recovery of Petroleum Costs. Income to LICENSEE resulting from the use by third parties of assets which are charged as Petroleum Costs which become the property of AKBN shall be credited to Petroleum Costs during the term of this License Agreement.
ARTICLE 18
FINANCIAL RIGHTS

18.1. Payment and Bank Accounts.

LICENSEE will supply all the funds necessary for the Petroleum Operations in Albania under this License Agreement, in freely convertible currency from abroad or as generated from Petroleum Operations. LICENSEE shall have the right to buy local currency whenever required at the then best rate available from the National Bank or any other lawful bank for any purchaser of local currency in Albania. LICENSEE shall have the right to make payments directly abroad in foreign currencies for goods and services obtained abroad for Petroleum Operations under this License Agreement and to charge such payments in accordance with the provisions of this License Agreement without having first to transfer the funds for such payments to Albania. LICENSEE shall have the right to open in Albania bank accounts in freely convertible currency for LICENSEE's use in making payments under this License Agreement.

18.2. Buying of Foreign Currency.

For the purposes of the ARTICLE 15 LICENSEE shall be entitled to convert, through lawful banks, local currency (Leke) and any other convertible currency into USD at the then best rate available from the National Bank or any other lawful bank, and to freely remit such funds abroad. If such currency is not available, LICENSEE shall have the right to take the equivalent amount of Petroleum at the value as determined pursuant to ARTICLE 10. LICENSEE's right to convert local currency under this Section 18.2 is limited to currency conversions related to LICENSEE's activities under this License Agreement.

18.3. Payment of Contractors.

LICENSEE shall pay local contractors and local suppliers of materials, equipment, machinery, and consumables in Leke and in compliance with Albanian regulations. LICENSEE shall have the right to pay foreign experts and the staff it employs for the Petroleum Operations in USD or other foreign currencies.

18.4. Retention of Foreign Currency Abroad.

LICENSEE shall have the right to retain and freely transfer abroad all funds received for and as a result of Petroleum Operations, including the proceeds from the sale of Petroleum produced in the Contract Area.
18.5. Payments by AKBN.

AKBN, or its designated purchaser in Albania, shall pay LICENSEE abroad in USD for any portion of the Available Petroleum purchased from LICENSEE for local consumption, at the prices as calculated pursuant to ARTICLE 10.
ARTICLE 19
EMPLOYMENT AND TRAINING OF PERSONNEL

LICENSEE will select its management and employees according to its discretion, and shall determine the conditions of employment and the number of employees to be used for Petroleum Operations. However LICENSEE and its sub-contractors will, to the extent available, employ qualified Albanians to carry out the Petroleum Operations.

According to the 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 12.04.94 ‘On the Approval with Amendments of the Decree No. 782 dated 22.02.94 “On the Fiscal System in the Petroleum Sector (Exploration-Production)”, expatriate employees of LICENSEE and its sub-contractors will not be subject to Taxes and Duties on any income or profit realized by them, directly or indirectly, from their work in the Petroleum Operations, nor on the import or re-export of their personal or household belongings, which items may be freely imported and subsequently exported.
ARTICLE 20
OFFICE AND SERVICE OF NOTICE

20.1. Representatives.

(a) LICENSEE shall notify the AKBN of its address and of the name of its General Manager and alternative representative, all of whom should be technically and administratively competent individuals. The General Manager, or in his absence, the alternative representative, shall be entrusted with sufficient powers to represent and bind LICENSEE in all dealings with AKBN or third parties in Albania, to receive all legal notices to LICENSEE, and to comply with all lawful written directions given by AKBN or its representative under the terms of this License Agreement or under any existing or future laws or regulations not in conflict with this License Agreement.

(b) Any change in the address of LICENSEE's office or its authorized representatives shall be notified to AKBN at least ten (10) days prior to the effective date of the change.


Any notice or other communication required or permitted to be given pursuant to this License Agreement shall be in writing and may be given by delivering the same by hand at, or by sending the same by telex or facsimile to the relevant address, telex number or facsimile number set out below or such other address, telex number or facsimile number as any Party may, from time to time, notify for each of the other Parties in accordance with this Section 20.2. Any such notice, given as aforesaid, shall be deemed to have been given or received at the time of delivery if delivered by hand, at the time at which “answerback” is received if sent by telex, or at the time of confirmation if sent by facsimile. Copy of any notice sent by facsimile shall also be sent by post as soon as practicable.

