

ISLAMIC REPUBLIC OF AFGHANISTAN



Hydrocarbons Regulations

Unofficial English Translation

April 2014

Ministry of Mines and Petroleum

Legal Directorate

Contents

Chapter 1 - General Provisions	1
Article 1: Basis of the Hydrocarbons Regulations	1
Article 2: Objectives of the Hydrocarbons Regulations	1
Article 3: Definitions.....	1
Chapter 2 - Bidding for Hydrocarbons Operations Contracts	2
Article 4: Bidding	2
Article 5: Invitation for Bid	2
Article 6: Bidding Methods (Tender Process).....	2
Article 7: Bidding Documents.....	2
Article 8: Bids for Exploration and Production Sharing Contracts	3
Article 9: Bids for Service and Production Sharing Contracts	4
Article 10: Bids for Geological, Geophysical and Geochemical Services Contracts	4
Article 11: Bids for Pipeline Operations Contracts.....	5
Article 12: General Procedural Requirements Relating to the Tender/Bidding Process	5
Article 13: Obligations of the Bidders	5
Article 14: Opening of Bids.....	6
Article 15: Evaluation of Bids	6
Article 16: Rejection of Bids	7
Article 17: Acceptance of Bids.....	7
Article 18: Announcement of Preferred Bidders and the Publication of Contracts.....	7
Chapter 3 - Graticulation of the Territory of Afghanistan	8
Article 19: Graticulation of the Territory of Afghanistan	8
Article 20: Contract Areas and Restricted and Closed Areas	9
Chapter 4 - Contract Duration.....	9
Article 21: Contracts for Hydrocarbons Operations and the Issuing of the License	9
Article 22: Exploration Phase of an Exploration and Production Sharing Contract	9
Article 23: Preparation of a Development Program and Budget	10
Article 24: Development and Production Phase of an Exploration and Production Sharing Contract	11
Article 25: Contracts for Pipeline Operations	12

Article 26:	Service and Production Sharing Contracts.....	12
Article 27:	Application for the Approval to Transfer, Assign, Encumber or Relinquish a Hydrocarbons Operations Contract.....	13
Article 28:	Additional Requirements Concerning the Transfer, Assignment, Encumbrance or Relinquishment of a Hydrocarbons Operations Contract.....	13
Article 29:	Recruitment of Employees	13
Chapter 5 - Contractor’s Right Over Public and Private Land	14	
Article 30:	Prior Declaration of Disputed, Restricted or Closed Areas.....	14
Article 31:	Use of Private Land for Exploration Operations	14
Article 32:	Right of Way Over Private Land	14
Chapter 6 - Work Practices	15	
Article 33:	General Responsibilities of the Contractor.....	15
Article 34:	Appointment of Person-in-Charge for Hydrocarbons Operations.....	16
Article 35:	Specific Environmental Safeguard Measures	16
Article 36:	Specific Health and Safety Measures.....	17
Article 37:	Geophysical and Geological Operations	18
Article 38:	Drilling and Other Operations in the Well.....	19
Article 39:	Construction of Pipelines and Related Facilities.....	20
Article 40:	Measurement of Production	21
Article 41:	Power to Inspect.....	21
Article 42:	Notice of the Commencement of Hydrocarbons Operations.....	22
Chapter 7 - Hydrocarbons Operations Reports	22	
Article 43:	Submission of Quarterly Reports.....	22
Article 44:	Submission of Annual Reports.....	23
Article 45:	Periodic Reports.....	23
Article 46:	Exploration Operations Reports	24
Article 47:	Production Operations Reports	24
Article 48:	Accident and Incident Reporting	25
Article 49:	Final Reports	25
Article 50:	Form of Reporting and Amendments to Reporting Requirements	25
Chapter 8 - Accounting Records and Financial Reports	26	
Article 51:	Income Tax Returns and Accounting Affairs.....	26

Article 52: Cost Recovery Accounting and Reports under Exploration and Production Sharing Contracts and Service and Production Sharing Contracts	26
Article 53: Royalties, Surface Fees and other Fees	26
Chapter 9 - Miscellaneous Provisions.....	27
Article 54: Penalties.....	27
Article 55: Date of Enforcement.....	27

Hydrocarbon Regulations
Chapter 1 - General Provisions

Article 1: Basis of the Hydrocarbons Regulations

The Hydrocarbons Regulations are enacted pursuant to Article 71 of the Hydrocarbons Law.

Article 2: Objectives of the Hydrocarbons Regulations

The following are the objectives of the Hydrocarbons Regulations:

1. To regulate Hydrocarbons Operations Contract bids;
2. To regulate the execution of Hydrocarbons Operations Contracts and the issuance of Licenses and authorizations;
3. To regulate the identification of Hydrocarbons blocks and Contract Areas;
4. To regulate the supervision of Hydrocarbons Operations; and
5. To regulate the imposition of penalties and the provision of compensation where the Hydrocarbons Law has been violated and where fees have not been paid under the Hydrocarbons law.

Article 3: Definitions

(1) Terms defined in Article 2 of the Hydrocarbons Law shall have the same meaning when used in the Hydrocarbons Regulations.

(2) The following terms, in addition to the terms described in paragraph 1 of this Article also convey the following meanings:

1. Accepted International Practice: The practices and procedures used by experts internationally in Hydrocarbons Operations Contract Areas in similar circumstances and under similar conditions will be used as follows:
 - I. To conserve Hydrocarbons by maximizing the recovery of Hydrocarbons, in an economically and technically sustainable manner, controlling the decline of Hydrocarbons reserves, and minimizing losses at the surface;
 - II. To promote operational safety while conducting Hydrocarbons Operations and to prevent accidents; and
 - III. To minimize the impact that Hydrocarbons Operations have on the environment.
2. Field: Any area within a Contract Area that contains Hydrocarbons deposits and that is determined pursuant to the terms and conditions of an Exploration and Production Sharing Contract or a Service and Production Sharing Contract.

Chapter 2 - Bidding for Hydrocarbons Operations Contracts

Article 4: Bidding

The Hydrocarbon Operations bidding process shall be conducted in accordance with the provisions of Article 30 of the Hydrocarbons Law and the provisions of this Chapter 2.

Article 5: Invitation for Bid

(1) The invitation for bid for both Exploration and Production Sharing Contracts, and Service and Production Sharing Contracts shall contain the following information:

1. Information on how to access the bidding documents;
2. The deadline for the submission of bids, and the time and location of any related events
3. The inviter's address;
4. The obligations concerning the payment of security and fees;
5. The eligibility of the bidders;
6. The designation of blocks (or parts thereof) or Fields open for Hydrocarbons Operations;
7. The proposed Hydrocarbons activities;
8. The criteria that will be used to evaluate the proposal;
9. The bid processing fees; and
10. Other necessary information as may be requested.

(2) The invitation for bid shall be published in the national press, on the internet and using either Afghanistan's official languages or other commonly used languages of the international Hydrocarbons Operations industry.

Article 6: Bidding Methods (Tender Process)

(1) The Ministry of Mines and Petroleum shall evaluate and decide upon the applications in accordance with the provisions of Articles 33 and 34 of the Hydrocarbons Law.

(2) Qualified bidders shall receive the bidding documents in order to submit their proposal and they shall be included in the bidding process.

Article 7: Bidding Documents

(1) The bidding documents shall be prepared by the Ministry of Mines and Petroleum, and shall include the following:

1. Information regarding the preparation and submission of bids and the date and the location of the bid opening;
2. Technical specifications, performance criteria, the requirements regarding the minimum work program, safety procedures and methods, and environmental impact requirements;
3. The terms of the Hydrocarbons Operations Contract;

4. The bid parameters and the bid evaluation criteria;
5. Obligations related to security (guarantees) or the payment of fees; and
6. Other information as may be decided by the Ministry of Mines and Petroleum.

(2) The Ministry of Mines and Petroleum shall, in a timely manner, respond to any prospective bidder who requests additional information concerning the bidding documents mentioned in paragraph 1 of this Article. However, such a request must be received by the Ministry of Mines and Petroleum at least 14 days prior to the deadline for the submission of bids.

