

OIL INDUSTRY IN ALBANIA

November 20XX





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COUNTRY OVERVIEW

Country Overview

Key Information on Albania

Country Snapshot

Language	Albanian
Currency	Albanian Lek
Country Capital	Tirana
Other Important Cities	Durres, Elbasan, Vlore, Shkoder, Fier
Population	3.2 million
Population Growth	0.3%
Labor force, % of total	46.9%
Land Area (sq. km)	27,400.0

Economic Overview

GDP (USD bn)	13.1
Real GDP Growth	0.8%
GDP per Capita (USD)	4,149
Inflation (%)	2.0%
S&P Credit Rating	B+
Key Exports	Textiles, footwear, asphalt, metals and metallic ores, crude oil, vegetables, fruits and tobacco
Key Imports	Machinery and equipment, foodstuffs, textiles and chemicals



1) Source: IMF, www.economywatch.com

OIL & GAS IN ALBANIA – A HISTORICAL PERSPECTIVE

Historical Perspective

History of Oil Exploration in Albania

Long History

- Oil was first discovered in Albania in 19XX. The Patos-Marinzha, among Europe's largest onshore oilfields, was discovered in 19XX
- Since then 4,666 oil wells have been drilled, of which around 3,100 are operational and 980 wells have been shut or abandoned
- Oil production peaked in 19XX and started to decline 19XX onwards due to lack of funding

Many Players

- The development of the petroleum industry in Albania can be broadly divided into the following periods, driven by key players:
 - **19XX – 19XX:** Italian companies
 - **19XX – 19XX:** Eastern European specialists and Albanian specialists
 - **19XX – 19XX:** Only Albanian specialists
 - **19XX – 20XX:** Collaboration with foreign companies

Recent Recovery

- In the 19XX's, following the severance of ties with the Soviet Union, China took the lead in the sector, and oil production peaked at 43,000 bpd under their direction
 - The sector went into decline after Albania broke off ties with China in 19XX
 - The breakdown of the central planning system lead to further decline in the 19XXs
- In the recent years the oil industry has bounced back due to considerable foreign investment in the Albanian oil sector

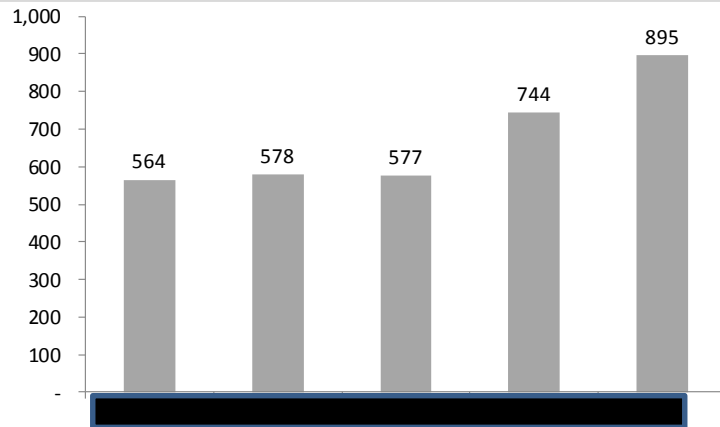
After periods of intermittent growth and decline, Albania's oil sector has seen a gradual recovery in the last 15 years