AKBN: (Name) Chairman
      (Address) AKBN, Bloku Vasil Shanto, Tirane
      Tel & Fax: +355 4 257 117; +355 4 257 382

LICENSEE: (Name) Executive Director
          (Address) Albpotrol, Lagia 29 Marsi, Patos, FIER
          Tel & Fax: +355 381 3662; +355 34 220 52
ARTICLE 21
NATIONAL EMERGENCY OR OTHER TAKINGS


(a) In case of national emergency due to war or imminent expectation of war or internal causes, the Albanian Government may requisition all or a part of the Available Petroleum from the Contract Area and require LICENSEE to increase such production to the utmost possible level which will not result in damage to a Reservoir or otherwise reduce Petroleum recovery from the Contract Area.

(b) In all cases, such requisition shall not be effected except after inviting LICENSEE, by registered letter, return receipt requested, to express its views with respect to such requisition.

(c) The requisition of production shall be effected by Government Decree. Any requisition of a Field itself or any related facilities shall be effected in the way and form stipulated by laws in force.

(d) In the event of any requisition as provided above or in the event of any taking of LICENSEE's Petroleum and/or the related facilities, Ministry shall indemnify LICENSEE in full for the period during which such taking is maintained, including:

(i) all damages which result from such requisition or taking; and

(ii) full payment each month for all Petroleum extracted and saved at the amounts and prices as calculated pursuant to ARTICLE 10, Section 10.5, which Petroleum would otherwise be allocated to LICENSEE.

21.2. Payment.

Payment pursuant to this ARTICLE 21 shall be made to LICENSEE in USD remittable abroad.

21.3. Dispute Resolution.

The Ministry confirms that, through the execution of this License Agreement by AKBN on its behalf, the Albanian Government agrees that any dispute as to the amount of payments or other remedial measures owing from AKBN to
LICENSEE due to any requisition or other taking as discussed in this ARTICLE 21 shall be resolved in accordance with ARTICLE 25.

21.4. No Prejudice of Other Rights.

The above clauses are without any prejudice as to each right or other indemnity that any Person constituting LICENSEE may have under this License Agreement, Albanian Law or international law.
ARTICLE 22
ASSIGNMENT AND OBLIGATIONS

22.1. Assignment.

If, as a result of the application of the following paragraphs or some other form, Albpetrol will have less than forty (40) per cent of the interests under this License Agreement, then the clauses of Decree No. 782 on tax on income, will be affected.

(a) LICENSEE will not transfer to any Person, fully or partly, any of its rights, privileges, duties and obligations under this License Agreement without the prior written approval by AKBN, which approval shall not be unreasonably withheld or delayed. Any Person to whom such rights, privileges, duties and obligations are transferred shall be competent technically and financially, and such transfer shall otherwise comply with the requirements of Section 22.2.

(b) Notwithstanding Section 22.1(a), but subject to the requirements of Section 22.2, LICENSEE will be free to transfer its rights, privileges, duties and obligations under this License Agreement to an Affiliate following the expiration of sixty (60) days’ prior written notification to AKBN of such transfer, provided that LICENSEE provides a written guarantee of the full performance by such Affiliate of all duties and obligations under this License Agreement which are to be transferred. At any time subsequent to such transfer, the former LICENSEE which has made the transfer may request that AKBN no longer require the foregoing guarantee, and such request shall not be unreasonably refused by AKBN upon a showing that the Affiliate to which the transfer has been made independently possesses the technical and financial competence to fully perform the duties and obligations which have been transferred to it. Any transfer by LICENSEE to an Affiliate without the foregoing written guarantee from LICENSEE shall be subject to the requirements of Section 22.1(a).

22.2. Assignment Conditions.

With respect to the transfer of LICENSEE’s rights, privileges, duties and obligations under this License Agreement, the following conditions shall be met:

(a) LICENSEE’s duties and obligations shall be properly fulfilled until the date when the request for approval is made, or LICENSEE shall guarantee, jointly or independently, the accomplishment of any obligation of which has not been fulfilled as of such date;
(b) the Person to whom the transfer is to be made shall provide to AKBN reasonable evidence of its financial and/or technical competence; and

(c) the instrument of transfer should include provisions which clearly state that the LICENSEE is held responsible for all the commitments contained in this License Agreement and every written modification or amendment that may be effected until the date of transfer, and should further declare that LICENSEE does not have any claims for change of the terms of this License Agreement as a condition for the transfer. The instrument of transfer shall be subject to review and approval by AKBN, and AKBN shall not unreasonably withhold or delay such approval.

