

Petroleum Agreement

**For the Development and Production of Petroleum in
KUCOVA FIELD, ALBANIA**

dated *04. September, 2007*

between

ALBPETROL SH. A.

and

SHERWOOD INTERNATIONAL PETROLEUM LTD.

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This Petroleum Agreement is entered into and delivered at Tirana, Republic of Albania, this 04 day of September, 2007

BETWEEN

Albpetrol Sh. A., a company organised and existing under the laws of the Republic of Albania (hereinafter referred to as "Albpetrol")

ON THE ONE PART

- and -

Sherwood International Petroleum Ltd., a company organised and existing under the laws of Alberta, Canada, and having a branch registered in the Republic of Albania (hereinafter referred to as "Contractor")

ON THE OTHER PART

PREAMBLE

WHEREAS, petroleum operations in the Republic of Albania are governed by Petroleum Law No.7746 dated 28.7.1993 as amended by Law No.7853 dated 29.7.1994 and by Law No. 8297 dated 04.03.1998 jointly cited as the Petroleum (Exploration and Production) Law 1993, by Decree No. 782 dated 22.2.1994 on the Fiscal System in the Petroleum Sector (Exploration-Production) as amended by Law No.7811 dated 12.4.1994 on the Approval of Decree No.782 on the Fiscal System in the Hydrocarbons Sector (Exploration-Production) as well as by Decision No.445 dated 3.9.1993 on Setting Up the National Petroleum Agency (the aforementioned legal documents are collectively referred to as "Petroleum Law"); and

WHEREAS, in the Republic of Albania the state is the only owner of all natural resources within its territory and offshore areas and has the right to explore, develop, extract, exploit and utilise natural resources; and

WHEREAS, the National Agency of Natural Resources (hereinafter referred to as "AKBN") on behalf of the Ministry of Economy, Trade and Energy has the exclusive right to enter into a License Agreement with Albpetrol to perform all the Petroleum Operations described in this Agreement; and

WHEREAS, Albpetrol is a party to the License Agreement dated 07/06/2007 and

WHEREAS, Contractor, Albpetrol and the AKBN have executed the Instrument of Transfer, conditional upon this Agreement becoming effective; and

WHEREAS, the Parties make this agreement to record the terms upon which Contractor will join Albpetrol in the conduct of the Petroleum Operations and become a party to the above mentioned License Agreement, and for related purposes; and

WHEREAS, Contractor has the adequate capital, technical and commercial capacity, personnel and organizational capacity required to successfully complete the operations specified below; and

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WHEREAS, Contractor agrees to undertake its obligations stipulated hereinafter as a contractor with respect to Petroleum Operations as defined in this Agreement; and

WHEREAS, the Parties each have the right, power and authority to enter into this Agreement; and

WHEREAS, Contractor and Albpetrol intend this Agreement to record the terms upon which Contractor and Albpetrol will conduct Petroleum Operations in the Kucova Field and become a party to the License Agreement, and for related purposes,

NOW, THEREFORE, the Parties hereto agree as follows:

Article 1 Definitions

In this Agreement, words in the singular include the plural and vice versa, and except where the context otherwise requires the following terms shall have the meaning set out as follows:

1.1 "*Abandonment*" means the final abandonment through decommissioning, removal, and/or disposal of wells and facilities used for Petroleum Operations and the rehabilitation of the land about 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.

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

1.3 "*Abandonment Plan*" means a plan prepared by Contractor or anyone designated by and on behalf of Contractor for the Abandonment of the wells, facilities and equipment used for the Petroleum Operations.

1.4 "*Accounting Procedure*" means the procedures and reporting requirements set forth in Annex B to this Agreement which forms and integrated and indivisible part hereof.

1.5 "*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.

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- 1.6 "*Agreement*" means this Petroleum Agreement together with Annexes as may be amended from time to time by mutual agreement of the Parties and approval of the Council of Ministers, for the evaluation, development and production of Petroleum in the Contract Area.
- 1.7 "*Albpetrol Operations Zone*" means that portion of the Contract Area which is outside of the Project Area.
- 1.8 "*Albpetrol Share*" has the meaning given in Article 9.2.
- 1.9 "*Annual Program*" means an itemized statement of the Petroleum Operations to be carried out within or with respect to the Project Area and the time schedule thereof.
- 1.10 "*Associated Gas*" means Natural Gas found in association with Crude Oil if such Crude Oil can by itself be commercially produced.
- 1.11 "*Available Petroleum*" means the amount of Petroleum (less any amount used in Petroleum Operations, flared or injected, and less any Deemed Production to which Albpetrol is entitled under this Agreement) produced, saved and metered from the Project Area at the Measurement Point.
- 1.12 "*Barrel*" means a quantity of Crude Oil equal to 158.987 litres at standard atmospheric pressure of 1.01325 bar and temperature of sixty degrees Fahrenheit (60°F).
- 1.13 "*Baseline Study*" has the meaning given in Article 20.4.
- 1.14 "*Budget*" means an estimate of revenues and expenditures in respect of an Evaluation Program or an Annual Program.
- 1.15 "*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.
- 1.16 "*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.
- 1.17 "*Contractor*" means Contractor and its respective successors or permitted assignees according to Article 16.
- 1.18 "*Contractor's Revenues*" means the cash proceeds received by Contractor as a result of the sale of Cost Recovery Petroleum and Profit Petroleum, as more fully described in the Accounting Procedure.
- 1.19 "*Contract Area*" means the geographical area in Albania, which is more specifically (horizontally and vertically) identified in Annex A.
- 1.20 "*Contract Year*" means a period of one year commencing with the Effective Date or any anniversary of the Effective Date.
- 1.21 "*Cost Account*" means the set of accounts maintained by Contractor in accordance with the provisions of the Accounting Procedure, showing the charges, credits and other transactions accruing in respect of the Petroleum Operations.

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- 1.22 "*Cost Recovery Petroleum*" has the meaning given in Article 9.2.
- 1.23 "*Cost Recovery*" has the meaning given in Article 9.3.
- 1.24 "*Crude Oil*" has the same meaning ascribed to this term in the Petroleum Law.
- 1.25 "*Deemed Production*" has the meaning given in Article 3.5.1.
- 1.26 "*Delivery Point*" means the following points agreed to by the Parties and approved by the AKBN, or any other points which are agreed by the Parties and approved by AKBN:
- 1.26.1 as to Crude Oil taken by Contractor for export sale, FOB the relevant Albanian port,
 - 1.26.2 as to Crude Oil taken by Contractor for sale to ARMO or otherwise (but not for export sale), at the point of delivery under that crude oil sales contract, and
 - 1.26.3 as to Crude Oil delivered to Albpetrol pursuant to Article 3.5 or Article 9, at a point to be determined by mutual agreement between Contractor and Albpetrol.
- 1.27 "*Development and Production Area*" means the area as defined in the Development Plan in accordance with Article 7.2.1 or a revised Development Plan. Once designated, the Development and Production Area shall extend to all depths within its lateral boundaries.
- 1.28 "*Development and Production Period*" means, in relation to the Development and Production Area, the period specified in Article 3.
- 1.29 "*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 Project Area prepared by Contractor and approved in accordance with Article 7, including any amendments thereto.
- 1.30 "*Effective Date*" means the date on which the Council of Ministers in accordance with the Petroleum Law issues a decision approving this Agreement.
- 1.31 "*Environment*" means the components of the earth and includes:
- 1.31.1 air, land and water;
 - 1.31.2 all layers of the atmosphere;
 - 1.31.3 all organic and inorganic matter and living organisms; and
 - 1.31.4 the interacting natural systems that include components referred to in sections 1.31.1 to 1.31.3.
- 1.32 "*Environmental Damages*" means contamination and all loss, injury, death, damage or other event of any kind whatsoever, and howsoever or whenever occurring, to or in relation to the Environment (including but not limited to any loss or damage to real or personal property) in respect of which any liability or obligation has accrued or may in the future accrue to Contractor, its Affiliates, any predecessor to Contractor or its Affiliates or

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Subsidiaries, or any of them, to incur any remediation, reclamation, clean-up or other expenses, or to compensate any person or the estate of any individual, whether by reason of any equitable, common law, statutory or civil liability or obligation or remedy available, whether applicable by reason of the ownership of Contract Area or responsibility for any operations conducted on or in respect thereof at any time in the past, present or future, and whether or not resulting from negligence, nuisance or otherwise, which loss, injury or damages shall include but not be limited to all damages, awards, expenses and costs (including legal costs on a solicitor and its own client basis) incurred in any way relating to such matters.

1.33 "*Evaluation Area*" means the square area 150.00 m North, East, South and West centered on each Evaluation Well, provided that this area does not interfere with the operation of nearby Albpetrol wells.

1.34 "*Evaluation Period*" means the period during which Contractor will conduct the Evaluation Program, which period is described in Article 3.2.

1.35 "*Evaluation Program*" means a program of work to be performed by Contractor as specified in Annex D.

1.36 "*Evaluation Well*" means any well in respect of which activity will be occurring during the Evaluation Program.

1.37 "*Baseline Study*" means the Full Environmental Benchmark Survey for the Rehabilitation of the Kucova Oilfield, Albania by Contractor.

1.38 "*Expert*" means an individual or an entity who is not a resident or citizen of Albania nor has been employed by Contractor, Albpetrol or AKBN and who by training and extensive experience, has highly developed knowledge in the technical area wherein lies the dispute or disagreement which he or she is to resolve and who is appointed pursuant to the provision of Article 19.10.

1.39 "*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.

1.40 "*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.

1.41 "*License Agreement*" means the License Agreement dated 07/06/2007 granted by the Ministry and the AKBN to Albpetrol governing Petroleum Operations in the Contract Area, and to which Contractor will become a party upon execution and registration of the Instrument of Transfer attached as Annex E.

1.42 "*Licensee*" means both Albpetrol, who is a party to the License Agreement, and Contractor, who will become a party to the License Agreement upon execution and registration of the Instrument of Transfer attached as Annex E,

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1.43 "*Losses and Liabilities*" means, in relation to a party, all losses, costs, damages and expenses which that party suffers, sustains or incurs, including but not limited to legal fees and disbursements on a solicitor and its own client basis.

1.44 "*Measurement Point*" means the point mutually determined by AKBN and the Parties, 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 the License Agreement and this Agreement, the volumes of Petroleum. The Measurement Point may or may not be the same as the Delivery Point.

1.45 "*Ministry*" means the ministry in charge of petroleum activity in the Republic of Albania.

1.46 "*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.

1.47 "*New Evaluation Area*" has the meaning set forth in Article 3.4.6.

1.48 "*New Evaluation Program*" has the meaning set forth in Article 3.4.6.

1.49 "*AKBN*" means the agency established by the Government of Albania responsible for implementation of the Hydrocarbon Law, as defined in Decision No 547 dated 9 August 2006 by the Council of Ministers.

1.50 "*Operator*" means Contractor or, if Contractor comprises more than one person, such Person duly appointed by the Parties for executing and implementing the Petroleum Operations in the name of, for the account of, and under the responsibility of Contractor.

1.51 "*Party*" or "*Parties*" means Albpetrol or Contractor or both of them.

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

1.53 "*Petroleum*" means Crude Oil, Condensate or Natural Gas.

1.54 "*Petroleum Operations*" all or any of the operations including Abandonment contemplated or authorized by the License Agreement and operated by the Parties 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 the License Agreement and this Petroleum Agreement.

1.55 "*Petroleum Costs*" means all of the costs and expenditures borne and incurred by Contractor in or in connection with the conduct of Petroleum Operations pursuant to this Agreement, determined and accounted for in accordance with the Accounting Procedure, but does not include Taxes.

1.56 "*Project Area*" means:

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

1.56.2 during the Development and Production Period, that portion the Contract Area which is designated from time to time as Development and Production Area; and

1.56.3 if Contractor undertakes a New Evaluation Program, that portion of the Contract Area which is designated from time to time as the New Evaluation Area.

1.57 "*Profit Petroleum*" has the meaning given in Article 9.3

1.58 "*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 its political or administrative sub-divisions (or agencies).

1.59 "*US \$*" or "*US Dollars*" means United States Dollars, being the legal currency of the United States of America.

Article 2

Scope of Agreement, Annexes to the Agreement

2.1 This Agreement is an evaluation, development and production operations arrangement and it shall cover Petroleum Operations in the Contract Area. The rights and obligations of the Parties under this Agreement shall take effect from the Effective Date. Albpetrol shall notify Contractor of the date of the approval of the Council of Ministers within five (5) working days of its occurrence.

