

Pursuant to Article 95, item 3 of the Constitution of Montenegro, I hereby pass the

**DECREE PROMULGATING THE LAW ON EXPLORATION AND PRODUCTION OF
HYDROCARBONS**
**(Official Gazette of Montenegro, No 41/10 of 23 July 2010, 40/11 of 8 August 2011,
62/2013 of 31 December 2013)**

I hereby promulgate the Law on Exploration and Production of Hydrocarbons adopted by the 24th assembly of the Parliament of Montenegro at the eight sitting of its first regular session in 2010 held on 9 July 2010.

No: 01-1965/2
Podgorica, 19 July 2010

The President of Montenegro
Filip Vujanović, m.p.

Pursuant to Article 82 paragraph 1 item 2 and Article 91 paragraph 2 of the Constitution of Montenegro, the Parliament of Montenegro of the 24th assembly, at the eight sitting of its first regular session in 2010 held on 9 July 2010 adopted the

LAW ON EXPLORATION AND PRODUCTION OF HYDROCARBONS

I BASIC PROVISIONS

Subject-Matter Article 1

This Law governs the conditions, the manner of and the procedure for the exploration and production of hydrocarbons, as well as other matters important for the exploration and production of oil and gas.

Hydrocarbons Ownership Article 2

Hydrocarbons shall represent natural wealth in the state ownership.

Carrying out Activities Article 3

- (1) A business organisation, legal entity or natural person authorised pursuant to a concession contract entered into in accordance with this Law may conduct an activity in the exploration and production of hydrocarbons.
- (2) The activity referred to in paragraph 1 of this Article shall include the planning, preparation, and activities related to the exploration, development and production of hydrocarbons from

deposits, as well as the construction, use, decommissioning and removal of facilities (hereinafter referred to as: the Operations).

Exploration and Production

Article 4

- (1) The right to exploration and production of hydrocarbons may be granted to one or more business organisations, legal entities or natural persons, by way of a concession contract entered into in accordance with this Law.
- (2) The right to exploration and production of hydrocarbons may be granted to a foreign legal entity or natural person, provided that the data on operations, ownership, financial and fiscal records in country where such entity or person has a registered office or habitual residence are accessible to the state authorities of Montenegro.
- (3) The right to exploration and production of hydrocarbons may also be granted to a business organisation wherein the state has ownership share and to a legal entity established by the State under conditions set forth under this Law.
- (4) Granting rights to exploration and production of hydrocarbons shall be based on non-discriminatory and transparent principles.
- (5) The Grantor may withhold the right to exploration and production of hydrocarbons due to national security reasons.
- (6) Provisions of paragraph 2 of this Article shall also apply to an operator of upstream pipeline network.
- (7) An Operator referred to in paragraph 6 of this Article not being a concessionaire shall be obliged to act in accordance with this Law.

Exclusion of Application of other Laws

Article 5

- (1) Provisions of the law governing concessions shall not apply to the procedure of awarding concessions and contracts for the exploration and production of hydrocarbons.
- (2) Provisions of laws governing geological explorations and mining shall not apply to the exploration and production of hydrocarbons.

Meaning of Terms

Article 6

The terms, as used in this Law, shall have the following meaning:

- 1) **Hydrocarbons** shall mean any kind of hydrocarbons occurring in their natural state in the subsoil or the seabed, in a liquid or gaseous state, as well as crude mineral oil, natural gasoline, natural gases, and other substances capable of being extracted together therewith from a Deposit;
- 2) **Oil** shall mean a Hydrocarbon that once extracted from a Deposit remains liquefied under normal atmospheric pressure and temperature;

- 3) **Gas** shall mean a Hydrocarbon being free or associated natural gas as it appears in its natural state within the Earth's crust;
- 4) **Deposit** shall mean an elementary and independent accumulation of Hydrocarbons within the Earth's crust, confined by structural and stratigraphic boundaries;
- 5) **Block** shall mean a geographically delineated part of the onshore or the sea by coordinates, intended for the exploration and production;
- 6) **Production** shall mean the Operations related to the extraction of Hydrocarbons from the Deposit, separation and initial processing thereof, preparation of Oil or Gas for production, transportation or storage, liquefaction of Gas, as well as landing of Hydrocarbons to a terminal in facilities subject to the jurisdiction of Montenegro ;
- 7) **Production Field** shall mean the part of the onshore or the offshore area covered by the Deposits within the boundaries of an area defined by the Production Contract award through the same Production Facilities;
- 8) **Exploration** shall mean the Operations of geological, geophysical or other forms of detailed surveys of the Earth's crust by applying an appropriate method aimed at establishing the presence of Hydrocarbons and characteristics of the Deposit, except for drilling a Well;
- 9) **Discovery** shall mean an evidence on the presence of a Hydrocarbons' Deposit previously not recorded;
- 10) **Well** shall mean a borehole made in the subsoil by drilling performed for the purpose of penetrating a Hydrocarbons bearing strata or for the Production, except for shallow drilling for seismic calibration purposes;
- 11) **Concession Contract** shall mean a contract entered in writing between the Grantor and a Concessionaire governing mutual rights and obligations in the Exploration or Production of Hydrocarbons in the manner and under procedure stipulated by this Law;
- 12) **Concessionaire** shall mean a business organisation, legal entity or natural person which acquired right to Exploration or Production by way of a Concession Contract, pursuant to this Law;
- 13) **Territory of Montenegro** shall mean onshore down to the lower part of the Earth's crust and the offshore area within internationally recognized borders of Montenegro in accordance with international law;
- 14) **Offshore** shall include internal waters, territorial sea, economic zone, and the epicontinental strip of Montenegro and shall spread from the sea surface to the lower part of the Earth's crust, and other zone in accordance with international law;
- 15) **Installation** shall mean floating, fixed or movable vessel, vehicle, watercraft, device, structure, facilities, or equipment for the Exploration and Production of Oil or Gas, except pipeline, vessel, vehicle or watercraft used for the purposes of transporting Oil or Gas in bulk;
- 16) **Facilities** shall mean one or more installations, plants, structures, devices, pipelines or lines used for the Exploration or Production of Hydrocarbons or transportation or storage associated with the Production;
- 17) **Operator** shall mean Concessionaire executing directly Hydrocarbons Operations;
- 18) **Upstream Pipeline Network** shall mean pipeline or network of pipelines operated or constructed in the function of the Production of Hydrocarbons, or used to convey Gas from one or more Production Facilities to a processing plant, a terminal or a final landing terminal, except for parts of Facilities used for local Production from a Deposit where Gas is extracted;
- 19) **Natural Gas Operator** shall mean a business organisation, legal entity or natural person carrying out the activity of production, transmission, distribution, supply, trade in or storage of Gas, including liquefied natural gas (LNG), in accordance with law;
- 20) **Upstream** shall mean Operations for the purpose of extracting Hydrocarbons from Deposits and the construction or use of Facilities, for the purpose of Production and delivery of Oil and Gas, including Exploration, drilling of Wells, Production, transportation and use of Oil and Gas for Production purposes, except for transportation of Oil or Gas in bulk by railborne vehicles, aircrafts, roadborne vehicles, or watercrafts;

- 21) **Decommissioning** shall mean planning, preparation, and execution of works or activities required for the cessation of Operations, including dismantling and disposal of Facilities.