(3) Responses to such requests for clarification, as well as any changes to the bidding documents, shall be communicated in writing to the prospective bidders within 7 days of the receipt of such a request. The Ministry of Mines and Petroleum has the right to extend the deadline for the submission of bids if deemed necessary.

Article 8: Bids for Exploration and Production Sharing Contracts

Bids for Exploration and Production Sharing Contracts shall include:

1. The name, address and nationality of each bidder;
2. If the bidder is a company:
 - I. Its place of registration and establishment, its principal place of business, the names, addresses and nationalities of the directors, principal officers of the company and the structure of its capital;
 - II. The corporate structure of the company;
 - III. The financial information of the bidder, including annual reports, audited balance sheets and profit and loss statements for the past three years, and any reports of relevance to Hydrocarbons Operations which the bidder may have filed with government agencies responsible for the regulation of securities (guarantees) during that period;
3. How the Hydrocarbons Operations would be financed and securities (guarantees) to be provided for the operation;
4. The bidder's previous experience and technical expertise in conducting Hydrocarbons Operations, including the bidder's specific experience in developing countries;
5. The designation of the block or blocks (or parts thereof) for which the bid is submitted; and a determination of the bidder's block preference whenever deemed necessary;
6. A detailed description of the exploration program proposed for the block or blocks (or parts thereof) for which the bid is submitted;
7. The minimum work obligations, and an estimate of the expenditures to be undertaken during the Exploration Phase;
8. A geological evaluation of the block or blocks relevant to the bid submitted, and a description of the effectiveness of the Hydrocarbons Operations planned for this area;
9. A financial evaluation of the block or blocks (or parts thereof);

10. Information concerning the bidder's experience and technical competence that is relevant to the geographical area or areas to which a bid applies;
11. A description of the organization of experts for activities that are to be conducted within the block or blocks (or parts thereof);
12. A comprehensive description of the relevant equipment, machinery, tools and personnel that will be available to conduct Hydrocarbon Operations;
13. Information concerning the Person-in-Charge that will represent the bidder in their dealings with the relevant authorities in Afghanistan;
14. A description of the bidder's experience with the procedures relating to the health, safety and welfare of persons involved in or that are likely to be affected by the Hydrocarbons Operations;
15. A description of the bidder's experience and their record concerning the protection of the environment, the prevention, minimization and elimination of pollution and other such issues related to Hydrocarbons Operations;
16. Proposals with respect to the training of Afghan nationals and the budget amount allocated to such training;
17. Proposals concerning production sharing or the sharing of net revenues between the bidder and the State, unless such sharing is otherwise specified in the invitation for bid;
18. The royalty rate payable upon the production of Liquid Hydrocarbons and of Natural Gas pursuant to Article 64 of the Hydrocarbons Law, unless such rates are provided for in the invitation for bid;
19. A determination of the guarantee amounts that are required pursuant to Article 43 paragraph 14 of the Hydrocarbons Law; and
20. Such other matters as may be specified in the invitation for bid or that the bidder may wish the Ministry of Mines and Petroleum to evaluate.

Article 9: Bids for Service and Production Sharing Contracts

Bids for Service and Production Sharing Contracts, in addition to subparagraphs 1, 2, 3, 4, 10, 11, 12, 13, 14, 15 and 16 of Article 8 of the Hydrocarbons Regulations, shall also include:

1. The designation of the Field or Fields;
2. A detailed description of the services program for the Field or Fields;
3. An estimate of expenditures for the services; and
4. Such other matters as may be required by the Ministry of Mines and Petroleum in the invitation for bid, or which the bidder wishes the Ministry of Mines and Petroleum to evaluate.

Article 10: Bids for Geological, Geophysical and Geochemical Services Contracts

Bids for Contracts for Geological, Geophysical and Geochemical services shall include the information specified in subparagraphs 1, 2, 3, 4, 10, 11, 12, 13, 14, 15, and 16 of Article 8 of the Hydrocarbons Regulations and shall also include:

1. A detailed description of the relevant work program;

2. An estimate of expenditures for the services provided; and
3. Such other matters as may be required in the invitation for bid, or which the bidder wishes the Ministry of Mines and Petroleum to evaluate.

Article 11: Bids for Pipeline Operations Contracts

Bids for a Pipeline Operations Contract shall include the information specified in subparagraphs 1, 2, 3, 4, 10, 11, 12, 13, 14, 15 and 16 of Article 8 of the Hydrocarbons Regulations, and shall in addition contain:

1. The proposed design and construction of the pipeline and connected facilities;
2. The proposed size and capacity of the pipeline;
3. The route to be followed by the pipeline, and the rights of way required;
4. The proposed locations of the pumping stations, tank stations and valve stations that are to be part of or used in connection with the pipeline;
5. A detailed description of the construction program;
6. Such other matters as may be required by the invitation for bid, or that the bidder may wish the Ministry of Mines and Petroleum to evaluate.

Article 12: General Procedural Requirements Relating to the Tender/Bidding Process

(1) The tender process for Hydrocarbons Operations Contracts shall be an open, transparent, and competitive procurement system, based on effective budgetary and expenditure controls, and one that uses reporting requirements designed to achieve efficiency, economy, the prevention of abuse, and a fair opportunity for all potential Contractors to participate, including those in the private sector.

(2) If a bidder's qualifications materially change after the submission of a bid, the bidder must promptly notify the Ministry of Mines and Petroleum of any such change.

(3) The Ministry of Mines and Petroleum shall determine a deadline for the submission of bids which shall allow the bidders to prepare and submit bids, taking into consideration the conditions and circumstances of the tendering proceedings.

(4) In order to ensure a transparent tender process, the Ministry of Mines and Petroleum is obliged to require the prior submission of all information described in Articles 8 to 11 of the Hydrocarbons Regulations respectively, except for the biddable elements, prior to the bid submission deadline.

Article 13: Obligations of the Bidders

Bidders shall not provide false information in order to influence the bidding round, or offer or give bribes either directly or indirectly to a procurement official, or engage in collusion to monopolize procurement procedures or establish bid elements at uncompetitive levels which could prevent the promotion of a free, open and competitive bidding/tender process.

Article 14: Opening of Bids

(1) Bids shall be opened as soon as possible after the bid submission, by way of a public proceeding and in accordance with the bidding documents. The opening of bids shall be performed by the Contract Evaluation Team, in the presence of bidders or their legal representatives, all of whom shall be officially introduced (in writing) to the Ministry of Mines and Petroleum. The names and addresses of all bidders or their authorized representatives and the respective bid elements shall be recorded in the minutes and shall be signed by all participating bidders or their authorized representatives.

(2) Bids remain valid until a Contract is concluded with the preferred bidder in accordance with the terms set forth in the bidding documents. Unilateral withdrawal will result in the forfeiture of any bid security. The validity of a bid may be extended with the agreement of the bidder. In such a case, the bid security must also be extended.

Article 15: Evaluation of Bids

(1) Bids may only be considered insofar as the bidder is qualified and eligible pursuant to Articles 30 and 31 of the Hydrocarbons Law. All bidders shall be treated fairly and without discrimination.

(2) The awarding of Contracts for Hydrocarbons Operations shall be made in accordance with Article 28¹ of the Hydrocarbons Law, and the requirements and conditions stated in the invitation for bid, which may include the following:

1. The technical and managerial competence and experience of the bidder;
2. The financial resources available to the bidder to carry out the proposed work program;
3. The commercial competence and legal and financial standing of the bidder;
4. The specific contents of the proposed work programs, related financial commitments, the proposed sharing of production and other economic benefits to the extent such criteria are stipulated in the invitation for bid;
5. The machinery, equipment, tools and personnel at the bidder's disposal; and
6. The extent to which the bidder will contribute to the sustainable development of continuous Hydrocarbons activities in Afghanistan.

(3) The selection of a preferred bidder shall be based on the information described in Articles 8 – 11 of the Hydrocarbons Regulations.

(4) The Ministry of Mines and Petroleum may seek clarifications of bids in writing, but the Ministry of Mines and Petroleum shall not negotiate changes to the terms and conditions of the bids with the bidders.

