

Republic of Lebanon
Ministry of Energy and Water

Lebanon's Second Offshore Licensing Round 2019

General Overview



LEBANESE
PETROLEUM
ADMINISTRATION

SECOND LICENSING ROUND

The Eastern Mediterranean region has been shown to hold massive hydrocarbon resources and is positioned to play an increasing role in the international gas markets. Located in the heart of the Eastern Mediterranean, Lebanon presents an attractive destination for international oil and gas companies (IOCs) to strategically position themselves in the region. The Lebanese system offers an environment conducive to profitable investments for both the State and the Right Holders with a common objective to discover and exploit the existing resources.

After the successful completion of the first licensing round earlier in 2018, the Lebanese Council of Ministers approved the recommendation of the Lebanese Petroleum Administration (LPA) to undertake the preparations for a second offshore licensing round scheduled to take place in 2019.

First Licensing Round at a Glance

Concluded in 2017	Prequalified 13 operators and 38 non-operators
Awarded 2 blocks (Blocks 4 & 9)	First exploration well to be drilled in 2019

Two objectives have been identified for the second round:

- Accelerate exploration activities in the Lebanese waters
- Increase attractiveness of the Lebanese waters and promote competition

The second licensing round is governed by an extensive legal framework centered on the Offshore Petroleum Resources Law. Companies interested to take part in the second licensing round are required to participate in a prequalification round that sets the minimum conditions for operators as well as non-operators. Once the prequalification round is completed, a period of at least six months will be reserved for companies interested in forming consortia of at least three companies each, to prepare their bids. The evaluation process, negotiation and signature of Exploration and Production Agreements (EPA) will follow. All information pertinent to the bid round will be posted on the LPA website in due time.

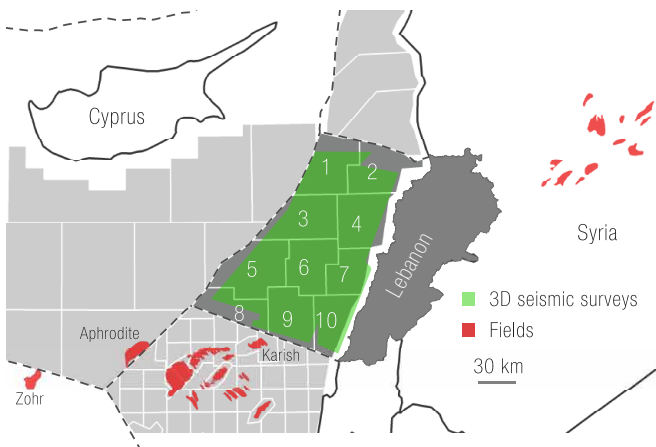
VISION OF THE OIL & GAS SECTOR

Lebanon's long-term vision is to achieve a sustainable oil and gas sector that ensures Lebanon's competitiveness, creates value for economic and social development, guarantees energy security and enhances accountability for the stewardship of Lebanon's energy resources for present and future generations.

PROSPECTIVITY

The Eastern Mediterranean region has produced significant discoveries in recent years and is believed to have promising hydrocarbon deposits to be discovered.

Such recent exploration successes have incentivized the Lebanese government to acquire an extensive volume of 2D and 3D multi-client seismic surveys covering almost the entire Lebanese offshore acreage of 22,700 Km². The depth of Lebanese offshore ranges between 33 m and 2119 m.

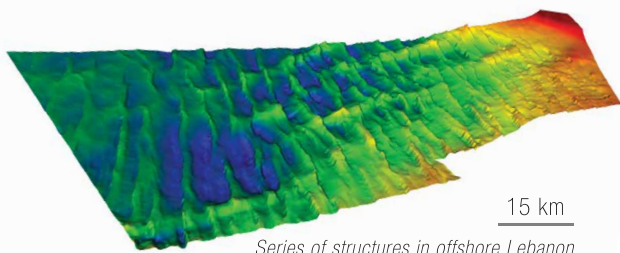


Mixed biogenic and thermogenic petroleum systems proven recently in the region in subsalt Oligocene and Miocene sands and carbonate buildups are expected offshore Lebanon.

Numerous studies show that these systems are fed by gas-prone and oil-prone source rocks.

The Lebanese offshore contains promising stratigraphic traps, such as pinchouts with associated direct hydrocarbon indicators.

In addition, seismic profiles indicate the presence of carbonate platforms and encouraging buildups of the same nature. Furthermore, The Lebanese basin is rich in perfectly symmetrical anticlinal structures as well as shallow dip faulted anticlines analogous to those discovered in the Eastern Mediterranean.



LEGISLATIVE FRAMEWORK

Lebanon put in place and published a modern, clear, stable and predictable legislative framework governing its prospective offshore petroleum resources. The Offshore Petroleum Resources Law and the various implementation decrees define a multi-layered governance framework where roles are clearly defined and the decision making process is bound by time limits.