II ADMINISTRATIVE AND EXPERT AFFAIRS RELATED TO HYDROCARBONS

Competency of the State Administration Authority

Article 7

- (1) The administration authority competent for Hydrocarbons (hereinafter referred to as: the Administration Authority) shall perform administrative and expert affairs in the field of Exploration and Production of Hydrocarbons which include:
- 1) Preparing technical basis for the adoption of regulations for the implementation of this Law;
 - 2) Preparing technical proposals for the delineation of Blocks intended for the Exploration and Production of Hydrocarbons;
 - 3) Preparing public invitation for the award of a Concession Contract and conducting the procedure for awarding the Concession Contract;
 - 4) Preparing the draft Concession Contract;
 - 5) Issuing a consent to the Exploration work program (hereinafter referred to as: the Work Program) and Drilling Program or wells plans;
 - 6) Issuing a consent to the Program for Development and Production, Deposit verification, plan for the cessation of production activity and the decommissioning of facilities;
 - 7) Keeping records on concluded Concession Contracts,
 - 8) Collecting and managing data and documentation related to the Exploration and Production of Hydrocarbons;
 - 9) Calculating the Exploration Concession Fee;
 - 10) Calculating the Concession Fee for produced Oil and Gas;
 - 10a) Calculating annual amount of funds paid into the account for facilities decommissioning;
 - 11) Establishing fulfilment of requirements for carrying out works in accordance with the mandatory Work Program, Program for Development and Production, and the decommissioning plan;
 - 12) Establishing fulfilment of requirements for the Facilities for Exploration and Production of Hydrocarbons and approval of the use thereof;
 - 12a) Registering and classifying wells;
 - 12b) Issuing approvals for testing and Production of Hydrocarbons;
 - 12c) Approving Wells or change of Well paths;
 - 13) Control over the execution of obligations undertaken under the Concession Contract, and other tasks in accordance with this Law.
- (2) The state administration authority competent for Hydrocarbons (hereinafter referred to as: the Ministry) shall set forth the content of records on concluded contracts and other requirements for the execution of works, design and construction of Facilities referred to in paragraph 1, items 7, 11 and 12 of this Article by way of its regulation.

III BLOCKS FOR EXPLORATION AND PRODUCTION OF HYDROCARBONS

Delineation into Blocks

Article 8

- (1) The Block shall be, as a rule, rectangular and cannot exceed the surface of 1,000 square kilometres for the onshore territory of Montenegro or 1,500 square kilometres for the Offshore.
- (2) The delineation into Blocks shall be carried out in accordance with the spatial planning documents, based on the analysis of results of previous Explorations and executed environmental impact assessments of the Exploration and Production of Hydrocarbons, in accordance with a law governing the environmental impact assessment.
- (3) The Government of Montenegro (hereinafter referred to as: the Government) shall define Blocks intended for the Exploration and Production of Hydrocarbons.
- (4) The Concession Contract may pertain to one or more blocks or part or parts of Blocks for Exploration and Production of Hydrocarbons designated as parts due to passing of the State borderline, spatial planning constraints, environmental protection or due to relinquishment of parts of the awarded Block area.

Limitation for Awarding a Concession Contract

Article 9

Production Concession Contract may be entered into with a single Concessioner covering no more than 50% of the total acreage of all Blocks designated for the Production.

Relinquishment of the Block

Article 10

- (1) The Concessionaire shall be obliged to relinquish a portion of the acreage of the Block granted during the Exploration Phase and before commencing the Hydrocarbons Production Phase, in accordance with this Law and the Production Concession Contract.
- (2) The Government shall stipulate in more details the conditions, deadlines and methods for the relinquishment of acreage referred to in paragraph 1 of this Article by way of its regulation.
- (3) Relinquishment of part of the awarded area referred to in paragraph 1 of this Article shall be done free of charge and a relinquished part of the area may be subject to a new public invitation for award of the Production Concession Contract.
- (4) The Government shall issue a consent concerning the form and size of the area retained.
- (5) In the event the Exploration phase is extended, the Concessionaire shall be obliged to relinquish at least 50% of the area awarded under the Production Concession Contract, at the beginning of the extended Exploration Phase, less area covered by a Production field.

IV AWARDING AN EXPLORATION CONCESSION CONTRACT

Subject-Matter of an Exploration Concession Contract

Article 11

- (1) Subject-matter of an Exploration Concession Contract may be a right to geological, geophysical or other form of detailed surveys of the Earth's crust, except for the drilling of Wells, aimed at establishing the structural and tectonic characteristics of the subsoil and assessing the presence of Hydrocarbons.
- (2) Exploration of Hydrocarbons shall be carried out on the acreage delineated by the Block referred to in Article 8 of this Law whereat the extent of previous Explorations was not sufficient.
- (3) Right to the Exploration of Hydrocarbons shall be acquired by way of concluding an Exploration Concession Contract, in accordance with this Law.

Public Invitation for Awarding an Exploration Concession Contract

Article 12

- (1) Pursuant to a decision of the Government, the Ministry shall announce a public invitation for submitting applications for the granting of rights to Exploration and the concluding an Exploration Concession Contract for one or more Blocks.
- (2) The public invitation referred to in paragraph 1 of this Article shall be published in the *Official Gazette of Montenegro*, at least one daily printed media outlet in circulation on the territory of Montenegro and at least one referential international economic publication.
- (3) The deadline for the submission of applications under the public invitation for awarding the Exploration Concession Contract cannot be shorter than 30 days from the day the public invitation has been published in the *Official Gazette of Montenegro*.
- (4) The public invitation for awarding the Exploration Concession Contract shall indicate, *inter alia*, the following:
 - 1) Subject-matter of the contract and geographic coordinates of the Blocks available;
 - 2) Types and extent of previous Explorations undertaken in the area designated for awarding the Exploration Concession Contract;
 - 3) Geological information on the Exploration space;
 - 4) Technical, organisational and financial requirements that a Concessionaire must meet;
 - 5) Criteria for granting the Exploration Concession Contract;
 - 6) Documents to be submitted as part of the application in response to the public invitation;
 - 7) Application submission deadline and method, and deadline by which the application may be withdrawn;
 - 8) Form and amount of guarantee, if guarantee is requested;
 - 9) Person in charge of providing additional information;
 - 10) Amount of the fee for purchasing tender documents;
 - 11) Other information or data relevant to awarding the Exploration Concession Contract.
- (5) The tender documents referred to in paragraph 4 item 10 of this Article shall contain instructions for the preparation of application, the content and manner of submission of application, as well as other data relevant to the Exploration Concession Contract award procedure, in accordance with this Law.

(6) Work Program must be submitted along with the application.

Requirements for Awarding an Exploration Concession Contract **Article 13**

- (1) An Exploration Concession Contract may be awarded for a period not exceeding two years.
- (2) The Exploration Concession Contract may be awarded to a business organisation, legal entity or natural person that has experience in the Exploration and meets financial and technical requirements as defined in the public invitation for the award of the Exploration Concession Contract.

Core Elements of an Exploration Concession Contract **Article 14**

The Exploration Concession Contract shall contain, *inter alia*, the following:

- 1) Parties to the Contract;
- 2) Rights and obligations of parties to the Contract;
- 3) Geographic coordinates of acreage of the Block awarded;
- 4) Type and schedule of works to be performed according to the Work Program;
- 5) Rights to dispose with the data obtained during the Exploration;
- 6) Type and amount of a contract performance guarantee;
- 7) Manner of control over the performance of contractual obligations;
- 8) Conditions for amendments to or termination of the Contract;
- 9) Duration of the awarded Contract;
- 10) Manner of dispute resolution, and other matters relevant to the Exploration.

