

**THE AMU DARYA BASIN OIL TENDER OF 2011**

**MINISTRY OF MINES**

**ISLAMIC REPUBLIC OF AFGHANISTAN**



**EXPLORATION AND  
PRODUCTION SHARING CONTRACT**

**FOR**

**HYDROCARBONS EXPLORATION,  
DEVELOPMENT AND PRODUCTION**

26 December, 2011

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## **EXPLORATION AND PRODUCTION SHARING CONTRACT**

**THIS CONTRACT**, made and entered into this 26th day of December, 2011, by and between **THE MINISTRY OF MINES OF THE GOVERNMENT OF THE ISLAMIC REPUBLIC OF AFGHANISTAN** (hereinafter referred to as the “Ministry”), acting on behalf of the Government of the Islamic Republic of Afghanistan, and CNPCI Watan Oil and Gas Afghanistan Ltd. (CNPCIW) (hereinafter referred to as the “Contractor”), a limited liability company duly organized and existing under the laws of the Islamic Republic of Afghanistan (hereinafter referred to as “Afghanistan”).

### **RECITALS**

1. **WHEREAS**, the entire property in, and control of, all Hydrocarbon resources in or under the territory of Afghanistan is exclusively vested in the State under Article 3 of the Hydrocarbons Law 2009;
2. **WHEREAS**, the Ministry wishes to promote the initiation of production and processing of the known Hydrocarbon resources to meet current and future demands for energy and related products, services and activities and prioritize the early production of Hydrocarbons and, in parallel with the aforementioned activities, wishes that the Contractor use sufficient resources to thoroughly assess the Hydrocarbon potential in the Contract Area, and the Contractor desires to join and assist the Ministry in achieving these objectives and goals for the exploration for, and production of, the Hydrocarbon resources within the Contract Area;
3. **WHEREAS**, the Contractor represents that it has the financial resources, technical competence and professional skills necessary to carry out the Hydrocarbons Operations hereinafter described;
4. **WHEREAS**, the Contractor acknowledges that it is fully familiar with the laws and regulations of Afghanistan and that it has the means to maintain such familiarity during the term of this Contract; and
5. **WHEREAS**, in accordance with the Hydrocarbons Law 2009 of Afghanistan, Exploration and Production Sharing Contracts for Hydrocarbons may be entered into between the Ministry and foreign or domestic contractors.

### **CONTRACT**

**NOW, THEREFORE**, the Parties hereto hereby agree as follows:



## ARTICLE I

### DEFINITIONS & INTERPRETATION

1.1 **Definitions.** In this Contract, the following terms shall have the following meanings:

“**Accounting Procedures**” shall mean the accounting procedures set forth in Exhibit C.

“**Affiliated Entity**” shall mean any entity directly or indirectly controlling, controlled by or under common control with, a specified entity. For the purposes of this definition, “control”, when used with respect to any specified entity, means the power to direct, administer and dictate the policies of such entity (it being understood and agreed that it is not necessary to own directly or indirectly fifty percent (50%) or more of such entity’s voting securities to have control over such entity, but ownership, direct or indirect, of fifty percent (50%) or more of such entity’s voting securities shall be deemed to constitute control).

“**Appraisal Programme**” shall mean the programme for appraising a Discovery established pursuant Section 7.1.

“**Appraisal Programme Budget**” shall mean the estimate of the costs of all items included in the corresponding Appraisal Programme, including both capital and operating budgets, all in a form acceptable to the Ministry.

“**Appraisal Well**” shall mean a Well drilled following a Discovery for the purpose of delineating the Hydrocarbons reservoir(s) to which the Discovery relates in terms of thickness and lateral extent and estimating the quantity of recoverable Hydrocarbons therein.

“**Arm’s-Length Sales**” shall mean sales made at arm’s length between willing and unrelated buyers and sellers in exchange for cash, excluding sales involving barter, sales from government to government and other transactions motivated in whole or in part by considerations other than the usual economic incentives involved in sales of Hydrocarbons in the international market.

“**Associated Gas**” shall mean Natural Gas that is produced in association with Liquid Hydrocarbons.

“**Barrel**” shall mean a quantity or unit of Liquid Hydrocarbons equal to 158.9874 litres (forty-two (42) United States gallons) at a temperature of sixty (60) degrees Fahrenheit (15.56 degrees Centigrade) under one atmosphere of pressure.

“**Baseline Environmental Assessment**” shall mean a report containing a description of the environment in the subject area prior to the commencement of Hydrocarbons Operations, including the then existing flora and fauna, soil, air quality, underground and surface water, landscape aesthetics, farming conditions, and socio-economic conditions in local communities.

“**Bazarkhami Block**” shall mean the geographical area delineated as such in Exhibit B.

“**Block**” shall mean any of the Kashkari Block, the Bazarkhami Block and the Zamarudsay Block, and each such block shall mean the aggregate, whether continuous or non-continuous, of its geological formations.

“**CNPCI**” shall mean CNPC International, Ltd., a company organized and existing under the laws of the Cayman Islands.

“**Commercial Discovery**” shall mean a discovery of Hydrocarbons which, as determined in accordance with the provisions of Section 7.1, can be produced commercially, based on consideration of all pertinent operating and financial data, such as Hydrocarbons volumes, recoverable reserves, sustainable production levels and other relevant technical and economic factors, according to International Best Practices.

“**Contract**” shall mean this Exploration and Production Sharing Contract, including all Exhibits hereto, as the same may be amended from time to time.

“**Contract Area**” shall mean the area described as such in Exhibit A and delineated as such in Exhibit B, including all three Blocks, as the same may be reduced by relinquishments made in accordance with the terms of this Contract.

“**Contractor**” shall mean the limited liability company designated as such in the preamble or any of its permitted successors or assigns.

“**Cost Recovery Hydrocarbons**” shall mean the Hydrocarbons received by the Contractor in recovery of Hydrocarbons Operations Expenditures in accordance with the provisions of Section 10.1(b).

“**Customs Duties**” shall mean all duties, taxes or imposts (except charges paid to the Government for actual services rendered, such as normal handling and storage charges) which are payable as a result of the importation or exportation of the item or items under consideration in accordance with the classification and rates stated in the Customs Tariff.

“**Customs Tariff**” shall mean the customs tariff enacted in accordance with the Customs Law of Afghanistan, as amended or replaced and in effect from time to time, specifying the tariff classification of goods in accordance with the Harmonized System of the World Customs Organization and the rates to be used in assessing any corresponding import or export duties thereon.

“**Day**” shall mean a calendar day.

“**Delivery Point**” shall mean the point or points at which Hydrocarbons reach the outlet flange of the Hydrocarbon delivery facility as specified in the Development Programme, or such other point or points as may be agreed by the Ministry and the Contractor.

“**Designated Fields**” shall mean the Kashkari Field, the Angot Field, the Aq Darya Field, the Bazarkhami Field and the Zamarudsay Field, each as described in Exhibits A and B



and as may be further delineated in accordance with the provisions of Section 7.1(k), as to which a Commercial Discovery shall be deemed to exist as of the Effective Date.

**“Development and Production Operations”** shall mean all Hydrocarbons Operations in and relating to a Field, including those conducted to facilitate the extraction of Hydrocarbons.

**“Development and Production Phase”** shall mean the period referred to in Section 3.1(b).

**“Development Programme”** shall mean the programme for developing a Field established pursuant to Section 7.1.

**“Development Programme Budget”** shall mean the estimate of the costs of all items included in the corresponding Development Programme, including both capital investment requirements and operating budgets, operating costs and sales revenues, and the anticipated type and source of financing, all in a form acceptable to the Ministry.

**“Discovery”** shall mean a structure or accumulation or group of structures or accumulations proved by drilling to be bearing Hydrocarbons, whether deemed to be subject of commercial development or not, including any extension of a previous Discovery.

**“Effective Date”** shall mean December 26, 2011.

**“Environmental Impact Assessment”** shall mean a report containing a description of the ecosystem in the subject area prior to the commencement of Hydrocarbons Operations, including the flora and fauna, soil, air quality, underground and surface water, landscape aesthetics, and the aspects of the ecosystem which may be affected qualitatively and quantitatively by the Hydrocarbons Operations, the effect of said operations on local populations, if any, and the socio-economic conditions of those individuals.

**“Exploration Operations”** shall mean geological studies, geochemical studies, geophysical studies, aerial mapping, seismic surveys, investigations relating to the subsurface geology including structure test drilling, stratigraphic test drilling, drilling of Exploration Wells, and other related activities such as surveying, drill site preparation and all work necessarily connected therewith, that is conducted in connection with Hydrocarbons exploration.