2.2 Subject to the terms and conditions of this Agreement and Article 2.3 and 2.4, Albpetrol hereby irrevocably appoints and constitutes Contractor solely and exclusively to conduct Petroleum Operations in the Project Area during the period specified herein, and to expand the Project Area in accordance with this Agreement to include any lands within the Contract Area.

2.3 In accordance with the Section 3.2 of the License Agreement, the Parties have 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 except the cases that are subject to a right of requisition in the event of an emergency to supply or contribute to the supply of the local market.

In accordance with the Section 3.2 of the License Agreement, and notwithstanding Article 2.3(a), (b), (c), and (d), any other contractor may conduct petroleum operations for

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development and production of Petroleum outside of the Contract Area in accordance with any agreement reached between a contractor and AKBN. The Ministry, Albpetrol, AKBN and the contractor shall ensure that those petroleum operations will not interfere and unreasonably prevent the normal development of Petroleum Operations of the Contractor in the Contract Area, nor shall Contractor unreasonably prevent or interfere with the petroleum operations of such other contractor.

2.4 Albpetrol has the right to conduct petroleum operations for its own account on any portion of the Contract Area which has not been designated as the Project Area until such time as Contractor requires Albpetrol to cease such operations. Any part of the Contract Area may be selected by Contractor to become the Evaluation Area, a New Evaluation Area or the Development and Production Area in accordance with this Agreement (Annex F), regardless of whether Albpetrol is conducting petroleum operations in that area.

2.5 Contractor shall be responsible for the execution of Petroleum Operations only in the Project Area in accordance with the provisions of this Agreement, separately from Petroleum Operations conducted by Albpetrol alone in the Albpetrol Operations Zone, if any. Accordingly, the rights, interests, obligations, liabilities and indemnities of the Parties in the Contract Area shall be allocated as follows:

Party	Interest in Project Area	Interest in Albpetrol Operations Zone
Albpetrol	0 %	100 %
Contractor	100 %	0 %

Without prejudice to Contractor's position as a contractor hereunder, the extent and character of such work to be done by Contractor shall be subject to the review and approval of Albpetrol to the extent provided for in this Agreement. Notwithstanding anything to the contrary in the License Agreement or this Agreement:

2.5.1 each of the Parties is responsible severally and not jointly for the rights, interests, obligations, liabilities and indemnities of Licensee as set forth in this Agreement; and

2.5.2 Contractor shall be solely responsible under the License Agreement and this Agreement for Petroleum Operations conducted in the Project Area and not elsewhere, and Albpetrol shall be solely responsible under the License Agreement and this Agreement for Petroleum Operations conducted in the Albpetrol Operations Zone and not elsewhere, including without limitation:

2.5.2.1 obligations pertaining to Abandonment;

2.5.2.2 paying costs and expenses of Petroleum Operations;

2.5.2.3 indemnities;

2.5.2.4 the preparation of the Development Plan and Annual Programs and Budgets;

2.5.2.5 the calculation and payment of Petroleum Profit Tax;

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2.5.2.6 compliance with operational and environmental standards;

2.5.2.7 the preparation of baseline studies;

2.5.2.8 the preparation of books, records and accounts of Petroleum Costs, Cost Recovery Petroleum and revenues;

2.5.2.9 force majeure and termination for force majeure; and

2.5.2.10 breach and termination provisions.

Contractor will indemnify Albpetrol, its Affiliates, directors, officers, employees and agents from and against any Losses and Liabilities arising from any breach by Contractor of this Article 2.5.2, and Albpetrol will indemnify Contractor, its Affiliates, directors, officers, employees and agents from and against any Losses and Liabilities arising from any breach by Albpetrol of this Article 2.5.2.

2.5.3 The Parties agree that:

2.5.3.1 any encumbrances granted by a Party may apply only in respect of its interest in the Contract Area; and

2.5.3.2 the rights to free use of Petroleum produced from the Contract Area for Petroleum Operations applies only to the Petroleum produced from and Petroleum Operations conducted in respect of the Parties' respective interests in the Contract Area.

2.6 In performing the Petroleum Operations, Contractor shall provide all technical and financial requirements and employ the methods, procedures, technologies and equipment generally accepted in the international petroleum industry which respect safety, the environment, employees and the reservoir characteristics

2.7 Contractor shall carry out Petroleum Operations hereunder at its sole risk and cost, unless this Agreement expressly provides otherwise.

2.8 Unless otherwise stated herein or otherwise agreed in writing, Contractor shall receive no compensation for its services nor any reimbursement of expenditures under this Agreement, except for the share of Petroleum from the Project Area to which it may become entitled under Article 9.

2.9 During the term of this Agreement, all Petroleum production from the Evaluation Area and any Development and Production Area shall be divided between Albpetrol and Contractor in accordance with the provisions hereof.

2.10 This Agreement does not award Contractor ownership rights over Petroleum *in situ* in the Project Area. However, Contractor shall have the right to receive in kind, dispose of and export freely its share of Petroleum from the Project Area in accordance with the provisions of this Agreement. Contractor shall become a party to the License Agreement by the execution of the Instrument of Transfer, which has been executed by Albpetrol and Contractor simultaneously with execution of this Agreement.

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

Article 3 **Term**

3.1 Unless sooner terminated in accordance with the terms hereof, this Agreement shall remain in effect during the Evaluation Period and any Development and Production Period.

3.2 The Evaluation Period commences on the Effective Date and continues until the last day of the month which is twenty-four months including a period of six (6) months for Albpetrol to provide Contractor with all the necessary data from the Kucova Field and a subsequent eighteen (18) month period for Contractor to implement the work program, following the Effective Date. Contractor shall conduct the Evaluation Program during the Evaluation Period. If Contractor and Albpetrol are of the opinion that a longer period is required to complete the Evaluation Program or evaluate results of the activities and IOR/EOR Methods conducted in the Evaluation Program, then upon written request and approval of AKBN, the Evaluation Period shall be extended for a further period of up to six months, which written request must be delivered at least forty five (45) days prior to the expiration of the Evaluation Period.

3.3 Contractor may elect to terminate this Agreement upon completion of the Evaluation Period, by written notice to Albpetrol, with a copy to AKBN. If Contractor so terminates this Agreement, all wells, operations and assets (moveable and immoveable) will be returned to AKBN or its nominee and Contractor shall be released from all liabilities associated with this Agreement.

3.4 Development Plan

3.4.1 At any time before the end of the Evaluation Period, Contractor may propose a Development and Production Area for (i) the Evaluation Area, and (ii) such other portion of the Contract Area which, based on the experience with the Evaluation Program, Contractor believes may be capable of economic Petroleum Operations. Contractor shall submit a Development Plan for the Development and Production Area. The Development Plan shall be prepared on the basis of sound engineering and economic principles in accordance with generally accepted international petroleum industry practice.

3.4.2 The Development Plan shall be submitted to the AKBN for approval. The AKBN may request changes to the Development Plan, and Contractor may amend the Development Plan in response to such requests with the approval of the Parties.

3.4.3 If the AKBN does not approve the Development Plan notwithstanding that it reflects current engineering and economic principles of international petroleum industry practices, either of the Parties may submit the dispute for expert determination in accordance with the provisions of the License Agreement.

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- 3.4.4 During the period in which the Development Plan is waiting approval by the AKBN or being revised by Contractor in response to requests of the AKBN, Contractor may continue operations in the Evaluation Area and the proposed Development and Production Area similar to those being conducted during the Evaluation Program, provided that Contractor is not required to make any capital expenditures in excess of its one and one half million United States Dollar (\$1,500,000 US) capital expenditure commitment under the Evaluation Program.
- 3.4.5 At any time during the implementation of the Development Plan, Contractor may propose a revision to the Development Plan. Such revisions may include an expansion of the Development and Production Area to include areas contiguous to any part of the existing Development and Production Area to be evaluated from time to time through IOR/EOR Methods which Contractor proposes to undertake under the proposed revision to the Development Plan, subject to the limitation that the Development and Production Area may not be further expanded after the fifth anniversary of the initial approval of the Development Plan without the consent of Albpetrol and AKBN. Each revision to the Development Plan shall be prepared on the basis of sound engineering and economic principles in accordance with generally accepted international petroleum industry practice, and shall follow an approval process similar to those for the original Development Plan.
- 3.4.6 During the implementation of the Development Plan, Contractor may propose and design for approval by the Advisory Committee new evaluation areas within the Contract Area but outside of any existing Development and Production Area for a new Evaluation Period, subject to the limitation that the Project Area may not be further expanded after the fifth anniversary of the initial approval of the Development Plan without the consent of Albpetrol and AKBN. Upon AKBN approval, which approval will not be unreasonably withheld, such new Evaluation Period will have an initial term of twenty-four (24) months from commencement, which shall include an initial six (6) months to gather all the necessary data from the Kucova Field and the subsequent eighteen (18) months to implement the work program 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 Contractor's assessment. The New Evaluation Program shall be appended to Annex D. 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.
- 3.4.7 During the new Evaluation Period the Contractor shall carry out the minimum work program and capital expenditure commitments as described and detailed in the New Evaluation Program and appended to Annex D, 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, Contractor has failed to carry out in accordance with this Agreement,

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in whole or in part, the minimum work program and capital expenditure commitments as appended to Annex D, then Contractor shall pay to AKBN an amount equal to the non fulfilled part of the minimum capital expenditure commitment as appended to Annex D.

3.5 In conducting the Evaluation Program, the Development Plan and any New Evaluation Program, Contractor shall be entitled to take over any existing wells, assets and leases in the Project Area, without compensation where Albpetrol is entitled to such wells, assets and leases, except as provided in this clause.

3.5.1 Any Albpetrol wells in the Contract Area may be taken over by Contractor in accordance with the takeover procedure described in Annex F. The "Deemed Production" shall be calculated as follows. For the wells taken over by Contractor, the Deemed Production shall be eighty percent (80%) of the average of net crude oil production for the six (6) months prior to the day on which the well is taken over for operational purposes by Contractor with a ten percent (10%) annual decline rate applied to the Deemed Production thereafter.

3.5.2 Where Contractor takes over any existing wells, assets and leases and Albpetrol is not entitled to same, Contractor shall be responsible for compensation to third parties to obtain such rights.

3.6 Without limiting the rights of Parties under Article 12, in the event that Contractor is prevented or impeded from carrying on Petroleum Operations or from gaining access to the Contract Area for reasons relating to the protection of personnel, subcontractors, or property, or for problems of importing equipment and not within Contractor's control, Contractor's obligations hereunder shall be suspended from the time of the commencement of such impairment until the impairment has been alleviated. As soon as practicable thereafter, the Parties shall meet and agree upon a period of time which shall be added to the Evaluation Period and any Development and Production Period, which period of time shall be equivalent to the period of time necessary to restore Petroleum Operations to the status which they occupied at the time of the impairment.

3.7 Contractor may elect to terminate this Agreement at any time during the Development and Production Period, by written notice to AKBN. Termination shall take effect ninety days after delivery of the notice. If Contractor so terminates this Agreement, all wells, operations and assets (moveable and immoveable) will be returned to Albpetrol and Contractor shall be released from all liabilities associated with this Agreement other than obligations under this Agreement which have arisen prior to termination, including without limitation any environmental and abandonment obligations under this Agreement and the License Agreement. If Contractor cancels and surrenders the Petroleum Agreement during a Fiscal Year of the Development and Production Period to which an approved Annual Program and Budget applies, Contractor shall pay to AKBN the amount of any unexpended capital expenditures contemplated under the Annual Program and Budget for that Fiscal Year.

3.8 The Development and Production Period shall commence on the date that the Development Plan is approved by Albpetrol and the AKBN and shall continue until the expiration of twenty-five (25) years from the date of approval of such plan. Upon the expiration of the Development and Production Period, the Parties have the right in accordance with the License Agreement to request from AKBN an extension of the

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Development and Production Period for successive periods of five (5) years on the same conditions as provided for herein.

Article 4 Relinquishments

4.1 Contractor may at any time relinquish voluntarily its rights hereunder to conduct Petroleum Operations in all or any part of the Contract Area. No relinquishment shall relieve Contractor from its unfulfilled minimum commitments for an Evaluation Program and any Annual Program and Budget under Article 3.7 and Article 6.1.

4.2 At least thirty (30) days in advance of the date of a relinquishment under Article 4.1, the Parties shall notify AKBN of the portions of the Contract Area to be relinquished.