Application and Procedure **Article 15**

- (1) The application in response to the public invitation for awarding an Exploration Concession Contract shall be submitted to the Administration Authority.
- (2) The Administration Authority shall carry out the procedure of opening, verification, evaluation and scoring of the applications.
- (3) A committee, having at least three members, formed by the Administration Authority, shall carry out the procedure referred to in paragraph 2 of this Article.
- (4) Timely submitted applications, containing requested documents, shall be considered in the procedure referred to in paragraph 2 of this Article.
- (5) The Committee shall, based on the criteria stated in the public invitation and tender documents, compile a ranking list of applicants (hereinafter referred to as: the Bidders) with the related reasoning and report on procedure conducted upon the public invitation.
- (6) Untimely applications and applications not containing documents requested under the public invitation and tender documents shall not be evaluated.

- (7) During the process of carrying out the procedure referred to in paragraph 2 of this Article, the Committee shall keep minutes, to be signed by the Committee members.
- (8) The Administration Authority shall submit to the Ministry the ranking list, with the reasoning and report on the procedure carried out, the minutes on the course of the procedure and documents submitted by the Bidders.

Rights of Bidders **Article 16**

- (1) The Ministry shall publish the Bidders' ranking list on the notice board and internet page of the Ministry.
- (2) Each Bidder shall be entitled to an insight into the documents referred to in Article 15 of this Law within eight business days as of the day the ranking list was published on the internet page.
- (3) The Bidder shall be entitled to lodge complaint in respect of the ranking list to the Ministry within eight days as of the expiry of the deadline referred to in paragraph 2 of this Article.
- (4) The Ministry shall be obliged to decide upon the complaint referred to in paragraph 3 of this Article within eight days as of the day the complaint was lodged.
- (5) The Ministry shall submit to the Government the report on the procedure conducted upon the public invitation, the ranking list with the reasoning, and the proposal of the Concession Contract for decision-making.

Decision on Awarding an Exploration Concession Contract **Article 17**

- (1) The Government may award an Exploration Concession Contract to one or more Bidders, or annul the public invitation within 30 days as of the receipt of the ranking list and report referred to in Article 16 of this Law.
- (2) The decision on awarding the Exploration Concession Contract or annulment of the public invitation shall be published in the *Official Gazette of Montenegro*.

Submission of Exploration Results **Article 18**

- (1) The Concessionaire shall be obliged to submit to the Administration Authority a detailed study on results of the Exploration within six months as of the day of the completion of works set forth by the Work Program.
- (2) The Ministry shall prescribe the content of the detailed study referred to in paragraph 1 of this Article.

V AWARDING A PRODUCTION CONCESSION CONTRACT

Production of Hydrocarbons Article 19

The Production of Hydrocarbons may be carried out only based on a concluded Concession Contract for the Production of Hydrocarbons (hereinafter referred to as: the Production Concession Contract), in accordance with this Law.

Public Invitation for Awarding a Production Concession Contract Article 20

- (1) The Ministry shall publish a public invitation for submitting bids for awarding production rights and entering into a Production Concession Contract for one or more Blocks, with prior consent of the Government.
- (2) The public invitation referred to in paragraph 1 of this Article shall be published in the *Official Gazette of Montenegro*, at least one daily printed media outlet with circulation on the territory of Montenegro, and at least one referential international economic publication.
- (3) The deadline for the submission of bids under the public invitation referred to in paragraph 1 of this Article cannot be shorter than 90 days as of the day the public invitation has been published in the *Official Gazette of Montenegro*.
- (4) The public invitation referred to in paragraph 1 of this Article shall contain, *inter alia*, the following:
 - 1) Subject-matter of the Concession and geographic coordinates of the Block;
 - 2) Geological information on the acreage intended for Exploration;
 - 3) Types and extent of previous Explorations,
 - 4) Requirements to be met by the Concessionaire and the Operator (technical, financial, organisational etc.);
 - 5) Criteria for awarding of the Production Concession Contract,
 - 6) Deadline for the submission of bids and the selection of Concessionaire,
 - 7) Types of security;
 - 8) Person in charge of providing additional information;
 - 9) Amount of fee to be paid for the bid submission;
 - 10) Instructions for the preparation, content and manner of submission of the bid;
 - 11) Other information or data relevant to the award of the Production Concession Contract.

Data Relevant to Awarding a Production Concession Contract Article 21

- (1) The Administration Authority shall prepare data for the submission of bids upon a public invitation referred to in Article 20, paragraph 1 of this Law.
- (2) The data referred to in paragraph 1 of this Article shall include, *inter alia*, the following:
 - 1) Surface and geographic coordinates of the Block to be awarded;
 - 2) Technical reports on the Oil and Gas evaluation;
 - 3) List of available geological and Hydrocarbon-related geological data with prices and the way how those can be accessed;

- 4) Requirements as imposed by spatial planning documentation;
 - 5) Requirements concerning the environmental protection;
 - 6) Features of local and regional Gas markets;
 - 7) Information on existing infrastructure;
 - 8) Data on ownership rights in respect of immovable property in case of the Production from onshore Deposits or installation of Facilities onshore.
- (3) In addition to the data referred to in paragraph 1 of this Article, copies of legislation governing the matters of importance to the Operations covered by the Production Concession Contract shall also be enclosed.

Bidder-Proposed Work Program Article 22

- (1) Proposed Work Program must be submitted along with the bid to the public invitation.
- (2) The proposed Work Program referred to in paragraph 1 of this Article shall include description and the duration of the:
- 1) Exploration phase;
 - 2) Reserves verification phase.

Manner of Conducting the Procedure Article 23

The Administration Authority shall conduct the procedure upon the public invitation for awarding the Production Concession Contract in accordance with Articles 15 and 16 of this Law.

Decision on the Award of the Production Concession Contract Article 24

- (1) The Parliament of Montenegro shall adopt a decision on awarding the Production Concession Contract, upon a proposal of the Government.
- (2) The Government may propose to the Parliament of Montenegro that the Production Concession Contract is awarded to one or more bidders or annul the public invitation within 30 days as of the day of the receipt of ranking list with explanations and report on the conducted procedure for the award of the Production Concession Contract.
- (3) The decision referred to in paragraph 1 of this Article shall be published in the *Official Gazette of Montenegro*.

Production Concession Contract Article 25

- (1) The Production Concession Contract shall contain, *inter alia*, the following:
- (1) Parties to the Contract;
 - (2) Rights and obligations of parties to the Contract;
 - (3) Geographic coordinates of the acreage of the awarded Block;
 - (4) Duration of the Production Concession Contract, (the Exploration, reserve verification, Development and Production phases);

- (5) Amount and manner of payment of the production concession fee and fee for produced oil and gas in accordance with a regulation of the Government;
 - (6) Assets and property provided for use by the Grantor to the Concessionaire;
 - (7) Form and amount of a Contract performance security;
 - 7a) Relationships between concessionaires under;
 - 7b) Determining the Operator;
 - (8) Obligations of the Concessionaire with regard to the environmental protection;
 - (9) Proceedings of the Concessionaire with objects found during the Production Concession Contract period that represent a historical, cultural or natural value;
 - (10) Rights and obligations in the process of control over the execution of Concessionaire's obligations;
 - (11) Manner of control and measurements of produced Oil and Gas quantities;
 - (12) Penalties due to failure of the Concessionaire to meet the Production Concession Contract obligations;
 - (13) Conditions for and manner of cessation of conducting Operations, Decommissioning and removal of Facilities and bringing back the space into original condition;
 - 13a) Treatment of confidential information;
 - (14) Dispute resolution mechanism.
- (2) The Work Program, including number of Wells for Exploration purposes; the manner of Deposit delineation, drilling Wells for appraisal; and undertaking other detailed geological, geophysical and geochemical Operations necessary for the reserve verification and establishment of the commerciality of the Deposit shall make the integral part of the Production Concession Contract.

