

## MEMORANDUM

**RE: Summary of events surrounding environmental damage to Visoka oil field**

**DATE: October 12, 2009**

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For purposes of this memo the following terms will be used: Petroleum Agreement between IEC Visoka, Inc. (“**IEC Visoka**”) and Albpetrol, SH.A. (“**Albpetrol**”) dated December 3, 2008 (the “**IEC Agreement**”); License Agreement between The Ministry of Economy, Trade and Energy, as represented by The National Agency of Natural Resources (“**AKBN**”) and Albpetrol dated December 2, 2008 (the “**IEC License**”); Heads of Agreement between Albpetrol and IEC Visoka dated April 29, 2008 (the “**Heads of Agreement**”); and the Memorandum of Good Understanding between IEC Visoka’s predecessor in interest and Albpetrol dated October 8, 2007 (the “**MOGU**”).

Here are the facts as we know them as of the date of this memo. The Timeline attached hereto as **Annex N**, gives us a picture of the following events:

1. In January of 2008 Bankers Petroleum (“**Bankers**”) wrote Albpetrol a letter asking permission to takeover well 646, along with several other wells (See **Annex C**). Well 646 is a carbonate well clearly inside the Visoka oil field coordinates for IEC Visoka’s “Contract Area” (as described in the Heads of Agreement, IEC Agreement and IEC License) (the “**IEC Contract Area**”).
2. In complete violation of the terms of the MOGU and the Heads of Agreement, Albpetrol went ahead and granted Bankers permission to takeover well 646 knowing full well that well 646 was within the IEC Contract Area. It is our understanding that this permission was given the same week as Bankers’ request.
3. We have learned that Bankers did not start injecting water into well 646 until after May of 2009. Instead for seventeen months they illegally pumped approximately 2,600 tons (6.286 barrels per ton) of oil from well 646.
4. In June of 2009, subsequent to the execution of the IEC Agreement and IEC License, Bankers began to inject water from their field into well 646 at about 20 tankers a day hauling 20 tons per load according to eye witnesses living on the field. This is supported by the suddenly extremely high water levels in our reservoir which were not previously there. However, Bankers only reported to Albpetrol that they injected a total of 28,000 cubic meters.

5. Apparently Bankers determined that they could increase well 646's ability to receive injected water by setting off explosives in IEC Visoka's reservoir within the IEC Contract Area. We have discovered that a number of explosions, caused by Bankers, occurred starting in June 2009, two of which could be measured by the scientific community. We know that Bankers was responsible for these explosions based upon: the fact that they had exclusive control over well 646 as a result of their taking over the well; the fact that Bankers had armed guards protecting well 646 (none of the other wells controlled by Bankers have armed guards and most oil companies guard their production wells not their water injection wells); and eye witness accounts confirming that the guards have been present at well 646 for some time and confirming that a different truck (other than the ones used for the water injection) appeared at well 646 immediately before any of the explosions. The first major explosion was set off on July 17, 2009, and the second major explosion on September 4, 2009. Testimony was taken from homeowners in the area who reported that they heard and felt explosions on the field on those dates. They also reported seeing a different type of truck going to well 646 just prior to the explosions. They reported their homes were damaged and that unlike an earthquake the "shake" was vertical not horizontal. "The ground moved up and down not side to side" they stated. They reported hearing and feeling explosions on both July 17, 2009 and September 4, 2009 and some smaller explosions on other dates. Pictures of damaged homes and signed testimonies were taken (See **Annex F**). After the first major explosion in July the homeowners temporally blocked Bankers' workers from going to the field (See **Annex G**). The homeowners were frightened at the series of explosion so when the September 4, 2009 explosion happened they rushed out of their homes and went directly to well 646. Five residents arrived within 2-3 minutes of the explosion yelling at the Bankers' employees, "What have you done?" They responded saying there was an explosion in the well. Within minutes a crowd of about 300 homeowners had gathered and blocked the road. The press was called and where at the site within an hour. One of the witnesses who lived just 100 meters from well 646 said that the explosion sounded like thunder and he could smell some type of order within minutes. He indicated that his house moved up and down, as opposed to shaking horizontally, when the explosion took place. He and the other residents all knew that it was an explosion and not an earthquake since they had witnessed so many of them in the past. The same witness saw a truck, which he knows to be a Bankers' truck, with a red cab and a yellow bed, arrive at well 646 shortly before the explosion, and leave less than five minutes