ALBANIAN OIL INDUSTRY

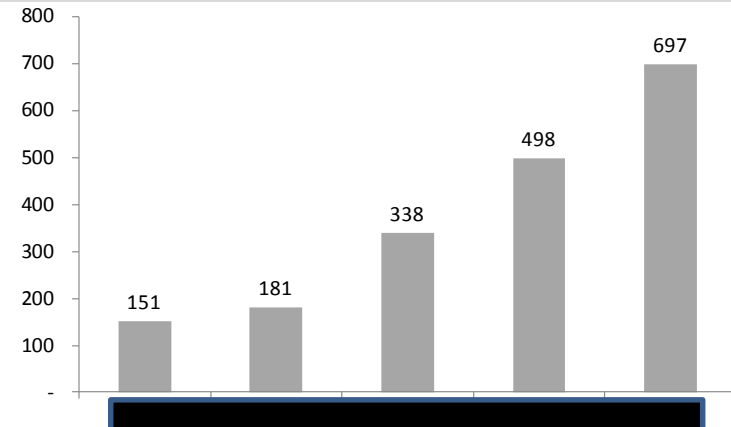
Albanian Oil Industry

Key Industry Statistics

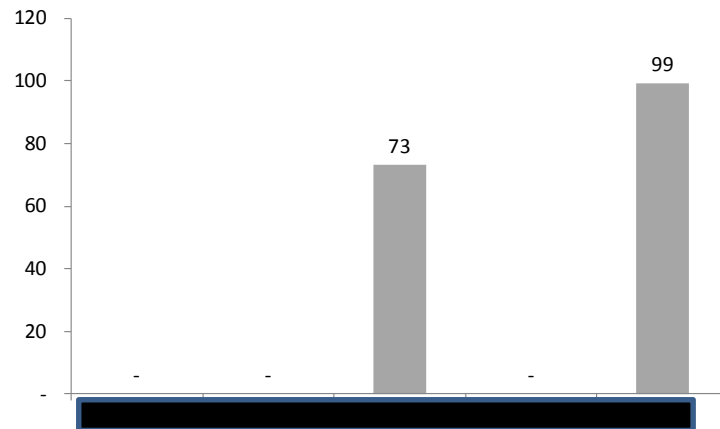
Crude Production ('000 tons)



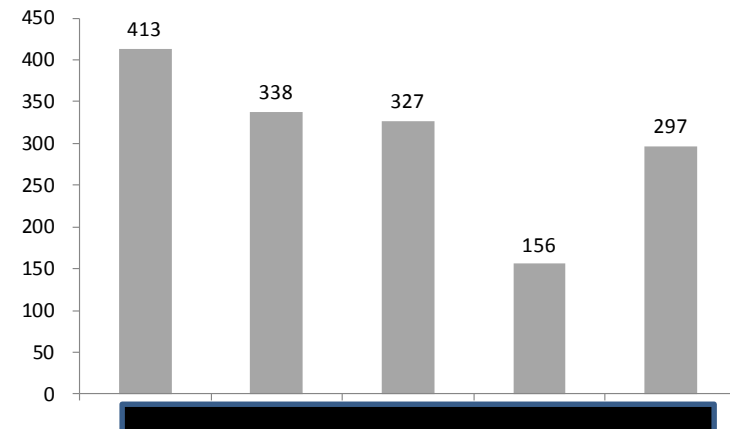
Crude Exports ('000 tons)



Crude Imports ('000 tons)



Domestic Supply ('000 tons)



Albanian Oil Industry

Major Oil Producing Regions

Major Oil and Gas Fields

Field	Discovery Year	Hydrocarbon
Drashovica		Oil
Patos		Oil
Kuçova		Oil
Marinza		Oil
Visoka		Oil
Gorisht-Kocul		Oil
Ballsh-Hekal		Oil
Cakran-Mollaj		Oil and Condensate
Finiq-Krane		Oil
Delvina		Oil and Condensate
Divjaka		Gas and Condensate
Ballaj-Kryevidh		Gas
Frakulla		Gas
Povelca		Gas and Condensate
Panaja		Gas
Ad-4 (offshore)		Biogenic Gas and Condensate
Sqepuri		Oil

State-owned Albpetrol's Fields and Operators

Field	Operator
Amonica	Albpetrol
Divjaka	Albpetrol
Ballaj-Kryevidh	Albpetrol
Panaja	Albpetrol
Visoka	Albpetrol, Transoilgroup AG
Patos-Marinza	Bankers Petroleum
Kucova	Bankers Petroleum
Frakull	Bankers Petroleum
Povlec	Bankers Petroleum
Ballsh Hekal	Stream Oil and Gas
Cakran Mollaj	Stream Oil and Gas
Gorisht Kocul	Stream Oil and Gas
Delvina Block	Stream Oil and Gas