4.3 Upon the date on which any relinquishment is to take effect upon AKBN's approval or the termination of this Agreement, Contractor shall have no further rights or obligations in regard to the relinquished area.

4.4 It is acknowledged that, as a result of relinquishments pursuant to this Article 4, the Development and Production Area may consist of more than one non-contiguous area.

Article 5 Conduct of Operations

5.1 Advisory Committee

5.1.1 For the purpose of the proper implementation of this Agreement, the Parties shall establish an advisory committee ("Advisory Committee") within forty-five (45) days from the Effective Date. The Advisory Committee shall have the tasks as set out in Article 5.1.5.

5.1.2 Albpetrol and Contractor shall each appoint three (3) representatives and alternate representatives to form the Advisory Committee, and each Party shall designate one of its representatives as a chief representative. All the aforesaid representatives shall have the right to present their views on the proposals at meetings held by the Advisory Committee and cast their votes when a decision is to be made. The chairman of the Advisory Committee shall be the chief representative designated by Contractor and the vice-chairman shall be the chief representative of Albpetrol. The chairman of the Advisory Committee shall preside over meetings of the Advisory Committee. Each representative shall have one vote at all meetings of the Advisory Committee. The Parties may, according to need, designate a reasonable number of additional attendees who may attend but shall not be entitled to vote at the Advisory Committee meetings. Each Party shall advise the other of the names of its representatives within thirty (30) days of the Effective Date and shall give written notice of replacement of any such representatives. Alternate representatives will deputise for their principal representatives in the absence of the latter ones.

5.1.3 In order to be valid, any decisions required to be taken by the Advisory Committee must have the affirmative vote of at least four (4) representatives present at the meeting either in person or by conference telephone, it being

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understood that no such decisions shall be valid unless a total of at least four (4) representatives, including those of both Albpetrol and Contractor are present at the meeting, either in person or by conference telephone. Decisions taken by the Advisory Committee shall be recorded and signed on behalf of both Albpetrol and Contractor at the end of any such meeting of the Advisory Committee.

Contractor shall prepare minutes of the meeting within thirty (30) days thereof and dispatch it for approval to the Parties. Failure by a Party to respond within twenty-one (21) days after receipt shall be deemed to be an approval by such Party.

- 5.1.4 The Advisory Committee shall meet at least twice each Fiscal Year and whenever required by Albpetrol or by Contractor, subject to a fifteen (15) days' prior notice to its members, which notice shall include the agenda for the meeting.

Decisions may be made by the Advisory Committee by way of written resolution signed by all four representatives or their respective alternates.

- 5.1.5 The Advisory Committee shall have the following functions and responsibilities under this Agreement:

5.1.5.1 to provide the opportunity for and to encourage the exchange of information, views, ideas and suggestions regarding plans, performance and results obtained under the Agreement;

5.1.5.2 to review principles established by Contractor from time to time governing various aspects or activities of the Petroleum Operations and to propose, for this purpose, procedures and guidelines as it may deem necessary;

5.1.5.3 to review and approve Annual Programs and Budgets proposed by Contractor for the Development and Production Period, and propose revisions in accordance with Article 8.3;

5.1.5.4 to review Annual Programs and Budgets proposed by Contractor for the Evaluation Period and any New Evaluation Period;

5.1.5.5 to review and approve Development and Production Areas and the Development Plan that Contractor, on behalf of the Parties, plans to propose to AKBN for its approval;

5.1.5.6 to cooperate towards implementation of the Annual Programs and Budgets and Development Plan; and

5.1.5.7 such other functions as entrusted to it by the Parties.

- 5.1.6 However, it is hereby agreed among the Parties that the following decisions are reserved and made solely by Contractor:

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5.1.6.1 the location, drilling, testing, completion, take-over of wells for re-completion of any well, either for the production of Petroleum or for other Petroleum Operations, including without limitation the programs, methodology and technology to be utilised in carrying out the above activities;

5.1.6.2 Annual Programs and Budgets during the Evaluation Period; and

5.1.6.3 the areas for relinquishment under the Agreement.

5.2 Operator

5.2.1 If Contractor comprises more than one Company, Contractor shall select one Company to act as Operator which shall conduct Petroleum Operations in the Project Area in accordance with good international oilfield practice. Where the Contractor is comprised of a single entity, that entity is the Operator.

5.2.2 The nomination of a successor Operator shall be subject to the prior approval of Albpetrol which shall not be unreasonably withheld, provided that no such approval is required and only written notification has to be given if the successor Operator is a Company or is an Affiliate of a Company at such time.

Article 6 Evaluation

6.1 Contractor shall carry out the Evaluation Program. If, at the expiration of twenty-four (24) months which shall include a period of six (6) months to gather all the necessary data from the Kucova Field and a period of eighteen (18) months to implement the work program, plus an extension of up to six (6) months as granted to Albpetrol and Contractor by the AKBN (approval for such extension not to be unreasonably withheld), following the Effective Date, Contractor has failed to expend United States Dollars one and one half million (US\$1,500,000) in conducting the activities comprising the Evaluation Program, then Contractor shall pay to AKBN an amount equal to the non-fulfilled part of the minimum financial commitment of the Evaluation Program, as specified in Annex D.

In the event of delay in the payment of the indemnity to be paid to AKBN in application of this Article 6.1, 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 Contractor, at the annual discount rate of the London Inter Bank Offered Rate (LIBOR) plus one percent.

6.2 If Albpetrol agrees that Contractor may undertake work in respect of the Contract Area prior to the Effective Date and with the approval of AKBN, such past costs so incurred shall be treated as Petroleum Costs and the work shall be in (partial) fulfilment of Contractor's obligations under Article 6.1.

6.3 Contractor has the right to spend more than US\$1,500,000 and expand the Evaluation Program to include additional activities and work over additional wells within the Project Area if it elects to do so during the Evaluation Period.

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6.4 Contractor has the right to terminate this Agreement without penalty during the Evaluation Phase providing the minimum US\$1,500,000 expenditure commitment has been spent.

Article 7
Development and Production

7.1 The Development Plan shall be prepared on the basis of sound engineering, environmental and economic principles in accordance with generally accepted international petroleum industry practice.

7.2 The Development Plan shall contain but not limited to:

- 7.2.1 details and the area extent of the proposed Development and Production Area;
- 7.2.2 proposals relating to the spacing, drilling and completion of wells, technologies, the production and storage installations, and transportation and delivery facilities required for the production, storage and transportation of Petroleum;
- 7.2.3 proposals relating to necessary infrastructure investments;
- 7.2.4 a production forecast and an estimate of the investment and expenses involved;
- 7.2.5 an estimate of the time required to complete each phase of the Development Plan;
- 7.2.6 the proposed Delivery Point and Measurement Point.

Albpetrol may require Contractor to provide such further information as is readily available and as AKBN may reasonably need to evaluate the Development Plan for any Development and Production Area. Such request for information has to be made within forty-five (45) days after receipt of the Development Plan and Contractor shall use reasonable efforts to respond within forty-five (45) days.

7.3 If AKBN does not request in writing any changes to the Development Plan within forty-five (45) days after submission of the Development Plan or revised Development Plan as approved by the Parties, the Plan or amended Plan shall be deemed approved by AKBN.

7.4 If AKBN requests any changes to the Development Plan, then the Parties and AKBN shall meet within thirty (30) days of receipt by Contractor of AKBN's written notification 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 thirty (30) days, should be incorporated in the Development Plan which shall then be deemed approved by AKBN.

If no agreement is reached, either Party may submit the dispute for expert determination in accordance with the License Agreement.

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If Contractor 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 this Article 7.4.

7.5 After the Development Plan has been approved, Contractor shall submit to Advisory Committee at least ninety (90) days before the end of each Fiscal Year a detailed statement of the Annual Program and Budget for the subsequent Fiscal Year in relation to the Development and Production Area. For the first full Fiscal Year and the portion of the Fiscal Year preceding the first full Fiscal Year, a detailed statement of the Annual Program and Budget therefore shall be submitted to AKBN within sixty (60) days after the date of approval of the Development Plan under Articles 7.3 or 7.4. Each such annual detailed statement of the Annual Program and Budget therefore shall be consistent with the Development Plan approved under Article 7.3 or as revised pursuant to Articles 7.4 and 7.6.

7.6 The Parties may at any time submit to AKBN for approval revisions to any Development Plan or Annual Program and Budget. These revisions shall be consistent with the provisions of Article 7.1 and shall in the case of revisions to the Development Plan be subject to the approval procedure set forth in Articles 7.3 and 7.4, and in the case of the Annual Program and Budget to the review set forth in Article 5.1.5.3.

7.7 Where Albpetrol and Contractor agree that a mutual economic benefit can be achieved by constructing and operating common facilities (including, but not limited to, roads, pipelines and other transportation, communication and storage facilities), Albpetrol and Contractor shall use reasonable efforts to reach agreement with each other and if necessary with other producers on the construction and operation of such common facilities, investment recovery and charges to be paid.

Article 8

Annual Programs and Budgets

8.1 Unless otherwise provided herein, Contractor shall commence the conduct of Petroleum Operations as described in Annex D thirty (30) days after Albpetrol advises Contractor that the Petroleum Agreement has been approved by the Council of Ministers. The procedure for transfer of assets, operations and responsibilities associated with such wells and related facilities shall be as described in Annex F.

8.2 Within sixty (60) days after the Effective Date the Parties shall submit to AKBN an Annual Program and Budget setting forth the Petroleum Operations which Contractor proposes to conduct (or has already commenced conducting) during the Evaluation Period. Subject to Article 6.3, such Annual Program and Budget shall be consistent with the Evaluation Program, but at Contractor's option, it may include a greater amount of activities and capital budget than the Evaluation Program. The approval of neither Albpetrol nor the Advisory Committee is required for any Annual Program and Budget during the Evaluation Period. Contractor may require the amendment of the Annual Program and Budget during the Evaluation Period so long as such revised Annual Program and Budget includes at least the activities and capital budget of the Evaluation Program. A copy of each revised Annual Program and Budget shall be given by Contractor to Albpetrol and AKBN.

8.3 At least ninety (90) days before the end of the first Fiscal Year after the approval of the Development Plan and every Fiscal Year thereafter, or such other times as agreed by the Parties, Contractor shall prepare and submit to the Advisory Committee for approval a

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proposed Annual Program and Budget for the next succeeding Fiscal Year. Each Annual Program and Budget shall be consistent with the Development Plan. Should the representatives of Albpetrol in the Advisory Committee wish to propose a revision as to certain specific features of the said Annual Program and Budget, it shall within twenty-one (21) days after receipt by the Advisory Committee thereof so notify Contractor, specifying in reasonable details its reasons therefore. Promptly thereafter, the Parties will meet and endeavour to agree on the revision proposed by representatives of Albpetrol. Contractor shall give due regard to the proposals of the representatives of Albpetrol, provided that Albpetrol shall be required to approve any Annual Program and Budget that is consistent with the Development Plan, and any revisions proposed to a Annual Program and Budget that are inconsistent with the Development Plan need not be accepted by Contractor. In the event of a dispute arising in respect of the approval of a Annual Program and Budget, the matter will be referred for Expert determination in accordance with Article 19.10. Prior to the resolution of any such dispute, Contractor's proposed Annual Program and Budget shall be deemed approved for the purposes of interim operations pending resolution.

8.4 The Parties agree to direct the Advisory Committee to approve the Annual Program and Budget in a timely fashion so as to allow the delivery of the proposed Annual Program and Budget to the AKBN within the time period established in the License Agreement.

8.5 It is recognised by the Parties that the details of an Annual Program may require changes in the light of existing circumstances and as such Contractor may make such changes provided they do not change the general objective of the Annual Program. Any revision to the Annual Program that involves an acceleration of the activities contemplated by the Development Plan, or that expand the activities contemplated by the Development Plan, shall be approved by the Advisory Committee. A copy of such revised Annual Program shall be provided to AKBN for approval in accordance with the License Agreement.

8.6 It is recognised by the Parties that the expenditures in the Budget may require changes in light of existing circumstances and as such Contractor may make such changes provided that the general objective of the Annual Program has not changed. Any revision to the Budget that involves an acceleration of the activities contemplated by the Annual Program or Development Plan, or that expand the activities contemplated by the Annual Program or Development Plan, shall not require the approval of the Advisory Committee.

8.7 It is further recognised that in the event of emergency requiring immediate action, Contractor may take all actions it deems appropriate to protect its interests and those of its employees and any costs so incurred shall be included in the Petroleum Costs. An emergency condition will exist when life, health, or property are endangered by existing conditions or potential conditions such as blowouts, fires, explosions, collisions, severe weather conditions, acts of war, vandalism or sabotage.