¹ The official Dari version of the Hydrocarbons Regulations references Article 28 of the Hydrocarbons Law; however, the appropriate reference appears to be to Article 30 of the Hydrocarbons Law.

Article 16: Rejection of Bids

(1) Bids that contradict the provisions of the Hydrocarbons Law, the Hydrocarbons Regulations and the bidding document, shall be rejected.

(2) The Ministry of Mines and Petroleum may, for the protection of public interest, and in consideration of the Contract Evaluation Team's views, reject all bids at any time prior to the acceptance of a bid and cancel the tender process.

(3) The reason for rejecting all of the bids and for cancelling the tender process shall be noted in the tender process records and will be promptly communicated to the bidders in an official manner. The Ministry of Mines and Petroleum shall not be liable to a bidder should it choose to either reject all of the bids in a particular bidding process or cancel the tender process.

(4) If a decision to cancel the tender process is taken before the deadline for the submission of bids, any bids received shall be returned unopened to the respective bidders. A bidder that intentionally provides false and incorrect information in order to qualify for the bidding process shall be disqualified. If a bidder unintentionally provides incorrect information and fails to amend such information following a request by the Ministry of Mines and Petroleum, they will be disqualified.

Article 17: Acceptance of Bids

(1) Following the evaluation of bids, the Contract Evaluation Team shall announce the preferred bidder and send a written notice of acceptance of the bid to the preferred bidder.

(2) The Ministry of Mines and Petroleum is obliged to prepare a record of all documents relating to all of the bids received. In addition, the Contract Evaluation Team shall prepare a report on the evaluation and comparison of bids in accordance with the criteria set forth in the bidding documents. The evaluation report shall demonstrate clearly the quantitative and qualitative advantages and disadvantages of each responsive bid, and shall include any dissenting opinions.

(3) The Ministry of Mines and Petroleum is obliged to maintain all documents pertaining to the bid, including the evaluation reports, for a period of at least five years after the term of the Contract has expired. The evaluation report will, on request, be available to a bidder, provided that the bidder promises to avoid the disclosure of confidential information.

(4) If the preferred bidder fails to conclude a Contract in accordance with the terms set forth in the bidding documents, the Ministry of Mines and Petroleum, taking national interests into consideration, shall offer the Contract to the other qualified bidders, in accordance with their ranking in the evaluation of bids.

Article 18: Announcement of Preferred Bidders and the Publication of Contracts

(1) The Ministry of Mines and Petroleum is obliged to submit a notice of the Contract award to the other bidders, specifying the name and address of the preferred bidder.

(2) Upon the submission of a written request to the Ministry of Mines and Petroleum, an unsuccessful bidder can seek information as to why its bid was rejected. The Ministry of Mines and Petroleum shall promptly provide the bidder with such information, although the cost of providing such information shall be borne by the bidder.

(3) The Ministry of Mines and Petroleum shall no later than 10 days following the date of approval and of award of a Contract, publish in at least 3 national newspapers and on the Ministry of Mines and Petroleum website, an announcement summarizing the material terms of the Contract, including the name of the Contractor, the term of the Contract, a summary of the Contractor's obligations, the royalty rate, the sharing of production between the State and the Contractor, and other material revenues that the State will derive from the Contract.

(4) The Ministry of Mines and Petroleum shall register Licenses and their related documents, extensions, renewals within 10 days of the date of their approval. In the event of the termination of such Contracts or Licenses, a note of such termination should also be added to the register.

Chapter 3 - Graticulation of the Territory of Afghanistan

Article 19: Graticulation of the Territory of Afghanistan

(1) For the purpose of Articles 35 and 36 of the Hydrocarbons Law, the Ministry of Mines and Petroleum shall prepare a reference map showing the territory of Afghanistan divided into graticular sections.

(2) For the purpose of the preparation of the reference map, the surface area of Afghanistan is deemed to be divided into graticular sections defined by the meridians of longitude which are five minutes apart measured from the meridian of Greenwich and by the parallels of latitude which are five minutes apart measured from the Equator. Each graticular section shall be bound by parts of two meridians of longitude which are five minutes apart and by parts of two parallels of latitude which are five minutes apart.

(3) Where a portion of a graticular section includes land in Afghanistan and land outside Afghanistan, only that portion of the land in Afghanistan shall constitute a graticular section in the Contract.

(4) Each block shall be composed of one or more graticular sections and shall be given a number or a letter, or both, for the purpose of identification.

(5) The reference map prepared pursuant to paragraph 1 of this Article shall be maintained at the Ministry of Mines and Petroleum. In the event of a request being made for a copy, the authorized department/related authority of the Ministry of Mines and Petroleum shall provide a certified copy of this reference map.

Article 20: Contract Areas and Restricted and Closed Areas

(1) Contract Areas shall consist of one or more blocks (or parts thereof) defined in accordance with Article 35 of the Hydrocarbons Law and Article 19 of the Hydrocarbons Regulations. The blocks covered by a single Contract Area shall be so situated as to constitute a continuous area where practicable.

(2) For the purpose of Article 17 of the Hydrocarbons Law, the areas declared closed to Hydrocarbons Operations shall be defined by reference to particular graticular sections.

(3) Areas which are within a Contract Area prior to the enforcement of the Hydrocarbons Regulations shall be excluded from Article 15 paragraphs 6 and 7 and from Article 16 of the Hydrocarbons Law.

Chapter 4 - Contract Duration

Article 21: Contracts for Hydrocarbons Operations and the Issuing of the License

(1) The Ministry of Mines and Petroleum shall conclude Contracts for Hydrocarbons Operations and then send such Contracts to the Inter-Ministerial Commission for endorsement. Upon the endorsement of the Inter-Ministerial Commission, the Ministry of Mines and Petroleum shall submit the Contract to the Cabinet for approval. Contracts are valid and binding upon their approval by the Council of Ministers.

(2) Upon the approval of a Hydrocarbons Operations Contract pursuant to paragraphs 12 and 20 of Article 5 of the Hydrocarbons Law, the Ministry of Mines and Petroleum shall issue the License.

(3) If the Hydrocarbons Operations Contract provides the State with an option to take a specified participating interest following a declaration of a Commercial Discovery, in such a case of State participation, the Contractor shall enter into an operating agreement with the State, which shall govern their rights and obligations.

Article 22: Exploration Phase of an Exploration and Production Sharing Contract

(1) The Exploration Phase of an Exploration and Production Sharing Contract shall comprise an initial exploration period and two or more possible successive extension periods which shall be specified in the Exploration and Production Sharing Contract, provided that the aggregate duration of the said periods shall not exceed 10 years.

(2) The extension periods shall be granted to the Contractor upon the Contractor's request which is to be delivered to the Ministry of Mines and Petroleum not later than (within) 90 days prior to the expiration of the then current period. Such an extension is subject to the Contractor having fulfilled its obligations under the Exploration and Production Sharing Contract for the then current period, and having submitted a minimum work program and budget for the duration of the extension.

(3) The Exploration and Production Sharing Contract may include the right of the Contractor to be granted an extension of the Exploration Phase for the purpose of completing the operations and appraising a discovery of Hydrocarbons.

(4) Prior to the commencement of Hydrocarbons Operations and prior to each extension period, the Contractor shall submit such guarantees in a form acceptable to the Ministry of Mines and Petroleum and for an amount equal to the estimated expenditures associated with the minimum work program of the initial period and each extension period.

(5) Prior to the commencement of the extension period, the Contractor shall relinquish part or parts of the Contract Area, expressed by co-ordinates within the initial Contract Area and defined by reference to graticular sections. However, Fields and areas that are under appraisal as a result of a discovery shall not be subject to such mandatory relinquishment.

(6) In the case of the mandatory relinquishment referred to in paragraph 5 of this Article and in the case of voluntary relinquishment, the Contractor shall give written notice to the Ministry of Mines and Petroleum not less than 90 days prior to the effective date of such relinquishment.