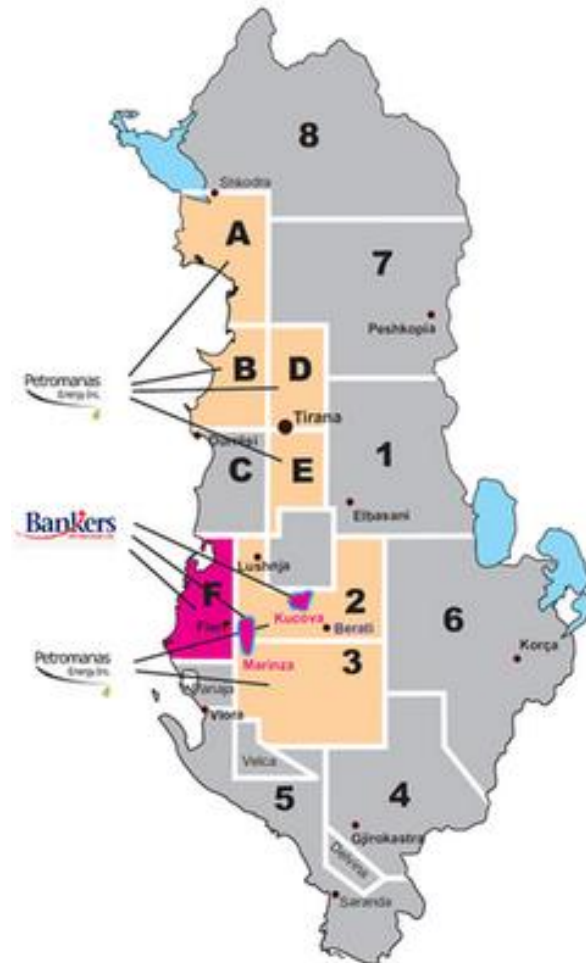
Albanian Oil Industry

Onshore Exploration Blocks

Exploration Blocks

- Bankers Petroleum has exclusive rights to the exploration of Block "F" a 290 sq. mile plot adjacent to Patos-Marinza
- Petromanas Energy initially had three Production Sharing Contracts (PSCs) with the Albanian Government under which it has exploration rights to six onshore blocks – Blocks A, B, D, E and 2-3 comprising more than 2,160 sq. miles
- Recently, Petromanas relinquished the rights to Block A & B and reduced its interest in Block 2 and 3 to 25.0% by farming-out to Shell

Map of Main Concessions



Albanian Oil Industry

Key Players

Exploration & Production

- There are three main onshore players in the Albanian Oil Industry:
 - **Bankers Petroleum**
 - **Stream Oil and Gas**
 - **Albpetrol – State Owned**
- Other players in the space:
 - **Petromanas Energy** – Currently carrying out exploration activities and the most probable future player
 - **Sky Petroleum** – Had its PSC cancelled in late 20XX. The matter is under dispute
 - Despite legislative uncertainties, Albania's offshore prospects have attracted the interest of **San Leon Energy** (Ireland); **Beach Energy** (Australia); and **Emanuelle Adriatic** (Cyprus)
- Recent News:
 - In January 20XX, San Leon Energy announced that it had identified several large oil and gas prospects on its 1,625 sq. mile offshore license near Durrës, in which it owns a 75.0% stake with the remaining held by Beach Energy
 - Emanuelle Adriatic Energy has been awarded a PSC in a 1,958 sq. mile area within Albanian waters

Refining

- **Albanian Refining and Marketing of Oil Sh.A. (ARMO)**
 - ARMO is the former state owned refining company (the state now owns only 15.0%)
 - ARMO has two refineries, in Ballsh and Fier, which have capacities of 1 million tons/year, and 0.5 million tons per year respectively
 - In 20XX, ARMO signed agreements with both Bankers Petroleum and Stream Oil and Gas for crude oil supply
- The government plans to privatize another currently non-operational refinery in Cerrik, near Elbasan
- Refining is also carried out at Spanish, Italian and Greek refineries along the Mediterranean coast, where crude is transported by means of tankers
- Albanian crude is heavy and requires more processing than lighter varieties and is therefore sold at a discount as compared to light crude

Albanian Oil Industry

Current State of the Albanian Oil Sector

Economic Contribution

- During 20XX, oil production alone added approximately \$400.0 to \$450.0 million to the Albanian economy which represents almost 4.0% of the country's GDP
- Domestic oil production already covers an increasing share of total Albanian consumption, which is estimated at around 30-35,000 bpd

Oil Reserves

- Albania currently has around 170.0 million barrels of proven reserves ⁽¹⁾
- Original Oil-In-Place (OOIP) for Patos-Marinza, increased 155.0% to 5.1 billion barrels over 20XX-20XX. Proven reserves increased 36.0% to 136.0 million over the same period

Oil Production

- Production doubled and returned to the 19XXs level of 21-22,000 bpd over 20XX-20XX
- Bankers Petroleum increased production from 400 bpd in 20XX to 15,000 bpd by 20XX
- Stream Oil's current production is in the order of 8,000 bpd
- Significant new producers are not expected to enter the space before 20XX