22.3. Taxes and Duties.

Any applicable Taxes and Duties will be payable by LICENSEE or by the Person to whom the transfer is made in connection with each transfer effected under this ARTICLE 22.

22.4. Encumbrances.

LICENSEE may encumber its rights under this License Agreement for the purpose of increasing of the financing of the Petroleum Operations, with the prior written consent by the AKBN (which consent shall not be unreasonably withheld or delayed).

22.5. Separate Application.

The provisions of this ARTICLE 22 will be applied separately in connection with each Party that comprises the LICENSEE.

22.6. Multiple Parties.

In the event that, subsequent to any transfer made pursuant to this ARTICLE 22, the LICENSEE is comprised of more than one party, each such party shall be jointly and severally responsible for LICENSEE’s obligations in accordance with Section 3.3(c).

22.7. Cease of Rights and Interest.

Upon transfer of all of its rights, privileges, duties and obligations to another Person in accordance with this ARTICLE 22, the LICENSEE making the transfer shall cease to have any rights under or interest in this License Agreement as a LICENSEE.
ARTICLE 23
FORCE MAJEURE


The failure of any Party to perform any obligation under this License Agreement, if occasioned by act of God or the public enemy, fire, explosion, perils of the sea, flood, drought, war, riot, hostilities not amounting to war, sabotage, accident, embargo, government priority, requisition or allocation, or other action of any government authority, or by interruption of or delay in transportation, shortage or failure of supply of materials or equipment from normal sources, labor strikes, or by compliance with any order or request of any governmental authority or any officer, department, agency, or committee thereof, or any other circumstance of like character beyond the reasonable control of a Party (herein, “Force Majeure”), shall not subject such Party to any liability to the other Party. In such event, the Party subject to the event of Force Majeure shall use its reasonable efforts to minimize the effects of such event and to overcome such event as soon as practicable.

23.2. Force Majeure Notice, Suspension of Obligations.

Except as otherwise provided herein, in the event that by Force Majeure a Party is rendered unable to carry out its obligations under this License Agreement, the Party shall give notice and all particulars of such event of Force Majeure in writing to the other Party within ten (10) days after the occurrence of the cause relied upon, and the obligations of each Party, so far as the same are affected by such Force Majeure, shall be suspended during the continuance of such event of Force Majeure.


In the event that, for an uninterrupted period of two (2) years following, and as a result of, an event of Force Majeure, any Party is unable to perform its obligations under this License Agreement, as a result of such event of Force Majeure and not of a breach of its obligations hereunder that is unaffected by such event of Force Majeure, this License Agreement may be terminated on the second anniversary of such event of Force Majeure by either LICENSEE or AKBN.
ARTICLE 24
BREACH OF LICENSE AGREEMENT

24.1. AKBN Right to Cancel.

AKBN will have the right to cancel this License Agreement in the event of the following:

(a) if LICENSEE knowingly submitted any false statements to AKBN where such statements were a material consideration for the conclusion and/or execution of this License Agreement;

(b) if LICENSEE transfers any right, privilege, duty or obligation to a Person contrary to the provisions of ARTICLE 22 hereof;

(c) if LICENSEE is adjudicated bankrupt by a court of competent jurisdiction;

(d) if LICENSEE does not comply with any final arbitrage decision;

(e) if LICENSEE intentionally extracts any mineral other than Petroleum or sulfur, in whatever form, produced in association with Natural Gas, not authorized by this License Agreement or without the authority of AKBN except such extractions as may be unavoidable using accepted petroleum industry practices, and which shall be notified to AKBN or its representatives as soon as possible;

(f) if LICENSEE commits and material breach of this License Agreement; and

(g) if LICENSEE repeatedly employs illegal means of applying pressure upon AKBN in order to hinder it from the regular performance of its duties.

(h) if LICENSEE unreasonably and repeatedly makes an intentional and conscious violation of Albanian Law, AKBN instruction or this License Agreement provisions.

If there is more than one entity constituting LICENSEE, and the action leading to termination as described above occurs or has been committed by only one such entity, this License Agreement shall not be terminated if the other entities or entity take appropriate action to remedy the situation with regard to this License Agreement.
24.2. Removal of Equipment.