Fee for the Production Concession Contract and Fee for Produced Oil and Gas Article 26

- (1) The Concessionaire shall be obliged to pay an annual fee for the acreage used pursuant to the Production Concession Contract in accordance with a regulation of the Government.
- (2) The Concessionaire shall be obliged to pay a fee for the produced oil and gas for monthly extracted Hydrocarbons, in a quantity proportional to the produced and delivered Oil and Gas in accordance with the Production Concession Contract.
- (3) The Concessionaire may pay the Fee for Produced Oil and Gas in monetary amount representing an equivalent value of the quantity referred to in paragraph 2 of this Article, in accordance with the Production Concession Contract.
- (4) Calculation of the Fee for Produced Oil and Gas shall be done at the place of extraction as defined under the Hydrocarbons Development and Production Programme.
- (5) The Government shall stipulate the amount, criteria and the manner of payment of the fee referred to in paragraph 1 of this Article, criteria for determining the amount, manner for calculation, documentation used to make the calculation and other matters of importance for calculation of the fee referred to in paragraphs 2 and 3 of this Article by way of its regulation.
- (6) If the Fee for Produced Oil and Gas is paid by delivery of oil and gas, the Concessionaire shall be entitled to refund of costs in accordance with the regulation referred in paragraph 4 of this Article.

- (7) Produced associated Hydrocarbons shall also be included in the calculation of the Fee for Produced Oil and Gas.

VI HYDROCARBONS OPERATIONS

Exploration Phase and Reserves Verification Phase Article 27

The Exploration Phase together with the reserves verification phase cannot exceed six years for onshore block or seven years for offshore block as of the day the Production Concession Contract is signed.

Drilling Operations Article 27a

- (1) The Concessionaire shall be obliged to develop plans and procedures for drilling and for wells operation before the drilling operations are executed, as well as the drilling programme for each Well, which are to be submitted to the Administration Authority for consent.
- (2) The Concessionaire shall be obliged to obtain the approval of the Administration Authority for drilling any individual Well or Well path change deeper than 50 meters.
- (3) The Concessionaire shall be obliged to submit the request for issuing approval referred to in paragraph 2 of this Article by not later than 45 days before the planned commencement of drilling of Well or the Well path change.
- (4) Before commencement of drilling, the Concessionaire shall be obliged to submit a request for classification or registration of Wells by not later than 15 days before the planned commencement of drilling of Well.
- (5) The Concessionaire shall be obliged to notify the Administration Authority about activities carried during the drilling operations and to submit collected samples.
- (6) The Administration Authority may order a change of proposed or previously approved drilling activities, due to efficient resource management or protection of human health, safety or environmental protection reasons.
- (7) The Ministry shall stipulate drilling conditions, collection of samples and manner of reporting, preparation and content of plans and programmes referred to in paragraphs 1 and 2 of this Article and the manner of classification and registration of Wells.

Submission of the Exploration Report Article 28

- (1) The Concessionaire shall be obliged to submit annually to the Administration Authority a detailed report on Exploration activities executed with the Explorations results, in accordance with the schedule set forth by the Production Concession Contract.
- (2) The Concessionaire shall be obliged to submit to the Administration Authority, within six months upon the completion of the Exploration Phase, a detailed study on results of

Exploration activities executed with interpretation of data and analysis of results and documents containing original data and information obtained during the Exploration.

- (3) The Ministry shall stipulate in details the content of the detailed study referred to in the paragraph 2 of this Article and the manner of submission thereof by way of its regulation.

Extension of the Exploration Phase Article 29

- (1) The Government may extend up to two years the duration of the Exploration Phase set forth by the Production Concession Contract, pursuant to the justified request of the Concessionaire, provided that:
- 1) The Concessionaire requires additional time for additional Explorations necessary to declare the Discovery commercial and has met all obligations arising from the Work Program;
 - 2) The Concessionaire failed to complete the obligations from the Work Program due to technical problems that occurred during the Exploration Phase which were unforeseen, and could not be avoided or eliminated.
- (2) The request referred to in paragraph 1 of this Article, along with the program of additional Explorations, shall be submitted to the Ministry at latest six months prior to the expiry of the deadline set forth by the Production Concession Contract.

Expiry of the Exploration Phase Article 30

- (1) The Exploration Phase shall expire with the completion of all works set forth by the Work Program, unless otherwise stipulated by the Production Concession Contract.
- (2) After the completion of the Exploration Phase, the Concessionaire may continue with or surrender contractual obligations, relinquish portion of the awarded Block or terminate the Concession Contract, in accordance with this Law and the Production Concession Contract.

Discovery of Hydrocarbons Article 31

- (1) If the Concessionaire determines the presence of Hydrocarbons by an Exploration Well, the Concessionaire shall be obliged to forthwith, but no later than 15 days from the day of the Discovery, inform the Administration Authority in writing of the location and the nature of the Discovery, and submit available data.
- (2) The Exploration Well referred to in paragraph 1 of this Article shall be considered to be a Well executed for the purpose of verification of Exploration results and determining the presence of Hydrocarbons.

Reserves Verification Phase Article 32

- (1) The Hydrocarbons Reserves Verification Phase shall include Operations necessary for the contouring of the Deposit, including drilling of appraisal Wells and geochemical Explorations to establish the commerciality of the Discovery.
- (2) The Concessionaire shall be obliged to submit to the Administration Authority a detailed program for the verification of Hydrocarbon reserves and request for commencement of the Reserve Verification Phase, before commencing the Reserves Verification Phase.
- (3) The Administration Authority shall be obliged to decide on issuing the consent to the program referred to in paragraph 2 of this Article within 30 days as of the receipt of the request for commencing the Verification Phase.
- (4) The Hydrocarbon Reserves Verification Phase shall begin on the day the decision referred to in paragraph 3 of this Article, issuing the consent to the detailed Reserve Verification program and approving the commencement of the Hydrocarbon Reserves Verification Phase, is delivered to the Concessionaire.

Notification on the Commerciality of the Deposit Article 33

- (1) The Concessionaire shall be obliged to notify the Administration Authority in writing on determining the commerciality of the Deposit within eight days as of determining such commerciality and to submit data on estimated Hydrocarbons reserves, about the intention to commence Production, as well as the detailed description of data, Exploration and evaluation which led to the conclusion on commerciality.
- (2) If the Concessionaire estimates that Deposits covered by the discovery are inadequate for commercial development and Production, it shall be obliged notify the Administration Authority thereof within eight days as of the estimate is made and to submit data on the estimated Hydrocarbon reserves , detailed description of Exploration and evaluation used for estimate, as well as possible measures that may make the Hydrocarbons Production commercial.

Production Field Article 34

- (1) During the Production Phase, the Concessionaire may retain the Production Field, in accordance with the Production Concession Contract, which cannot exceed 150 square kilometres.
- (2) Notwithstanding provisions of paragraph 1 of this Article, in cases of specific Deposit forms and dimensions, and when due to commerciality the Production is performed from several smaller Deposits, the total area the Concessionaire may retain for Production in accordance with the Production Concession Contract cannot exceed 300 square kilometres.

Production Testing
Article 34a

- (1) The Concessionaire shall be obliged to perform the Production Testing from the beginning of the Reserves Verification Phase.
- (2) Production Testing, for the purpose of paragraph 1 of this Article, shall be extraction of Hydrocarbons from the Deposit in order to verify the deposit's Production characteristics or test Hydrocarbons development or Production concepts.
- (3) The Production Testing may last maximum six months and in case of circumstances that could have not been envisaged, the Production Testing period may be extended for additional six months.
- (4) For the purpose of Production Testing or extension of the Production Testing, the Concessionaire shall be obliged to submit a request to the Administration Authority for approval of the Production Testing, or extension of Production Testing.