**“Exploration Phase”** shall mean the period referred to in Section 3.1(a).

**“Exploration Well”** shall mean a Well drilled in the course of Exploration Operations, where the target or objective of such well is outside or at a different depth of horizon of the known accumulations.

**“Field”** shall mean a Designated Field or other area, as designated by agreement between the Ministry and the Contractor, relating to the same geological structures or

accumulations, where a Commercial Discovery of Liquid Hydrocarbons or Natural Gas has been declared.

“**Financial Guarantee**” shall mean a standby letter of guarantee in the amount determined in accordance with Exhibit H.I, in the form attached hereto as Exhibit D or in a reasonably similar form acceptable to the Ministry, issued by a first class international bank acceptable to the Ministry.

“**First Extension Period**” shall have the meaning set forth in Section 3.1(a).

“**Force Majeure**” shall have the meaning set forth in Article XXX.

“**Formula Price**” shall mean, in the case of Liquid Hydrocarbons, the price determined in accordance with the formula set forth in Section 11.1, and in the case of Natural Gas, the price determined in accordance with Section 11.5.

“**General Performance Guarantee**” shall mean the guarantee by CNPCI of the Contractor’s obligations hereunder, in the form attached hereto as Exhibit E, to be executed and delivered to the Ministry simultaneously with the execution of this Contract.

“**Government**” shall mean the Government of the Islamic Republic of Afghanistan.

“**Gross Contractor Revenues**” shall mean, as of any date, the aggregate value of Cost Recovery Hydrocarbons (such value determined pursuant to Section 10.1(b)) and Net Hydrocarbons (such value determined in accordance with the applicable Formula Price) allocated to the Contractor up to such date in accordance with Section 10.1 and any other proceeds derived from Hydrocarbons Operations as set forth in the Accounting Procedures.

“**Hydrocarbons**” shall mean Liquid Hydrocarbons and Natural Gas.

“**Hydrocarbons Law**” shall mean the Hydrocarbons Law 2009 of Afghanistan, as amended or replaced and in effect from time to time.

“**Hydrocarbons Operations**” shall have the meaning given to it in the Hydrocarbons Law, but shall not include transportation of Hydrocarbons beyond the Delivery Point.

“**Hydrocarbons Operations Expenditures**” shall mean expenditures made in conducting Hydrocarbons Operations hereunder, as determined in accordance with the Accounting Procedures.

“**Hydrocarbons Register**” shall mean the registration of documents, reports and records of Hydrocarbons established in accordance with Article 6 of the Hydrocarbons Law.

“**Income Tax**” shall mean the tax imposed on net income pursuant to the Income Tax Law 2009 of Afghanistan, as amended or replaced and in effect from time to time.





**“Initial Commercial Production”** shall mean, with respect to any Field, the date on which the first regular shipment of Liquid Hydrocarbons or Natural Gas, or both, is made from such Field under a programme of regular production hereunder.

**“Initial Exploration Period”** shall have the meaning set forth in Section 3.1(a).

**“International Best Practices”** shall mean such practices, methods, standards (such as API, GB, BSI, etc.) and procedures generally accepted and followed internationally by prudent, diligent, skilled and experienced operators in Hydrocarbons Operations, including practices, methods, standards and procedures intended to (a) conserve Hydrocarbons by maximizing the recovery of Hydrocarbons in a technically and economically sustainable manner, with a corresponding control of reserves decline and minimization of losses at the surface; (b) promote operational safety and prevention of accidents; and (c) protect the environment by minimizing the impact of Hydrocarbons Operations thereon.

**“Kashkari Block”** shall mean the geographical area delineated as such in Exhibit B.

**“Licence”** shall mean the licence certifying that the Contractor holds this Exploration and Production Sharing Contract and is therefore entitled to conduct Hydrocarbons Operations within the Contract Area.

**“Liquid Hydrocarbons”** shall mean crude mineral oil, asphalt and all other kinds of hydrocarbons and bitumen, regardless of gravity, which are produced at the wellhead in a liquid or solid state at ambient conditions of temperature and atmospheric pressure, or which are extracted from Natural Gas by condensation.

**“Maximum Efficient Rate”** shall mean the maximum rate of production of Liquid Hydrocarbons in a Field, without excessive rate of decline of production or excessive loss of reservoir pressure, and in accordance with International Best Practices and the provisions of Section 7.2(b).

**“Minimum Exploration Programme”** shall mean the minimum work commitment for Exploration Operations undertaken by the Contractor during the Exploration Phase as set forth in Part I of Exhibit H.

**“Minimum Production Requirements”** shall mean the minimum cumulative production requirements from each of the Designated Fields as set forth in Part II of Exhibit H, as may be amended by written agreement of the Parties.

**“Month”** shall mean a calendar month.

**“Natural Gas”** shall mean any Hydrocarbons which at specified atmospheric conditions of temperature and pressure are found in a gaseous state, and includes dry mineral gas, including coal-based methane, wet gas and residue gas remaining after the extraction, processing or separation of Liquid Hydrocarbons from wet gas, as well as non-Hydrocarbon gas or gases produced in association with liquid or gaseous Hydrocarbons;



including the residue gas remaining after the condensation of Liquid Hydrocarbons, but excluding condensed or extracted Liquid Hydrocarbons.

“**Net Hydrocarbons**” shall mean, for any Month, the total quantity of Hydrocarbons produced and saved in such Month and not used in Hydrocarbons Operations or flared or re-injected into the Contract Area, after deduction of the Royalty and the Cost Recovery Hydrocarbons.

“**Net Taxable Income**” shall mean net taxable income as determined in accordance with the provisions of the Income Tax Law 2009 of Afghanistan, as amended and in effect from time to time.

“**Non-Associated Gas**” shall mean Natural Gas that is produced without association with Liquid Hydrocarbons or in association with Liquid Hydrocarbons that cannot be produced commercially.

“**Parties**” shall mean the Ministry and the Contractor and their permitted successors and assigns.

“**Person-in-Charge**” shall mean a competent person appointed by the Contractor to be in charge of all Hydrocarbons Operations hereunder.

“**Quadrant**” shall mean the area demarcated by five (5) minutes of longitude and five (5) minutes of latitude. Quadrants containing known hydrocarbon accumulations are identified in Exhibits A and B.

“**Quarter**” shall mean a period of three (3) consecutive Months commencing with the first day of January, April, July or October of any Year.

“**RGHP**” means Natural Gas initially in place and having a reasonable certainty of being recoverable under existing economic and political conditions, using existing technology.

“**ROIHP**” means Liquid Hydrocarbons initially in place and having a reasonable certainty of being recoverable under existing economic and political conditions, using existing technology.

“**Royalty**” shall mean, with respect to any Month, fifteen percent (15%) of the Hydrocarbons produced and saved in such Month from the Contract Area and not used in Hydrocarbons Operations or flared or re-injected into the Contract Area, which is allocated to the Ministry before allocation to the Contractor of the Cost Recovery Hydrocarbons, all as set forth in Article X.

“**Second Extension Period**” shall have the meaning set forth in Section 3.1(a).

“**State**” shall mean the Islamic Republic of Afghanistan.

“**U.S. Dollars**” or “**US\$**” shall mean the lawful currency of the United States of America.



“**Watan**” shall mean Watan Oil and Gas Limited, a company organized and existing under the laws of Afghanistan.

“**Well**” shall mean any opening in the ground made or being made by drilling or boring, or in any other manner, for the purpose of exploring for and/or producing Hydrocarbons, or for the injection of any gas or fluid into an underground deposit, other than a seismic hole or a stratigraphic test hole.

“**Work Programme**” shall mean the quarterly or annual work programme prepared by the Contractor pursuant to Section 5.3, as applicable, itemizing the Hydrocarbons Operations to be carried out in the Contract Area during the specified period.

“**Work Programme Budget**” shall mean the estimate of the cost of all items included in the corresponding Work Programme, including both capital and operating budgets, all in a form acceptable to the Ministry.

“**Year**” shall mean a period of twelve (12) consecutive Months, commencing January 1st and ending December 31st, except that the first Year shall begin on the Effective Date and end on December 31, 2012.

“**Zamarudsay Block**” shall mean the geographical area delineated as such in Exhibit B.

