

Pursuant to Article 39 and Article 39a paragraph 6 of the Law on Exploration and Production of Hydrocarbons (Official Gazette of MNE 41/10 and 62/13), the Ministry of Economy adopted

RULEBOOK ON DEVELOPMENT AND PRODUCTION OF HYDROCARBONS

Article 1

This Rulebook regulates in details the contents of the Program for Development and Production of Hydrocarbons (hereinafter referred to as Development Program), the contents, manner and deadlines for filing the application for authorisation of production testing, the approval for production of hydrocarbons as well as the production report.

Program for Development and Production of Hydrocarbons

Article 2

- (1) The Concessionaire shall develop the Development Program and submit it along with the supporting documents to the administration authority competent for hydrocarbons (hereinafter referred to as administration authority) for approval in accordance with the law.
- (2) One counterpart of the Development Program shall be submitted in the form of a digital copy.
- (3) In the course of the procedure of awarding the approval to the Development Program, the environmental impact assessment shall be considered.

Contents of the Development Program

Article 3

- (1) Development Program shall include several alternative solutions for development and production of a specific deposit, the solutions for drilling hydrocarbons, project solutions for facilities that are to be installed and used.
- (2) Development Program is based on rational usage of hydrocarbons reserves, and the existing facilities are used when it is possible from technical, economic, safety, environmental and hydrocarbon resource management aspect.
- (3) In addition to the elements envisaged by the law, the Development Program includes as follows:

- 1) Description of the development strategy and development model, including:
 - criteria for proposed solutions, including a brief summary of alternative solutions not selected;
 - description of development stages;
 - tie-ins with other production fields or facilities; if any; and
 - if necessary: coordination with other upstream activities.
- 2) Description of geological and deposit engineering aspects with particular references to analyses and geological evaluation, deposit engineering and production engineering features, and considerations forming the basis for the selection of the production system;
- 3) Description of potential additional planned exploration activities;
- 4) Projected Production schedule, including an evaluation of impact of the connection to existing or planned facilities and production fields;
- 5) Copies of issued licenses and approvals for execution of upstream activities in accordance with the law;
- 6) Technical description of the forecasted facilities for production including:
 - a) number of wells;
 - b) building, placement and operation of facilities required at the production field and elsewhere as required ;
 - c) equipment for production;
 - d) the use of produced Hydrocarbons as fuel in the upstream activities;
 - e) injection of any component such as hydrocarbons, gases, liquids – including water, or chemicals - including solids;
 - f) measurement and storage of hydrocarbons;
 - g) pipelines, including the off-take system for transportation of oil or other hydrocarbons to buyers; and
 - h) storage and loading facilities.
- 7) Description of technical solutions for production, including solutions aimed at preventing and minimizing the flaring or venting of hydrocarbons or pressure and environmentally harmful discharges and emissions;
- 8) The plan for placement and operation of the facilities for transport or storage including:
 - a) description of the facilities, deposit or areas that are required to provide transportation or storage for, including analysis and calculations of the production and engineering features of the deposit which comprise the

- basis of the plan for placement and operation of a transportation or storage facility;
- b) Estimated volumes of hydrocarbons expected to be transported, evaluation of the impact of connections with existing or projected transportation or storage facilities;
 - c) Confirmation of resolved property-legal relations in case of use of land;
 - d) Technical description of facilities and equipment planned to be integrated, including an outline of the transportation route, as well as details of the storage facilities;
 - e) Information on management systems, including information on planning, organisation and development implementation for a production field;
 - f) Description of how existing facilities, appurtenant equipment and other infrastructure will be used;
 - g) Description of the procedures planned to be used to reach the objectives predefined in the plan;
 - h) Description of safety objectives and risk evaluations which justify the selection of the specific development concept for a production field;
 - i) A description of technical solutions for storage and production, including solutions to prevent and minimize environmentally harmful discharges and emissions, and technical measures for responding to emergency situations;
 - j) Information regarding the ownership of the transportation or storage facility;
- 9) List of quality standards to be applied in implementation of the Development Program;
- 10) Information on operation and maintenance of facilities;
- 11) Description of the overall safety objectives and the fundamental safety and working environment assessments which form the basis for a certain development model, including a description of technical measures for emergency purposes;
- 12) The proposed measures for mitigating adverse effects on the environment required by the findings following from the environmental impact assessment;

- 13) Summary of policies and procedures for implementation of the Development Program, operating procedures and facility maintenance procedures which will be implemented;
 - 14) Proposed point of delivery of hydrocarbons extracted from each production field;
 - 15) Information on economic evaluations and analyses which have been decisive for the preference of the development model, and estimates of capital costs, operating and decommissioning costs, description of how the project will be funded;
 - 16) Information on the cessation of activities and decommissioning of the facilities, including manner of funding as stipulated by the law and the production concession contract;
 - 17) Information on how the hydrocarbons shall be marketed;
 - 18) Schedule for the implementation of the Development Program;
 - 19) Manner of providing financial resources for the implementation of the Development Program;
 - 20) Information regarding other hydrocarbon resource management issues.
- (4) The concessionaire shall propose the delineation of the production field in the project part of the Development Program.
 - (5) The information referred to in paragraph 3 item 16 of this Article shall be updated every five years from the day of issuance of the approval to the Development Program.