Development Phase
Article 35

- (1) The Concessionaire shall have the obligation to carry out the Development and Production of Hydrocarbons in such a manner as to ensure the highest rate of recovery, i.e., the highest possible Production of Hydrocarbons from each individual Deposit or aggregately from several Deposits.
- (2) The Development Phase shall include Operations aiming to prepare and improve extraction of Hydrocarbons, as well as the drilling of Wells, construction and commissioning of Facilities or equipment necessary for testing, Production, transportation, and storage of Oil or Gas.
- (3) Within the deadline stipulated by the Production Concession Contract, the Concessionaire shall be obliged to prepare and submit the Program for Development and Production of Hydrocarbons to the Administration Authority for its consent.
- (4) The Program for Development and Production of Hydrocarbons referred to in paragraph 3 of this Article shall propose multiple alternative solutions with respect to the manner of development and Production including the environmental protection measures in accordance with law.
- (5) The Program for Development and Production with proposals referred to in paragraph 4 of this Article shall indicate, *inter alia*, the following: an account of resource, economic, technical, safety, commercial aspects and environmental impacts with data and information on the manner of transport, decommissioning and manner of disposing with the Facilities after the Production ceases.
- (6) The Development Phase shall commence on the day the consent to the Program for Development and Production is received and shall last until the commencement of the Production Phase.

Production Phase
Article 36

The Production Phase shall commence on the day of commencement of first Hydrocarbons extraction from the Deposit and shall last until the expiry of the deadline set forth in the Production Concession Contract or until such day the Concessionaire notifies the Administration Authority that the Production from the Deposit is not commercial any longer.

Duration of the Production Phase
Article 37

The Production Phase cannot exceed 20 years as of the day of the commencement of the Production referred to in Article 36 of this Law.

Extension of the Production Phase
Article 38

- (1) Upon the request of the Concessionaire, the Production Phase referred to in Article 36 of this Law may be extended, as a maximum, by a half of the Production Phase period as set forth in the Production Concession Contract.
- (2) The request for extension shall be submitted to the Government for its decision at least two years prior to the expiry of the Production Concession Contract.

Production
Article 39

- (1) The Production must be conducted in accordance with technical regulations, norms and best practice standards while undertaking necessary measures to increase the rate of recovery and prevent waste of Hydrocarbons or reservoir energy in the Deposit.
- (2) The Concessionaire shall be obliged to carry out, monitor and evaluate on a continuous basis the technical solutions applied in order to improve the rate of recovery of Oil and Gas from the Deposit.
- (3) The Ministry shall adopt the technical regulations, norms and standards referred to in paragraph 1 of this Article, as well as detailed content of the Program for Development and Production of Hydrocarbons.

Production Approval
Article 39a

- (1) The Concessionaire must not carry out Production of Hydrocarbons before a prior obtained approval of the Administration Authority.
- (2) The Concessionaire shall submit the request for issuing approval referred to in paragraph 1 of this Article not later than within 45 days before the planned commencement of the Production or expiry of the valid Production Approval.

- (3) The approval referred to in paragraph 1 of this Article shall be issued for a period of one year.
- (4) Notwithstanding paragraph 3 of this Article, the Administration Authority may also define a different period, depending on the size of the Deposit, type of Hydrocarbons, Production rate or other factors having importance for an optimum Production of Hydrocarbons.
- (5) The Concessionaire shall be obliged to submit reports on production to the Administration Authority.
- (6) The Ministry shall stipulate the contents, manner and deadlines for submission of reports, request a and approval referred to in paragraphs 1, 2 and 5 of this Article and Article 34a of this Law.

Transport of Oil and Gas Article 40

For the purpose of this Law, the transport of Oil or Gas shall mean the transport of Oil or Gas by pipeline network from Production Facilities to the ultimate landing terminal (upstream pipeline network).

Design and Construction of Pipelines and Facilities Article 41

The design and construction of pipelines or Facilities for storage shall be performed in accordance with law and technical regulations.

Third Party Access Article 42

- (1) The Concessionaire shall be obliged to enable access by third parties, including natural gas operators and eligible purchasers in accordance with the law governing the energy, to one or more Facilities or Upstream Pipeline Network owned by the Concessionaire and the Program for Development and Production of Hydrocarbons, if so warranted by considerations for more efficient and cost effective Hydrocarbons Operations, provided that the joint use does not impede the Concessionaire in carrying out its activity and rights of legal entities or natural persons who have already acquired the right to access.
- (2) The Contract on access to upstream facilities shall stipulate rights and obligations with respect to access referred to in paragraph 1 of this Article.
- (3) The Government shall stipulate, by way of its regulation, the manner and requirements for third party access to Facilities and Upstream Pipeline Network.
- (4) Any contract on the joint use of the Facilities referred to in paragraph 2 of this Article shall be submitted to the Ministry for approval.
- (5) In the event that the contract referred to in paragraph 2 of this Article is not concluded within 90 days as of the day a third party has submitted a request to access the Facilities and the Upstream Pipeline Network, the Ministry may instruct the Concessionaire to enable third party access and stipulate conditions and amount of tariffs for third party access

taking into account the extent and risk of the investment and a reasonable profit taking from tariffs, and may also instruct for capacities of facilities and upstream pipeline network to be increased.

Upstream Pipeline Network Operator Article 43

- (1) The Concessionaire or the Upstream Pipeline Network Operator shall manage the Upstream Pipeline Network.
- (2) The Government may appoint one or more Upstream Pipeline Network Operators to undertake coordination and ensure functioning of the overall Upstream Network.
- (3) The Operator referred to in paragraphs 1 and 2 of this Article shall be obliged to act in a transparent and non-discriminatory manner in ensuring the functioning of the Upstream Pipeline Network and associated Facilities in accordance with technical requirements and based on economic principles.
- (4) The Government shall stipulate the conditions for access to and functioning of the Upstream Pipeline Network and associated Facilities referred to in paragraphs 1 and 2 of this Article by way of its regulation.
- (5) The Operator referred to in paragraphs 1 and 2 of this Article may order owners and users of the Upstream Pipeline Network and associated Facilities, as well as Concessionaires under Production Concession Contracts, to operate in a manner that enables efficient operation of the Upstream Pipeline Network and quality resource management.

Joint Production in the Adjacent Area Article 44

If the Deposit extends outside of perimeters of the Block awarded under the Production Concession Contract and enters an area awarded to another Concessionaire, the Administration Authority may, for the purpose of increasing the rate of recovery from the Deposit, or reducing the Development and Production costs, instruct the Concessionaires to develop and submit for approval, within four months from the day of issuing the instruction to the Concessionaires, a joint Program for Development and Production, as well as joint use of Facilities.

Stay of Deadlines from the Concession Contract Article 45

Deadlines set forth in the Production Concession Contract shall stay from the day of issuing the instruction referred to in Article 44 of this Law until the approval of the joint Program for Development and Production, and not longer than one year.

Conduct of the Administration Authority Article 46

- (1) If the Program referred to in Article 44 of this Law is not submitted within the prescribed deadline or is not approved by the Administration Authority, the Administration Authority

shall develop a new, or shall amend the submitted, Program for Development and Production and submit it to the Concessionaires.

- (2) If the Concessionaire fails to lodge an objection to the Program within 30 days from receipt of the joint Program referred to in paragraph 1 of this Article, the submitted Program shall be deemed as accepted.
- (3) If the Concessionaire lodges an objection to the Program submitted by the Administration Authority, disputed issues shall be settled through an agreement.
- (4) In the event that no agreement is reached in respect of disputed issues referred to in paragraph 3 of this Article, the Ministry shall decide upon objections.