1.2 **Interpretation.** Unless the context otherwise requires:

- (a) the word “including” means including, without limitation; words in the singular include the plural and words in the plural include the singular; and the words “hereof”, “herein” and “hereunder” refer to this Contract as a whole;
- (b) references herein to Articles, Sections and Exhibits are to the Articles, Sections and Exhibits of this Contract;
- (c) the headings of this Contract are included for purposes of convenience only and are not to be used in the interpretation of this Contract; and
- (d) any agreement, instrument or statute defined or referred to herein or in any instrument or certificate delivered in connection herewith means such agreement, instrument or statute as from time to time amended, modified, supplemented or replaced.

## ARTICLE II

### GRANT OF RIGHTS TO THE CONTRACTOR

2.1 **Exclusive Rights.** Subject to the terms and conditions set forth in this Contract, the Ministry grants to the Contractor the exclusive right to conduct Hydrocarbons Operations within the Contract Area for the duration of this Contract. The Contractor shall acquire a share of extracted Hydrocarbons as set out herein and shall, except as

provided in Sections 12.1, 12.3 and 12.5, have the right, during the term of this Contract, to freely take, sell and export such share.

- 2.2 **Sole Risk, Cost and Expense.** Except as otherwise expressly provided in this Contract, the Contractor shall conduct all Hydrocarbons Operations hereunder at its sole risk, cost and expense. The Contractor shall look only to the Hydrocarbons to which it is entitled under this Contract to recover such costs and expenses, and such Hydrocarbons shall be the Contractor's sole source of compensation for Hydrocarbons Operations hereunder.
- 2.3 **Independent Contractor.** The Contractor shall be responsible to the Ministry for the execution of all Hydrocarbons Operations in accordance with the provisions of this Contract. Without prejudice to the Contractor's position as an independent contractor hereunder, the extent and character of such work to be done by the Contractor shall be subject to the general supervision, review and approval of the Ministry, to which the Contractor shall report and be responsible as set forth herein and in the applicable legislation and regulations.

### ARTICLE III

#### TERM

- 3.1 **Parts of Contract Area Outside of Designated Fields.** The following provisions shall apply to all parts of the Contract Area outside of the Designated Fields:
- (a) The Contractor is authorised to conduct Exploration Operations during an Exploration Phase, which shall be comprised of (i) an initial exploration period of four (4) Years and six (6) Months ("Initial Exploration Period") commencing on the Effective Date, and (ii) subject to the conditions hereinafter provided, two (2) successive extension periods ("First Extension Period" and "Second Extension Period") of two (2) Years each. Such extension periods shall be granted to the Contractor upon the Contractor's request delivered to the Ministry not later than ninety (90) Days prior to the expiration of the then current period, subject to the Contractor having fulfilled its obligations under this Contract for the then current period, including the relinquishment provisions of Article IV, and having submitted with such application a Work Programme and Work Programme Budget, as well as a Financial Guarantee for an amount equal to the estimated expenditures associated with the Minimum Exploration Programme for the period of extension, all of which is to be consistent with the undertakings set forth in Article VI.
- (b) If a Commercial Discovery is made, the Contractor shall commence Development and Production Operations (the "Development and Production Phase") in respect of the Field where such Commercial Discovery has occurred, subject to the Ministry's approval of a Development Programme and Development Programme Budget in accordance with Section 7.1(h)(ii).

- (c) If at the end of the Exploration Phase, no Commercial Discovery has been made in any part of the Contract Area outside of the Designated Fields, this Contract shall automatically terminate for all parts of the Contract Area other than the Designated Fields, provided that the Ministry undertakes to grant an extension for such period, and for such area as may be necessary (i) for the Contractor to complete the drilling, testing, appraisal or plugging of any Well actually being drilled, tested, appraised or plugged at the end of the Exploration Phase and (ii) for the Ministry and the Contractor to determine that a Discovery resulting from such a Well is a Commercial Discovery pursuant to Section 7.1.
  - (d) In the event of a Commercial Discovery, the extent of the area capable of production of Hydrocarbons from the formation or formations so identified shall be determined in accordance with the provisions of Section 7.1 or Article XV. The area so determined shall thereupon be converted automatically into a Field, with effect from the date of the declaration of the Commercial Discovery. The term of the Development and Production Phase for each Field shall extend for a maximum of twenty-five (25) years from the date the Discovery was made.
  - (e) In the event that the Contractor has fulfilled all its obligations for the specified term of the Contract, the Contractor may request an extension of the Development and Production Phase for a further period not exceeding ten (10) years. The Ministry shall consider any such request in accordance with the provisions of the Hydrocarbons Law.
- 3.2 **Designated Fields.** In the case of the Designated Fields, the duration of this Contract shall not exceed twenty-five (25) years from the Effective Date.

## ARTICLE IV

### RELINQUISHMENT

- 4.1 **Exploration Phase.** During the Exploration Phase, the Contractor shall relinquish to the Ministry parts of the original Contract Area as follows:
- (a) subject to Section 4.1(d), on or before the end of the Initial Exploration Period, the Contractor shall relinquish at least twenty percent (20%) of the original area of each Block that has not been converted into a Field; provided, however, that for each Block in which the Contractor has not drilled at least one (1) Exploration Well, the Contractor shall relinquish at least fifty percent (50%) of the original area of such Block that has not been converted into a Field;
  - (b) subject to Section 4.1(d), on or before the end of the First Extension Period, the Contractor shall relinquish at least an additional area equal to twenty percent (20%) of the remaining area of each Block that has not been converted into a Field; provided, however, that for each Block in which the Contractor has not drilled at least one (1) Exploration Well during the First Extension Period or at

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least two (2) Exploration Wells during the Initial Exploration Period, the Contractor shall relinquish at least fifty (50%) of the remaining area of such Block that has not been converted into a Field;

- (c) subject to Section 4.1(d), at the end of the Exploration Phase, the Contractor shall relinquish the remainder of each Block that has not been converted into a Field or has not had a Discovery which is under evaluation for development; and
- (d) the provisions of this Section 4.1 shall not be read or construed as requiring the Contractor to relinquish any portion of the Contract Area corresponding to a Discovery that has been converted to a Field or is under evaluation for development.

4.2 **Size and Shape of Relinquished Areas.** The size and shape of the part or parts of the Contract Area to be relinquished shall be determined by the Contractor; provided, however, that:

- (a) the Contractor shall advise the Ministry at least ninety (90) Days prior to the date of relinquishment which parts of the Contract Area the Contractor wishes to relinquish;
- (b) the Contractor shall consult with the Ministry regarding the shape and size of each individual portion of the areas being relinquished; and
- (c) unless the Ministry expressly allows otherwise, the area being relinquished shall not be divided into more than two portions per Block, each of which shall comprise, and be defined by reference to, graticular sections as described in Exhibit B, save where no such area or areas can be identified for relinquishment in accordance with this Section without including in such area or areas in whole or in part a Field or area in which a Discovery has been made which the Contractor is not otherwise required to relinquish hereunder. Each such relinquished individual portion shall be not less than twenty percent (20%) of the area in the Block in question being relinquished at such time with sides parallel to the boundaries of such Block, to the extent that the boundaries of such Block permit, and with the longest side not more than three times as long as the shortest side, and shall in any event be of sufficient size and convenient shape to enable Hydrocarbons Operations to be conducted thereon.

4.3 **Voluntary Relinquishment.** The Contractor shall have the right to relinquish all or any part of the Contract Area upon at least ninety (90) Days written notice to the Ministry. In the event of partial relinquishment pursuant to this Section 4.3, the area relinquished shall be credited against that portion of the Contract Area which the Contractor is next required to relinquish pursuant to Section 4.1.

4.4 **Compliance with Obligations.** No relinquishment made in accordance with this Article IV shall relieve the Contractor of: (a) its obligation to make payments due as a result of surface rental fees incurred prior to the date of any such relinquishment; (b) its obligation to comply with the Minimum Exploration Programme and Minimum

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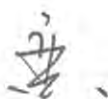
Production Requirements; or (c) any other obligation which may have accrued prior to the date of relinquishment.

- 4.5 **Clean-up and Restoration.** Upon relinquishment of any area, the Contractor shall perform all necessary clean-up activities and undertake all necessary restoration measures in accordance with International Best Practices and the prevailing legislation, and shall take all other action necessary to prevent hazards to the environment, flora and fauna, the local community, human health and life or third-party property.