In the event AKBN exercises its right to cancel this License Agreement under the provisions of this ARTICLE 24 because of a breach on the part of LICENSEE as mentioned in Section 24.1 above, such cancellation shall take place without prejudice to any rights which AKBN may have acquired from LICENSEE in accordance with the provisions of this License Agreement; and in the event of such cancellation, LICENSEE shall be allowed, subject to ARTICLE 9, Sections 9.2 and 9.3 and ARTICLE 17, Section 17.2, to remove its equipment from the Contract Area after settling all claims due to AKBN.

24.3. Notification to Repair.

If AKBN deems that one of the aforesaid clauses (other than ARTICLE 23) exists to cancel this License Agreement, AKBN shall give LICENSEE written notice personally served to LICENSEE informing LICENSEE that LICENSEE is in breach of one or more of the provisions of this License Agreement, and specifying the precise cause and nature of the breach. LICENSEE shall attempt to repair such breach within ninety (90) days. If such breach is not cured within the ninety (90) days, this License Agreement shall be terminated in conformity with terms and provisions herein.
ARTICLE 25
DISPUTES AND ARBITRATION

25.1. Negotiation.

Parties establish their relations in connection with this License Agreement on the principles of good will and good faith. All disputes arising out of or relating to this License Agreement shall be settled, if possibly, by friendly negotiation of the Parties. If settlement cannot be amicably reached within a period of thirty (30) days, or such other period as may be mutually agreed upon by the Parties, the dispute shall be decided by arbitration pursuant to Section 25.2 or Section 25.3, as applicable. With respect to a dispute involving a technical matter, the Parties may, pursuant to Section 25.4, mutually agree upon a sole technical expert to assist the Parties resolve such dispute.

25.2. Arbitration Between AKBN and Albpetrol Alone.

All disputes arising in connection with this License Agreement between AKBN and Albpetrol alone shall be finally settled by binding arbitration taking place in Tirana in accordance with Albanian legislation. Notwithstanding the foregoing, in the event LICENSEE consists of Albpetrol and a foreign partner and such foreign partner gives notice in writing to AKBN and to Albpetrol that, in its reasonable judgment, a dispute between Albpetrol and AKBN affects such foreign partner's interests under this License Agreement, any such dispute, whether having just arisen or already the subject of pending arbitration under this Section 25.2, shall be resolved in accordance with Section 25.3. In such event, at the request of either Albpetrol or AKBN the arbitration under Section 25.3 shall include a determination of whether the foreign partner was reasonable in its assertion that the dispute affected its interests. If it is determined that such assertion was not reasonable, the arbitrage award shall include a determination of the costs of the arbitration which are in excess of those which would have been incurred by Albpetrol and AKBN had such arbitration taken place or been concluded under Section 25.2, and the foreign partner shall be responsible for the payment of all such excess costs.

25.3. Arbitration Between AKBN, Albpetrol and Foreign Partner(s).

(a) All disputes arising in connection with this License Agreement between AKBN, Albpetrol and foreign partner(s) shall be finally settled under the Rules of Conciliation and Arbitration of the International Chamber of Commerce ("ICC"). Said arbitration shall be carried out by, in the case of mere technical matters, one (1) arbitrator and, in the case of all other disputes, three (3) arbitrators, appointed by the ICC Court of Arbitration
in accordance with said Rules and their interpretation by said Court. In that regard, the Parties hereto waive the right each to nominate an arbitrator and as of now accept the appointment made by the ICC Court as it deems best. Consistent with the Parties desire to have an expedited arbitration proceeding the appointment of the arbitrator(s) shall occur within ten (10) days from the date in which a Party herof delivers to the other a written notice requesting that the dispute be submitted to arbitration, which written notice shall clearly state the issue in dispute, and any other relevant fact. Notwithstanding the foregoing, no arbitrator shall be Albanian or a national of the country of LICENSEE, nor shall any arbitrator be related to, employed by or have (or had) a substantial or ongoing business relationship with any Party hereto or any of their respective Affiliates. Shortened time limits for the procedural aspects of the proceeding, including but not limited to discovery and submission of prehearing briefs, shall be imposed, in consultation with the Parties, by the arbitrator(s).

(b) The arbitration proceeding shall take place in Zurich, Switzerland and shall be conducted in the English language. All documents submitted therein and the award of the arbitral panel shall also be in English.

(c) Clauses of this License Agreement related to arbitration will continue to be in force despite the termination of this License Agreement.