Article 23: Preparation of a Development Program and Budget

In the event that a discovery of Hydrocarbons, which the Contractor considers to be commercial, is made in a Contract Area, the Contractor shall submit to the Ministry of Mines and Petroleum for approval a Development Program and Development Program budget which shall include the following:

1. A description and map of the area that contains such discovery and the area that the Contractor proposes to delineate as a Field (such a map to be defined by reference to the graticular sections and, if the Exploration and Production Sharing Contract so provides, geological formations);
2. A detailed report, accompanied by supporting data and all analyses and interpretations thereof, which demonstrates that the area described in subparagraph 1 above contains, alone or in conjunction with other areas, as the case may be, a Commercial Discovery;
3. A detailed proposal for the construction, establishment and operation of all facilities and services for the development, extraction, production, storage, transportation, sale and other disposal of Hydrocarbons and a proposed timetable for the commencement of Hydrocarbons production;
4. A detailed forecast of capital investment requirements, operating costs and sales Revenues and the anticipated type and source of financing;
5. In accordance with Article 52 paragraph 2 of the Hydrocarbons Law, an environmental impact assessment that shall include:
 - I. A description of the ecosystem before the commencement of development, including the flora and fauna, soil, air quality, underground and surface water; and
 - II. The aspects of the ecosystem which may be affected qualitatively and quantitatively by Hydrocarbons Operations and the effect of the Hydrocarbons Operations on local populations, if any;

6. In accordance with Article 52 paragraph 2 of the Hydrocarbons Law, an environmental management plan which shall include the measures planned for:
 - I. the protection of the environment, and the elimination or the reduction of pollution;
 - II. the protection and compensation of affected populations (if any); and
 - III. the verification of the effectiveness of said measures;
7. A risk management plan in accordance with Article 52 paragraph 2 of the Hydrocarbons Law, which shall include the measures and directions established by the Ministry of Mines and Petroleum to prevent damage and to ensure the removal of any hazard resulting from Hydrocarbons Operations that could affect communities, the Contractor's personnel and the environment;
8. An emergency response plan in accordance with Article 55² of the Hydrocarbons Law, which shall include measures to respond to any accident that may occur at the site of the Hydrocarbons Operations, including medical treatment and evacuation of employees and the surrounding populations, and the protection of the environment;
9. In accordance with Article 52 of the Hydrocarbons Law, a decommissioning and abandonment plan which shall include measures to rehabilitate, as far as reasonably practicable, the environment affected by the Hydrocarbons Operations to its predetermined state prior to commencement of Hydrocarbon Operations, or to a land use; and
10. Such other matters as may be required under the Exploration and Production Sharing Contract.

Article 24: Development and Production Phase of an Exploration and Production Sharing Contract

(1) The Development and Production Phase referred to in Article 52³ of the Hydrocarbons Law will commence upon approval by the Ministry of Mines and Petroleum of the Development Program and the Development Program budget for the said Field.

(2) The term of the Development and Production Phase for each Field shall be for such a period, not to exceed 25 years, as shall be specified in the Exploration and Production Sharing Contract.

(3) The Exploration and Production Sharing Contract may provide for the right of the Contractor to be granted an extension of the Development and Production Phase, upon issuing a request to the Ministry of Mines and Petroleum, for a period not to exceed 10 years.

(4) The Exploration and Production Sharing Contract shall stipulate a time limit from the declaration of the Commercial Discovery to the commencement of initial commercial production. When stipulating such time limits, the Ministry of Mines and Petroleum may differentiate between discoveries of Liquid Hydrocarbons and discoveries of Natural Gas.

² The official Dari version of the Hydrocarbons Regulations references Article 55 of the Hydrocarbons Law; however, the appropriate reference appears to be to Article 54 of the Hydrocarbons Law.

³ The official Dari version of the Hydrocarbons Regulations references Article 52 of the Hydrocarbons Law; however, the appropriate reference appears to be to Article 38 of the Hydrocarbons Law.

(5) A Contractor shall set aside before the estimated reserves of a Field are exhausted, sufficient funds to enable it to comply with its contractual obligations with respect to the abandonment of any Field pursuant to Article 11 of the Hydrocarbons Regulations.

(6) After a Development Program for a Field has been approved, the Contractor shall continue to carry out exploration activities both outside of and inside a Field, provided such continued exploration is consistent with the provisions of Chapter 6 of the Hydrocarbons Regulations.

Article 25: Contracts for Pipeline Operations

(1) If the necessary transportation of produced Hydrocarbons is not set forth in a previously approved work program of a Contract, such transportation shall be regulated in a separate Contract.

(2) The term of a Contract for Pipeline Operations shall not exceed 25 years.

(3) The Contract for Pipeline Operations may be extended upon the Contractor's request. Such an extension shall not exceed a period of 10 years.

(4) The Contract for Pipeline Operations shall stipulate the operating conditions, including the obligation to allow the transportation of State or third party Hydrocarbons on a non-discriminatory basis, provided that there is available capacity in the pipeline, and provided that the Hydrocarbons meet the quality requirements for which the pipeline is designed and operated, including technical specifications and pressure requirements.

Article 26: Service and Production Sharing Contracts

(1) The terms and conditions applicable to services for the rehabilitation, development and/or production of previously exploited or known Fields shall be established in a Service and Production Sharing Contract between the State and the bidder in accordance with Article 43 of the Hydrocarbons Law.

(2) The Contractor is obliged to develop the Field or rehabilitate existing production facilities in accordance with a work program and a budget that will cover the construction, establishment and operation of all facilities and services for and incidental to the development, extraction, production, storage, transportation, sale and other disposal of Hydrocarbons. In addition the Contractor is required to:

1. Prior to the commencement of the Hydrocarbons Operations, submit to the Ministry of Mines and Petroleum an environmental impact assessment, an environmental management plan, a risk management plan, an emergency response plan, and a decommissioning and abandonment plan, prepared in accordance with subparagraphs 5 to 8 of Article 22⁴ of the Hydrocarbons Regulations; and

⁴ The official Dari version of the Hydrocarbons Regulations references Article 22 of the Hydrocarbons Regulations; however, the appropriate reference appears to be to Article 23 of the Hydrocarbons Regulations.

2. Set aside before the estimated reserves of a Field are exhausted, funds necessary to enable it to comply with its decommissioning and abandonment obligations.

(3) Under any Service and Production Sharing Contract, the Contractor shall, during the conduct of Hydrocarbon Operations, be subject to the provisions of Chapters 6 to 8 of the Hydrocarbons Regulations, except for such provisions that are solely applicable to exploration operations.

(4) The term of a Service and Production Sharing Contract shall not to exceed a period of 25 years.

Article 27: Application for the Approval to Transfer, Assign, Encumber or Relinquish a Hydrocarbons Operations Contract

(1) Applications for approval to transfer, assign, encumber or relinquish any Hydrocarbons Operations Contract, or any rights or obligations arising out of such Contract, shall be submitted to the Ministry of Mines and Petroleum for approval, and any such application shall include:

1. The name and nationality of the proposed Person to whom the Contract will be assigned and transferred or the place of registration and address of that Person's main office;
2. Proof of financial and technical ability with regard to undertaking the work and other commitments set forth in the Contract and of the transferee or assignee;
3. An unconditional undertaking by the assignee or transferee to assume all the obligations and financial security assigned and transferred by the transferor or assignor under the Contract; and
4. Such other requirements and obligations that the Ministry of Mines and Petroleum may deem necessary.

(2) The Ministry of Mines and Petroleum, following the receipt of the application in accordance with the provisions of paragraph 1 of this Article, may request the Contractor to submit further relevant information within a specified reasonable time, and where such further information is not supplied within the specified time, the application shall be deemed to have been withdrawn.

Article 28: Additional Requirements Concerning the Transfer, Assignment, Encumbrance or Relinquishment of a Hydrocarbons Operations Contract

The transfer, relinquishment, or encumbrance of a Hydrocarbons Operations Contract shall not affect any liability of the transferor or assignor for any losses incurred prior to the date upon which such an assignment, encumbrance or transfer takes effect; nor, unless a Contract provides otherwise, shall it relieve the transferor or assignor of liability for the performance by the transferee or assignee of the obligations undertaken by the transferor or assignor under the Contract.