after the explosion. He has seen this truck on Bankers' field in the past and is going to try and get a picture of it for us. Witnesses also reported seeing large barrels with white powder around well 646 and other water injection sites. The barrels were marked with hazard signs. They do not know what chemical was in the barrels but they know where many of the empty barrels are kept. They are going to try and get samples of the residue from the inside of the barrels for us. We now have three individuals who are working for us as consultants gathering this, and other, information from well 646 and other locations. These samples will include samples of the soil around well 646 (if it can be gathered safely) and other water injection sites. They are also trying to identify and contact individuals who were working as the security guards at well 646 at the time of either of the two large explosions. They know that the security company that was employed by Bankers is an Albanian company, but that the workers are managed by a man they believe to be foreign. They have his name and we are following up on that lead. Bankers' statement to the press was to deny there was an explosion saying it was just one of the many earthquakes in Albania. They later told us these were just greedy people wanting to blame Bankers for the damage done by earthquakes in order to collect money.

6. The EMSC –European Mediterranean Seismological Centre shows seismic activity for both dates, at approximately the same time in question in the area of our coordinates for the IEC Contract Area, but does not show the actual charts and makes no statement as to the cause (See **Annex H**). Both explosions registered as approximately 3.1 to 3.2 on the Richter scale. Mr. Mezini went to the Institute of Seismology in Tirana on Friday September 25, 2009 in an effort to get a copy of the seismic activity on the dates that the residents of Visoka felt and heard the explosion. We were trying to determine if in fact seismic activity had been recorded for those dates, and if so, was it consistent with earthquakes. Mr. Mezini was told that the Ministry had ordered those records sealed and therefore he could not get a copy. Despite the efforts of the Ministry to keep these records hidden, Mr. Mezini was able to obtain the verbal confirmation we were looking for. He was told that on the two dates, July 17, 2009 and September 4, 2009 and at the exact times that the homeowners reported the explosion at about 2 pm in the afternoon that they recorded activity each registering 3.-3.2 Richter scale but stated they were not earthquakes. Subsequently we have learned that the Institute of Seismology in Tirana did report these two incidents to EMSC before the Ministry sealed the records (See paragraph 16).

7. On September 11, 2009 we first learned about this entire situation and we immediately sent engineers to investigate well 646. They were prevented by Bankers' armed guards from going to well 646 but were able to photograph it from a distance. During that trip to the field they were told by homeowners as well as by Albpetrol staff that Bankers had removed their injection equipment from well 646 the day before.
  
8. An inspection by our engineers on September 11, 2009 of other downstream wells from well 646 revealed that an extremely serious environmental catastrophe had occurred on well G44. This formerly inactive well was now spewing oil and water. Subsequently Albpetrol provided us with questionable well production information which showed G44 as a producing well. Some 250-300 meters below well G44 the pipeline is compromised and water and gas are spewing at a rate of 400-450 cubic meters a day over the surface and into a small stream and then on to Gjanica river. It was our fear that the ground water used by the residents of Visoka and Patos villages may be contaminated as a result of the water spewing from G44 getting into the ground water. Therefore, on September 15, 2009 a certified environmental expert, Rita Moco, who now works for us, was sent to collect samples from G44 and the decant tanks belonging to Albpetrol for that particular area. On September 16, 2009 the oil and water samples were taken to Republika e Shqiperise Ministria e Mjedisit, Pyjeve Dhe Administrimit te Ujerave Agjencia e Mjedisit dhe Pyjeve which is the national lab and generally would not accept outside lab requests but because Ms. Moco is a certified environmental agent she was able to submit the samples for testing. The testing was certified and stamped for the government agency and by Zamira Dana the Drejtor D.A.L.R. We received the oil and water results from the National Lab on September 25, 2009. The results and a translation of her unsigned report are enclosed as **Annex I**. Ms. Dana and her lab technicians were alarmed at the level of contamination in the reservoir and in a preliminary unsigned report Ms. Dana stated that a clean-up of the water would be required. She is willing to officially sign the report when her investigation is complete. The report showed high Chlorides, depletion of oxygen and extremely high ammonia.
  