## ARTICLE V

### **GENERAL OBLIGATIONS OF THE CONTRACTOR**

- 5.1 **Conduct of Hydrocarbons Operations.** The Contractor shall be responsible for conducting all Hydrocarbons Operations within the Contract Area diligently, expeditiously and efficiently in accordance with International Best Practices and the prevailing legislation and pursuant to Work Programmes and Work Programme Budgets approved in accordance with Section 5.3. Without limiting the generality of the foregoing, the Contractor shall:
- (a) advance all necessary funds and purchase or lease all technology, equipment, machinery, materials and supplies required to be purchased or leased in connection with Hydrocarbons Operations and furnish all other funds for the performance of Hydrocarbons Operations as may be required, including payment to third parties that perform services as contractors or subcontractors to the Contractor;
  - (b) furnish all technical expertise and assistance, including foreign personnel, required for the conduct of Hydrocarbons Operations;
  - (c) ensure that all equipment, materials, supplies, plant and installations used by the Contractor, its contractors and subcontractors comply with International Best Practices and are of proper construction and kept in good working order;
  - (d) ensure that all Exploration Wells with significant shows of Hydrocarbons are properly tested;
  - (e) engage one or more internationally recognized, unaffiliated third parties through a competitive bidding process to provide at least sixty percent (60%) of the Well tests and at least sixty percent (60%) of the wireline logs within the Designated Fields for the first two (2) Years. (The Parties agree that the Contractor may amend its procurement program to accomplish the above commitment);
  - (f) use the resources in the Contract Area as productively as practicable, prevent damage to producing formations, and ensure that Hydrocarbons discovered, drilling fluids, mud or any other waste (solid or fluid) do not escape and are not wasted;



- (g) use its best efforts to prevent damage to Hydrocarbon 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 enhanced recovery operations or are intended otherwise in accordance with International Best Practices;
- (h) take all measures in accordance with International Best Practices to (i) protect the environment such as to minimise any damage to flora and fauna and any other pollution of the environment in accordance with applicable law, (ii) avoid flaring of Natural Gas unless expressly authorised by the Ministry and (iii) secure the safety, health and welfare of persons engaged in Hydrocarbons Operations and the public;
- (i) to the extent possible, prevent or mitigate any risks arising from Hydrocarbons Operations;
- (j) comply with laws relating to employment when employing domestic or foreign staff, provide acceptable working conditions and living accommodations, and access to medical attention and nursing care, for all personnel employed by it, its contractors and its subcontractors in Hydrocarbons Operations, and otherwise ensure that international norms related to labour, social protection and human rights are respected and that no child labour or forced labour is used in connection with Hydrocarbons Operations;
- (k) comply with the applicable environmental laws and regulations of Afghanistan; and
- (l) have no less than four (4) drilling rigs (or drilling/service rigs) or three (3) drilling rigs (or drilling/service rigs) and one set of 2D (or 3D) seismic equipment in the Contract Area no later than December 31, 2012, and if the Contractor complies with this Section 5.1(l), its taxable income shall be subject to the then prevailing Income Tax rate for the term of the Contract, without stabilization.

5.2 **The Contractor Representatives.** The Contractor shall appoint and notify the Ministry of the name of a Person-in-Charge, who shall ensure to the best of his ability that he and all workers in his charge know and comply with all relevant laws and regulations, and with any safety manual that is applicable to the operations under his control. Appointment of the Person-in-Charge shall be done prior to commencement of the Hydrocarbons Operations and the Ministry shall be notified of the name and address of that person as soon as possible thereafter. Furthermore, the Contractor shall appoint and notify the Ministry of the names of a legal representative and an alternate legal representative. The representative and the alternate legal representative shall have an office in an adequate location in Afghanistan for exercising the tasks of such representatives, be residents in Afghanistan with legal address and have full authority to represent the Contractor for all purposes of this Contract. Notification of representatives and the Person-in-Charge is to be made within thirty (30) Days after the Effective Date. In the event of replacement of such representatives and/or Person-in-





Charge, such replacement shall be similarly notified to the Ministry upon the effective date of the replacement.

5.3 **Work Programmes and Budgets.**

- (a) The Contractor shall prepare and submit to the Ministry for approval the following Work Programmes and Work Programme Budgets for Hydrocarbons Operations and Hydrocarbons Operations Expenditures within the time periods specified:
- (i) no later than one (1) month after the Effective Date, a quarterly Work Programme and Work Programme Budget for the period beginning on the Effective Date and ending on March 31, 2012;
  - (ii) no later than February 29, 2012, a quarterly Work Programme and Work Programme Budget for the period beginning on April 1, 2012 and ending on June 30, 2012;
  - (iii) no later than May 31, 2012, a quarterly Work Programme and Work Programme Budget for the period beginning on July 1, 2012 and ending on September 30, 2012;
  - (iv) no later than August 31, 2012, a quarterly Work Programme and Work Programme Budget for the period beginning on October 1, 2012 and ending on December 31, 2012; and
  - (v) at least ninety (90) Days prior to the beginning of each Year commencing on or after January 1, 2013, an annual Work Programme and Work Programme Budget for Hydrocarbons Operations and Hydrocarbons Operations Expenditures by Quarter, setting forth the Hydrocarbons Operations the Contractor proposes to carry out during the ensuing Year.
- (b) Notwithstanding any other provision of this Contract, each respective Work Programme and Work Programme Budget prepared and submitted pursuant to Section 5.3(a) shall include the quarterly forecast statement described in Section 7.2(c), the quarterly estimates described in Section 10.3, and the portion of the annual training programmes described in Sections 20.1 and 20.2 to be carried out during the period covered by the Work Programme and Work Programme Budget. The Ministry and the Contractor shall promptly agree on each Work Programme and Work Programme Budget submitted pursuant to Section 5.3(a).
- (c) To the maximum extent practicable, the Contractor shall involve representatives of the Ministry in the preparation of the Work Programmes and Work Programme Budgets.

- (d) Each Work Programme and Work Programme Budget shall comply with the Minimum Exploration Programme and the Minimum Production Requirements, as well as with International Best Practices and the prevailing legislation and regulations.
- (e) Approval by the Ministry of the proposed Work Programmes and Work Programme Budgets will not be unreasonably withheld or delayed.
- (f) Should the Ministry wish to propose revisions to the annual Work Programme or Work Programme Budget, it shall within thirty (30) Days after receipt thereof so notify the Contractor, specifying in reasonable detail its reasons therefor. Promptly thereafter, the Parties shall meet and endeavour to agree on the revisions proposed by the Ministry.
- (g) If the Contractor and the Ministry fail to agree upon any revisions proposed by the Ministry within sixty (60) Days of the receipt of the Contractor's proposals, the points of disagreement shall be resolved as follows:
  - (i) with respect to annual Work Programmes and Work Programme Budgets that relate to Exploration Operations, the Contractor's proposals, revised in accordance with any agreed amendments or additions thereto, shall be deemed adopted, provided that they are in compliance with Section 5.3(d); and
  - (ii) with respect to annual Work Programmes and Work Programme Budgets that relate to Development and Production Operations, the Contractor's proposals, revised in accordance with any agreed amendments or additions thereto, shall be deemed adopted provided that they are consistent with the Development Programme and Development Programme Budget adopted pursuant to Section 7.1(h)(ii) or Section 7.1(k), as applicable, and are in compliance with Section 5.3(d).
- (h) The Parties recognize that the details of a Work Programme may require changes in light of the then prevailing circumstances. In such event, the Contractor may introduce such changes as may be necessary, following consultation with the Ministry, but subject to the following:
  - (i) in the case of changes to a Work Programme and Work Programme Budget relating to Exploration Operations, such changes may be implemented provided that compliance with Section 5.3(d) is maintained;
  - (ii) in the case of changes to a Work Programme and Work Programme Budget relating to Development and Production Operations, such changes may be implemented to the extent that they are not inconsistent with the applicable Development Programme and Development Programme Budget adopted pursuant to Section 7.1(h)(ii) or Section 7.1(k), as applicable, and compliance with Section 5.3(d) is maintained.

