

**ROMGAZ**

Societatea Națională de Gaze Naturale Romgaz S.A. - Mediaș - România



***To the Extraordinary General Meeting of Shareholders***

***Request for:***

- Approval of Romgaz withdrawal from the Svidnik Block located in the Slovak Republic

**I. General information on the Slovakian partnership**

***a) History of partnership***

Upon signing the Farm-In Agreement with Radusa Oil&Gas SRO, Magura Oil&Gas SRO and Dukla Oil&Gas SRO (Subsidiaries of Aurelian Oil&Gas London in Slovak Republic) on June 5, 2008, Romgaz became co-titleholder of petroleum agreements with a participating interest share of 25% in each of the following three Slovakian Exploration Development Production Blocks:

- Svidnik
- Snina
- Medzilaborce

The assignment of the participating interest was approved by the Slovakian Environment Ministry, the Geological Rights and Contractual Relations Department, by Decision No. 3220/09/7677/06-9.3-2 for Svidnik, Decision No. 3221/09/7674/06-9.3-2 for Snina and Decision No. 3222/09/7673/06-9.3-2 for Medzilaborce, dated March 13, 2009.

In accordance with the Slovakian legal framework, Romgaz GMS approved by Resolution no. 14 of 29 August 2008 the establishment of the Bratislava Branch in order to carry out petroleum operations in three Slovakian blocks.

For each of the three exploration blocks/licenses the partners concluded a Joint Operating Agreement setting out the rights and obligations of each party. The scope of the Joint Operating Agreement is the performance of petroleum operations by the contractual Parties in accordance with the License, respectively exploration, assessment, development, exploitation and production of oil or gas in the area covered by the license.

The structure of the partnerships in the three Slovakian Blocks is described below:

#### MEDZILABORCE:

- ROMGAZ, by Bratislava Branch 25%;
- **MAGURA OIL & GAS S.R.O:** 50%;
- JKX SLOVAKIA B.V., organizačná zložka 25%

#### SNINA:

- ROMGAZ, by Bratislava Branch : 25%;
- **DUKLA OIL & GAS S.R.O:** 50%;
- JKX CARPATHIAN B.V., organizačná zložka 25%.

#### SVIDNIK:

- ROMGAZ, by Bratislava Branch: 25%;
- **RADUSA OIL & GAS S.R.O:** 50%;
- JKX ONDAVA B.V., organizačná zložka 25%.

Radusa Oil& Gas SRO, Magura Oil&Gas SRO and Dukla Oil&Gas SRO were companies owned by Aurelian Oil&Gas London, and JKX Slovakia BV organizačná zložka, JKX Carpathian BV organizačná zložka and JKX Ondava BV organizačná zložka are fully owned by JKX London. These companies merged into Aurelian Oil&Gas Slovacia on September 13, 2010.

In 2013, Aurelian Oil and Gas assigned its participating interest to San Leon Energy, who became the operator of the three licenses and which itself assigned its participating interest to the new operator Alpine Oil and Gas, the structure of partnership becoming as follows:

#### **Operator**

- Alpine Oil&Gas S.R.O. 50%;

#### **Non-operators**

- ROMGAZ, by Bratislava Branch 25%;
- JKX ONDAVA B.V. 25%

In 2018, JKX announced its withdrawal from the three blocks, and at the same time Romgaz and Alpine agreed to withdraw from the Medzilaborce and Snina Blocks and reduce the area of the Svidnik Block to 36.4 km<sup>2</sup>.

*By Romgaz Board of Directors Resolution No. 21 of April 17, 2018, Article 6, paragraph 1, and by the subsequent EGMS Resolution No. 7 of May 22, 2018 it was approved Romgaz to withdraw from the Snina and Medzilaborce Blocks, to reduce the contractual area of the Svidnik Block and Romgaz to accept, free of charge, a 8.33% participating interest in that block following the withdrawal of JKX Oil&Gas.*

Thus, the status of the partnership in Svidnik Block is as follows:

## **Operator**

- Alpine Oil&Gas S.R.O. 66.67%;

## **Non-operators**

- ROMGAZ, by Bratislava Branch 33.33%;

### ***b) History of exploration works carried out in the three Slovakian Blocks***

#### **Phase I (August 1, 2006 – July 31, 2010)**

- 2006 inventory and assessment of the existing data referring to exploration works carried out in the past in the three blocks.
- 2007 field works, review of data obtained from the old wells drilled in the three blocks.
- 2008 acquisition of 130 km 2D seismic, structural and geochemical studies in the field **Romgaz signed the Farm-In Agreements (acquisition of rights and obligations under the JOAs and FIAs); set up of Romgaz Bratislava Branch as Titleholder of the Farm-In Agreement, a requirement of Slovakian Law.**
- 2009 acquisition of 128 km 2D seismic, surface geological mapping works, rock analysis, seismic processing