(d) The Ministry and AKBN irrevocably waive any right of immunity or any right to object to this arbitration agreement, any arbitration award, any judgment regarding the enforcement of an arbitration award of the execution of any arbitration award against or in respect of any of its property whatsoever it now has or may acquire in the future in any jurisdiction.

(e) The Party that loses an arbitration decision shall pay all expenses incurred in connection with such arbitration, including, but not limited to, the fees and expenses of the arbitrator(s). All such costs and expenditures shall not be considered as Petroleum Costs and shall not be recoverable under this License Agreement.

(f) Each Party hereto agrees that any arbitral award rendered against it pursuant to this Section 25.3 may be enforced against its assets wherever they may be found and that a judgment upon the arbitral award may be entered in any court having jurisdiction thereof.
25.4 Expert

(a) Any matter in dispute between AKBN and LICENSEE which in terms of this License Agreement is to be referred to an Expert, shall be referred for determination by a sole expert.

(b) The Expert shall be given terms of reference which shall be mutually agreed between the Parties. The Expert shall be appointed by agreement between AKBN and LICENSEE. If AKBN and LICENSEE fail to appoint the expert within thirty (30) days after agreement on the terms of reference has been reached, either Party may apply to the International Chamber of Commerce Centre for Technical Expertise, Paris, France, for appointment of an expert in accordance with its Rules. The Expert shall make his determination in accordance with the provisions contained herein based on the best evidence available to him. Representatives of AKBN and LICENSEE shall have the right to consult with the Expert and furnish him with data and information, provided the Expert may impose reasonable limitations on this right. Any such data and information has to be submitted to the other Party to the dispute at the same time. The Expert shall be free to evaluate the extent to which any data, information or other evidence is substantiated or pertinent. The Expert's fees and expenses, and the costs associated with an appointment, if any, made by the International Chamber of Commerce Centre for Technical Expertise, shall be borne equally by AKBN and LICENSEE. The Expert's determination shall be final and binding upon the Parties, subject to any manifest error in his determination.
ARTICLE 26
GOVERNING LAW


(a) Subject to Section 26.1(b), the activities of LICENSEE in performing the Petroleum Operations shall be governed by and conducted in accordance with the requirements of the Albanian Law.

(b) All questions with respect to the interpretation or enforcement of, or the rights and obligations of the Parties under, this License Agreement and which are the subject of arbitration in accordance with ARTICLE 25:

(i) shall be governed by the laws of the Republic of Albania in the case of a dispute subject to resolution under ARTICLE 25, Section 25.2; or

(ii) shall be governed by the laws of England in the case of a dispute subject to resolution under ARTICLE 25, Section 25.3.

[Signature]

64
ARTICLE 27
APPROVAL OF THE LICENSE AGREEMENT

27.1. Approval.

This License Agreement shall be binding upon each of the Parties hereto from the date when the Council of Ministers issues a decision approving the Petroleum Agreement, reached on the basis of this License Agreement, between LICENSEE and a foreign company selected in accordance with the Petroleum Law. The date the decision approving the Petroleum Agreement carries shall be the "Effective Date".

[Signature]

65
ARTICLE 28
MISCELLANEOUS

28.1. Further Assurances.

Each of the Parties agrees to do and perform all such acts, matters and things as
are appropriate or as may be necessary to give full effect to the provisions and
intention of this License Agreement.


None of the provisions of this License Agreement shall be considered as waived
by any Party unless such waiver is given in writing by such Party. No such
waiver shall be a waiver of any past or future default or breach of any of the
provisions of this License Agreement, unless expressly set forth in such waiver.

28.3. Severability.

If any of the provisions of this License Agreement is found to be void or
unenforceable, such provision shall be deemed to be deleted from this License
Agreement and the remaining provisions of this License Agreement shall
continue in full force and effect provided that the Parties shall, in such event,
then meet to negotiate in good faith and seek to agree a mutually satisfactory
valid and enforceable provision to be substituted for the provision so found to
be void or unenforceable.

28.4. Complete Agreement; Amendment.

This License Agreement, including the Annexes hereto, constitutes the entire
agreement among the Parties and supersedes all agreements, representations,
warranties, statements, promises and understandings, whether oral or written,
with respect to, but only to the extent of, the subject matter hereof, and no Party
hereto shall be bound by nor charged with any oral or written agreements,
representations, warranties, statements, promises or understandings not
specifically set forth in this License Agreement, including the Annexes hereto.
This License Agreement may not be amended, altered or modified except by a
writing signed by each Party.