Article 29: Recruitment of Employees

(1) Personnel that can be employed by the Contractor in accordance with Article 42 of the Hydrocarbons Law shall include individuals with higher education, expert knowledge and experience, special qualifications, and management experience.

(2) The personnel stipulated in Article 47 of the Hydrocarbons Law shall be an exception to paragraph 1 of this Article.

Chapter 5 - Contractor's Right Over Public and Private Land

Article 30: Prior Declaration of Disputed, Restricted or Closed Areas

(1) Areas may be declared or designated as disputed, prohibited, unauthorized or closed areas for the purpose of conducting Hydrocarbons Operations pursuant to Articles 15 and 17 of the Hydrocarbons Law.

(2) If a declaration or designation pursuant to paragraph 1 of this Article is made after the Contractor has signed a Hydrocarbons Operations Contract, then the Contractor shall be entitled to terminate or renegotiate the Hydrocarbons Operations Contract, and shall also be entitled to claim damages for losses incurred due to such a declaration or designation.

Article 31: Use of Private Land for Exploration Operations

If a Contractor wishes to conduct temporary exploration operations, including conducting geological and geophysical surveys, the drilling of wells and the construction of installations, in a specific part of the Contract Area which is legally owned or occupied by a Person other than the State or a public entity, the following shall apply:

1. The Contractor shall submit to the Ministry of Mines and Petroleum, no later than 60 days prior to the proposed operation, a notice describing the proposed operation, the estimated commencement date and duration of the operation, and any disturbance or damage that the land owner or occupier is likely to suffer as a result of the Hydrocarbons Operations.
2. The Ministry of Mines and Petroleum shall obtain the permission of the land owner to enter and conduct operations on the said land. Documentation regarding such permission will be presented to the Contractor in a timely manner.
3. Upon the completion of the proposed operation, if the owner or occupier of the land suffers any damage, the Contractor, after an evaluation of the damage, shall propose compensation to the owner or occupier of the land. If the Contractor and land owner or occupier fail to agree on the amount of compensation, the Ministry of Mines and Petroleum shall determine the amount of compensation payable.
4. If the parties do not agree with the amount decided upon by the Ministry of Mines and Petroleum, the dispute shall be settled in accordance with the Hydrocarbons Law.

Article 32: Right of Way Over Private Land

In the event the Contractor wishes to secure a right of way over land which is legally owned or occupied by a Person, for the purpose of obtaining access to the sites of operations within the Contract Area, the following shall apply:

1. The Contractor shall submit to the Ministry of Mines and Petroleum, no later than 60 days prior to the date as from which the right of way will be required, a notice describing the route of the proposed right of way, the estimated starting date and duration of the right of way, and any damage which the owner or occupier is likely to suffer as a result of the right of way.
2. The Ministry of Mines and Petroleum shall, in a timely manner, secure permission from the owner or occupier of the land in question to enable such a right of way, and shall provide the Contractor with evidence of such permission.
3. In the event the owner or occupier has suffered a disturbance to activities or damage as a result of the right of way, the Contractor shall compensate the owner or occupier after an assessment of the damage has been conducted.
4. If the Contractor and the owner or occupier fail to agree on the amount of compensation, the Contractor shall refer the matter to the Ministry of Mines and Petroleum, which shall determine the amount of damages payable.
5. If the parties do not agree with the amount decided upon by the Ministry of Mines and Petroleum, the dispute shall be settled in accordance with the Hydrocarbons Law.

Chapter 6 - Work Practices

Article 33: General Responsibilities of the Contractor

(1) The Contractor shall be responsible for conducting all Hydrocarbons Operations within the Contract Area in accordance with Accepted International Practice and in accordance with the Hydrocarbons Law, the Hydrocarbons Regulations and all applicable legislative documents of Afghanistan and specifically, the Contractor shall:

1. Ensure that all equipment, materials, supplies, plant and installations used by the Contractor, its contractors, and Subcontractors comply with Accepted International Practice used in the international Hydrocarbons industry and that they are correctly constructed and maintained in good working order;
2. Ensure that all exploration wells with significant shows of Hydrocarbons are properly tested;
3. Use the resources in the Contract Area as productively as practicable, prevent damage to producing formations, and ensure that Hydrocarbons discovered, drilling fluids or any other waste (solid or fluid) or substances are neither wasted nor allowed to escape;
4. Use its best efforts to prevent damage to Hydrocarbons and water bearing strata that are adjacent to a producing formation, and prevent water from entering any strata bearing Hydrocarbons, except where water injection methods are used for recovery operations or are intended otherwise in accordance with Accepted International Practice in the international Hydrocarbons industry;
5. Take all measures in accordance with Accepted International Practice in the international Hydrocarbons industry to protect the environment such as to avoid any damage to flora and fauna and to prevent any other forms of environmental pollution;

6. Take all measures in accordance with Accepted International Practice in the international Hydrocarbons industry to secure the safety, health and welfare of persons engaged in Hydrocarbons Operations and the public; and
7. Compensate all third parties with respect to any injury, damage or loss caused by an act or omission of the Contractor, its Subcontractors or its agents, employees, or representatives in the course of Hydrocarbons Operations being conducted.

(2) The Person-in-Charge, Persons engaged in Hydrocarbons Operations, and Persons party to a Contract, in order to comply with the provisions of Chapter 6 of the Hydrocarbons Regulations, have individual and group responsibility.

Article 34: Appointment of Person-in-Charge for Hydrocarbons Operations

(1) Before commencing Hydrocarbons Operations, the Contractor shall appoint a competent person, to be known as the Person-in-Charge, to be in charge of all Hydrocarbons Operations in the Contract Area, and shall notify the Ministry of Mines and Petroleum of the Person-in-Charge's name and address. Any change in the Person-in-Charge shall be similarly notified to the Ministry of Mines and Petroleum as soon as possible.

(2) The Person-in-Charge has the following obligations:

1. To understand all of the relevant provisions of the Hydrocarbons Regulations, the Hydrocarbons Law and all of the applicable laws of Afghanistan, and to understand any safety manual related to the Hydrocarbons Operations.
2. The Person-in-Charge shall ensure that all of the workers that are under his supervision know and comply with all of the relevant provisions in the legislative documents set forth in subparagraph 1 of this Article 34(2) of the Hydrocarbons Regulations.
3. The Person-in-Charge shall ensure that the equipment, the program of Hydrocarbons Operations, procedures and the working conditions provide for the safety of the personnel engaged in the Hydrocarbons Operations and the protection of the environment and resources.
4. The Person-in-Charge shall be responsible for the preparation and submission of all programs, manuals and reports that the Contractor is required to submit pursuant to the Hydrocarbons Regulations. These shall be submitted to the Ministry of Mines and Petroleum in a timely manner.

Article 35: Specific Environmental Safeguard Measures

(1) The Contractor shall, in carrying out Hydrocarbons Operations, adopt the following measures:

1. Prevent the pollution of any water well, spring, river, lake or reservoir as a result of the escape of Hydrocarbons, drilling fluids, chemical additives, or any other waste product or effluent.
2. Where pollution occurs, treat or disperse it in an environmentally acceptable manner.
3. Flare or vent Natural Gas as authorized and in accordance with the terms of the Contract and in an acceptable manner.

4. Dispose of all waste used during the drilling of a well as authorized and in accordance with the terms of the Contract and in an acceptable manner.
5. Remove all worn, damaged or surplus equipment and supplies. Any rubbish or waste from the site is to be reused, recycled or disposed of at an approved waste disposal site.
6. Upon the completion or abandonment of a well, promptly restore the well site and any surrounding area, as practically as possible, to the condition that it was in prior to the commencement of Hydrocarbons Operations.

(2) Contractors shall, in relation to the development and production operations, comply with such additional obligations for the protection of the environment as provided for in the environmental management plan approved by the Ministry of Mines and Petroleum in accordance with Articles 23 and 26 of the Hydrocarbons Regulations.