#### **Phase II (August 1, 2010 – July 31, 2014)**

- 2010 acquisition of 149 km 2D seismic, 2008-2009 seismic reprocessing
- 2011 acquisition of 300 km 2D seismic, field works, seismic interpretation, comparison with the neighbouring blocks from Poland.
- 2012 processing of seismic acquired in 2011, airborne gravimetry over the entire surface of the three blocks.
- 2013 completion of the quantitative and qualitative analysis under the gravimetric study performed in 2012, relinquishment of the non-prospective areas and the protected areas where drilling is prohibited (National Parks and Natura 2000)

#### **Phase III (August 2014 – August 2016)**

- Acquisition and processing of magneto-telluric data for a number of 444 measurement stations covering four of the most prospective area as regards the presence of petroleum accumulations in Svidnik, Medzilaborce and Snina Blocks.
- Processing and interpretation of magneto-telluric data which allowed the confirmation and outline of five prospects, prepared for drilling.

#### **The current exploration phase (August 2016 – August 2021); Minimum program undertaken by the partners for Svidnik block:**

- drilling two wells at lower depths with a budget of 1,000,000 Euro/well in Svidnik block and geophysical works in amount of Euro 100,000.

**We state that there are no financial penalties in case of failure to perform the drilling included in the minimum undertaken program, under „Drill or Drop” agreements**

## **II. Problems occurred while performing petroleum operations in the three licensed blocks (according to Annex 2)**

From December 2015 until today, the Operator of the Slovakian licenses incurred a series of problems that hindered access to locations and obstructed drilling. The main difficulty related to drilling in the three Slovakian blocks was to obtain drilling permits and authorisations, access to locations and the vehement and even violent opposition of the local community. In January 2016, after preparatory works on the location, the operator sent a report to the partners informing on the violent protests of the local community that took place on January 12, 2016, which led to ceasing any activity.

Moreover, there were seven legal actions filed against the 2016 decision to extend the concession agreements for the three exploration blocks where Romgaz holds participating interest.

The causes that led to this situation are the following:

- Local communities, non-governmental and environmental organisations opposed by organising protests and filing legal actions in court;
- The lack of institutional support from government authorities, the Ministry of Environment and the Ministry of Agriculture;
- The lack of support from local authorities.

Actions undertaken by the operator to solve these problems:

- Legal actions in court against protesters;
- The Operator hired an advisory firm, Chempro, to take all steps for performing an environmental study for Smilno, Ruska Poruba, Kriva Ol'ka locations;
- The operator's representatives had a series of formal meetings with local authorities (mayor of Sariske Cierne) to find an alternative location in the town;
- A series of meetings with representatives of government authorities (members of parliament) with respect to the opposition of environmental organisations, but despite the approaches, the operator could not restart activities;
- The operator's representatives discussed with the Slovakian Minister of Environment on October 2, 2017 to inform on the difficulties encountered by Alpine Oil&Gas regarding the lack of support from local authorities and that each application for a preliminary environmental agreement resulted in an ungrounded request to perform an environmental impact study, considering that such a study requires 12 months. The Minister stated that local authorities are not subordinated to the Ministry of Environment and therefore the ministry cannot influence the decisions made by local authorities.

- In his attempt to mediate the situation, the Operator referred to legal consultancy to settle the actions in court and to professional PR consultancy services to improve their image in the community.

The activity in the exploration blocks was blocked both due to the strong opposition of local community members, of non-governmental and environmental organisations that filed several actions in court against the Operator and to the lack of institutional support from central government authorities, the Ministry of Agriculture and the Ministry of Environment.

The operator presented on October 3, 2017 at the Operating Committee Meeting all difficulties encountered in 2017, concluding that despite all efforts, the work program for 2017 could not be fulfilled.

**Due to the failure to perform drilling activities in the existing social and political climate, the Operator proposed in the report for March 2018 to relinquish in April 2018 to Snina and Medzilaborce concessions and to reduce the area of Svidnik concession.**

**Romgaz together with the Operator Alpine decided in April 2018 to continue the activity in Svidnik block, as at that time, all conditions necessary for drilling well 1 Smilno were fulfilled, namely the drilling contract was signed, the location for well 1 Smilno was under construction and the inventory of goods was purchased (christmas tree, casing, tubing) and well 1 Zborov was in the design phase.**

### **III. Consequences of the impossibility to implement the undertaken work programs**

The Operator proposed in the Operating Committee Meeting on July 23, 2019 to relinquish well 1 Smilno and to restore the land at its initial condition. Moreover, Alpine proposed valorisation of the inventory of goods (christmas trees, casing, tubing) or to assign its share to Romgaz. We state that the total acquisition value of the stock is Euro 387,000 Alpine share (66.67%) is Euro 258,013 and the Operator proposed Romgaz to buy its share for the amount of Euro 165,000.