9. On or about September 16, 2009 our engineers obtained an Albpetrol report showing that the gas reading on well G44 was suddenly higher than had ever been recorded on that well (See **Annex J**). Gas samples were collected by experts

from a lab in Kocova who believed that the unknown gas is not natural gas. The samples are in locked security while we try to determine where and how to have them tested.

10. On September 24, 2009 two people from the Geological Laboratory took oil and water samples from wells numbered G-44, G-139, G-67, G-202, along with several decantation sites and the Gjanica River. We have the results back of these tests and they are even more alarming (See **Annex K**) showing much higher levels of NH-4 (ammonia) These results have been sent to a chemist outside the country in an effort to determine the possible cause(s) of such level in a reservoir formally reading zero NH-4.
11. On September 24, 2009, we also had representatives from the Kocove Lab take samples from well G44. Kocove Lab reports arrived October 2, 2009, showing well G 44 to be highly contaminated with high Chlorides, depletion of oxygen, extremely high ammonia (See **Annex L**).
12. On or about September 24, 2009, Rita Moco also took several samples to the Institute of Energy, Water and Environment in Tirana. This lab is under the Polytechnic University in Tirana for over a year as it is used by the Academy of Science. The samples taken there were from G-44, G-139, G-67, G-109, G-196 and G-202. They also took samples from two water wells, M-8 and 479. We hope to have these results back shortly.
13. On September 26, 2009 the chemical results from the National lab were shown to Professor Dr. Niko Thomo who holds degrees in quantum mechanics, Chemistry and Physics. He reviewed the results without knowledge of possible explosion and said, "This is 100% the results of an explosion in a reservoir." He is not connected to IEC Visoka and has no financial gain by such a conclusion.
14. Pauline and Rita met with Ms. Dana on Saturday September 26, 2009 in Tirana to inquire if she had any theory of what would have caused the high readings of NO3 NO4 and COD. She would not commit to a cause but answered, "What indeed?" She required that new samples of the surrounding ground water from

residential wells in the area be collected under strict collection procedures. Pauline asked Ms. Dana where she thought we could have gas samples tested without telling her that we have an unknown gas in G44. She said another department in the National Lab may have the necessary equipment but it would require an order from the Ministry to have it tested. Because we believe there is a cover-up with help at some government level we were unwilling to seek Ministry approval. The ground water samples were collected and delivered to Ms. Dana on October 3, 2009. These samples included ones from Bankers' and Albpetrol's decanting facilities. On that date she came and personally saw the field. Those test results showed that the ground water had not been contaminated with the chemicals evidenced in the water taken from the oil wells but were contaminated to the extent that the ground water should not be used for drinking.

15. On September 28, 2009 we learned that Bankers has been injecting water for years into another well on Patos Marinza and that the village of Sheqishte, which is located on the Patos Marinza reservoir is claiming that their ground water is being contaminated by the water seeping from Bankers' wells causing an unusually high cancer rate among the population. This increases the urgency to test the ground water downstream from G44 on the Visoka field. We sent our environmental people to the village of Sheqishte on September 28, to collect ground water samples and "free water" from Bankers decanting facility nearby. These samples were given to Ms. Dana on October 3, 2009. Our engineers have confirmed that the stream leading into the Gjanica River is contaminated.

16. Mr. Mezini was asked to contact another associate who was the Director of the Institute of Seismology in Tirana until January of this year, again to see if he could give us more information. After seeing photographs of the damaged homes in the area, his associate, Prof. Shyqyri Aliaj, was in fact so concerned he gave us a copy of the seismic reports sent from his former office to the Centre Sismologique Euro-Mediterranean in Strasburg (See **Annex M**). These reports do not contain actual seismic graphs but do give the time, location, intensity and reports of the "quakes". In summary it stated the depth of the epicenter was 2 kilometers as opposed to the normal depth in Albania of 10-15 kilometers and therefore though the Richter recorded 3.1 and 3.5 the intensity on the ground was 6. These quakes were not on a tectonic separation, the depth was shallow and the

villagers, according to the Seismic Institute's report, felt the movement as vertical. There was serious damage to about 300 homes.