Article 9

Production sharing and Cost Recovery

9.1 Contractor shall provide all funds required to conduct Petroleum Operations under this Agreement. Contractor shall have the right to use free of charge Petroleum produced from the Project Area to the extent it considers necessary for Petroleum Operations under this Agreement which funds will be forecast by the Annual Work Program & Budget.

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9.2 Available Petroleum shall be measured at the Measurement Point and allocated as set forth in this Agreement. Available Petroleum shall be allocated between Albpetrol (the "Albpetrol Share") and Contractor ("Cost Recovery Petroleum") based on the R Factor as defined below, as set forth in the following table:

R Factor	Albpetrol Share	Cost Recovery Petroleum
R < or = 1.0	1%	99%
1.0 < R < or = 1.5	2%	98%
1.5 < R < or = 2.0	3%	97%
R > 2.0	4%	96%

The Albpetrol Share will be in oil and delivered in nature in contract area.
The R Factor is calculated as follows:

$$R_N = \frac{A_K}{B_K}$$

where:

R_N means the R Factor for Calendar Quarter N.

A_K means the sum of Contractor's Revenues minus profit petroleum tax accrued in Calendar Quarter N and all preceding Calendar Quarters following the Effective Date.

B_K means the sum of Petroleum Costs in Calendar Quarter N and all preceding Calendar Quarters following the Effective Date.

Any re-adjustment in entitlement for the current Calendar Quarter will be spread over the next Calendar Quarter in a way that the Party which is entitled to additional Available Petroleum for the current Calendar Quarter will lift the readjustment quantity in equal monthly proportions in addition to its regular entitlements. If the production in any month is insufficient to supply the re-adjustment quantity, then the unsupplied entitlement shall be carried forward and spread equally over the remaining months of the next Calendar Quarter.

The determination of the R Factor shall first be done for the first Calendar Quarter following the Effective Date.

9.3 Contractor shall be entitled to the Cost Recovery Petroleum to recover all Petroleum Costs borne by it inside or related to the Project Area ("Cost Recovery"). Petroleum Costs shall be as described in Annex B.

After Contractor has recovered all of its Petroleum Costs from the Cost Recovery Petroleum, the remaining Cost Recovery Petroleum shall be "Profit Petroleum". As its reward for the risk of conducting the Petroleum Operations under the Petroleum Agreement, Contractor shall be entitled to 100% of the Profit Petroleum.

Article 10 Employment

10.1 Contractor 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 Contractor and its sub-contractors will, to the extent

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available, employ qualified Albanians to carry out the Petroleum Operations, giving priority to Albpetrol personnel, if their professional skills, knowledge and expertise fit with operational requirements. Otherwise, Contractor shall be free to employ such expatriate professionals as it deems necessary. Labour relations, as regards employment contracts, and the rights and obligations of Albanian employees will be according to Albanian labour law.

Article 11 Title to Assets

11.1 Tangible Property

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

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 Contractor as a recovery of Petroleum Costs.

11.1.2 Notwithstanding Article 11.1.1 above, it is expressly agreed that any assets belonging to a third party or to Affiliates and rented by Contractor for the purpose of Petroleum Operations, and any assets owned by Contractor's subcontractors or their Affiliates, will not become the property of AKBN.

11.1.3 Income resulting from the use by third parties of items which become the property of AKBN pursuant to Article 11.1.1 shall be credited to the Cost Account during the term of this Agreement.

11.2 Intangible Property

11.2.1 *Original Data*

Upon the termination of the License Agreement, Contractor 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.

Contractor shall supply Albpetrol this data on a current basis.

However, Contractor, or its assignees as defined by Article 1.17 and Article 16, will be entitled to retain and freely use copies of such data, and consequently will be granted a perpetual, non-exclusive and royalty-free licence to use and sub-licence the use of said data.

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11.2.2 *Interpreted Data*

Interpreted Data based on Original Data referred to in section 11.2.1 above, whether created by Contractor, by its Affiliates or by third parties upon remuneration by Contractor, shall remain the sole property of Contractor and shall be considered, as confidential information as per Article 23 of the Agreement.

However Albpetrol is entitled to receive copy of all the final reports concerning the above data and to use it solely for its own needs.

Article 12 Rights and Obligations of the Parties

12.1 As of the Effective Date, Contractor will be entitled to use:

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 Agreement; and
- (iii) Production of Petroleum in the Project Area,

but without materially adversely affecting the operations of Albpetrol outside of the Project Area;

- (e) 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 in the Contract Area on the Effective Date of this Agreement, but (unless otherwise agreed with the supplier) subject to payment, on a non-discriminatory basis, at reasonable cost for electricity, water, oil and gas used;
- (f) 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
- (g) all technical data available to AKBN pertaining to the Contract Area provided that Contractor shall reimburse AKBN for all reasonable cost incurred for the preparation of such data transfer and the cost of copying such data.

12.2 Contractor shall have the right during the term hereof to freely lift, process, transport, dispose of and export its share of Petroleum and retain abroad the proceeds obtained there from.

12.3 Contractor shall provide all necessary funds and shall bear all costs and expenses required in carrying out Petroleum Operations under this Agreement except to the extent as is otherwise provided in this Agreement.

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12.4 Contractor shall endeavour to achieve the efficient use and safe development for and production of Petroleum and optimise the ultimate economic recovery of Petroleum from the Project Area.

12.5 Contractor shall ensure that all materials, equipment and facilities used in Petroleum Operations comply with generally accepted engineering norms, are of proper construction and are kept in optimal working order.

12.6 Contractor shall purchase or lease all equipment, materials, services and supplies required to be purchased or leased pursuant to the Annual Programs.

12.7 Contractor shall keep Albpetrol informed in the course of all activities to be performed under this Agreement and provide Albpetrol:

with weekly reports of estimated Petroleum production;

(h) monthly reports on the Petroleum production and Petroleum Operations; and

(i) quarterly reports on Petroleum Costs.

12.8 Contractor shall permit representatives of Albpetrol to inspect at all reasonable times (but upon reasonable notice) the Petroleum Operations under this Agreement, provided such inspection does not unreasonably hinder the Petroleum Operations.

12.9 Contractor shall maintain full original records in its Albania office of all technical Petroleum Operations under this Agreement for a period not less than twenty-four months and subsequently Contractor has the right to store the original records in an alternative location. Costs so incurred are fully chargeable as Petroleum Costs.

12.10 Albpetrol and AKBN shall ensure that Contractor has use of the railways, roads, highways, water, land surface, timber, electricity, sanitary structures and other infrastructures in Albania, at commercially reasonable rates and on a non-discriminatory basis, in conformity with Albanian legislation, so as to be able:

to perform the Petroleum Operations in compliance with this Agreement; and

to produce, transport, export and sell Petroleum in or from Albania as provided in this Agreement and the Petroleum Law.

12.11 Albpetrol and AKBN shall ensure that Contractor 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 Agreement, and that any compensation which Contractor may be required to pay, pursuant to Article 10(2) of the Petroleum Law, shall be reasonable and non-discriminatory.

12.12 Albpetrol and AKBN shall make available to Contractor all technical data available to Albpetrol or AKBN pertaining to the Contract Area provided that Contractor shall reimburse Albpetrol or AKBN for all reasonable cost incurred for the preparation of such data transfer and the cost of copying such data.

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12.13 Contractor will reserve and retain every sample and sludge obtained from the drilling of a well in the manner, place and time determined by AKBN with special regulations. All samples obtained by Contractor for its own purposes will be considered subject to inspection by AKBN at any time that AKBN requests, within the official working time. Subject to the foregoing, Contractor shall be free to export cores and cuttings for analyses abroad. Contractor shall keep samples of such cores and cuttings equivalent in size and quality in Albania.

12.14 Contractor shall be free to export originals of technical data records abroad, subject to AKBN approval, and provided a monitor or a comparable record is maintained by Contractor or Albpetrol in Albania.

12.15 Any Associated Gas produced in association with Crude Oil from the Project Area shall be available to Contractor for use in Petroleum Operations, free of charge. Any such quantities not taken by Contractor may be flared.

12.16 Any Associated Gas produced from the Project Area, to the extent not used in Petroleum Operations hereunder, may be flared in accordance with current environmental regulations if the processing or utilization thereof is not economical and is not technically and commercially viable to re-inject Associated Gas. Such flaring shall be permitted to the extent that gas is not required to effect the economic recovery of Crude Oil by secondary recovery operations, including re-pressuring and recycling.

12.17 The parties acknowledge that the nature of their respective rights and obligations under this Agreement with respect to the Contract Area is such that unitization of areas that are entirely within the Contract Area is not required to protect the respective rights of the Parties or to preserve or optimize the recovery of Hydrocarbons from the Contract Area.

Article 13 Taxation

13.1 Contractor 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)", and amended by Law No.8297, date 04.03.1998, and in conformity with the License Agreement.

13.2 Other than those Taxes and Duties set forth in Article 13.1 and Article 14.1, Contractor and its respective Affiliates, and expatriate personnel shall be exempted from Albanian Taxes and Duties, with respect to all activities relating to the Petroleum Operations to the extent so provided in Albanian Law. This exemption does not include normal port, warehouse and postal charges and other similar customary charges of general application for actual services rendered.

13.3 Expatriate employees of Contractor 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 goods, which items may be freely imported and subsequently exported.

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Article 14 Imports and Exports

14.1 Contractor and its subcontractors engaged in carrying out Petroleum Operations under this 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 import obligations as for the equipments, machineries, materials, etc, to be used in carrying out Petroleum Operations under this License Agreement.

14.2 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.

14.3 Nevertheless Contractor 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 favourable conditions regarding the quality, price and availability, and in the quantities required.

Article 15 Books of Account, Currency, Exchange Control and Payments

15.1 Contractor shall maintain at its office in Albania books of account in accordance with the Accounting Procedure and with accounting practices generally used in the international petroleum industry and in conformity with Albanian Law, and such other books and records as may be necessary to show the work performed under this Agreement, including the amount of all Available Petroleum.

15.2 Contractor shall keep its books of account and accounting records including the Cost Account in US Dollars and Albanian Leke.

15.3 Contractor shall maintain a US \$ bank account and a bank account in Albanian Leke. All payments from the US \$ account made in Currencies other than the US \$ shall be recorded in the books in US \$ at the exchange rate in effect at the time of transaction. Valuation made in currencies other than the US \$ shall be recorded in the books in US \$ at the exchange rates in effect at the time the valuation was made. The rate of exchange for such valuations shall be established by using the average of the buying and selling rates of the currency for the day on which the transaction occurred as quoted in the Financial Times (London Edition) or such other quoted rates as may be mutually agreed. For transactions occurring on dates when there is no exchange rate published, the exchange rate shall be established by reference to the rate published on the immediately preceding publishing date.

All Albanian Leke payments shall be translated to US \$ at the average official buying rate as issued by the Central Bank of Albania for the month in which the expenses/credits are recorded in the books.

Neither Albpetrol nor Contractor shall experience an exchange gain or loss at the expense of, or to the benefit of the other Party. Any currency exchange losses or gains resulting from the differences between exchange rates for accounting purposes as mentioned above and the

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Actual exchange rates actual exchange rates when buying the corresponding non- US \$ currency for the purpose of payment shall be continuously charged or credited to the Cost Account.

15.4 Any payments which Albpetrol is required to make to Contractor or which Contractor is required to make to Albpetrol shall be paid in US \$, not later than thirty (30) days following the end of the month in which the obligation to make such payment occurs.

15.5 For the purposes of this Agreement, Contractor shall have complete freedom to:

15.5.1 open, operate and maintain bank accounts both inside and outside Albania;

15.5.2 receive and retain outside Albania and freely dispose of foreign currency received by it outside Albania, including the proceeds of sales of Petroleum hereunder, and Contractor shall not be obligated to remit such proceeds to Albania with the exception of those proceeds as may be needed, in Contractor's judgement, to meet its expenses in Albania;

15.5.3 pay directly outside of Albania for purchase of goods and services necessary to carry out Petroleum Operations hereunder;

15.5.4 pay its expatriate Employees working in Albania in foreign currencies outside of Albania, such expatriate employees shall only be required to bring into Albania such foreign currency as may be required to meet their personal living expenses;

15.5.5 fully repatriate abroad all Contractor's proceeds from the Petroleum Operations in Albania, including but not limited to the proceeds from the sale of Petroleum;

15.5.6 freely import and export foreign exchange and maintain inside Albania foreign currency accounts.