28.5. No Agency.

Except as expressly provided herein, no provision of this License Agreement
shall be construed as authorizing one Party to act as an agent of another Party
and no Party shall represent, through words or conduct, that it is an agent of any
other Party. Each of the Parties is, in all of their capabilities hereunder, acting
under this License Agreement as an independent contractor.
28.6. Prevailing Language.

(a) This License Agreement is originally executed in the Albanian language and, subject to Section 28.6(b), such Albanian language version shall govern in all matters relating to this License Agreement.

(b) In the event that, pursuant to an assignment made in accordance with ARTICLE 22, LICENSEE will be comprised of Alpetrol and a foreign partner, an English language translation of this License Agreement shall be appended to the instrument of transfer. By execution of such instrument of transfer, the parties to such instrument of transfer (including AKBN acting in accordance with its authority under this License Agreement to approve such transfer) shall agree that such English language version is an accurate translation of this Albanian language version, and that such English language version shall prevail over the Albanian language version in all matters related to this License Agreement, including any amendments, notices and communications, for so long as LICENSEE includes such foreign partner. In such event, all information, notices and communications to be given or delivered hereunder shall be in both the Albanian and the English languages, or accompanied by an English translation.

28.7. Counterparts.

This License Agreement has been executed in three (3) counterparts, each of which is an original and all of which shall constitute one and the same agreement.

28.8. Insurance.

LICENSEE shall maintain a reasonable level of insurance coverage relative to the risks inherent in Petroleum Operations under this License Agreement, if such insurance is required by AKBN in accordance with Albanian Law. Such insurance may be acquired by LICENSEE from Albanian or international insurance institutes. Once LICENSEE enters into such insurance contracts to cover all or any portion of the aforementioned insurance requirements, if any, LICENSEE shall provide AKBN with sufficient information describing the insurer's financial capabilities to provide the relevant coverage.

[SIGNATURE PAGE FOLLOWS]
IN WITNESS WHEREOF, this License Agreement has been executed by the duly authorized representatives of the Parties on the date first written at the beginning of this License Agreement.

On behalf of

THE MINISTRY OF PUBLIC ECONOMY AND PRIVATIZATION,

By: ______________________
Name: ______________________
Title: Chairman

Sh. A. "ALBPETROL"

By: ______________________
Name: YLLI GJONI
Title: General Director

SHERWOOD INTERNATIONAL PETROLEUM LTD.

By: ______________________
Name: GEOFFREY A. CARRINGTON
Title: PRESIDENT & CEO
ANNEX A

CONTRACT AREA

Aneks A

Zona e Kontrates dhe Koordinatat

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ANNEX B

EVALUATION PERIOD MINIMUM WORK PROGRAM

1. The Evaluation Period will last twenty-four (24) months from the Effective Date with the option for six months extension upon written request of Contractor and Albpetrol to AKBN.

2. Re-activation or re-completion of ten (10) wells in the Kucova Oilfield. Contractor will re-enter and clean out the existing well bores and replace or refurbish the production tubing as necessary. It is contemplated that new pumps of the progressive cavity type will be placed in the well bore appropriately sized as per the productive capability of the well. The pumps will be connected to small generator sets which will activate if the electrical power supplied to the pump is interrupted for any reason, thus ensuring 24 hour operation of the pump. The work to be done on each well shall be at the sole discretion of the Contractor.

3. Equip and tie-in ten (10) wells that are currently not producing but are capable of production. In addition to the work contemplated above these wells will be reactivated after all the available information for each well has been evaluated and the well judged to be a suitable candidate for reactivation. Reactivation of the well may include the shutting off of perforated zones that are no longer producing oil and the re-perforating of existing producing zones and/or the perforating of new zones judged capable of producing oil. The work to be done on each well shall be at the sole discretion of the Contractor.

4. Evaluate the production, reserves and reservoir performance of the Kucova Oilfield and provide a further engineering report.

5. Review and report on the application of Sand Control Technology.

6. Review gas conservation and utilization within the Plan of Development.

7. Production and/or pressure test selected wells.

8. Carry out an update of the existing reserves certification.

9. Increase water disposal capacity by adding an additional water disposal well, if necessary.

10. Evaluation of existing and future infrastructure for development and commercialization of production from the Kucova Oilfield for internal and possible export markets.