For 2019, the budget agreed by the partners was initially approved only for four months, its extension for the rest of the year being approved on October 29, 2019. The budget for May-December 2019 included only G&A expenses and expenses for restoring the land of well 1 Smilno to its initial condition. The Operator proposed for 2020 a budget of Euro 68,000 only for the first four months of the year, Romgaz share being of Euro 22,664. This budget includes only administrative expenses.

With respect to the investment program for the next years, taking into consideration the difficulties encountered in the previous years, Alpine considers that it cannot propose significant operations and that it will only monitor the situation.

Therefore, the outlook on performing drilling activities in Svidnik block show small success chances, taking into account that the operator stated several times its intention to withdraw from the Concession Agreement and from the Joint Operating Agreement, but has never sent any formal notification in this respect.

**According to the concession agreement, if the parties decide to relinquish totally or partially a participating interest, they are obliged to announce the decision until the end of April of the current year. Under these conditions, Romgaz is obliged to continue paying the licence fee for the next year as well as the expenses related to the partnership for the following period.**

*At the beginning of November 2019, Romgaz paid its share of the concession fee for September 1, 2019 – August 31, 2020, pursuant to its participating interest. The total concession fee is Euro 24,500; Romgaz share pursuant to its 33.33% participating interest is Euro 8,165.*

In the event Romgaz notifies the Operator of its withdrawal, pursuant to Article 13.1 of the JOA, the effective date of the withdrawal, shall be the last day of the month following the month when the withdrawal notice was given.

Pursuant to Article 13.2.(A) of the JOA, within 30 days after the receipt of the withdrawing Party's notification, the other Parties shall also have the right to give a withdrawal notice. In case also the Operator notifies the withdrawal within said 30 days, then, pursuant to Article 13.9 of the JOA, all parties shall have the obligation to comply with the JOA's terms and conditions as long as it may be necessary to complete all formalities related to closing the Concession, to satisfy any legal requirements and to facilitate the sale, transfer or abandonment of property or interests of the Joint Account.

Following the notice of withdrawal, the Operator shall carry out all necessary administrative operations, regardless whether the Operator withdraws or not from all blocks, fact that eliminates the risk of additional expenses that Romgaz would otherwise pay in the event of a later withdrawal.

In this case, additional costs to Romgaz would be the value of budgeted amounts already agreed by Romgaz (budget) as well as the related withdrawing expenses.

*Following completion of the withdrawing operations, if Romgaz management also decides to wind-up Bratislava Branch, Romgaz shall carry out these winding-up procedures that, in their turn, would generate specific expenses (e.g. legal expenses, fees, translations, powers of attorney, etc.)*

Currently, the partnership's inventory of goods amounts Euro 387,000. Pursuant to the JOA, the withdrawing Party shall assign its participating interest to the other parties, free of charge. In this context, Romgaz would have the obligation to assign its share of all goods owned. However, during the Operating Committee Meeting dated July 23, 2019, the Parties discussed and the Operator proposed Romgaz to buy Alpine's share in the inventory of

goods and made an offer for Alpine's 66,67% share of such inventory, which is very advantageous for Romgaz as the price is below market value. The Operator proposed a sales price of Euro 165,000 for its share in the inventory. In this respect, Romgaz may commence actions required to obtain internal approvals for this acquisition.

#### **IV. Conclusions**

The difficult situation experienced over the last years and generated by the strong and sometimes violent opposition of local communities as well as the lack of support and involvement of local and central authorities made the commencement of drilling operations, undertaken in the minimum work program, impossible up until now. Under these circumstances, in our opinion it is not in Romgaz' interest to remain in Svidnik block. Therewith, the low possibility to sell Romgaz participation, (taking in consideration that both JKX and Alpine did not succeed in partially or fully selling their participating interest to a third party) supports the decision to withdraw.

Bearing in mind the above mentioned and the need of a resolution, we propose to Romgaz Extraordinary General Meeting of Shareholders:

- **To approve Romgaz withdrawal from Svidnik concession block in Slovakia.**

Attached hereto are the following documents:

Annex 1 – ***Information on the status of petroleum operation in Svidnik block, Slovakia*** –

Due to the confidential nature of the information comprised in this document, Romgaz shall make it available to interested shareholders for review, at Romgaz headquarters, upon signing a non-disclosure agreement between Romgaz and the interested shareholder.

Annex 2 – ***Minutes of the Operating Committee Meeting dated July 23, 2019*** – Due to the

confidential nature of the information comprised in this document, Romgaz shall make it available to interested shareholders for review, at Romgaz headquarters, upon signing a non-disclosure agreement between Romgaz and the interested shareholder.

SNGN ROMGAZ SA

Adrian Constantin Volintiru

CEO