15.6 In the event a Party fails to make payment hereunder on the due date, interest shall be charged on any amounts in default. The applicable interest rate shall be the 3 months LIBOR for US Dollar deposits taken on the first day of default plus 2.5 percentage points, as published by the National Westminster Bank Limited, London, at 11 a.m.

Article 16 Assignment

16.1 Contractor will not transfer to any Person, fully or partly, any of its rights, privileges, duties and obligations under this Agreement without the prior written approval by Albpetrol, 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 Article 16.3.

16.2 Notwithstanding Article 16.1, but subject to the requirements of Article 16.3, Contractor will be free to transfer its rights, privileges, duties and obligations under this Agreement to an Affiliate following the expiration of sixty (60) days' prior written notification to Albpetrol of such transfer, provided that Contractor provides a written guarantee of the full performance by such Affiliate of all duties and obligations under this Agreement which are to be transferred. At any time subsequent to such transfer, the former

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Contractor which has made the transfer may request that Albpetrol no longer require the foregoing guarantee, and such request shall not be unreasonably refused or delayed by Albpetrol 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 Contractor to an Affiliate without the foregoing written guarantee from Contractor shall be subject to the requirements of Article 16.1.

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

Contractor's duties and obligations shall be properly fulfilled until the date when the request for approval is made, or Contractor shall guarantee, jointly or independently, the accomplishment of any obligation of which has not been fulfilled as of such date;

the Person to whom the transfer is to be made shall provide to Albpetrol documentary evidence of its financial and/or technical competence; and

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

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

16.5 Upon transfer of all of its rights, privileges, duties and obligations to another Person in accordance with this Article 16, Contractor making the transfer shall cease to have any rights under or interest in this Agreement as Contractor.

Article 17 **Force Majeure**

17.1 The failure of any Party to perform any obligation under this 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, labour 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.

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17.2 Except as otherwise provided herein, in the event that by Force Majeure a Party is rendered unable to carry out its obligations under this 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.

17.3 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 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 Agreement may be terminated on the second anniversary of such event of Force Majeure by either Party.

Article 18 Governing Law

18.1 (a) Subject to Article 18.1(b), the activities of Contractor 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 Agreement and which are the subject of arbitration in accordance with Article 19 shall be governed by the laws of England.

18.2 Albpetrol acknowledges that Contractor has entered in this Agreement in reliance on the laws, rules and regulations of Albania as they exist on the Effective Date of this Agreement, and Albpetrol hereby confirms that all rights granted to Contractor hereunder are in conformity with such laws, rules and regulations.

18.3 If, as a result of any change in the laws, rules and regulations of Albania, any right or benefit granted (or which is intended to be granted) to Contractor under this Agreement or the License Agreement is infringed in some way, a greater obligation or responsibility shall be imposed onto Contractor or, in whatever other way the economic benefits accruing to Contractor from this Agreement or the License Agreement are negatively influenced by any change in the laws, rules and regulations of Albania, and such an event is not provided for herein, the Parties will immediately amend this Agreement and License Agreement, and Albpetrol, AKBN and the Ministry will immediately undertake other necessary actions to eliminate the negative economic effect on the Contractor.

Article 19 Arbitration

19.1 Any dispute, controversy, claim or difference of opinion including any purported termination under Article 22, arising out of or relating to this Agreement or the breach, termination or validity thereof, or to the Petroleum Operations carried out hereunder, shall be finally and conclusively settled by arbitration in accordance with the UNCITRAL Arbitration Rules ("Rules").

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19.2 With respect to the foregoing, the appointing authority under the Rules shall be the President of the Court of International Arbitration of the International Chamber of Commerce in Paris, France.

19.3 The number of arbitrators shall be three. The Party instituting the arbitration shall appoint one arbitrator and the Party, responding shall appoint another arbitrator, and upon failure of such responding Party to so appoint an arbitrator within thirty (30) days the Party instituting the arbitration may request the appointing authority to appoint such second arbitrator in accordance with the Rules. The two (2) arbitrators thus appointed shall choose the third arbitrator who will act as the presiding arbitrator of the tribunal.

19.4 If, within thirty (30) days of appointment of the second arbitrator to be appointed, the two (2) appointed arbitrators cannot agree upon the third arbitrator, either Party may request the appointing authority to appoint the third arbitrator.

19.5 The arbitration shall take place in Zurich, Switzerland. The language to be used in the arbitration proceedings shall be English. The Parties expressly waive any right to appeal an arbitral award to any court whatsoever, and the arbitral award shall be final and binding upon the Parties.

19.6 The arbitral award shall contain the reasons upon which the award is based and an award of costs.

19.7 The right to arbitrate under this Article 19 shall survive the termination of this Agreement.

19.8 Albpetrol expressly waives any right to claim sovereign immunity in connection will any proceeding instituted pursuant to this Article 19, any proceeding to compel enforcement of this Article 19, or any proceeding to enforce any award made by arbitration under this Article 19.

19.9 Judgement on the award rendered may be entered in any Court having jurisdiction or application may be made to such Court for a judicial acceptance of the award and an order of enforcement, as the case may be.

19.10 Any matter in dispute between Albpetrol and Contractor which in terms of this Agreement is to be referred to an Expert, or for any dispute relating to a failure of the Advisory Committee to approve a request or proposal of Contractor, shall be referred for determination by a sole expert. The Expert shall be given terms of reference which shall be mutually agreed between the Parties. The Expert shall be appointed by agreement between Albpetrol and Contractor. If Albpetrol and Contractor 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 Albpetrol and Contractor 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 Albpetrol and Contractor. The Expert's determination shall be final and binding upon the Parties, subject to any manifest error in his determination.

Article 20

Environmental and Safety Measures, Prevention of Loss

20.1 Contractor shall conduct Petroleum Operations in a safe and proper manner in accordance with generally accepted international petroleum industry practice and shall cause as little damage as reasonably practicable to the general environment, including, *inter alia*, the surface, air, lakes, rivers, sea, animal life, plant life, crops, other natural resources and property.

20.2 In the event of a blow-out, accident or other emergency, Contractor 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.

20.3 In the event Albpetrol reasonably determines that any work or installations erected by Contractor (but not those works or installations which were in place prior to the Effective Date or are transferred to Contractor after the Effective Date) endanger or may endanger persons or third party property or cause pollution or harm the environment to an unacceptable degree, Albpetrol may require Contractor to take remedial measures within a reasonable period and to repair any damage to the environment.

In the event that Contractor fails to take the remedial measures required by Albpetrol within the time period established therefore, Albpetrol may carry out such remedial measures for Contractor's account.

Any remedial measures required to be undertaken by environmental authorities of the Government of Albania in respect of those works or installations in the Contract Area which were in place prior to the Effective Date or were transferred to Contractor after the Effective Date shall be for Albpetrol's account.

20.4 Contractor shall as soon as reasonably possible after the Effective Date submit for the approval from the relevant environmental authority a report (the "Baseline Study") on the environmental baseline status of the Project Area as at the Effective Date. With each expansion of the Project Area or take over of a new well, as the case may be, Contractor shall submit for the approval from the Environmental Authority a Baseline Study on the environmental baseline status of the expanded portion of the Project Area or newly taken over well, as the case may be, as at the relevant date.

20.5 Contractor shall not be liable for any Environmental Damages incurred prior to the date of approval of the Baseline Study, as established by the relevant Baseline Study and each subsequent Baseline Study. Albpetrol shall indemnify and hold harmless Contractor from and against any and all Losses and Liabilities suffered or incurred by Contractor and pertaining to Environmental Damages applicable to the Contract Area, except to the extent that it can be demonstrated that the Petroleum Operations conducted by Contractor in the Project Area after the Effective Date were the sole cause of the Environmental Damages.

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20.6 Contractor 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.

Article 21 Goods and Services

21.1 Contractor, its contractors and subcontractors shall give priority to goods and materials produced in Albania if these goods and materials are being offered under equally favourable conditions regarding the quality, price and availability, and in the quantities required. Contractor shall give priority to services performed by Albanian sub-contractors if such services are offered under equally favourable conditions regarding the quality, price and availability they may be offered by foreign sub-contractors

For the above purposes, prices for locally manufactured materials, equipment, machinery and consumables and for services of local contractors shall be compared with the prices of goods and services in the international market after transportation and insurance costs have been added.

21.2 Contractor shall solicit competitive bids for any services performed pursuant to items included in a Annual Program and Budget, if such services is expected to exceed five hundred thousand US Dollars (US\$ 500,000). Albpetrol has the right to attend the opening of bids for all such tenders.

Article 22 Abandonment

22.1 All equipment and facilities (including wells) used exclusively in the Petroleum Operations will be Abandoned, upon AKBN approval, in conformity with the generally accepted practices of the international petroleum industry. However, nothing contained in this Agreement will oblige Contractor to abandon the unused equipment or facilities in the Petroleum Operations, and Albpetrol, AKBN and the Ministry will protect, indemnify and hold Contractor harmless against costs and claims based on such obligations.

22.2 The Abandonment Costs will be included in the Petroleum Costs. In order to enable the Contractor to recover the Abandonment Costs, and in accordance with the License Agreement, five years prior to the date set by the Contractor to Abandon all the Petroleum Operations in the Project Area (or at such earlier times as may be reasonable to obtain such a recovery), the Abandonment Costs estimated by the Contractor and the time of their recovery in compliance with the following paragraph of this Article 22.2 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.

22.3 Upon approval of the estimate by AKBN, the estimated Abandonment Costs will be included in Petroleum Costs and recovered in accordance with this Agreement 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 Contractor

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may agree. Once the Abandonment Costs are covered, Contractor 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 Contractor.

Article 23 Confidentiality

23.1 Except as otherwise specified under this Agreement, all information acquired or received under this Agreement shall be maintained by the Parties as strictly confidential and shall not be divulged without the prior written consent of the other Party while this Agreement remains in force, except to the extent required to comply with laws, rules or regulations of any stock exchange to which Contractor may be subject unless such information becomes part of the public domain through sources other than Contractor. Furthermore, Contractor shall be bound by these obligations of confidentiality for a period of five (5) years following termination of this Agreement.

23.2 Albpetrol and Contractor may disclose any such information to its employees, Affiliates, consultants or subcontractors to the extent required for the efficient conduct of Petroleum Operations provided that in the case of disclosure to employees and Affiliates it ensures adequately the protection of the confidential nature of the information concerned, and in the case of disclosure to consultants or subcontractors provided that the intended recipients have first entered into a confidentiality undertaking.

23.3 For purposes of obtaining new offers on relinquished portions of the Contract Area or on areas adjacent to the Contract Area, Albpetrol may show any other entity data on such relinquished portions in uninterpreted and basic form during the term of this Agreement.

23.4 Subject to obtaining confidentiality undertakings as provided in Article 23.2 above, either Party may disclose such information obtained pursuant to this Agreement as required by financing institutions from which the disclosing Party is seeking finance for the purposes of carrying out its obligations hereunder.

23.5 Subject to obtaining a confidentiality agreement, Contractor may show any such information to bona fide potential assignees who have an interest in the petroleum rights granted to Contractor under this Agreement.

Article 24 Termination

24.1 This Agreement may be terminated by Contractor by giving not less than ninety (90) days written notice to Albpetrol, provided that such termination shall not relieve Contractor from any unfulfilled commitment or other obligation under this Agreement accrued prior to such termination.

24.2 This Agreement may be terminated by Albpetrol by giving not less than one hundred and twenty (120) days written notice to Contractor in the following events:

24.2.1 if Contractor has repeatedly committed a material breach of its fundamental duties and obligations under this Agreement and has been advised by Albpetrol of Albpetrol's intention to terminate this Agreement. Such notice of

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termination by Albpetrol shall only be given if Contractor upon receiving notice from Albpetrol that it is in material breach and does not rectify or has not commenced to substantially rectify such breach within six (6) months; or

24.2.2 if Contractor does not substantially comply with any final decision resulting from an arbitration procedure pursuant to Article 19 hereof; or

24.2.3 if Contractor is adjudged bankrupt by a competent court or, if there is more than one entity constituting Contractor, any of them has been declared bankrupt without the other entities or entity taking appropriate action to remedy the situation with regard to this Agreement.

Termination by Albpetrol pursuant to this Article 24.2 shall not relieve Contractor from any unfulfilled commitment or other obligation under this Agreement accrued prior to such termination, including without limitation payment of monetary obligations for unfulfilled work commitments, surface restoration, environmental remediation and abandonment.