Issues

- Offshore E&P has faced a lack of modern infrastructure, and uncertainties following proposed EU regulations that could increase compliance and related costs
- To address the lack of transparency and accusations of corruption in the oil sector, Albania has become a part of the Extractive Industries Transparency Initiative

The Albanian oil industry has gradually grown in size and credibility over the last decade

Source: www.balkananalysis.com

(1) www.eia.com

Albanian Oil Industry

Outlook

Economic Contribution

- In a likely scenario, increased oil production from Bankers Petroleum, Stream Oil and Gas, plus initial production from Petromanas and constant production from Albpetrol could see Albanian oil production reach around 45-50,000 bpd in 20XX
- Assuming that the oil prices stay at \$90 / barrel for the next three to five years, the increase in production could see the oil sectors contribution to GDP rise to as high as \$1.0 billion, or 6.4% of GDP, from close to 4.0% today

Export Prospects

- No other country in the Balkans has any relevant production other than Turkey (45,000 bpd) and Romania (90,000 bpd), where production has fallen into steep decline
- Greece might be more interested in having a small but stable supply of oil from Albania, now that the Burgas-Alexandroupoli oil pipeline is defunct and the country has to divert its oil import sources away from Iran for the foreseeable future, due to the international embargo against the nation
- Becoming even a small exporter could give Albania political leverage in the Balkans

Proposed Pipelines

- The completion of several proposed pipelines, including the Trans-Adriatic Pipeline and South Stream (both gas), could be key to opening up the oil and gas sector
- The 567 mile AMBO pipeline project, connecting the Bulgarian Black Sea port of Burgas to the Albanian port of Vlorë, was scheduled to begin construction in 20XX
 - It has since been hindered by political and bureaucratic hurdles, and its current status is unclear

An increase in oil production could bring about an upswing in Albania's economic and political fortunes

STATUTORY FRAMEWORK

Statutory Framework

Statutory Framework for the Oil & Gas Industry

Governing Authorities

- The authority supervising the hydrocarbons sector is the National Agency of Natural Resources (AKBN), established in 20XX
- It reports to the Ministry of Economy, Trade, & Energy and governs the hydrocarbon, mineral and hydropower sectors
- Within the hydrocarbon space, AKBN consults with government authorities to draft policies; promotes its sources; negotiates agreements and oversees their implementation

Hydrocarbon Law

- The basic law governing hydrocarbons in Albania is law #7746, dated 07/28/XX – “On Hydrocarbons (Exploration & Production)”, under which the Albanian State is the exclusive owner of all hydrocarbons.. The right to the exploitation of hydrocarbons can be temporarily transferred to third parties only through Hydrocarbon Agreements
- A Hydrocarbon Agreement may have the form of a PSC, or any other form negotiated by the parties in conformity with the legislation, and comes into force after its approval by the Council of Ministers, and every future amendment shall be approved similarly

Phases of Authorization

- The authorization for conducting petroleum operations is divided into two phases – exploration – generally five years, extendable to seven years; and development - which is granted for a 25 year period
- The other authorization provided by the Hydrocarbon Law is the Assessment Permit, which grants non-exclusive rights to perform research in a specific area for a two-year period

Statutory Framework

Statutory Framework for the Oil & Gas Industry

Monetization

- The Albanian State derives value from oil and natural gas development through three main avenues – Production sharing, Royalties, and Taxes

Production Sharing

- The Albanian State's ownership interest is expressed in the amount of production sharing, which is established in each production sharing agreement with a private operator

Royalties

- Royalties are a monthly obligation, and is calculated as 10% of the total value of wholesales

Taxes

- Income taxes are paid based on profits realized in a particular fiscal year, which are taxed at 50% of the realized amount

Export Regime

- There are no specific restrictions pertaining to the trade and export of extracted hydrocarbons, except in the cases of emergencies, and obligations in the Hydrocarbon Agreement to furnish a local market

Exchange Restrictions

- There are no currency exchange restrictions provided by law, nor restrictions regarding transfer of funds derived from production

Transfer of Ownership

- Operators may transfer their rights and interest only with the prior written consent of the AKBN