Lebanon adopts a competitive and open tendering process for consortia composed of prequalified IOCs that possess the necessary technical, financial, legal and QHSE criteria. The prequalification requirements are issued through a decree and are published on the LPA website.

The tendering process follows a published tender protocol that defines the biddable parameters and the evaluation methodology.

Petroleum Rights are awarded through the signature of EPAs that follow a predefined model contract accessible on the LPA website.



The legislative framework of the upstream oil and gas sector in Lebanon incorporates transparency and competitiveness provisions across its development phases. More recently, the Lebanese government announced Lebanon's will to join the Extractive Industries Transparency Initiative (EITI).

In order to maximize the social and economic benefits, the Lebanese Government introduced various incentives to encourage Lebanese workforce integration throughout the sector's value chain. It has also adopted preferential schemes for procuring local goods and services.

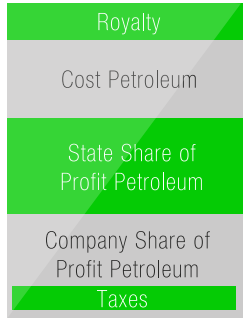
FISCAL FRAMEWORK

Lebanon adopts a Production Sharing Contract between the State and consortia of pre-qualified companies. The Exploration and Production Agreement (EPA) provides the petroleum Right Holders the exclusive right to explore, develop and produce oil and gas in Lebanon's offshore where Right Holders bear all costs incurred during the exploration phase.

Once a commercial discovery is made and production is commenced, royalties are collected by the State and costs are recovered by the Right Holders according to a cost petroleum ceiling. Profit petroleum is then shared between the Right Holders and the State according to the R-factor formula. Right Holders then settle their due taxes only when they are in a tax position. The total government take is composed of royalties, the government's share of profit petroleum and taxes.

Some of the incentives embedded in the Lebanese petroleum fiscal system include the following:

- Progressivity of the fiscal system allowing adaptation to changes in prices, costs and production rates based on an R-factor formula.
- No signature bonus.
- Clear tax rules as stipulated in the Petroleum Tax Law.
- Existence of tax advantages such as unlimited carry forward of losses, exemptions from customs and VAT in certain cases.
- Clearly defined accounting and financial procedures and re of costs as stipulated in the EPA.
- Stability clause in the contract.
- Force majeure provisions.
- Enforcement of 43 Bilateral Investment Treaties (BITs) a Double Taxation Treaties (DTTs).



Lebanese PSC

■ *Components of Government take*



QHSE FRAMEWORK

Lebanon has expressed a strong commitment to safety and to the protection of the environment, as well as to safeguarding occupational and public health through the adoption of a sectoral regulatory framework that gives assurance to (a) prevent major accidents and limit their consequences (b) preserve and protect the environment and communities, (c) conserve Lebanon's natural resources, (d) maintain safe and healthy workplace conditions, and (e) protect Lebanon's reputation, image and the public interests. Within this framework, IOCs are guided by the principles of



Lebanon has expressed a strong commitment to safety and to the protection of the environment, as well as to safeguarding occupational and public health through the adoption of a sectoral regulatory framework that gives assurance to (a) prevent major accidents and limit their consequences (b) preserve and protect the environment and communities, (c) conserve Lebanon's natural resources, (d) maintain safe and healthy workplace conditions, and (e) protect Lebanon's reputation, image and the public interests. Within this framework, IOCs are guided by the principles of

sustainable development, duty of care, polluter pays, precautionary, best international practices and industry standards, in order to carry out a self-regulatory/performance based approach to HSE management. Prudent conduct of activities and see-to-it duties are core requirements for all parties involved in petroleum activities.

Lebanon completed a Strategic Environmental Assessment (SEA) for the upstream offshore oil and gas sector in 2012 and is currently updating the study. The SEA aims to define the environmental and socioeconomic baseline, to address the potential impacts associated with the oil and gas sector and to lay down the management framework including the mitigation measures and the monitoring requirements. In addition, Lebanon has developed a national framework for emergency preparedness and response that includes the management of oil spills.

LOCAL MARKET AND EXPORT POTENTIAL

The Lebanese coastline hosts several state-owned sites that can act as locations for any required petroleum infrastructure.

The electricity sector in Lebanon is undergoing a transition from heavy fuel oil to natural gas. Most of the existing power plants and all the planned plants are equipped to run on natural gas. A prospective natural gas discovery is expected to first fulfill the needs of the local market, in particular the electricity sector, which is the main off-taker of natural gas.



On the regional level, the geographic location of Lebanon and the cooperative relationships that it holds with the majority of players in the Eastern Mediterranean enable mutually beneficial collaboration on oil and gas related infrastructure projects. This is particularly important given the foreseen growth in regional and global demand for natural gas.



Lebanese Petroleum Administration

A: Marfaa 200, First Floor, Georges Akouri Street, Down Town, Beirut , Lebanon

W: www.lpa.gov.lb E: info@lpa.gov.lb T: +961 1 998780