24.3 Subject to earlier termination pursuant to Articles 24.1 or 24.2, this Agreement shall automatically terminate in its entirety if all of the Contract Area has been relinquished or the Development and Production Period or any subsequent extension has lapsed pursuant to Articles 3.4 and 3.7.

Article 25 Audits

Albpetrol shall have a period of twelve (12) months from receipt of each Cost Account statement pursuant to the Accounting Procedure in which to audit and raise objections as to any such Cost Account statement, provided that Albpetrol shall not be entitled to conduct more than two audits of Contractor's books, records and accounts in any Fiscal Year. Albpetrol and Contractor shall agree on any required adjustments. Supporting documents and accounts will be available to Albpetrol during said twelve (12) month period. If within the time limit of the three (3) months period following the lapse of the above twelve (12) month period Albpetrol has not advised Contractor of its exception to such statement, such statement shall be considered as approved.

Article 26 General Provisions

26.1 Notices

- (a) Notices and other communications required or permitted to be given under this Agreement shall be deemed given when delivered and received in writing, either by hand or through the mail or by fax transmission, appropriately addressed as follows:

to Albpetrol:

Lagjia "29 Marsi", Patos-Albania

Tel: 00 355 381 22 52

Fax: 00 355 381 41 68

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Attn.: Executive Director

to Contractor:

Sherwood International Petroleum Ltd.

1900, 555 – 4th Avenue S.W.,

Calgary, Alberta, T2P 3E7

Canada

Attention: Geoffrey Carrington, President & CEO

Tel: +1 (403) 875-9398

Fax: +1 (403) 263-9659

Email: gcarrington@sherwoodpetroleum.com

copy to Sherwood office in Albania Attn.: Resident Manager

Albpetrol and Contractor may change their address or addresses by giving notice of the change to each other.

- (b) Notices to be given by Albpetrol to Contractor shall be deemed given if given to Contractor's office in Tirana.

26.2 Liability

26.2.1 Contractor shall not be liable to Albpetrol except where Contractor's senior supervisory personnel is grossly negligent in performing the Petroleum Operations.

26.2.2 Under no circumstances shall Contractor be liable for consequential or indirect damages such as loss of profit or loss of production.

26.2.3 In case of any damage for which Contractor is held liable pursuant to Article 26.2.1, Contractor shall endeavour to promptly and diligently take the necessary measures in accordance with international industry practices, to mitigate the damage and to restore normal operations. Contractor shall pay the appropriate compensatory damages for which it is finally declared liable.

26.2.4 Contractor shall indemnify the Albanian Government, Albpetrol and their employees, officials, directors and respective agents for all claims by third parties for personal damage or property damage resulting from the performance of Petroleum Operations conducted by or on behalf of Contractor, including without limitation, reasonable solicitor's fees and costs

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of defence, provided Contractor shall not be held responsible under this Article 26.2.4 for any loss, claims, damage or injured caused by or resulting from any negligent action of the Albanian Government, Albpetrol and their employees, officials, directors and respective agents.

26.3 Insurance

Contractor shall, as part of Petroleum Operations, maintain insurance which a reasonable and prudent operator in the Petroleum industry would maintain in connection with its operations.

26.4 Language of Text

This Agreement is made and entered into in both the English language and the Albanian language. In the event of a conflict between the English language version and the Albanian language version, the English version will prevail.

26.5 Effectiveness

This Agreement is legally binding on and from the Effective Date.

26.6 Entire Agreement

This Agreement (together with any documents referred to in it) constitutes the whole agreement between the Parties and supersedes any previous agreements, understandings, arrangements, representation, undertakings and warranties between the Parties relating to the subject matter of this Agreement, including without limitation the terms of the bid for the Contract Area submitted to AKBN.

26.7 Bank Guarantee

Contractor undertakes to execute a Bank guarantee for the Evaluation Program in the form as set out in Annex C. Contractor and Albpetrol agree that the Bank guarantee must have been received by AKBN (60) sixty days after approval of this Agreement by the Council of Ministers.

26.8 Annexes

Annexes A, B, C, D, E and F are made hereby an integral part of this Agreement and shall be considered as having equal force and effect with the provisions of the main body of this Agreement. However, in the event of a conflict between the main body and any of the Annexes, the provisions of the main body shall prevail.

26.9 Variation

No variations to this Agreement shall be effective unless made in writing and signed by the Parties.

26.10 Waivers

The failure of any Party to exercise or enforce any right concerned by this Agreement shall not be or be deemed to be a waiver of any such right.



26.11 Sovereign Immunity

Any Party that now or hereafter has a right to claim sovereign immunity for itself or any of its assets hereby waives any such immunity to the fullest extent permitted by the laws of any applicable jurisdiction. This waiver includes immunity from (i) any expert determination, mediation, or arbitration proceeding commenced pursuant to this Agreement; (ii) any judicial, administrative or other proceedings to aid the expert determination, mediation, or arbitration commenced pursuant to this Agreement; and (iii) any effort to confirm, enforce, or execute any decision, settlement, award, judgment, service of process, execution order or attachment (including pre-judgment attachment) that results from an expert determination, mediation, arbitration or any judicial or administrative proceedings commenced pursuant to this Agreement. Each Party acknowledges that its rights and obligations hereunder are of a commercial and not a governmental nature.

26.12 Authority

Each entity which is a signatory to this Agreement warrants to the other that it has full power and authority to enter this Agreement and that this Agreement constitutes a legal, valid and binding obligation on it.

Article 27

Signature and Training Bonuses

- 27.1 Sherwood will pay Albpetrol a signature bonus of US\$50,000 upon execution of the Petroleum Agreement ("PA") for the Kucova Oilfield and receipt of all necessary governmental and regulatory approvals of the Petroleum Agreement ("PA") and;

Sherwood will spend for Albpetrol US\$50,000 per each contractual year in respect of the Annual Training Bonus ("ATB") upon issuing from the Council of Ministers of the Republic of Albania of the approval of the PA for the Kucova Oilfield .

The amount of \$US 50,000 as signature bonus shall not be cost recoverable.

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IN WITNESS HEREOF, the Parties have entered into this Agreement on the date first above written.

Albpetrol

By: Ylli Gjoni

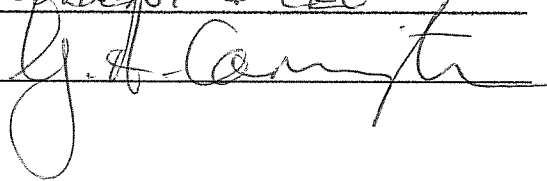
Title: General Director

Signed: 

Sherwood International Petroleum Ltd.

By: Geoff Carrington

Title: PRESIDENT & CEO

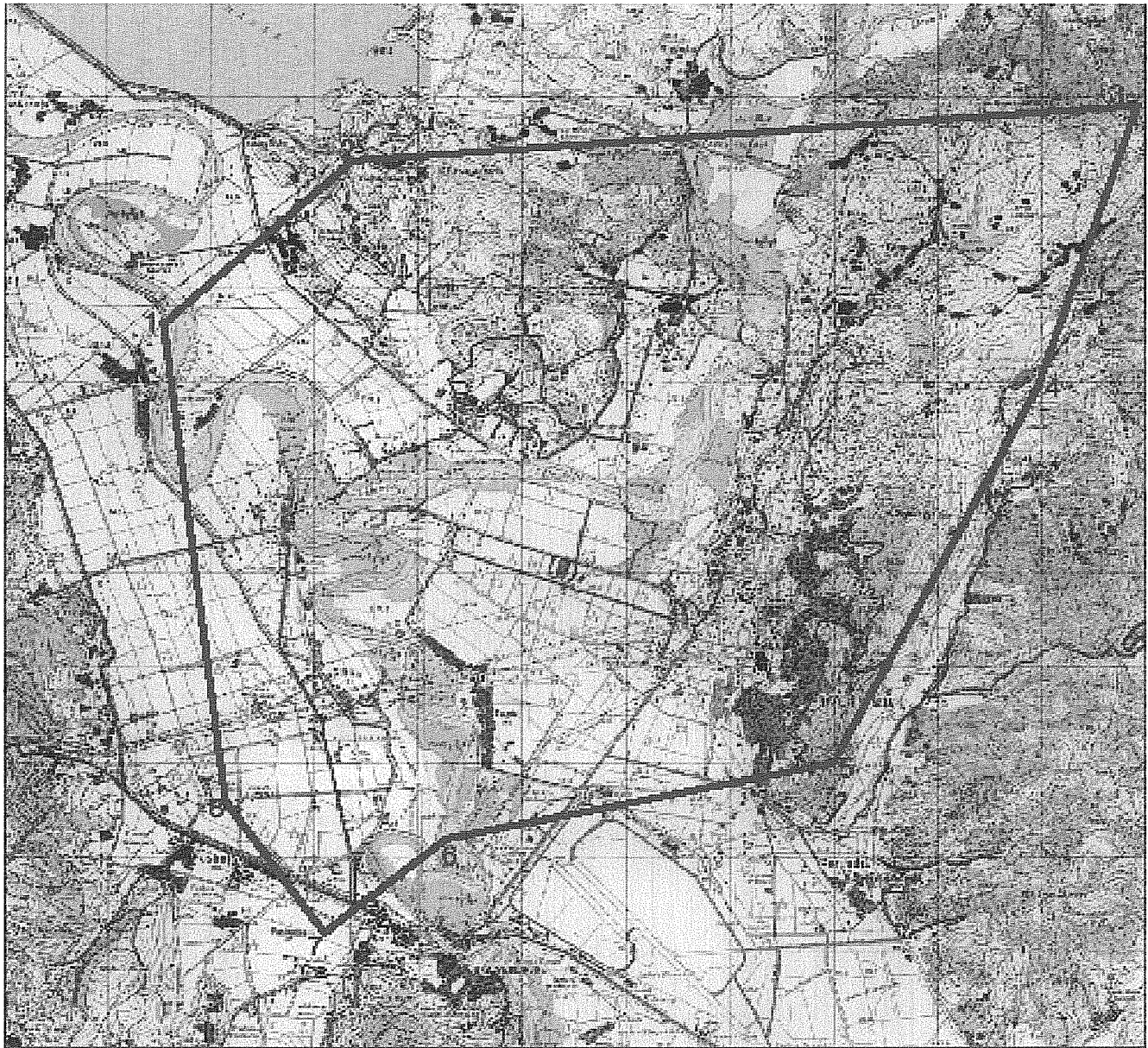
Signed: 

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Annex A

Contract Area and Coordinates

Gauss-Kruger			UTM WGS 1984, Zone 34 veri, Merid. Cent. 21d E	
Nr	X	Y	X	Y
1	45 22 600	44 02 550	45 20 711.047	4 02 590.609
2	45 24 300	44 04 350	45 22 410.337	4 04 389.859
3	45 24 900	44 11 950	45 23 010.087	4 11 986.692
4	45 22 000	44 11 000	45 20 111.297	4 11 037.088
5	45 18 000	44 09 000	45 16 112.966	4 09 037.922
6	45 17 200	44 05 250	45 15 313.300	4 05 289.484
7	45 16 200	44 04 100	45 14 313.717	4 04 139.964
8	45 17 650	44 03 150	45 15 763.112	4 03 190.359



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ANNEX B

ACCOUNTING PROCEDURE

General Provisions

This Accounting Procedure applies to and shall be observed in the establishment, keeping and control of all accounts, books and records of accounts under the Agreement.

The Agreement and this Accounting Procedure are intended to be correlative and mutually explanatory. Should, however, any discrepancy arises, then the provisions of the Agreement shall prevail.

Article 1

1.1 Definitions

1.1.1 The terms used in this Accounting Procedure have the same meanings as set out for the same terms in the Agreement.

1.1.2 "Controllable Material" means Material which Contractor subjects to record control and inventory in accordance with good international petroleum industry practice.

1.1.3 "Material" means any equipment, machinery, materials, articles, supplies and consumables either purchased, or leased, or rented, or transferred by Contractor and used in the Petroleum Operations.

1.2 Books and records

Books and records of accounts, including tax returns, will be kept in accordance with generally accepted and recognised international accounting principles consistent with Albanian law, and consistent with modern petroleum industry practices and procedures to the extent that such practices and procedures do not conflict with Albanian law. Books and records of account shall be in the English language and US Dollars.