COMPANY PROFILES

Company Profiles

Albpetrol

Company Background

- Albpetrol SH.A. (“Albpetrol”), the Albanian state-owned oil company, is engaged in the development, production and trade of crude oil and gas and is headquartered in Patos
- The Company also has the sole national right to provide petroleum transportation facilities
- Importantly, the crude transport system – the National Oil and Gas Pipeline – connects all Albanian oil fields to the processing plants and two main oil ports in Vlorë and Durres
- The company has total assets estimated at \$497 million, and owns 1,264 active wells, producing a total of 135,000 tons of oil per year

Privatization

- On December 15, 20XX, the Albanian Parliament passed Law #10490 on the determination of the form and structure of the Albpetrol privatization
- The Ministry of Economy, Trade and Energy stated that the 100% privatization of Albpetrol will permit the acquirer rights to its fields for a 25-year period
- After 25 years the license will be re-evaluated
- Following the privatization, Albpetrol will be stripped of the tax privileges that derive from its position as a state-owned company and will have to pay a 50.0% tax on profits
- In addition, the new owner will be required to recognize the existing onshore and offshore oil drilling agreements in force between Albpetrol and third parties exploring for oil and gas in Albania
- Recently, a EUR 850 million offer for Albpetrol by Vetro Energy, led by the Albanian oil tycoon Rezart Taci, was cancelled reportedly because the Albanian– US consortium has failed to furnish the 20% down payment in time
- Vetro’s bid was more than double that of Chinese consortium Win Business Petroleum, at EUR 297 million, and third placed Bankers Petroleum

Company Profiles

Bankers Petroleum

Overview

LTM as of [REDACTED] in USD millions	
Market Capitalization (Current)	\$950.0
Enterprise Value (Current)	1,016.3
Revenues (After Royalties)	438.5
EBITDA	247.9
Net Income	49.8
Cash	\$33.6
Debt	99.9

- Bankers Petroleum Ltd. is a Canadian oil and gas exploration and production company focused on heavy oil assets in Albania
- Bankers operates and has the full rights to develop the Patos-Marinza and Kuçova heavy oilfields pursuant to 25 year license agreements with the AKBN, and a Petroleum Agreement with Albpetrol
- The Patos-Marinza oilfield is the largest onshore oilfield in continental Europe, holding approximately 5.1 billion barrels of Original Oil In Place
- The Kuçova field is estimated to have 297 million barrels of Original Oil In Place
- The Company also has rights to exploration Block "F", a 290 sq. mile field adjacent to the Patos-Marinza oilfield

Source: Company Reports

(1) Net Present Value at 10% After-tax, using forecast prices

Oil Reserves (million barrels)

Type of Reserve	[REDACTED]		[REDACTED]	
	Patos - Marinza	Kuçova	Total Albania	Total Albania
Proved				
Developing Producing	25.4	-	25.4	25.8
Developed Non-Producing	3.0	-	3.0	-
Undeveloped	107.6	3.4	111.0	146.6
Total P Reserves	136.0	3.4	139.4	172.4
Total 2P Reserves	213.8	11.9	225.7	267.1
Total 3P Reserves	324.6	33.4	358.0	426.3

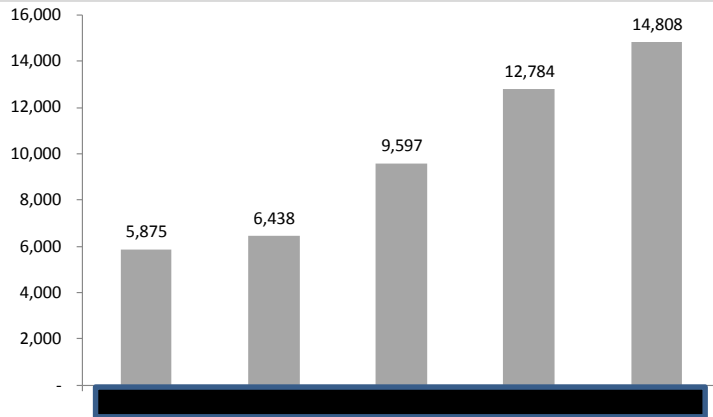
NPV of Oil Reserves (USD millions) ⁽¹⁾

Type of Reserve	[REDACTED]		[REDACTED]	
	Patos - Marinza	Kuçova	Total Albania	Total Albania
Proved				
Developing Producing	\$372.0	-	\$372.0	\$347.0
Developed Non-Producing	43.0	-	43.0	-
Undeveloped	517.0	26.0	543.0	669.0
Total P Reserves	\$932.0	\$26.0	\$958.0	\$1,016.0
Total 2P Reserves	\$1,724.0	\$141.0	\$1,865.0	\$1,973.0
Total 3P Reserves	\$2,581.0	\$495.0	\$3,076.0	\$3,694.0