(3) Where, in the opinion of the Ministry of Mines and Petroleum, there exists a possibility of the waste or contamination of Liquid Hydrocarbons, Natural Gas or water, the Ministry of Mines and Petroleum may require the Contractor to carry out tests. Upon notification, the Person-in-Charge shall immediately carry out the necessary tests. If waste or contamination is found to exist, the Contractor shall immediately carry out the necessary measures in order to remedy or prevent waste or contamination.

Article 36: Specific Health and Safety Measures

(1) Every Contractor shall, in carrying out Hydrocarbons Operations, take all necessary measures to secure the health, safety and welfare of persons in accordance with Article 36⁵ of the Hydrocarbons Law, including the following measures:

1. All equipment and work facilities shall be safe for use, and shall be inspected by a qualified person as regularly as is deemed necessary to ensure the safety of the equipment or facility and its compliance with the relevant laws and regulations. The person performing the inspection shall provide a written report of each item of equipment found to be defective, unsafe or in need of repair or replacement, and shall forward a copy of the report to the Ministry of Mines and Petroleum.
2. Adequately designed, tested and maintained blowout prevention equipment shall be used in connection with the drilling, testing, completion or working over of any well.
3. Adequate, easily accessible, and properly maintained fire-fighting equipment shall be installed at all operational locations where the potential for fire exists. Personnel shall be trained to effectively use such equipment, and firefighting contingency procedures shall be published and displayed prominently throughout the operational facility.
4. All completed wells shall be reasonably protected, and a notice warning persons of the danger that exists shall be prominently displayed.

⁵ The official Dari version of the Hydrocarbons Regulations references Article 36 of the Hydrocarbons Law; however, the appropriate reference appears to be to Article 43 of the Hydrocarbons Law.

5. All personnel shall wear clothing and footwear suitable for the operational conditions and the work being performed, including, where appropriate, industrial protective equipment such as helmets, eye protectors, gloves, or hearing protection equipment.
6. Where appropriate, notices in English and in the prevalent language of the area of operations shall be displayed at the operational sites.
7. Adequate first aid equipment and personnel shall be available on all operational sites while work is in progress and procedures shall be established for the transportation of persons needing prompt medical attention.
8. Reliable communication facilities shall be provided at all operational locations.

(2) The Contractor shall prepare and submit to the Ministry of Mines and Petroleum for approval prior to the commencement of operations:

1. A safety manual that will detail the procedures to be followed to safeguard the health and safety of all personnel associated with all foreseeable operations, and that will detail the procedures to be followed to safeguard the environment;
2. A manual outlining the required responses to particular emergencies which may occur, including the escape or ignition of Hydrocarbons, serious injuries, and other events which could potentially require the evacuation of the site;
3. A manual related to well control detailing the procedures and equipment which will be used in the event of a blowout; and
4. A copy of the explanation and interpretational manuals set forth in subparagraphs 1, 2 and 3 of this Article 36(2) that will be provided to all personnel at the operational sites of the Contracts.

(3) In the case of emergency, danger, or an accidental discharge, the Contractor shall take such immediate actions as are necessary to protect personnel, the surrounding communities and the environment, and shall as soon as possible thereafter notify the Ministry of Mines and Petroleum of the action taken.

Article 37: Geophysical and Geological Operations

(1) At least 14 days before commencing any geophysical or geological program, the Contractor shall submit to the Ministry of Mines and Petroleum a notice of intention to carry out a survey program. The notice shall include:

1. The Contract Area and location of the survey;
2. The objectives and the techniques of the survey;
3. The equipment to be used and the name and address of the Contractor;
4. The estimated commencement date and duration;
5. The estimated costs; and

6. The line kilometers if the program involves a seismic survey.

(2) Prior to commencing a geological or geophysical program that utilizes explosives, a manual shall be submitted to the Ministry of Mines and Petroleum for review which will include operational, procedural and safety issues, including storage, transportation, handling, personal safety and the training of personnel.

(3) Where a seismic survey is to be carried out on a road used by the public or in the vicinity of an inhabited area, the Contractor shall consult with the local authorities, and will take all primary practical precautions to ensure that no damage or inconvenience is caused by the operation.

Article 38: Drilling and Other Operations in the Well

(1) Every Contractor under an Exploration and Production Sharing Contract or Service and Production Sharing Contract shall design wells and conduct drilling operations, including the casing, cementing and plugging of wells, in accordance with Accepted International Practices in the international Hydrocarbons industry.

(2) Wells in the Contract Area shall be identified by name, number and geographic coordinates which shall be shown on maps, plans and similar records which a Contractor is required to keep and to submit to the Hydrocarbons Data Bank.

(3) No later than 7 days before commencing the drilling of any well, and before recommencing work on any well on which work has been discontinued for more than 90 days, a Contractor shall submit to the Ministry of Mines and Petroleum a proposed well program which shall include the following information:

1. The official name and number of the well and a description of the well's precise location by reference to geographical co-ordinates;
2. A detailed work program describing the drilling technique to be employed and all ancillary operations (casing, cementing, mud, coring, logging, well control and testing) an estimate of the time to be taken and depth objective, the estimated costs of the well program, and the safety measures to be employed in the drilling of the well;
3. A summary of the geological and geophysical data, and any interpretations thereof, upon which the Contractor made its decision to drill or commence work on the respective well.
4. The name of the drilling contractor and the designation of the drilling rig; and
5. The names of other service companies to be employed, together with a brief description of the equipment to be used.

(4) Where any work relating to any well is suspended for a period exceeding 30 days, a Contractor shall notify the Ministry of Mines and Petroleum in writing to that effect.

(5) A Contractor shall give 48 hours' notice in writing before recommencing any work with respect to any well on which work has been suspended for more than 30 days, but for less than 90 days.

(6) Except with the written approval of the Ministry of Mines and Petroleum, no well shall be drilled from any surface area within the Contract Area which is less than one thousand meters from the boundary of such Contract Area, or from within a Contract Area through any vertical boundary of such Contract Area.

(7) Before abandoning any well, the Contractor shall give, in the case of a producing well, not less than 30 days, and, in the case of any other well, not less than 24 hours written notice to the Ministry of Mines and Petroleum of its intention to abandon. Such notice shall be accompanied by a satisfactory program for abandonment.

(8) The Contractor shall securely plug any well that is abandoned in order to prevent pollution and/or possible damage to the deposit.

(9) The Contractor shall remove all equipment, materials and facilities relating thereto, provided that cemented strings or other forms of casing shall not be withdrawn without the prior written approval of the Ministry of Mines and Petroleum, except as the Ministry of Mines and Petroleum may otherwise direct or the Hydrocarbons Operations Contract may otherwise provide.

Article 39: Construction of Pipelines and Related Facilities

(1) No Person shall commence or continue the construction of, or operate or alter or reconstruct a pipeline, pumping station, storage facility or any other related facility for the transportation or storage of Hydrocarbons, except in accordance with a Development Program approved by the Ministry of Mines and Petroleum pursuant to a License, or pursuant to a Contract for Pipeline Operations under Article 60 of the Hydrocarbons Law.

(2) The terms and conditions applicable to the construction and operation of the facilities to transport and store Hydrocarbons produced under a Hydrocarbons Operations Contract, both within the Contract Area and outside the Contract Area to the point of sale or export from Afghanistan, shall be provided either in a Development Program approved under an Exploration and Production Sharing Contract or a Service and Production Sharing Contract, or included in a Contract for Pipeline Operations as set out in Article 60 of the Hydrocarbons Law.

(3) A Contractor may not commence pipeline operations unless the Ministry of Mines and Petroleum has approved a pipeline development plan addressing safety, operating, commencing, environment and emergency procedures; such a plan being either in the form of a Development Program approved under an Exploration and Production Sharing Contract, a Service and Production Sharing Contract, or included in a Contract for Pipeline Operations. The Ministry of Mines and Petroleum shall have 90 days from the date of submission of the pipeline development plan to approve or disapprove of the plan in writing. If written notice of disapproval is not provided within the specified period, the pipeline development plan will be deemed approved.