5.4 **Drilling Operations.**

- (a) The Contractor is required to design Wells and conduct drilling operations, including the casing, cementing and plugging of Wells, in accordance with International Best Practices.
- (b) Every Well in the Contract Area shall be identified by name, number and geographic co-ordinates, which shall be shown on maps, plans and similar records that the Contractor shall keep and submit to the Hydrocarbon Data Bank.
- (c) Prior to commencing the drilling of any Well or re-entering any Well on which work has been discontinued for more than ninety (90) Days, the Contractor shall give the Ministry written notice no later than seven (7) Days before such work shall commence and submit a proposed Well programme. The proposal shall include the following information:
  - (i) the official name and number of the Well and a description of its precise location by reference to geographical coordinates;
  - (ii) a detailed work programme describing the drilling technique to be employed and all ancillary operations (including 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 programme, and the safety measures to be employed in the drilling of the Well;
  - (iii) a summary of the geological and geophysical data, and any interpretations thereof, upon which the Contractor made the decision to drill or commence work on the respective Well (accompanied by appropriate maps and cross-sections);
  - (iv) the name of the drilling contractor, if applicable, and designation of the drilling rig; and
  - (v) the name of other service companies to be employed, together with a brief description of the equipment and services, if applicable, to be provided.
- (d) In case any work related to any Well is suspended for a period exceeding thirty (30) Days, the Contractor shall notify the Ministry in writing to that effect.
- (e) The Contractor shall give forty-eight (48) hours notice in writing before recommencing work on any Well on which work has been suspended for more than thirty (30) Days but for less than ninety (90) Days.
- (f) The Contractor shall not, without the prior written approval of the Ministry, drill any Well from any surface area within the Contract Area which is less than five hundred (500) meters from a boundary of the Contract Area, or from within the Contract Area through any vertical boundary of the Contract Area.

- (g) The Contractor shall securely plug and clearly mark any Well that it abandons, in accordance with International Best Practices, to prevent pollution and damage to the deposit and underground strata through the entry of water or otherwise. The Contractor shall, except when the Ministry otherwise directs or this Contract otherwise provides, remove all equipment, materials and facilities relating thereto and provide that cemented strings or other forms of casing shall not be withdrawn without the written approval of the Ministry.
- (h) In relation to every Well being drilled, completed, tested or abandoned, the Contractor shall submit to the Ministry daily well reports during the conduct of drilling operations describing the progress and results of the operations. In addition, the Contractor shall submit a Well completion report accompanied by copies of all logs obtained from the Well within two (2) Months from the date of rig release of a Well.
- (i) The Contractor shall, within one hundred and eighty (180) Days of the completion of any survey, test or drilling operations, or, in the case of data that cannot reasonably be obtained or compiled in that period, as soon as possible thereafter, submit to the Ministry copies of all geological and geophysical data obtained by the Contractor in the course of conducting Hydrocarbons Operations, including any interpretations thereof and logs and records of Wells.
- (j) The Contractor shall drill each Exploration Well to the depth set forth in the Well programme, unless:
- (i) formation is encountered at a lesser depth than originally anticipated;
  - (ii) basement is encountered at a lesser depth than originally anticipated;
  - (iii) in the Contractor's reasonable opinion, continued drilling of the Exploration Well is too hazardous because of abnormal or unforeseen conditions;
  - (iv) it is impractical to continue drilling because insurmountable technical problems have been encountered;
  - (v) Hydrocarbons formations have been encountered, penetration of which will require laying protective casing as a consequence of which the Exploration Well cannot be drilled to the depth required by the Well programme; or
  - (vi) the Ministry and the Contractor agree in writing to terminate the drilling operation in respect of the Exploration Well.
- (k) If the Contractor determines it is reasonable to stop drilling pursuant to Section 5.4(j), it will notify the Ministry immediately and a determination will be made jointly as to whether to amend the Work Programme, the Minimum Exploration Programme and Well programme accordingly to:



- (i) enable successful completion of the Exploration Well;
- (ii) substitute another Exploration Well; or
- (iii) determine an alternative solution acceptable to the Parties.

In the event the Parties elect to substitute another Exploration Well pursuant to Section 5.4(k)(ii), the amount guaranteed under the Financial Guarantee shall be reduced by the cost of the abandoned Exploration Well.

5.5 **Reports on Hydrocarbons Operations.** The Contractor shall keep the Ministry regularly and fully informed of the progress and results of all Hydrocarbons Operations and shall provide the Ministry with all geologic information, data, samples, interpretations and reports, including progress and completion reports, and keep such original data, records and full particulars at its registered office in Afghanistan, which are required under this Contract, the Hydrocarbons Law or applicable regulations.

5.6 **Other Minerals.**

- (a) If, in the course of Hydrocarbons Operations, the Contractor discovers minerals other than Hydrocarbons in the Contract Area that are of economic value and are capable of being developed, it shall within thirty (30) Days inform the Ministry of the minerals discovered, their location and such other information as the Ministry may reasonably request and in addition submit a sample of the discovered minerals to the Ministry.
- (b) If, after the Effective Date, others are granted licences within the Contract Area authorizing prospecting for, exploration for or mining of any minerals or other substances other than Hydrocarbons, or the Ministry proceeds with such prospecting, exploration or mining directly in its own behalf, the Contractor shall afford proper passage for the licensee of mineral rights to the relevant parts of the Contract Area, and use its best efforts to avoid obstruction or interference with such licensees' or Ministry operations within the Contract Area. The Ministry shall use its best efforts to ensure that operations of third parties do not obstruct or interfere with the Hydrocarbons Operations within the Contract Area.

5.7 **Historic and Cultural Items.**

- (a) If, in the course of Hydrocarbons Operations, the Contractor finds signs or marks or discovers items of any historical or cultural significance, including fossils and other items included on the Archaeological and Cultural Heritage list, it shall immediately inform the Ministry of the find or discovery.
- (b) The Contractor undertakes not to remove any such items as mentioned above. The Contractor undertakes to keep any such items safe on its own account on behalf of the State until they are transported by the relevant State authorities. However, in case such transportation is not provided by the State within sixty (60)

Days of reporting, the subsequent expenses shall be borne by the relevant State authority.

## ARTICLE VI

### COMMENCEMENT OF HYDROCARBONS OPERATIONS

- 6.1 **Commencement of Hydrocarbons Operations.** The Contractor shall commence Hydrocarbons Operations hereunder not later than thirty (30) Days after the date that the Ministry approves the first Work Programme and Work Programme Budget.
- 6.2 **Baseline Environmental Assessment.** Prior to commencing Hydrocarbons Operations in any Designated Field or other area of a Block outside a Designated Field, the Contractor shall carry out a Baseline Environmental Assessment to determine the then prevailing situation relating to the environment, social conditions, local communities, farming and wildlife (flora and fauna) in such Designated Field or other area.
- 6.3 **Minimum Exploration Programme.** The Contractor undertakes to carry out and comply with the work commitments established by the Minimum Exploration Programme. The amount estimated to be expended by the Contractor in conducting the Minimum Exploration Programme is set forth in Part I of Exhibit H.
- 6.4 **Minimum Production Requirements.** The Contractor undertakes to meet the Minimum Production Requirements set forth in either Option 1 or Option 2 of Part II of Exhibit H. The Contractor shall notify the Ministry in writing of its election of either Option 1 or Option 2 not later than six (6) Months following the Effective Date. The Contractor's election, once made, shall be irrevocable. The Ministry shall on the Effective Date or as soon as practicable thereafter provide to the Contractor all geological, geophysical, geographical, drilling, Well, production and other information, including Well location maps relating to the Contract Area in its possession on the Effective Date. If after performing reasonable investigation in a Designated Field, including the services listed in Section 5.1(e), and conducting reservoir evaluations, the Contractor considers that it would not be possible to meet the Minimum Production Requirements, the Contractor shall notify the Ministry within ten (10) Days following such evaluation and the Parties shall meet as soon as reasonably practicable to agree on revised Minimum Production Requirements. In the event that no agreement is reached between the Ministry and the Contractor within thirty (30) Days following their initial meeting, the Ministry or the Contractor may refer the matter for expert determination pursuant to Section 24.3. In the event the Parties fail to resolve the matter by expert determination, the matter shall proceed to arbitration in accordance with Section 24.1. The determination in accordance with Section 24.1 shall be final. Notwithstanding any such evaluation by the Contractor, the Contractor shall continue with Hydrocarbons Operations in accordance with the applicable Work Programme and Work Programme Budget as expeditiously as possible. In the event that the Contractor fails to meet the Minimum Production Requirements by twenty percent (20%) or less in any Field, the Contractor shall have the option to make a financial settlement with the Ministry.