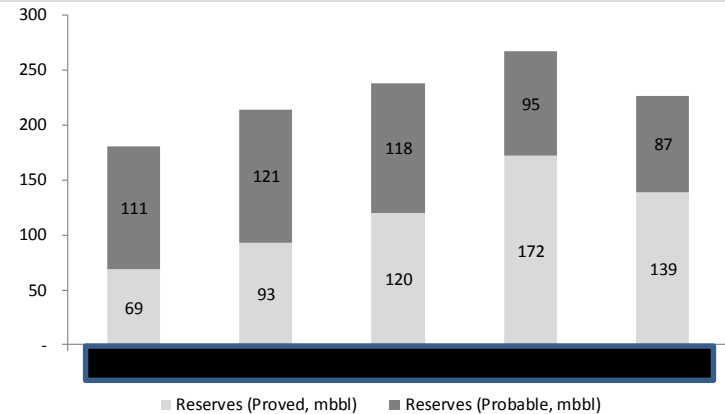
Company Profiles

Bankers Petroleum

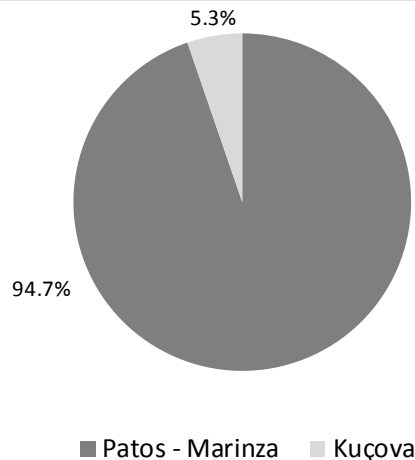
Sales (bpd)



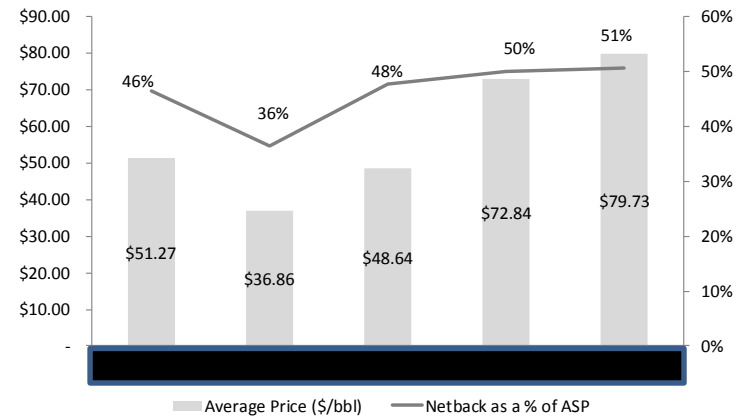
Total P and 2P Reserves



Reserve Mix - Patos-Marinza vs. Kucova



Selling Price & Netback (1)



Source: Company Reports

(1) Netback, on a per barrel basis is calculated as – Average Price Less Royalties, Operating Expenses, and Sales and Transportation Costs

Company Profiles

Other Players

Stream Oil and Gas

- Stream is a Canada-based oil and gas company
- It has a market capitalization of \$40.1 million
- It has proven reserves in Albania and rights to develop the oil fields of Gorisht-Kocul, Ballsh-Hekal and Cakran-Mollaj and the gas field of Delvina
- It also has exploration rights in the Delvina Block
- The company has operations in Albania and Italy with maximum revenues generated from Italy

Shell

- Shell is one of the world's largest independent oil and gas companies
- It has a market capitalization of \$211.9 billion
- It has operations across the world and its stake in Albania is a relatively small percentage of its total assets
- Its operations in Albania primarily consist of a 75% stake in exploration blocks 2 and 3

Petromanas

- Petromanas is a Canadian oil and gas company focused on hydrocarbon assets in Europe and Australia
- It has a market capitalization of \$79.6 million
- Petromanas had exploration rights to Blocks A, B, D, E and 2-3 in Albania
- It recently gave up ownership of block A,B and reduced its stake in Block 2-3 to 25.0% via a farming-out to Shell
- It also has additional assets in France and Australia which are still focused on technical study and regional evaluations

1) Bloomberg. www.balkananalysis.com; company reports

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