Test Production Application

Article 4

- (1) In order to test production, the concessionaire shall file an application to the administration authority in accordance with the law.
- (2) Test production application shall include the following:
 - a) description of the purpose of the test production;
 - b) description of geological and deposit related engineering aspects;
 - c) a plan and a program for test production;
 - d) description of the facilities which will be used, their capacities and capabilities;

- e) description of systems and equipment for metering hydrocarbons;
- f) a detailed and itemized test budget;
- g) description of required safety and environmental protection systems planned or implemented.

(3) Test production authorisation envisages the test procedure, volumes and if required flaring and venting of hydrocarbons, and it also may include special measures related to health, safety, work environment and environmental protection.

(4) Hydrocarbons produced during test production shall, unless otherwise specified in the test production authorisation, be treated according to the law and shall be stored for subsequent utilization or sale.

Application for Hydrocarbon Production Authorisation

Article 5

- (1) Application for production authorisation shall be filed by the concessionaire in accordance with the law, but no later than 45 days prior to the planned commencement of the production.
- (2) The application for hydrocarbon production authorisation shall include as follows:
 - a) The Production schedule for each deposit and production field;
 - b) The monthly and annual production reports of the previous year;
 - c) Deposit monitoring data, analysis and other related data with comments on deviations on previous forecasts;
 - d) Estimated monthly production volumes of the deposits and production field, and for the period applied for;
 - e) Estimated total production volumes for each deposit and production field, and the period applied for; and
 - f) Estimated volumes requested to be flared, ventilated or injected volumes during the period applied for.
- (4) Subsequent applications for a production authorisation shall be submitted to the administration authority no later than 45 days prior to the expiry of the existing production authorisation.

(5) The production authorisation shall identify the volume of hydrocarbons which may be extracted and consumed, injected, flared or vented, and be based on the production schedule in line with the Development Program.

(6) A production authorisation may be awarded for each individual well, deposit or production field.

Monitoring of Deposit Production Performance

Article 6

(1) The operator shall regularly monitor the deposit production performance in order to ensure the best possible recovery of hydrocarbons.

(2) In each distinct zone of each well, including injection wells and other indicators, the Operator shall measure and determine the pressure and flow conditions, the quality of extracted oil, gas, accompanying hydrocarbons and water, as well as the location of the contact zones between oil, gas, accompanying hydrocarbons and water.

(3) Documentation on deposit monitoring shall be submitted to the administration authority.

Reports on Production Operations

Article 7

(1) Upon obtaining the authorisation and the commencement of the implementation of the Development Program, i.e. the commencement of the production, the Concessionaire shall prepare and submit production reports to the administration authority in accordance with the law.

(2) Oil data shall be reported in Barrels and metric tonnes, and other Hydrocarbons data shall be reported in cubic meters, metric tonnes and calorific value.

(3) The report referred to in paragraph 1 of this Article shall be submitted on daily, monthly and annual basis.

(4) The daily report referred to in paragraph 1 of this Article shall include but not be limited to the following:

- a) The total produced quantity per well or well path and facility in the previous 24 hours;
- b) Allocated, value adjusted, marketable hydrocarbons products produced per facility or production field, including:
 - The quantity and quality characteristics of oil produced;
 - The quantity and quality characteristics of other hydrocarbons produced;or

- The quantities of hydrocarbons re-injected into the deposits;
 - c) In respect of the production field as a whole, the quantities of hydrocarbons transferred at the production field exit point as stipulated by an approved Development Program for that production field;
 - d) Sales of oil, *per cargo*;
 - e) Sales of other hydrocarbons such as gas, NGL and condensate, per owner and buyer.
- (5) The monthly report shall include but not be limited to the following:
- a) An aggregate of the information provided in the daily production reports;
 - b) Import and export per facility;
 - c) The total consumption of hydrocarbons per facility;
 - d) The quantities of hydrocarbons or pressure discharged, flared or vented;
 - e) The quantities of hydrocarbons re-injected into the deposits;
 - f) The size of hydrocarbons stocks held at the beginning of the month in question;
 - g) The size of hydrocarbons stocks held at the end of the month in question;
 - h) Production forecasts for the coming month.
- (6) An annual production report for each deposit and production field shall be submitted to the Ministry of Economy and the administration authority by 1 February of the current year for the previous year.
- (7) The annual production report shall include an aggregate of the monthly production reports and provide information regarding other relevant matters relating to production from each deposit within the production field, including measures taken during the preceding period, and measures planned to be carried out in the coming year.
- (8) In addition to the information referred to in paragraph 6 of this Article the annual report shall also include the following:
- a) A general production field status, including estimation of hydrocarbons reserves;
 - b) An activity report for the previous year;
 - c) Descriptions of plans for the period ahead.

Article 8

This Rulebook shall enter into force on the eighth day after its publication in the Official Gazette of Montenegro.

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MINISTER

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