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## ARTICLE VII

### DISCOVERY; DEVELOPMENT AND PRODUCTION

#### 7.1 Discovery; Development.

- (a) The Contractor shall immediately notify the Ministry in writing of any Discovery, specifying all pertinent information concerning the Discovery and submitting a sample of the Hydrocarbons discovered to the Ministry.
- (b) If the Contractor determines to conduct a drill-stem or production test, in open hole or through perforated casing, with regard to the Discovery, it shall notify the Ministry of the time of such test at least forty-eight (48) hours prior to the proposed test, and the Ministry shall have the right to have a representative present during such test. Not later than one hundred and twenty (120) Days after completion of such test, the Contractor shall complete its analysis and interpretation of the resulting data and submit a report to the Ministry, which shall contain copies of such data and its analysis and interpretation thereof, and which shall also contain a written notification of whether or not, in the Contractor's opinion, such Discovery is of commercial interest. If the Contractor plugs and abandons the Well which encountered such Discovery without conducting a drill-stem or production test, or fails to conduct a drill-stem or production test within one hundred and eighty (180) Days from the date on which such Discovery was made, it shall be deemed to have notified the Ministry that, in the Contractor's opinion, such Discovery is not of commercial interest.
- (c) If, pursuant to Section 7.1(b), the Contractor notifies, or is deemed to have notified, the Ministry that such Discovery is not of commercial interest, the Ministry shall have the option, exercisable by notice in writing to the Contractor, to require the Contractor to relinquish the area corresponding to such Discovery and forfeit any rights relating to such Discovery and any production therefrom; provided, however, that for any Discovery made during the Initial Exploration Period or any extension thereof, the Ministry shall not exercise such option until the end of such period and shall not require the Contractor to relinquish the area corresponding to any Discovery that has been converted to a Field during such period or is under evaluation for development. The area subject to relinquishment shall not exceed the vertical projection to the surface of the prospective producing area determined by taking into account the area of the structural closure of the prospective horizon and other relevant technical factors.
- (d) If, pursuant to Section 7.1(b), the Contractor notifies the Ministry that the Discovery is of commercial interest, the Contractor shall within ninety (90) Days prepare and submit to the Ministry for approval an Appraisal Programme and an Appraisal Programme Budget for the appraisal of such Discovery. Such Appraisal Programme and Appraisal Programme Budget shall include a complete programme of appraisal operations necessary to determine whether such Discovery is a Commercial Discovery.

- (e) Within thirty (30) Days after the submission of the Appraisal Programme and Appraisal Programme Budget pursuant to Section 7.1(d), the Contractor and the Ministry shall meet with a view to adopting such Appraisal Programme and Appraisal Programme Budget or mutually agreeing upon amendments or additions thereto. Failing agreement between the Contractor and the Ministry as to such Appraisal Programme and Appraisal Programme Budget at such meeting, or within twenty (20) Days thereafter, the original Appraisal Programme and Appraisal Programme Budget submitted by the Contractor, revised in accordance with any agreed amendments or additions thereto, shall be deemed adopted, provided that it conforms to International Best Practices and the applicable legislation and regulations, and the Contractor shall immediately commence implementation thereof. On adoption of the Appraisal Programme and Appraisal Programme Budget, the Work Programme and Work Programme Budget adopted pursuant to Section 5.3 shall be revised accordingly.
- (f) If, pursuant to Section 7.1(b), the Contractor has notified the Ministry that the Discovery is of commercial interest, it shall, unless otherwise agreed:
- (i) in respect of a Discovery of Liquid Hydrocarbons, advise the Ministry by notice in writing whether or not in its opinion the Discovery is a Commercial Discovery within a period of twelve (12) Months from the date on which the Contractor notified the Ministry that the Discovery was of commercial interest; and
  - (ii) in respect of a Discovery of Non-Associated Gas, advise the Ministry by notice in writing whether or not in its opinion the Discovery is a Commercial Discovery within such period as may be stipulated in an agreement made pursuant to Article XV with respect to such Discovery or, in the absence of such agreement, within twenty-four (24) Months from the date on which the Contractor notified the Ministry that the Discovery was of commercial interest.
- (g) If the Contractor notifies the Ministry that the Discovery is not a Commercial Discovery, or fails to notify the Ministry that the Discovery is a Commercial Discovery, within the periods prescribed in Sections 7.1(f)(i) and (f)(ii), the Ministry shall have the option, exercisable by notice in writing to the Contractor, to require the Contractor to relinquish the area corresponding to such Discovery and forfeit any rights relating to such Discovery and any production therefrom; provided, however, that for any Discovery made during the Initial Exploration Period or any extension thereof, the Ministry shall not exercise such option until the end of such period and shall not require the Contractor to relinquish the area corresponding to any Discovery that has been converted to a Field during such period or is under evaluation for development. The area subject to relinquishment shall not exceed the vertical projection to the surface of the prospective producing area determined by taking into account the area of structural closure of the prospective horizon and other relevant technical factors.



- (h)
- (i) The notice submitted to the Ministry by the Contractor pursuant to Sections 7.1(f)(i) and (f)(ii) shall be accompanied by a report on the Discovery setting forth all relevant technical and economic data, including geological and geophysical information, areas, thicknesses and extent of the productive strata, petrophysical properties of the reservoir formations, the reservoir's productivity indices for the Wells tested at various rates of flow, permeability and porosity of the reservoir formations, the relevant characteristics and qualities of the Hydrocarbons discovered, additional geological data and evaluations of the reservoir, Liquid Hydrocarbons and Natural Gas reserves estimates and any other relevant characteristics and properties of the reservoirs and fluids contained therein, as well as all evaluations, interpretations and analyses of such data and feasibility studies relating to the Discovery prepared by the Contractor, its contractors, subcontractors and their respective Affiliated Entities.
- (ii) In addition, if the Contractor believes that the Discovery is commercial, a proposed Development Programme and a Development Programme Budget for the development of such Discovery shall be submitted to the Ministry for approval together with the report described in Section 7.1(h)(i). The Development Programme and the Development Programme Budget shall include the following information:
- a. a description and map of the area that contains such Discovery and that the Contractor proposes to delineate as a Field. The map should be defined by reference to graticular sections and geological formations;
  - b. a detailed report, accompanied by supporting data and all analyses and interpretations thereof, which demonstrates that the area described in item (a) above contains, alone or in conjunction with other areas, as the case may be, a Commercial Discovery;
  - c. detailed proposals for commencement and a working plan for the operation of the Hydrocarbons Operations, including drilling schedules, number of Wells and Well spacing, production forecasts and a timing schedule in accordance with generally accepted engineering practices and economics of the international petroleum industry;
  - d. detailed proposals for 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 and a proposed timetable for the commencement of Hydrocarbons production, all of which shall

ensure that the area does not suffer an excessive rate of decline of production or an excessive loss of reservoir pressure;

- e. a detailed forecast of cost estimates, capital investment requirements, operating costs and sales revenues, and the anticipated type and source of financing;
  - f. a risk management plan prepared in accordance with the requirements of the Hydrocarbons Law and applicable regulations, including the measures and directions established by the Ministry to prevent any damage and remove any hazards that the Hydrocarbons Operations may cause to affected communities, the Contractor's personnel and the environment;
  - g. an Environmental Impact Assessment;
  - h. an environmental management plan, including a socio-economic management plan, prepared in accordance with the requirements of the Hydrocarbons Law, including the measures planned for the protection of the environment, the elimination or the reduction of pollution and the protection and compensation of affected populations if applicable, and the verification of the effectiveness of such measures;
  - i. an emergency response plan prepared in accordance with the requirements of the Hydrocarbons Law and applicable regulations, including measures to respond to any accident that may occur at the site of the Hydrocarbons Operations, medical treatment and evacuation of employees and surrounding populations and the protection of the environment; and
  - j. the Development Programme and Development Programme Budget shall also contain particulars of feasible alternatives, if any, considered by the Contractor for the development and exploitation of the Discovery and economic feasibility studies carried out by or for the Contractor with respect to the Discovery, taking into account the location, meteorological conditions, cost estimates, the price of Hydrocarbons and any other relevant data and evaluations thereof.
- (i) The Ministry shall examine the report and any documents submitted pursuant to Section 7.1(h)(ii), and may require the Contractor to provide, within a specified period of time, such additional information and data as it may reasonably require in order to evaluate such documents. As soon as possible after the submission of such documents pursuant to Section 7.1(h)(ii) or receipt of such additional information and data, the Ministry and the Contractor shall meet to determine the boundaries of the area to be delineated as a Field and adopt a Development

Programme and Development Programme Budget for the development of the Discovery and an environmental management plan in connection therewith.