VII OBLIGATIONS OF THE CONCESSIONAIRE

Safeguard Measures Article 47

- (1) The Concessionaire shall be obliged to:
 - 1) undertake necessary measures to prevent losses and waste of Hydrocarbons or pressure during drilling, Production, transport or storage;
 - 2) undertake measures necessary to prevent any adverse intrusion of water into Hydrocarbon layers while a drilling Operations are in progress;
 - 3) carefully locate, protect, and preserve all discovered potable water resources for further use;
 - 4) undertake all necessary preventive measures, as well as those ordered by a competent authority, to remedy all deficiencies in equipment and Facilities that may endanger health and safety of persons, cause damage to or loss of property, or cause pollution or other damages harmful to the environment;
 - 5) forthwith notify a competent authority on the occurrence of circumstances, incidents or accidents that may endanger health and safety of personnel, damage or cause loss to property, cause pollution of the environment, and endanger life and health of people and animals in the Concession Contract area, as well as on Facilities or areas adjacent to the area whereon right to Exploration and Production was awarded.
- (2) The Concessionaire must not carry out exploration and production of other natural resources other than Hydrocarbons within the meaning of this Law, pursuant to the Production Concession Contract.

Bringing an Area to its Previous State Article 48

Upon completion of the Exploration Phase or upon forfeiting the Exploration activities, the Concessionaire shall be obliged to, within the deadline specified in the Production Concession Contract, which cannot be longer than six months:

- 1) remove Facilities used during the Exploration unless those Facilities are necessary for the Development Phase or Production Phase;
- 2) preserve Wells and bring the entire area to the state existent prior to the commencement of Exploration activities;
- 3) undertake also other obligations with regard to the environmental protection in accordance with the law.

Obligations of the Concessionaire upon the Completion of the Production Phase
Article 49

- (1) The Concessionaire shall be obliged to prepare a plan for the cessation of Production activities and Decommissioning of Facilities (de-installation and removal of Facilities).
- (2) The Plan referred to in paragraph 1 of this Article shall contain, *inter alia*, the plan for carrying out works necessary for the cessation of the Production process including de-installation and removal of production Facilities and the time schedule for implementation thereof.
- (3) The Administration Authority shall issue consent to the plan referred to in paragraph 1 of this Article.
- (4) In the event that the Administration Authority establishes, in the process of issuing the consent referred to in paragraph 3 of this Article, that the proposed conditions, deadlines, manner of cessation of the Production, and Decommissioning do not provide for the area to be brought to the state existent prior to the commencement of the Development and Production Phase, it may instruct the Concessionaire to amend the plan within the stipulated deadline or develop the plan, at the expense of the Concessionaire, based on which the Concessionaire shall be obliged to carry out the cessation of the Production activities and undertake Decommissioning of Facilities.
- (5) After the expiry of the Production Phase, the Concessionaire shall be obliged to, pursuant to the approved Plan referred to in paragraph 1 of this Article,:
 - 1) preserve all Production Wells and isolate all known water-bearing horizons;
 - 2) decommission and remove all Facilities in its ownership or which were used during the Production;
 - 3) bring the entire Production area back to the state it was prior to commencement of the Development and Production Phase.
- (6) The Government shall set forth, by way of its regulation, the requirements and deadlines for the cessation of Production and Decommissioning, and the manner of the cost allocation among the Concessionaires.

Account for Decommissioning of Facilities
Article 49a

- (1) The Concessionaire shall be obliged to pay annually funds to a separate account for decommissioning of facilities starting from the Hydrocarbons Production commencement.
- (2) The funds referred to in paragraph 1 of this Article may be solely used for decommissioning of facilities.
- (3) The regulation of the Government shall stipulate the manner of calculation and payment of funds referred to in paragraph 1 of this Article.

Liability of the Concessionaire upon the Completion of the Production Phase
Article 50

- (1) If the Concessionaire fails to fulfil the obligations under the Contract and the Plan referred to in Article 49, paragraphs 1 and 4 of this Law and fails to bring back the area to the state existent prior to the commencement of the Development and Production Phase, it shall be obliged to pay to the Grantor the costs of the implementation of the Plan and bringing back the area to its previous state, in accordance with the Production Concession Contract.
- (2) The Concessionaire shall be liable for loss or damage caused during the implementation of a plan for termination of the Production activities or decommissioning of Facilities.

Insurance Coverage Article 51

- (1) The Concessionaire shall be obliged to submit to the Administration Authority proof of insurance coverage (insurance policy) for the duration of the Contract in accordance with the Production Concession Contract and good international practice in the Upstream Oil and Gas industry.
- (2) The insurance coverage therewith shall cover, *inter alia*, the following:
 - 1) loss of or damage to the Facilities, equipment, and other assets related to rights, obligations or Operations referred to in a Concession Contract;
 - 2) possible pollution to the environment in connection to rights, obligations or Operations under the Concession Contract;
 - 3) loss of or damage to the property or injuries suffered by third parties, employees or contractors arising out of the Concession Contract rights, obligations or Operations.
- (3) The Concessionaire shall be obliged to provide evidence on insurance coverage (insurance policy) for any Operator, upstream pipeline network operator, contractor, subcontractor participating in implementation of the Production Concession Contract pursuant to paragraph 1 of this Article.

Damage Compensation Article 52

- (1) The Concessionaire shall be obliged to compensate any damages made during the execution of the Production Concession Contract to property of the Grantor or third parties or damages that result in injury to or death of employees or third parties.
- (2) The Concessionaire shall be obliged to compensate the damage caused by the pollution of the environment, damages caused to fisheries, agriculture or forestry, water supply, as well as other damages caused during the execution of the Production Contract.

Contractors and Subcontractors Article 53

- (1) The Concessionaire may engage contractors for execution of the Production Concession Contract, and contractors may engage subcontractors, upon a prior consent of the Administration Authority.
- (2) The Concessionaire may commence the Hydrocarbons Operations upon obtaining stipulated approvals, authorisations and consents.

- (3) The Administration Authority shall be obliged to decide upon the issue of the consent referred to in paragraph 1 of this Article within 30 days from the receipt of such request.
- (4) The Administration Authority may deny consent referred to in paragraph 1 of this Article due to the national security reasons, or adhering to public international law obligations.
- (5) The Concessionaire shall be obliged to, upon the request of the Administration Authority, submit a copy of each contract entered into with contractors, and contracts that contractors have entered into with subcontractors.
- (6) The Concessionaire, or contractors or subcontractors engaged in execution of the Production Concession Contract, shall be obliged to implement stipulated safeguard measures for working environment safety, undertake measures for the safety of citizens, traffic, adjacent structures, movable property, as well as environmental safeguards, in accordance with law.

Training of Local Personnel **Article 54**

- (1) The Concessionaire shall be obliged to enable, free of charge, training of local personnel from institutions funded from public revenues.
- (2) The Production Concession Contract shall prescribe types and the manner of the implementation of the training referred to in paragraph 1 of this Article.

Pre-Emptive Right to Purchase Oil and Gas **Article 55**

- (1) The Concessionaire shall be obliged to sell, upon a request of the Government or a person authorised by the Government, all or part of quantities of Oil and Gas which are produced in Montenegro.
- (2) The Oil and Gas referred to in paragraph 1 of this Article must be delivered in accordance with prices valid for equivalent quality and quantity on the international market.

Ownership of Produced Oil or Gas **Article 56**

- (1) The Concessionaire shall acquire ownership of extracted quantities of Oil and Gas at the place of extraction determined by the Hydrocarbons Development and Production Programme, in accordance with this Law and the Production Concession Contract.
- (2) The Concessionaire shall bear all costs incurred during Upstream activities commensurate to its share in the Production Concession Contract.
- (3) In case the Production Concession Contract defines the payment of the Fee for produced Oil or Gas in form of delivery of Oil and Gas, Montenegro shall become the owner of the part of produced quantities of Oil and Gas that correspond to the volume or amount of the Fee for produced Oil or Gas as from the time of such extraction.