(4) Where any substance escapes or is threatening to escape from the pipeline, the Contractor shall take such steps as are necessary to safeguard human life, to minimize the loss of substance from the pipeline and the pollution of the surrounding environment.

Article 40: Measurement of Production

(1) Each Contractor shall supply, operate and maintain equipment to measure the volume and quality of any Hydrocarbons produced and saved pursuant to its Hydrocarbons Operations Contract, including gravity, density, temperature and pressure measuring devices and any other devices that may be required; and such equipment and devices shall, prior to their installation or usage, be approved in writing by the Ministry of Mines and Petroleum and following such installation or usage shall not be replaced or altered without the prior written approval of the Ministry of Mines and Petroleum.

(2) Measurement equipment and devices shall be available for inspection and testing at all reasonable times, by any person authorized by the Ministry of Mines and Petroleum, provided that any such inspection or testing shall not unduly interfere with the normal operation of the facilities involved.

(3) Each Contractor shall measure the volume and quality of the Hydrocarbons produced, saved or transported, stored or exported, pursuant to a Hydrocarbons Operations Contract that is consistent with the international best practices for fiscal metering in the international Hydrocarbons industry. Such procedures shall be approved in writing by the Ministry of Mines and Petroleum.

(4) Each Contractor shall provide timely notice to the Ministry of Mines and Petroleum of its intention to conduct measuring operations. The Ministry of Mines and Petroleum shall have the right to be present at and to supervise such operations through authorized persons.

(5) If it is determined, following an inspection or test carried out by an authorized person, that the equipment, devices or procedures used for measurement are inaccurate and exceed the permissible settings, which shall be established by agreement prior to the installation and use of such equipment, devices or procedures, and such a determination is verified by an independent surveyor acceptable to the Ministry of Mines and Petroleum and the Contractor, such an inaccuracy shall be deemed to have existed for 50% of the period since the last such inspection or test, unless it is proved that the inaccuracy has been in existence for either a longer or shorter period. In such a case, an appropriate adjustment covering such a period shall be made within 30 days from the date of such determination.

Article 41: Power to Inspect

(1) The Ministry of Mines and Petroleum shall at all times have access to the Contract Areas and a right to observe all Hydrocarbons Operations. Any authorized representative of the Ministry of Mines and Petroleum may upon the provision of reasonable advance notice to the Person-in-Charge:

1. Examine, or have a qualified expert examine, the wells, installations, machinery or equipment used in connection with Hydrocarbons Operations;
2. Take cores and samples of Hydrocarbons, water or other substances for the purpose of testing or analysis; and

3. Inspect, make copies of or take extracts from, any logs, records, measurements, plans, maps or accounts which a Contractor is required to keep or make under the provisions of this Chapter, provided that any such inspection shall not unduly interfere with any Hydrocarbons Operations being carried out.

(2) The Person-in-Charge and the Contractor's representatives shall provide the authorized person with all reasonable facilities and assistance for the authorized person set forth in paragraph 1 of this Article.

Article 42: Notice of the Commencement of Hydrocarbons Operations

The Contractor shall, prior to the commencement of Hydrocarbons Operations in the Contract Area, or recommencement of Hydrocarbons Operations which have been discontinued for a period exceeding 90 days, give the Ministry of Mines and Petroleum not less than 48 hours' notice in writing of its intention to commence or recommence Hydrocarbons Operations.

Chapter 7 - Hydrocarbons Operations Reports

Article 43: Submission of Quarterly Reports

(1) Every Contractor shall submit to the Ministry of Mines and Petroleum, on or before the last day of each calendar quarter, a report in respect of the preceding calendar quarter containing the following operational information:

1. A description of the results of all Hydrocarbons Operations carried out by the Contractor;
2. In the case of exploration operations, a summary of all geological and geophysical work carried out by the Contractor, including a summary of all drilling activities;
3. A list of maps, reports and other geological and geophysical data prepared by, or on behalf of, the Contractor in respect of the period concerned;
4. The results of development and production operations, the gross volume and quality of all Hydrocarbons produced, stored, sold or otherwise disposed of from its Contract Area, and the balance of stocks on hand at the end of the period concerned;
5. The number of persons employed in Afghanistan, in terms of both Afghan and expatriate personnel, in connection with the Hydrocarbons Operations; and
6. Any other relevant operational information that the Ministry of Mines and Petroleum may reasonably require in accordance with Article 40 of the Hydrocarbons Regulations.

(2) The Contractor shall submit to the Ministry of Mines and Petroleum, on or before the last day of each calendar quarter, a report in respect of the preceding calendar quarter containing the following financial information:

1. With respect to the Hydrocarbons, sold or otherwise disposed of from its Contract Area, the consideration accrued or received, the quantity disposed of and the identity of the Persons to whom such a quantity was disposed;
2. The total operating and capital expenditures incurred both in Afghanistan and externally, in respect of the Hydrocarbons Operations, as determined in accordance with its Contract;

3. The amounts disbursed in Afghanistan in respect of wages, overtime, or other benefits;
4. The amounts disbursed, in Afghanistan and externally, for the purchase of fuels, stores, foodstuffs or other materials, equipment or services; and
5. Any other relevant financial information that may be required by its Contract or which the Ministry of Mines and Petroleum may reasonably require in accordance with Article 40 of the Hydrocarbons Regulations.

Article 44: Submission of Annual Reports

(1) No later than March 31 of each year, an annual report in respect of the preceding year containing the information required by paragraph 3 of Article 39 of the Hydrocarbons Regulations⁶ for the entire year; such annual report shall be submitted to the Ministry of Mines and Petroleum and accompanied by a report from an independent auditor verifying the financial information contained therein.

(2) No later than September 30 of each year, the Contractor shall submit to the Ministry of Mines and Petroleum in respect of each producing Field, a forecast statement setting forth by calendar quarters the total quantity of Hydrocarbons (by quality, grade and gravity) that it estimates can be produced, stored and transported during such year, together with estimates of the recoverable reserves of Hydrocarbons, broken into proven and proven plus probable.

Article 45: Periodic Reports

(1) The Contractor shall submit to the Ministry of Mines and Petroleum in appropriate form all original data resulting from Hydrocarbons Operations, including geological, geophysical, petrophysical, engineering, well logs, production data, completion status reports, test results and any other data which the Contractor may compile during the term of the Hydrocarbons Operations Contract, including all reports, analyses, interpretations, maps, evaluations thereof, and well samples and cores, promptly after such data becomes available.

(2) A Contractor under an Exploration and Production Sharing Contract or a Service and Production Sharing Contract shall submit to the Ministry of Mines and Petroleum the following reports in relation to each well being drilled, completed, tested or abandoned:

1. A daily well report during the conduct of drilling operations describing the progress and results of the well operations.
2. Within 2 months from the date of rig release of a well, a well completion report accompanied by copies of all logs obtained from the well.

(3) The Contractor shall submit to the Ministry of Mines and Petroleum the following reports in relation to each geological or geophysical survey, test, or study being conducted:

⁶ The official Dari version of the Hydrocarbons Regulations references paragraph 3 of Article 39 of the Hydrocarbons Regulations; however, the appropriate reference appears to be to Article 43 of the Hydrocarbons Regulations.

1. A weekly report during the conduct of the survey describing the progress and results of the operations.
2. Within 120 days of the completion of the survey, test, or study, a full report on the findings of the activity, including operations, interpretation and processing reports, geological maps, basic geophysical data in digital form (if available), and any other data relevant to the evaluation or interpretation of the survey, test, or study.

(4) The Contractor shall submit to the Ministry of Mines and Petroleum daily production reports in respect of any producing Field, indicating the amounts of Liquid Hydrocarbons and Natural Gas produced from each well, the amounts injected or disposed of into the well, the amounts consumed in Hydrocarbons Operations, and the amounts of Natural Gas flared or vented.