(j)

- (i) At the meeting described in Section 7.1(i), the Contractor shall carefully consider and take into account any proposals of the Ministry and the reasons therefor and shall attempt in good faith to reach agreement with the Ministry on the points at issue, paying particular consideration to the objective of achieving Initial Commercial Production expeditiously from the Field in question, taking into account generally accepted engineering practices and economics of the international petroleum industry.
- (ii) If the Ministry and the Contractor agree upon the boundaries of the area to be delineated as a Field and upon the adoption of a Development Programme and Development Programme Budget for the development of the Discovery, the date upon which such agreement is reached, as reflected in writing signed by both parties, shall be the date of the declaration of the Commercial Discovery for all purposes of this Contract. The area so determined shall, on such date, be automatically converted into a Field. The Ministry shall provide the Contractor with a permit to conduct Development and Production Operations in the Field within fifteen (15) Days after the later of (A) the adoption of the Development Programme and Development Programme Budget and (B) approval by the National Environmental Protection Agency of the Contractor's Environmental Impact Assessment and environmental management plan. The Contractor shall, as soon as is practicable after receipt of such permit, commence and continuously carry out Development and Production Operations in the Field according to the adopted Development Programme and the Development Programme Budget. Upon adoption of the Development Programme and the Development Programme Budget, the Work Programme and Work Programme Budget adopted pursuant to Section 5.3 shall be revised accordingly.
- (iii) In the event that no agreement is reached between the Ministry and the Contractor within one hundred and eighty (180) Days from the date of submission of the report and proposed Development Programme and Development Programme Budget pursuant to Section 7.1(h) as to (i) matters relating to the adoption of the Development Programme and Development Programme Budget for the development of the Discovery, (ii) the boundaries of the area to be delineated as a Field, or (iii) the environmental management plan, the Ministry or the Contractor may refer the matter for expert determination pursuant to Section 24.3. In the event the Parties fail to resolve the matter by expert determination, the matter shall proceed to arbitration in accordance with Section 24.1. The determination in accordance with Section 24.1 shall be final and the Development Programme and Development Programme Budget for the

development of the Discovery and the boundaries of the area to be delineated as a Field, as the case may be, shall be deemed to have been adopted and agreed as determined, except that the Contractor may, within sixty (60) Days of receipt of such determination, notify the Ministry that the Discovery to which such Development Programme and Development Programme Budget and area so determined relate is no longer considered to be commercial. If the Contractor so notifies the Ministry, the provisions of Section 7.1(g) shall apply. Failing such notification, the date sixty (60) Days after the receipt of such determination shall be deemed to be the date of the declaration of the Commercial Discovery for all purposes of this Contract. The area so determined shall, on such date, be automatically converted into a Field. The Ministry shall provide the Contractor with a permit to conduct Development and Production Operations in the Field within fifteen (15) Days after the later of (A) the date a Commercial Discovery is deemed declared and (B) approval by the National Environmental Protection Agency of the Contractor's Environmental Impact Assessment and environmental management plan. The Contractor shall, as soon as is practicable after receipt of such permit, commence and continuously carry out Development and Production Operations in the Field according to the adopted Development Programme and the Development Programme Budget. Upon adoption of the Development Programme and Development Programme Budget as aforesaid, the Work Programme and Work Programme Budget adopted pursuant to Section 5.3 shall be revised accordingly.

- (k) In the case of each Designated Field, the Contractor shall prepare and submit to the Ministry for approval a Development Programme and Development Programme Budget for such Field containing the information referred to in Section 7.1(h)(ii) and complying with the Minimum Production Requirements for such Field no later than twelve (12) Months prior to Initial Commercial Production from such Field, except that:
- (i) the submission for the Angot Field shall be made as soon as practicable after the Effective Date;
  - (ii) where the Contractor has elected the Minimum Production Requirements of Option 1, the submission for the Kashkari Field shall be made as soon as practicable after the date of such election; and
  - (iii) where the Contractor has elected the Minimum Production Requirements of Option 2, the submission for the Aq Darya Field shall be made as soon as practicable after the date of such election.

The Ministry shall provide the Contractor with a temporary permit to conduct Development and Production Operations for six (6) months in the Angot Field and the Designated Field elected under Option 1 or 2 upon approval by the National Environmental Protection Agency of the Contractor's Environmental



Impact Assessments and environmental management plans for those Fields. The Ministry shall provide the Contractor with a permit to conduct Development and Production Operations for the duration of the Contract in the Angot Field and the Designated Field elected under Option 1 or 2, respectively, within fifteen (15) days after the adoption of a Development Programme and Development Programme Budget for such Field. The Contractor shall, as soon as is practicable after receipt of such permit, commence and continuously carry out Development and Production Operations in the Field according to the adopted Development Programme and the Development Programme Budget. Upon adoption of the Development Programme and the Development Programme Budget, the Work Programme and Work Programme Budget adopted pursuant to Section 5.3 shall be revised accordingly.

- (l) Notwithstanding any other provision of this Contract:
  - (i) with respect to any Field other than the Designated Fields, in the event that Initial Commercial Production from such Field has not occurred within eighteen (18) Months, in the case of a Liquid Hydrocarbons Discovery, or sixty (60) Months, in the case of a Non-Associated Gas Discovery, from the date of declaration of Commercial Discovery, then the Contractor shall relinquish the area comprising such Field and shall forfeit any rights relating to such Field and any production therefrom;
  - (ii) with respect to either of the Bazarkhami Field or the Zamarudsay Field, in the event that Initial Commercial Production from such Field has not occurred within thirty-six (36) Months after the Effective Date, then the Contractor shall relinquish the area comprising such Field and shall forfeit any rights relating to such Field and any production therefrom;
  - (iii) with respect to the Aq Darya Field, in the event that (A) the Contractor has elected the Minimum Production Requirements of Option 1 and Initial Commercial Production from such Field has not occurred within twenty-four (24) Months after the Effective Date or (B) the Contractor has elected the Minimum Production Requirements of Option 2 and Initial Commercial Production from such Field has not occurred within twelve (12) Months after the Effective Date, then the Contractor shall relinquish the area comprising such Field and shall forfeit any rights relating to such Field and any production therefrom;
  - (iv) with respect to the Kashkari Field, in the event that (A) the Contractor has elected the Minimum Production Requirements of Option 1 and Initial Commercial Production from such Field has not occurred within twelve (12) Months after the Effective Date or (B) the Contractor has elected the Minimum Production Requirements of Option 2 and Initial Commercial Production from such Field has not occurred within twenty-four (24) Months after the Effective Date, then the Contractor shall relinquish the

area comprising such Field and shall forfeit any rights relating to such Field and any production therefrom;

- (v) with respect to the Angot Field, in the event that Initial Commercial Production from such Field has not occurred within twelve (12) Months after the Effective Date, then the Contractor shall relinquish the area comprising such Field and shall forfeit any rights relating to such Field and any production therefrom; and
- (vi) subject to Section 6.4 and without prejudice to Sections 7.1(l)(i) – 7.1(l)(v) above, in the event the Contractor has not met the Minimum Production Requirements applicable to such Designated Field in any Year, then the Contractor shall relinquish the area comprising such Designated Field and shall forfeit any rights relating to such Designated Field and any production therefrom; provided that if the Contractor is able to demonstrate to the reasonable satisfaction of the Ministry that the Contractor has performed the activities contemplated in the Work Programmes in each case relating to such Designated Field, the deadline by which the Contractor must satisfy the Minimum Production Requirements for such Designated Field for such Year shall be extended by the Ministry, it being understood that such extension shall not (x) reduce the Minimum Production Requirements for such Designated Field as may apply in respect of such Year or subsequent Years or (y) limit the application of this Section 7.1(l)(vi) if the Minimum Production Requirements for such Designated Field are not satisfied by the Contractor by the extended deadline or in respect of any subsequent Years. If the Contractor wishes that the Ministry consider granting an extension in respect of any Year as provided in this Section 7.1(l)(vi), the Contractor shall make such request to the Ministry, together with all supporting materials, within thirty (30) Days after the end of such Year.
- (m) If the Contractor is required to relinquish an area pursuant to the provisions of this Section 7.1, ownership of all fixtures, including but not limited to pipes, pipelines, installations, facilities, downhole well equipment, and wellhead equipment shall be transferred to the Ministry. Leased equipment and other Contractor equipment may be removed if such removal may be accomplished without damage to the area.

## 7.2 **Production.**

- (a) Not less than three (3) Months prior to Initial Commercial Production in any Field, the Contractor shall submit to the Ministry for approval proposed procedures and related operating regulations and financial terms covering the scheduling, storage and lifting of Liquid Hydrocarbons from such Field. The procedures, regulations and terms shall comprehend the subjects necessary to efficient and equitable operations, including rights of parties, notification time, maximum and minimum quantities, duration of storage, scheduling, conservation,



spillage, liabilities of the parties, through-put fees, and safety and emergency procedures.