- (4) The produced Oil or Gas referred to in paragraph 2 of this Article shall be delivered in Montenegro or at the ultimate landing terminal at the expense of the Concessionaire.

Documentation and Data on Exploration and Production **Article 57**

- (1) The Concessionaire shall be obliged to submit to the Administration Authority, within the deadline stipulated by the contract and free of charge, all documentation, Exploration results, samples and other data obtained or collected in the course of Exploration and Production.
- (2) Montenegro shall have the ownership of the documentation and data referred to in paragraph 1 of this Article.
- (3) The Concessionaire under the Exploration Concession Contract may publish, reproduce, cede, and trade Exploration data, Exploration results, any analysis or documentation referred to in paragraph 1 of this Article, in accordance with the Exploration Concession Contract.
- (4) The Concessionaire under the Production Concession Contract may publish, reproduce, cede and trade data, results, any analysis or documentation referred to in paragraph 1 of this Article only with a prior consent of the Administration Authority.
- (5) The data and information obtained in accordance with this Law cannot be published without the consent of the owner of information.
- (6) The Concessionaire shall also be obliged to submit to the Administration Authority, upon its request, other information concerning the Hydrocarbons Operations, in addition to the documentation and data referred to in paragraph 1 of this Article.
- (7) The Concession Contract shall stipulate data and information referred to in paragraph 3 of this Article that the Concessionaire obtains in the course of carrying out Hydrocarbons Operations and the deadlines within which they shall be deemed confidential.

Takeover and Safekeeping of Documentation **Article 58**

The Administration Authority shall be obliged safekeep permanently the documentation and data referred to in Article 57 of this Law in the manner and under the conditions that will provide for their safety against unauthorized use and destruction.

Safety of Persons and Protection of Property **Article 59**

- (1) The Concessionaire shall be obliged to carry out Hydrocarbons Operations in such a manner as to ensure the safety of persons and property, in accordance with law and applicable technical regulations and standards.
- (2) The Concessionaire shall be obliged to carry out Hydrocarbons Operations in such a manner as not to impede inland, air and maritime transport, fisheries and other maritime activities.

- (3) The Concessionaire shall be obliged to carry out Hydrocarbons Operations in such a manner as not to endanger cable, pipeline and other installations or devices.
- (4) The Ministry shall stipulate technical regulations, norms and standards referred to in paragraph 1 of this Article.

Environmental Protection **Article 60**

- (1) The Concessionaire shall be obliged to undertake all measures to prevent adverse impacts on specific segments of the environment: air, atmosphere, soil, water resources and sea, as well as the living world.
- (2) The Concessionaire shall be obliged to undertake all measures to protect and preserve historical and cultural wealth.
- (3) The Concessionaire shall be obliged to undertake environmental protection measures during Hydrocarbons Operations and control measurements of environmental parameters, in accordance with law, in order to prevent or reduce harmful effects and their consequences for the environment.
- (4) The state administration authority in charge of environmental protection shall set detailed requirements concerning the environmental protection referred to in paragraphs 1 and 3 of this Article.

Preventing Waste of Hydrocarbons **Article 61**

- (1) Discharge or burning of Oil, flaring or venting of Gas, release of Deposit pressure or discharge of water shall be prohibited, except in cases of removing the immediate threat to life and health of people and property.
- (2) Notwithstanding provisions of paragraph 1 of this Article, the flaring or venting of Hydrocarbons from the Production Facilities for the purpose of testing the Facilities, carrying out safety measures or in the phase of commissioning of equipment, provided that the quantity of flared or vented Hydrocarbons would be at the minimum, may be carried out in the manner and under the conditions stipulated by the approval of the Administration Authority.
- (3) The approval referred to in paragraph 2 of this Article shall be issued upon previously obtained opinion of the administration authority in charge of the environmental protection.
- (4) The Concessionaire shall be obliged to control and record the Deposit pressure, burning and flaring of Hydrocarbons, as well as utilisation of Hydrocarbons as fuel or for other purposes during the Production or transport, in accordance with law, in order to reduce waste, protect environment and keep Upstream operations energy efficient.

Safety Zone Article 62

- (1) The state administration authority in charge of trade in and transport of flammable liquids and gases shall establish a safety zone around and above the Facilities for the Exploration and Production of Hydrocarbons.
- (2) In the event of declaration of a state of war or state of emergency, the competent authority referred to in paragraph 1 of this Article may extend the safety zones for security reasons.
- (3) The competent authority referred to in paragraph 1 of this Article shall establish a safety zone by no later than 90 days prior to the placement of the Facilities.
- (4) The competent authority referred to in paragraph 1 of this Article may maintain a safety zone around and above abandoned Facilities or parts of Facilities.
- (5) Presence of unauthorized persons, vehicles, watercrafts and other objects, including fishing gear, shall not be permitted in the safety zone.

Suspending Activities Article 63

- (1) In case of declaration of the state of war or state of emergency, the Concessionaire shall be obliged to suspend Hydrocarbon Operations, upon request by the Administrative Authority, for such period of time that is stipulated by the request of the state administration authority in charge of defence or in charge of protection and rescue.
- (2) In case of imminent danger to health and safety of persons, serious damage to or loss of one or more Facilities or third party property, or serious pollution of the environment, the Concessionaire shall be obliged to suspend Hydrocarbon Operations, upon request by the Administrative Authority, to such an extent and for such a period of time as required to avert or rectify the cause of such danger and mitigate consequences.

Revocation of Concession Contract Article 64

- (1) A Concession Contract may be revoked:
 - 1) In the case when the Concessionaire acts contrary to law or other regulations governing the protection of health, safety of persons and property, and the environmental protection, or if by carrying out a concession activity substantially endangers the life and health of persons and the environment to a great extent, while the measures stipulated by specific regulations are not sufficient to prevent that;
 - 2) If the Concessionaire submits incorrect and incomplete data and information when submitting an application or bid;
 - 3) If the Concessionaire fails to provide information due to which the Concession Contract would not have been awarded to such Concessionaire;
 - 4) If the Concessionaire defaults in terms of contractual obligations.
- (2) The Ministry shall be obliged to notify the Concessionaire on the intent or reasons for termination of the contract referred to in paragraph 1 of this Article at least 90 days in advance.

Legal Effects of Concession Contract Termination
Article 65

- (1) In case of revocation and expiry of the Concession Contract, the Concessionaire shall not be released from financial or other obligations stipulated by this Law or the Concession Contract.

Managing Hydrocarbon Operations
Article 66

- (1) The Concessionaire, Operator, owner of Facilities or Upstream Pipeline Network Operator shall be obliged, within 30 days as of the day the Production Concession Contract is concluded, to establish a business organisation or part of a foreign company in Montenegro in order to manage Hydrocarbon Operations pursuant to the Production Concession Contract concluded in accordance with this Law.
- (2) The obligation referred to in paragraph 1 of this Article shall not apply to the Concessionaire having concluded an Exploration Concession Contract.

Liability
Article 67

- (1) Concessionaires under a Production Concession Contract shall be jointly and severally liable for meeting all obligations stipulated in, or arising out of the Production Concession Contract.
- (2) The liability referred to in paragraph 1 of this Article shall also apply to an owner or Operator of Facilities or Upstream Pipeline Network Operator.
- (3) The Concessionaire, Operator, owner of Facilities or Upstream Pipeline Network Operator shall be liable in respect of third parties and natural persons or legal entities engaged in the implementation of the Production Concession Contract.