1.3 Revision of Accounting Procedure

By mutual agreement between Albpetrol and Contractor, this Accounting Procedure may be revised from time to time in the light of future arrangements.

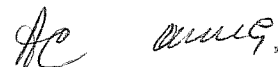
Article 2

Petroleum Costs

2.1 Petroleum Costs

Contractor shall maintain a Cost Account in which there shall be reflected all Petroleum Costs.

Such Petroleum Costs shall be used in the calculation of the Albpetrol Share in. Without limiting the generality of the foregoing, the costs and expenditures considered in

Handwritten signatures in black ink, appearing to be initials and a name, located at the bottom right of the page.

Annex B Articles 2.2 to 2.23 hereafter are included in Petroleum Costs. Petroleum Costs including all those accumulated prior to the approval of the first Development Plan shall be fully included without amortisation commencing in the Calendar Quarter in which such costs are incurred. It is understood that neither the Albpetrol Share nor the Deemed Production shall be treated as Petroleum Costs, but the costs of Contractor in producing and delivering to Albpetrol the Albpetrol Share and the Deemed Production are Petroleum Costs.

2.2 Labour and related costs

2.2.1 The actual costs of all Contractor's employees and the costs of personnel assigned or temporarily assigned or loaned to Contractor. Such costs shall include but not be limited to:

- (a) gross salaries and premiums or wages;
- (b) cost of overtime, holiday, vacation, sickness, disability benefits and other customary allowances applicable to the salaries and wages chargeable under (a) hereof;
- (c) expenses, taxes and other charges, if any, made pursuant to assessments or obligations imposed by ministerial authority which are applicable to the cost of salaries and wages chargeable under (a) hereof;
- (d) cost of established plans for employees' life insurance, hospitalisation, pensions, saving and other benefit plans of like nature applicable to the salaries and wages chargeable under (a) hereof;
- (e) transportation and relocation costs and costs of transportation of the employee and such employee's family (limited to spouse and dependent children) and household as statutory or customary for Contractor;
- (f) all travel and relocation costs of employees and their families to and from the employee's country or point of origin during the time of employment;
- (g) accommodation costs for employees;
- (h) premiums, overtime, customary allowances and benefits which will be applicable to national employees in the Republic of Albania, all as chargeable under (a) hereof.

2.3 Employees training expenses

Training expenses for Contractor's employees or assigned or temporarily assigned or loaned to Contractor.

2.4 Material

2.4.1 The cost of Material shall be charged to the Cost Account on the basis set forth below. Contractor does not guarantee Material. The only guarantees are the guarantees given by the manufacturers or the vendors, as long as they are in force.

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2.4.1.1 Except as otherwise provided in Subpart 2.4.1.2 below, Material shall be charged at the actual net cost incurred by Contractor as the vendor's net invoice price, packaging, transportation, loading and unloading expenses, insurance costs, duties, fees and applicable taxes if any less all discounts actually received.

2.4.1.2 Material supplied by Contractor from its own warehouse shall be charged at the price specified herein below:

(a) New Material (Condition "A") shall be valued at the current international net invoiced cost which shall not exceed the price prevailing in normal arm's length transactions on the open market.

(b) Used Material (Conditions "B", "C" and "D" and junk Material):

(i) Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classified as Condition "B" and priced at seventy-five percent (75%) of the current price of new Material defined in (a) above.

(ii) Material which cannot be classified as Condition "B" but which after reconditioning will be further serviceable for its original function shall be classified as Condition "C" and priced at fifty percent (50%) of the current price of new Material as defined in (a) above. The cost of reconditioning shall be charged to the reconditioned Material provided that the value of Condition "C" Material plus the cost of reconditioning do not exceed the value of Condition "B" Material.

(iii) Material which has a value yet cannot be used in its original function and which therefore cannot be classified as Condition "B" or Condition "C" shall be classified as Condition "D" and priced at a value commensurate with its use.

(iv) Material which is usable and which cannot be classified as Condition "B" or Condition "C" or Condition "D" shall be classified as junk and shall be considered as having no value.

2.4.2 *Inventories*

At reasonable intervals, at least annually, inventories shall be taken by Contractor of all Controllable Material, and following each inventory, books and records shall be adjusted to reflect the results of the inventory. Contractor shall give thirty (30) days written notice of the intention to take such inventories to allow Albpetrol to choose whether to be represented when the inventory is taken, or not to be represented.

2.5 Indirect Expenses

Base overhead and facilities such as shore base, warehouses, water systems, road systems, salaries and expenses of field supervisory personnel, field clerks, assistants, and other general employees indirectly serving the Project Area.

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Commissions and marketing or brokerage fees related to sale of Petroleum.

2.6 Transportation

Transportation of Material and other related costs, including but not limited to origin services, expediting, crating, dock charges, forwarder's charges, surface and air freight, and customs clearance and other destination services. Transportation of Petroleum to the relevant Delivery Point, including without limitation pipeline charges (both fixed and variable) and trucking costs.

2.7 Services

2.7.1 The actual costs of contract service, professional consultants, and other services performed by third parties.

2.7.2 Costs of use of facilities and equipment located inside or outside the Republic of Albania for the direct benefit of the Petroleum Operations, furnished by Contractor or its Affiliated Companies or third parties at rates corresponding with the cost of ownership, or rental, and the cost of operation thereof.

2.8 Administrative and General Expenses in the Republic of Albania

While Contractor is conducting activities under the Agreement, cost of staff and maintaining Contractor's head office in the Republic of Albania, and/or other offices established in the Republic of Albania shall be charged to Petroleum Costs.

In the event such personnel and office costs of Contractor or Contractor's Affiliates for the purpose of this Agreement are not fully attributable to the Petroleum Operations then such costs shall be charged on an equitable basis.

Costs of travel and accommodation related to Advisory Committee meetings shall be charged to Petroleum Costs, whether such meetings occur inside or outside of the Republic of Albania.

2.9 Administrative Overheads

Contractor's parent company administrative overheads outside the Republic of Albania applicable to the operations under this Agreement shall be charged at the rate of 5% of the total budget each year.

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2.10 Taxes

All taxes, duties or levies paid in the Republic of Albania by Contractor with respect to this Agreement other than those covered by Article **Error! Reference source not found.** of the Agreement, if any.

2.11 Surface Rights

All direct costs attributable to the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the Area.

2.12 Damages and Losses to Material and Facilities

Subject to Article of the Agreement, all costs or expenses necessary for the repair or replacement of Material and facilities resulting from damages or losses incurred by fire, flood, storm, theft, accident, or any other cause beyond the reasonable control of Contractor.

2.13 Insurance and Claims

2.13.1 Premiums paid for insurance to cover the risks related to Petroleum Operations according to Contractor's practice or any of its employees and/or outsiders, which is in compliance with international petroleum practice or which is required by law.

2.13.2 Subject to Article of the Agreement, actual expenditure incurred in the settlement of all losses, claims, damages, judgements, and other expenses (including legal expenses as set out below) for the benefit of the Petroleum Operations.

2.14 Legal Expenses

All costs or expenses of litigation or legal services to protect Contractor's interest in the Contract Area under or pursuant to the Agreement and otherwise necessary or expedient including but not limited to legal counsel's fees, arbitration costs, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims. These services may be performed by Contractor's legal staff and/or an outside firm as necessary, provided these costs are not originating from Contractor's unsuccessful disputes with Albpetrol.

2.15 Charges and Fees

All charges and fees which have been paid by Contractor with respect to the Agreement.

2.16 Offices, Camps and Miscellaneous Facilities

Cost of establishing, maintaining and operating any offices, sub-offices, camps, warehouses, housing and other facilities such as recreational facilities for employees. If these facilities service more than one (1) contract area the costs thereof shall be allocated on an equitable basis.



2.17 Service Agreement Expense

Expenditures under any service agreement entered into between Contractor and any of its Affiliated Companies.

2.18 Environment

Costs incurred for any of the operations foreseen in of the Agreement.

2.19 Abandonment

Costs incurred or amount accrued in accordance with of the Agreement.

2.20 Other Expenditures

Subject to Albpetrol approval which shall not be unreasonably withheld any reasonable expenditures not covered or dealt with in the foregoing provisions which are incurred by Contractor for the necessary and proper performance of the Petroleum Operations and the carrying out of its obligations under the Agreement or related thereto.

2.21 Currency Gains or Losses

Currency losses incurred by Contractor shall be charged to Petroleum Costs, and currency gains incurred by Contractor shall be credited to Petroleum Costs.

2.22 Credits under the Contract

The net proceeds of the following transactions will be credited to the accounts under the Contract:

- (a) the net proceeds of any insurance if the premium was cost recoverable or claim in connection with the Petroleum Operations or any assets charged to the accounts under the Contract;
- (b) revenue received from outsiders for the use of property or assets charged to the accounts under the Agreement which have become surplus to Petroleum Operations and have been leased or sold;
- (c) any adjustment received by Contractor from the suppliers/ manufacturers or their agents in connection with defective equipment or material the cost of which was previously charged by Contractor under the Contract;
- (d) rentals, refunds or other credits received by Contractor which applies to any charge which has been made to the accounts under the Contract;
- (e) proceeds from all sales of surplus Material charged to the account under the Agreement, at the net amount actually collected.

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2.23 No Duplication of Charges and Credits

Notwithstanding any provision to the contrary in this Accounting Procedure, it is the intention that there shall be no duplication of charges or credits in the accounts under the Agreement.

**Article 3
Contractor's Revenues**

3.1 Contractor's Revenues shall be determined on a cash basis based on sales at the Delivery Point. Costs upstream of the Delivery Point are included in Petroleum Costs under Article 2 of the Agreement.

**Article 4
Financial Reports to Albpetrol**

4.1 The reporting obligation provided for in this Part shall apply to Contractor and shall be in the manner indicated hereunder.

4.2 Contractor shall submit to Albpetrol within forty-five (45) days of the end of each Calendar Quarter:

4.2.1 A report of expenditure and receipts under the Agreement analysed by budget item showing:

- (a) actual expenditure and receipts for the Calendar Quarter in question;
- (b) actual cumulative expenditure to date;
- (c) variances between budget expenditure and actual expenditure, and explanations thereof.

4.2.2 A Cost Account statement containing the following information:

- (a) Petroleum Costs brought forward from the previous Calendar Quarter, if any;
- (b) Petroleum Costs incurred during the Calendar Quarter;
- (c) total Petroleum Costs for the Calendar Quarter (a) plus (b) above;
- (d) amount of Petroleum produced for the Calendar Quarter, the amount of Petroleum sold for the Calendar Quarter, and the amount of Contractor's Revenue for the Calendar Quarter;
- (e) calculation of the R Factor for the Calendar Quarter; and
- (f) amount of Petroleum Costs to be carried forward into the next Calendar Quarter, if any.

4.3 After the commencement of production Contractor shall, within thirty (30) days after the end of each Calendar Quarter, submit a production report to Albpetrol showing for the

Albpetrol

Development and Production Area the quantity of Petroleum, expressed in tonnes, cubic meters and barrels:

- (a) held in stocks at the beginning of the month;
- (b) produced during the month;
- (c) lifted, and by whom;
- (d) lost and consumed in Petroleum Operations, and
- (e) held in stocks at the end of the month.

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ANNEX C

FORM OF BANK GUARANTEE

TO

NATIONAL AGENCY OF NATURAL RESOURCES

We have been informed that Sherwood International Petroleum Ltd. (hereinafter called "Sherwood") has entered into a Petroleum Agreement for the Kuçova Oilfield in Albania with the company Albpetrol Sh.a effective from _____ (hereinafter called the "PA") and understand that, according to the provisions of the PA a Bank Guarantee is required.

We have been further informed that pursuant to the terms of the PA, Sherwood has undertaken during the Evaluation Period to carry out a Work Program in the Contract Area (all defined terms as defined in the PA) and in so doing spend an amount of United States Dollars One Million and Five Hundred Thousand (US\$1,500,000).

At the request of Sherwood, we, the _____ (name and address of the Bank) hereby guarantee and undertake to pay you any amount or amounts not exceeding the sum of United States Dollars One Million and Five Hundred Thousand (US\$1,500,000), upon receipt by us of your first demand made in accordance with the claim procedure detailed below.

Your demand must be submitted by a letter, and must be accompanied by:

- A copy of your notice to Sherwood (dated at least thirty (30) days prior to the date of your demand), informing Sherwood of a breach of its Work Program obligations under the PA, the nature and the amount of the breach and of your intention to demand payment under this Guarantee if the breach is not remedied within fifteen (15) days from the date of your notice; and
- Your signed declaration stating that Sherwood has failed to remedy the breach detailed in your notice by the date specified.