Article 46: Exploration Operations Reports

The Contractor shall in respect of its Contract Area keep at its registered office in Afghanistan accurately maintained records containing full particulars of the following matters in respect of exploration operations:

1. The drilling, deepening, plugging or abandonment of wells;
2. The strata and subsoil through which wells are drilled;
3. The casing inserted in wells and any alteration to such casing;
4. Any Hydrocarbons, water and other minerals of commercial value encountered;
5. The areas in which any geological or geophysical work has been carried out;
6. Accurate geological maps and plans, geophysical records, representative geological samples and test results, and all interpretations thereof; and
7. Such other matters as may be provided in its Contract or as the Ministry of Mines and Petroleum may reasonably require in accordance with Article 41⁷ of the Hydrocarbons Regulations.

Article 47: Production Operations Reports

The Contractor shall in respect of its Contract Area keep at its registered office in Afghanistan accurately maintained records containing the full particulars of the following matters in respect of production operations:

1. The gross quantity of any Liquid Hydrocarbons and Natural Gas produced and saved from the Contract Area;
2. The grades and gravity of any Liquid Hydrocarbons produced and the composition of Natural Gas produced;
3. Any quantities of Liquid Hydrocarbons, Natural Gas, or any other minerals, gases, liquids or solids disposed of by way of sale or otherwise, the consideration received, the quantity disposed of and the name of the Person to whom any such quantity was disposed;

⁷ The official Dari version of the Hydrocarbons Regulations references Article 41 of the Hydrocarbons Regulations; however, the appropriate reference appears to be to Article 40 of the Hydrocarbons Regulations.

4. The quantity of Liquid Hydrocarbons, Natural Gas and other liquids or gases injected into a formation;
5. The quantity of Liquid Hydrocarbons and Natural Gas consumed for drilling and other development and production operations (except subparagraph 4) and consumed in pumping to Field storage, refineries or facilities for treatment of Natural Gas in Afghanistan or the point of export;
6. The quantity of Liquid Hydrocarbons refined by or for the Contractor in Afghanistan;
7. The quantity of Natural Gas treated in Afghanistan by it or on its behalf for the removal of liquids and liquefied Hydrocarbon gases and the quantity of butane, propane and any other liquids, gases or any solids obtained;
8. The quantity of Natural Gas flared; and
9. Such further information as may be required by its Contract or as the Ministry of Mines and Petroleum may reasonably require in accordance with Article 40 of the Hydrocarbons Regulations.

Article 48: Accident and Incident Reporting

A Contractor shall report forthwith to the Ministry of Mines and Petroleum any accident which causes loss of life or serious injury, and any incident involving fire, explosion, blowout or spillage of Hydrocarbons in excess of 10 barrels, and shall within 30 days submit a detailed report to the Ministry of Mines and Petroleum detailing the preventive measures that have been put in place to prevent any accidents or incidents of a similar nature from occurring.

Article 49: Final Reports

Prior to the termination of a Hydrocarbons Operations Contract, or upon the relinquishment of any part of a Contract Area, the Contractor shall submit to the Ministry of Mines and Petroleum, in relation to the Contract Area or part thereof so relinquished, copies of the following records and documents, except for such records and documents which may have been previously submitted to the Ministry of Mines and Petroleum:

1. All records maintained by the Contractor pursuant to this Chapter 7;
2. All plans or maps of such area which were prepared by or on behalf of the Contractor;
3. All recorded tapes, diagrams, profiles and charts which were so prepared; and
4. Following the provision of a written request to the Contractor, such other documents or materials as the Ministry of Mines and Petroleum may reasonably require in accordance with Article 40 of the Hydrocarbons Regulations.

Article 50: Form of Reporting and Amendments to Reporting Requirements

(1) The Ministry of Mines and Petroleum may from time to time, by no less than 30 days' notice to the Contractors, specify the style, format (method of presentation) and the level of detail (content) of any of the reports. Contractor shall prepare and maintain original data in electronic format.

(2) The Ministry of Mines and Petroleum may, upon an application being made by a Contractor, can correct or modify any of the requirements of Articles 44 through 50 of the Hydrocarbons Regulations.

Chapter 8 - Accounting Records and Financial Reports

Article 51: Income Tax Returns and Accounting Affairs

For the purpose of income tax pursuant to Article 62 and 63 of the Hydrocarbons Law, Contractors shall maintain accounting records, and submit the respective declaration to relevant departments of the Ministry of Finance.

Article 52: Cost Recovery Accounting and Reports under Exploration and Production Sharing Contracts and Service and Production Sharing Contracts

(1) Hydrocarbons Operations costs shall be recovered out of a share of the production of Hydrocarbons provided that it is specified in the Contract.

(2) For the purpose of paragraph 1 of this Article, each Contractor shall establish and maintain at its business office in Afghanistan complete accounts, books and records of all revenues, costs and expenses relating to all Hydrocarbons Operations in accordance with generally accepted procedures and standards in the international Hydrocarbons industry, which shall be described in an accounting procedure annexed to the Contract.

(3) The Contractor shall submit to the Ministry of Mines and Petroleum after the end of each year a detailed statement showing all costs and expenses incurred and all revenues received from the sale of Hydrocarbons during the preceding year. Before submission of the statement, the accounts shall be audited and certified by an independent auditor.

(4) The Ministry of Mines and Petroleum shall have the right to inspect and audit all accounts, books and records of the Contractors, either directly or through an independent accountant.

Article 53: Royalties, Surface Fees and other Fees

(1) Contractor shall pay a royalty to the State, on the production of Liquid Hydrocarbons and Natural Gas pursuant to Article 64 of the Hydrocarbons Law, the amount and type of royalty shall be set out in the Exploration and Production Sharing Contract or a Service and Production Sharing Contract.

(2) Contractors shall be required, for the use of State-owned land, to pay surface rental fee to the State pursuant to Article 65 of the Hydrocarbons Law. The surface rental fees payable for Hydrocarbons Operations, at the applicable rate per hectare, are set out as follows:

1. Initial Exploration Period: the equivalent of 1 US Dollar in Afghani, for all areas covered in the Contract excluding the Fields;
2. First Extension Period: the equivalent of 4 US Dollars in Afghani, for all remaining areas covered in the Contract excluding the Fields.

3. Second Extension Period: the equivalent of 8 US Dollars in Afghani, for all remaining areas excluding Fields.
4. During the period from the announcement of a Commercial Discovery to the commencement of production for all remaining areas: the equivalent of 15 US Dollars in Afghani, excluding Fields.
5. Development and Production Phase: the equivalent of 40 US Dollars in Afghani, for all Fields.

(3) Fees for a copy of Hydrocarbons registered data up to 1,000 US Dollars in Afghani.

(4) Contractors and their Subcontractors, and their respective personnel shall duly pay such fees up to 1,000 US Dollars in Afghani, for services that they request from public agencies.

(5) The Contractor shall within 30 days following the effective date of the Contract pay the annual surface fees. All subsequent annual surface rental payments shall be made within 30 days of the commencement of the year following the effective date.

Chapter 9 - Miscellaneous Provisions

Article 54: Penalties

(1) A Contractor and any other Person who contravenes or fails to comply with any provision of the Hydrocarbons Law or of the Hydrocarbons Regulations, in addition to compensation, shall be liable to pay a fine of between 5,000 and 75,000 US Dollars in Afghani.

(2) Any Person conducting Hydrocarbons Operations without an authorization or License set forth in the Hydrocarbons Law and the Hydrocarbons Regulations shall, in addition to the payment of compensation, be liable to pay a fine of between 50,000 and 200,000 US Dollars in Afghani.

(3) If the Person set forth in paragraph 2 of this Article, after being fined, continues the Hydrocarbons Operations, for each day that such Hydrocarbons Operations continue, the offender shall be fined an amount of 10,000 US dollar per day in Afghani.

(4) A Contractor or any other Person that offers or promises a reward (bakhshish), fees, funds, or anything of virtual of material value, either directly or indirectly, to employees of the Ministry of Mines and Petroleum, shall be fined between 2,000 and 10,000 US Dollar in Afghani.

(5) The amounts stipulated in paragraphs 1, 2, 3, and 4 of this Article shall be collected by the Ministry of Mines and Petroleum and paid into an official State account.

Article 55: Date of Enforcement

The Hydrocarbons Regulations shall be enforced upon their publication in the Official Gazette.