Pledge
Article 68

Ownership or other right arising from a Production Concession Contract or ownership or other right over the Facilities may be used as a pledge with a prior consent of the Grantor.

Transfer of Ownership Rights
Article 69

- (1) Transfer of ownership or other rights of the Concessionaire to another person may only take place with a prior consent of the Grantor, with a prior obtained opinion of the state administration authority competent for financial affairs concerning the tax capability of the other person.

- (2) The provision of paragraph 1 of this Article shall also apply to transfer of an interest in a business organisation, shares, bonds or the other securities which may provide control over a person managing or having ownership interest over Facilities or Upstream Pipeline Network, pursuant to a Concession Contract.

VIII INSPECTION SUPERVISION

Inspection supervision Article 70

- (1) The Ministry shall carry out supervision over the implementation of this Law and regulations adopted pursuant to this Law, unless otherwise stipulated by this Law
- (2) An inspector for Hydrocarbons shall perform the inspection supervision over the implementation of this Law and regulations adopted pursuant to this Law, in accordance with this Law and the law governing the inspection supervision.

Rights and Duties of the Inspector Article 71

In the process of carrying out the inspection supervision, the following shall be controlled, *inter alia*:

- 1) Whether the Concessionaire has abided by relinquishment requirements;
- 2) Whether an individual Concessionaire has rights according to the Concession Contract to more than 50% of the total acreage of all Blocks which are designated for Production;
 - 2a) Whether drilling operations are carried out in accordance with a drilling plan and programme;
 - 2b) Whether the Concessionaire carries out the Production Testing in accordance with the approval of the Administration Authority;
 - 2c) Whether the Concessionaire carries out the Production of Hydrocarbons contrary to the approval of the Administration Authority;
- 3) Whether the Concessionaire submits detailed annual reports, with Exploration results;
 - 3a) Whether the Administration Authority is notified about activities carried out during the drilling operations;
- 4) Whether the Concessionaire has notified the Administration Authority on the commerciality of the Deposit;
- 5) Whether the Concessionaire has submitted to the Administration Authority the information and data on estimated Oil and Gas reserves within the stipulated deadline;
- 6) Whether a safety zone was established around and above Facilities for Exploration and Production;
- 7) Whether the prohibitions concerning discharging or burning of oil, or venting or flaring of gas are complied with;
- 8) Whether the Concessionaire suspended the activities upon the request of the competent ministry;
- 9) Whether the Concessionaire has an appropriate insurance coverage;
- 10) Whether a prohibition concerning Exploration and Production of other natural resources other than Hydrocarbons is adhered.

IX PENALTY PROVISIONS

Article 72

- (1) A pecuniary fine ranging from 5,000 euro to 15,000 euro shall be imposed for an offence on a legal entity if it:
- 1) drills an individual Well or changes Well path deeper than 50 meters without the approval of the Administration Authority or fails to notify the Administration Authority on drilling activities and fails to submit samples (Article 27a, paragraphs 2 and 5);
 - 2) fails to submit to the Administration Authority the detailed study on results of executed Exploration within six months as of the completion of the Exploration Phase (Article 28, paragraph 2);
 - 3) fails to notify the Administration Authority in writing about the location and nature of the Discovery and fails to submit available data forthwith or within 15 days at the latest as of the day the Discovery (Article 31, paragraph 1);
 - 4) fails to notify the Administration Authority in writing within eight days as of the day of establishing the commerciality and fails to submit data on estimated Hydrocarbons reserves, on the intent to commence Production, as well as the detailed description of data, Exploration and evaluation used to establish the commerciality (Article 33, paragraph 1);
 - 5) fails to notify the Administration Authority within eight days as of the day of establishing the commerciality thereof and fails to submit the data on estimated reserves of Hydrocarbons, detailed description of data, Exploration and evaluation used to establish the commerciality, as well as measures that may make the Hydrocarbons Production commercial (Article 33, paragraph 2);
 - 6) fails to submit a request to the Administration Authority for approving the Production Testing or extension of the Production Testing (Article 34, paragraph 4);
 - 7) carries out Production of Hydrocarbons without an approval of the Administration Authority (Article 39a, paragraph 1);
 - 8) fails to undertake necessary measures to prevent loss and waste of Hydrocarbons or pressure during drilling, Production, transport, or storage (Article 47, paragraph 1, item 1);
 - 9) fails to undertake measures necessary to prevent any adverse intrusion of water into the Hydrocarbons layer while the drilling is in progress (Article 47, paragraph 1, item 2);
 - 10) fails to locate, protect, and preserve all discovered potable water resources for further use (Article 47, paragraph 1, item 3);
 - 11) fails to undertake necessary preventive measures, as well as to remedy all deficiencies of equipment and Facilities that may endanger life and health of persons, cause damage to or loss of property, or cause pollution or other damages harmful to the environment (Article 47, paragraph 1, item 4);
 - 12) fails to remove Facilities used during the Exploration period, unless such Facilities are necessary for further Development Phase, and fails to preserve Wells and bring the entire Exploration area to the state as before the beginning of the Exploration activities within the deadline stipulated by the Concession Contract (Article 48, items 1 and 2);
 - 13) fails to preserve all Production Wells and isolate all known water-bearing horizons, or fails to decommission and remove all Facilities, or fails to bring the entire Production area into the state as before the beginning of the Development and Production Phase, upon completion of the Production Phase (Article 49, paragraph 5);
 - 14) fails to annually pay funds to the special account for decommissioning of Facilities as of the day of commencement of Production (Article 49a, paragraph 1);
 - 15) fails to submit to the Administrative Authority evidence on insurance coverage (Article 51, paragraph 1);
 - 16) fails to enable the training of national personnel from institutions being funded from public revenues (Article 54, paragraph 1);

- 17) fails to submit to the Administration Authority all documentation, Exploration results, samples, and other data obtained or collected during the Exploration and Production (Article 57, paragraph 1).
- (2) A pecuniary fine ranging from 500 euro to 1,000 euro shall also be imposed for the offence referred to in paragraph 1 of this Article on a responsible person in the legal entity.
- (3) A pecuniary fine ranging from 250 euro to 1,000 euro shall be imposed for the offence referred to in paragraph 1 item 1 of this Article on a natural person.

XI TRANSITIONAL AND FINAL PROVISIONS

Deadline for Adoption of Regulations

Article 73

Regulations enabling the implementation of this Law shall be adopted within one year as of the day this Law enters into force.

Article 73a

Enabling regulations for implementation of this Law shall be adopted within six months as of the day this Law enters into force.

Performing the Tasks of the Administration Authority

Article 74

The Administration Authority referred to in Article 7 of this Law shall be established within six months as of the day this Law enters into force.

Until the establishment of the Administration Authority referred to in Article 7 of this Law, the Ministry shall conduct the tasks within its competence.

Entry into Force

Article 75

This Law shall enter into force on the eight day as of the day of its publication in the *Official Gazette of Montenegro*.

SU-SK Number 01-262/19
Podgorica, 9 July 2010

The Parliament of Montenegro, 24th assembly
The Speaker,
Ranko Krivokapić, m.p.

The consolidate text of the Law does not include the following provisions of the Law Amending and Supplementing the Law on Exploration and Production of Hydrocarbons (Official Gazette of Montenegro, No 62/2013):

"Article 28

As of the day this Law enters into force, provisions of Article 42 of the Law Amending and Supplementing Laws Governing Pecuniary Fines for Offences (Official Gazette of Montenegro, No 40/11) shall cease to have effect.

Article 29

This Law shall enter into force on the eighth day following the day of its publication in the Official Gazette of Montenegro."