Any demand hereunder and the documents specified above must be received by us at our above address in accordance with the aforesaid claim procedure on or before the date of expiry of this Guarantee as described below, after which date this Guarantee will be of no effect whatsoever.

A demand submitted by facsimile will not be accepted.

This Guarantee shall enter into force sixty (60) days after the effective date of the PA and shall remain valid until the earlier of (a) six (6) months after the termination of the Evaluation Period and (b) the date when the total amount of this guarantee has been drawn or reduced as set out in the next following paragraph.

The amount of this Guarantee shall be reduced every quarter during the Evaluation Period by an amount equal to the sum spent by Sherwood on its Work Program obligations during such quarter, such reductions to be effected in accordance with quarterly written statements issued by the National Agency of Natural Resources (hereinafter called "AKBN") to Sherwood.

This Guarantee applies to Sherwood and is not transferable or assignable (except with the written consent of AKBN which is not to be unreasonably withheld). If such Guarantee is not

AC *[Signature]*

submitted to AKBN from Sherwood on or before sixty (60) days after the Effective Date of the PA, then Sherwood will not start Petroleum Operations.

This Guarantee is subject to the Uniform Rules for Demand Guarantees, ICC Publication No. 458, and to the extent not inconsistent therewith, shall be governed by and construed in accordance with _____ (country) Law, place of jurisdiction is _____ (place) _____, (country)

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ANNEX D

EVALUATION PROGRAM

1. The Evaluation Period will last twenty-four (24) (see earlier comments in Article 3.2) 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 re-activated 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.
11. Complete a Plan of Development for the Kucova Oilfield for the Production and Development Period.
12. Contractor commits to expend at least US\$ 1,500,000 in capital expenditures during the first twenty-four (see earlier comments in Article 3.2) months after the Effective Date in conducting the Evaluation Program.

ANNEX E

INSTRUMENT OF TRANSFER

THIS INSTRUMENT OF TRANSFER is made the day of 04 September 2007

BETWEEN:

- (1) Albpetrol Sh. A. ("Albpetrol") an Albanian company, whose principal place of business is at Patos, Albania;
- (2) Sherwood International Petroleum Ltd. ("Contractor"); an Alberta, Canada company, with a branch registered in the Republic of Albania; and
- (3) National Agency of Natural Resources ("AKBN") a legal entity authorized by Decision No. 547, dated 9 August, 2006, of the Government of the Republic of Albania.

WHEREAS:

Albpetrol is a party to a License Agreement made the 07 day of June 2007 with the Ministry of Economy, Trade and Energy as represented by AKBN and Contractor wish to join with Albpetrol in the conduct of Petroleum Operations (as therein defined).

NOW THIS INSTRUMENT WITNESSES that in consideration of and subject to Contractor entering into a Petroleum Agreement (as defined in the said License Agreement) with Albpetrol:

- (1) Albpetrol hereby transfers all its rights, privileges and obligations under the License Agreement mentioned above to Contractor subject to said Petroleum Agreement.
- (2) Albpetrol and Contractor agree that they will jointly and severally be liable to the Ministry under the said License Agreement for all duties and obligations of the Licensee subject only as specifically provided in the said License Agreement.
- (3) By its execution of this Instrument of Transfer, the AKBN confirms that it has given its prior written approval to this transfer, that Contractor has handed to the AKBN reasonable evidence of their financial and/or technical competence and that the AKBN was not asked in an unreasonable or unfair way not to refuse its consent and that they accept that Albpetrol and Contractor are parties to the said License Agreement as the Licensee.
- (4) This Instrument of Transfer is conditional upon Albpetrol and Contractor entering into the said Petroleum Agreement and the approval of the Council of Ministers to that Petroleum Agreement.
- (5) Following execution of this Instrument of Transfer, the interests of Albpetrol and Contractor shall be as defined in the said Petroleum Agreement.

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IN WITNESS WHEREOF, the parties have executed this Instrument of Transfer the day and year first above written:

SIGNED by

duly authorised for and

on behalf of

"Albpetrol"

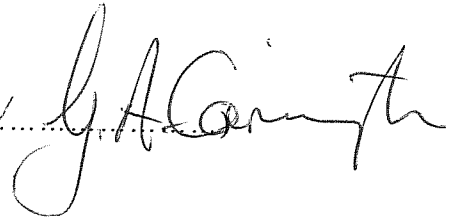
(*Ylli Gjoni* )

SIGNED by

duly authorised for and

on behalf of

"Sherwood International Petroleum Ltd."

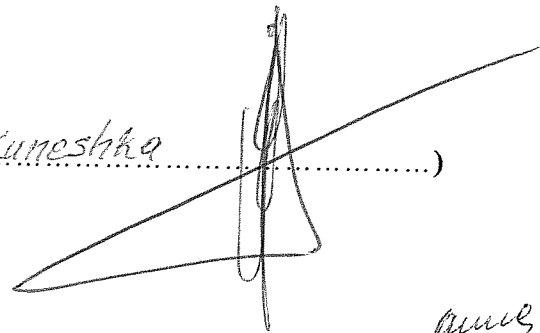
(*Geoff Carrington* )

SIGNED by

duly authorised for and

on behalf of

"AKBN"

(*Milo Kuneshka* )

Ac *amc.*

ANNEX F

TAKEOVER PROCEDURE

A. General Take Over Procedures

Promptly after the Effective Date, Albpetrol and Contractor shall undertake a transfer of operating responsibilities for the Project Area. This includes, without limitation, the transfer and delivery to Contractor by AKBN, Albpetrol and any of their Affiliates of the following assets, rights, documents and materials located in the Contract Area or at their respective offices, and used or useful in connection with activities in the Project Area. The assets, rights, documents and materials will be substantially the same as those described in the License Agreement and this Agreement.

B. Well Take Over Procedures

1. Contractor Responsibilities

a. Contractor Notice:

- i. Contractor will provide Albpetrol with a preliminary list of wells intended for take over for each Calendar Quarter, within thirty days of the start of that Calendar Quarter. This preliminary list may be revised after well file information and well and casing condition are verified.
- ii. Two weeks notice will be provided prior to required take-over date.
- iii. If Contractor elects to perform preliminary casing verification work utilising Albpetrol tractor rig and services, the take over is not official until Contractor has provided written notice of its acceptance of well conditions. For the purposes of calculating Deemed Production of a particular well, the effective date of the well take over will be retroactive to the date the preliminary casing verification work commenced. If preliminary well verification work is performed, and Contractor elects not to take over the well, then Contractor shall compensate Albpetrol for lost production during the period that the well was shut in for verification work. Compensation shall be paid in kind, based on the average daily production in the ten days preceding the shutting in of the well.
- iv. If Contractor elects to add additional wells not provided in the preliminary list for that Calendar Quarter, Albpetrol will not unreasonably withhold or delay such approval provided, however, that if it is reasonable to do so Albpetrol may not approve such additional wells until the following Calendar Quarter.

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b. Well Data and Services for Wellbore Integrity.

- i. Contractor will make request for required information either with the notice delivered two weeks prior to the Calendar Quarter or at any other time.
- ii. Contractor will submit program requirements for well casing verification to Albpetrol and the other requested services Albpetrol is required provide. It is Contractor's intent to only take over wells which do not exhibit significant down hole casing or well bore integrity problems. Should a well be found to have such damage, Contractor will have Albpetrol re-run equipment as to the condition prior to servicing at Contractor's cost, and Contractor will have no further liabilities associated with such well. Only with final take-over of the well does Contractor take on liabilities for any well (provided that liability for conditions prior to take over remain with Albpetrol as per the Petroleum Agreement).
- iii. Contractor may request Albpetrol to carry out tractor rig services to verify casing integrity and other wellbore cleanout work as required by Contractor's program. Contractor and Albpetrol will agree to a Service Agreement outlining conditions and costs for Albpetrol's services on terms similar to those available from arm's length third parties. A Request for Services (RFS) will be submitted by Contractor with the program should it require Albpetrol's services.

c. Lease Construction

- i. Contractor will remove Albpetrol's derrick and equipment to Albpetrol's designated location within the Contract Area at Contractor's cost when the well is being taken over for production operations and not in situation where it is taken over only for suspension of Albpetrol's operations within designated reservoir area or for monitoring purposes.
- ii. Contractor will remove contamination to Albpetrol's designated contaminated soil site at Contractor's cost. Environmental Damages for removed material remains with Albpetrol as being a pre-existing condition.
- iii. Contractor may request Albpetrol to carry out removal of contaminated soils, removal of derrick and equipment and possibly construction of new lease. Such requests will be made through a Request For Services ("RFS") and be carried out in accordance with an agreed Service Agreement.
- iv. Contractor will reconstruct lease to its standards and as per Environmental permit and regulations.

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d. Takeover Wells for Monitoring

- i. Contractor may take over wells but not place on active production for reasons of monitoring reservoir conditions and for optimal reservoir recovery and spacing requirements.
- ii. Liability for future operations on these wells will be limited to the wellbore and any fluids released from them. Contractor will not be required to remove Albpetrol's equipment from these leases, nor remove any contamination. Should equipment be required by Albpetrol (except for down hole tubing which may be required to remain in the hole), Albpetrol is entitled to remove it at its cost and in its current condition. Wellhead will remain secured and locked, and power to site de-activated.
- iii. The only inventory recorded for transfer will be related to the wellhead and down hole.
- iv. Contractor will have free access to this site.

e. Inventory

- i. On prior day to official take-over Contractor representatives will meet at site to take an inventory of equipment to be taken over by Contractor.
- ii. Inventory will be included in a take-over release form to be signed by both Albpetrol and Contractor representatives. This will include pre-existing liabilities for Albpetrol and assumption of lease by Contractor at these conditions.
- iii. It should be noted that inventory taken over may not be available in the future due to operations consumption and deterioration, and Contractor is not liable in any way to return such.

f. Pre-Existing

- i. Pre-Existing production will be calculated based on formula in the Petroleum Agreement and based upon production data supplied by Albpetrol. Contractor has the right to review in details such calculations and methods for past calculation. Once accepted by both Parties this production will be the basis for future pre-existing calculations.

2. *Albpetrol Responsibilities*

a. Handover Well Site

- i. Albpetrol will provide well and site to Contractor within two weeks.

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b. Well Data

- i. Albpetrol will provide by the 15th day of each subsequent month production data (net oil, water, sand and producing hours) for all wells within the Contract Area that are Operated by Albpetrol.
- ii. Albpetrol will provide well file information (either copy of original) within one week of request from Contractor, whether for a take-over well or otherwise.

c. Pre-Existing Conditions

- i. Pre-existing conditions will remain the liability of Albpetrol. Contaminated materials removed from the site prior to the take-over date will go to Albpetrol's designated storage and remediation site and remain Albpetrol's liability.
- ii. As per the Petroleum Agreement, a Baseline Study will be performed on each well prior to take-over to identify pre-existing conditions. Albpetrol will cooperate with any such study. No further activities will occur on these sites once this has been completed and Contractor has taken over the well (whether for monitoring or for production).
- iii. Any activities by Albpetrol on well sites taken over will result in immediate default by Albpetrol of previous and future pre-existing production obligations by Contractor, with all liabilities passed to Albpetrol, unless Contractor accepts Albpetrol's cessation of such activities and resumption of take over responsibilities.

d. Well Site Services & Lease Construction

- i. It is Contractors intent to utilise Albpetrol's tractor rig for casing integrity verification well services prior to accepting some leases. Albpetrol will offer if available a tractor rig unit for Contractor within notice period and as per agreed Service Agreement.
- ii. For well bores only which are taken over (not wellsite) by Contractor, Albpetrol will provide free access to Contractor. Albpetrol will ensure wellsite power is deactivated. All surface equipment and lease conditions will remain Albpetrol's responsibility. Any removal of surface equipment will be at Albpetrol's discretion and cost.

e. Inventory & Release

- i. On the day prior to official take-over Contractor representatives will meet at site to take an inventory of equipment to be taken over by Contractor.
- ii. Inventory will be included in a take-over release form to be signed by both Albpetrol and Contractor representatives. This will include pre-existing liabilities (except environmental liabilities) for Albpetrol and assumption of lease by Contractor at these conditions.

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- iii. It should be noted that inventory taken over may not be available in the future due to normal wear and tear and consumption of consumable material, and Contractor is not liable in any way to return inventory in the condition in which it was delivered to Contractor.

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