- (b) The Contractor shall produce Liquid Hydrocarbons from the Contract Area at the Maximum Efficient Rate. For the first Year, the Contractor and the Ministry shall establish the Maximum Efficient Rate of production of Liquid Hydrocarbons and the production rate for Non-Associated Gas in conjunction with the adoption of each Development Programme submitted during such Year. Thereafter, the Contractor and the Ministry shall establish the Maximum Efficient Rate of production for Liquid Hydrocarbons and the production rate for Non-Associated Gas in conjunction with the adoption of each annual Work Programme. In the case of Non-Associated Gas, the production rate shall not be required by the Ministry to be less than that required to satisfy any contracts then in existence for the sale of such Natural Gas.
- (c) No later than September 30 of each Year, the Contractor shall, in accordance with International Best Practices, prepare and furnish to the Ministry for approval a forecast statement setting forth by Quarter the total quantity of Liquid Hydrocarbons (by quality, grade and gravity) and Natural Gas that the Contractor estimates can be produced, saved and transported hereunder during the ensuing Year, together with estimates, if available, of recoverable reserves of Hydrocarbons, broken down into proven and proven plus probable. The Contractor shall endeavour to produce in each Year the forecast quantity. The Liquid Hydrocarbons shall be run to storage tanks, constructed, maintained and operated by the Contractor in accordance with applicable regulations, in which such Liquid Hydrocarbons shall be metered or otherwise measured for all purposes of this Contract. Natural Gas shall be stored, transported and metered or otherwise measured in accordance with the provisions of the Natural Gas Development Programme adopted pursuant to the provisions of Article XV.

### 7.3 Cessation of Production.

- (a) The Contractor shall submit to the Ministry for approval a proposed Field decommissioning and abandonment plan (the “**Decommissioning and Abandonment Plan**”) after exhaustion of fifty percent (50%) of Recoverable Gas Initially in Place (RGIIP) / Recoverable Oil Initially in Place (ROIIP), or seven (7) Years before the likely termination of production from the development area, whichever is later, which shall include a detailed technical and engineering description of the decommissioning, removal and disposal of the facilities and installations, and of the site clean-up and restoration measures, consistent with International Best Practices and with the obligations of the Contractor under Sections 4.5, 23.2 and 25.6, together with a detailed and itemized budget of the Hydrocarbons Operations Expenditures to be incurred in connection therewith (the “**Decommissioning and Abandonment Budget**”). The Contractor and the Ministry shall set up a joint escrow account (the “**Escrow Account**”) with a bank of good international reputation (the “**Bank**”) to finance the Hydrocarbons Operations Expenditures specified in the Decommissioning and Abandonment

Budget in accordance with Section 7.3(d). The Bank shall be located outside of Afghanistan and shall not be an Affiliated Entity of the Contractor.

- (b) No later than twelve (12) Months prior to the expiration of the Development and Production Phase of any Field, the Contractor shall notify the Ministry of its intention to terminate Hydrocarbons Operations. Within thirty (30) Days from the date of the Contractor's notice under this Section 7.3(b), the Ministry shall notify the Contractor in writing whether it will require the Contractor to carry out all or part of the decommissioning measures set out in the Decommissioning and Abandonment Plan. Following receipt of the Ministry's notice, the Ministry and the Contractor shall meet to agree upon a final Decommissioning and Abandonment Plan and a final Decommissioning and Abandonment Budget.
- (c) The Escrow Account shall be funded by monthly contributions made by the Contractor on a unit-of-production basis until the target value of the Decommissioning and Abandonment Budget is reached. The monthly contribution will be calculated as follows: The amount in the Escrow Account shall be subtracted from the Decommissioning and Abandonment Budget to establish a net shortfall. In accordance with the methodology illustrated in Appendix 1 to the Accounting Procedures, the net shortfall shall be divided by the remaining RGIIP/ROIIP as of the beginning of the Month, then multiplied by that Month's production.
- (d) The amount of the Decommissioning and Abandonment Budget, pro-rated on a unit of production basis over the period from the date of opening of the Escrow Account to the estimated date of cessation of production, shall be included in the Hydrocarbons Operations Expenditures and shall be recovered by the Contractor in accordance with Section 10.1(b). At the end of each Month in which the Contractor shall have recovered any part of the Decommissioning and Abandonment Budget, the Contractor shall deposit the amount so recovered in the Escrow Account. Upon cessation of production, the Contractor shall diligently carry out the Decommissioning and Abandonment Plan and the Hydrocarbons Operations Expenditures due in connection therewith shall be paid by the Bank upon receipt of a written joint instruction from the Ministry and the Bank. Any un-spent monies remaining in the Escrow Account upon settlement of all Decommissioning and Abandonment Expenditures shall be remitted by the Bank to the Ministry. In the event the Ministry elects to continue Hydrocarbons Operations in any Field following the Contractor's termination of Hydrocarbons Operations in relation thereto, the Contractor's liability for decommissioning measures shall be limited to the balance of the Escrow Account.



## ARTICLE VIII

### FINANCIAL AND PERFORMANCE GUARANTEES

- 8.1 **Financial Guarantee.** Not later than thirty (30) Days after the Effective Date, the Contractor shall submit a Financial Guarantee in an amount equal to the estimated expenditures necessary to perform the Minimum Exploration Programme for the Initial Exploration Period. If the Contractor wishes to proceed to the First Extension Period or the Second Extension Period, as the case may be, it shall submit the corresponding Financial Guarantee as provided in Section 3.1(a).
- 8.2 **Reduction of Financial Guarantee.** During the Exploration Phase, the amount of the Financial Guarantee shall be reduced as of the end of each Month by the amount actually expended on the Minimum Exploration Programme during that Month.
- 8.3 **Drawdown.** If, at the end of the Initial Exploration Period or any extension thereof, the Contractor has not performed the Minimum Exploration Programme required for such period, an amount corresponding to the then current balance of the Financial Guarantee for such period shall be paid to the Ministry in accordance with Article XIII. The Ministry shall have the right to draw down on the Financial Guarantee to collect such amount.
- 8.4 **Drawdown Upon Termination or Relinquishment.** If, upon the date of termination of this Contract, or upon relinquishment of the entire Contract Area by the Contractor pursuant to Article IV, whichever first occurs, the Contractor has not completed the Minimum Exploration Programme, an amount corresponding to the then current balance of the Financial Guarantee shall be paid to the Ministry in accordance with Article XIII. The Ministry shall have the right to draw down on the Financial Guarantee to collect such amount.
- 8.5 **General Performance Guarantee.** Simultaneously with the execution of this Contract, CNPCI is executing and delivering the General Performance Guarantee to the Ministry.

## ARTICLE IX

### OBLIGATIONS OF THE MINISTRY

- 9.1 **Data.** The Ministry shall supply or otherwise make available to the Contractor:
- (a) all geological, geophysical, geographical, drilling, Well, production and other information, including Well location maps, relating to the Contract Area in the possession of the Ministry or coming into its possession and which it has the right to disclose to the Contractor;
  - (b) a list of the sites of national parks and/or ecological reserves, as well as sites identified as having Archaeological and Cultural Heritage significance, such list

to be provided prior to commencement of Hydrocarbons Operations and to contain available details of the sites, including maps and other pertinent information; and

- (c) information reasonably available to the Ministry related to private land ownership in the Contract Area.

9.2 **Assistance.** In accordance with the provisions of the Hydrocarbons Law, the Ministry shall for the duration of this Contract:

- (a) provide for the right of way and passage over State-owned land and facilitate the right of way and passage over privately owned land in order to conduct Hydrocarbons Operations (including nationalization to the extent permissible under applicable law), provided that the Contractor shall bear any compensation to the owner or occupier. Such costs and any compensation shall be considered a Hydrocarbons Operations Expenditure recoverable by the Contractor in accordance with Exhibit C;
- (b) in respect of occupation and use of privately owned land for Hydrocarbons Operations, and upon notice submitted by the Contractor no later than ninety (90) Days prior to a proposed operation, obtain consent for such use from the owner or occupier of the land in question to enable the Contractor to conduct the proposed operations thereon, and provide the Contractor with evidence of such consent, provided that the Contractor shall pay market prices for the use or occupation of such land, and in the event the owner or occupier has suffered a disturbance to activities or damage to land or assets caused by surface or sub-surface oil and gas exploration operations, and the Contractor and the owner or occupier fail to agree on the amount of compensation, review the matter and determine the amount of damages in the first instance;
- (c) provide reasonable access to and use of existing infrastructure and facilities in the Contract Area, at no cost to the Contractor in the case that such infrastructure and facilities are owned by the State;
- (d) provide reasonable access to surface areas relinquished by the Contractor pursuant to this Contract and reasonable access to and use of existing infrastructure and facilities on such relinquished areas at no cost to the Contractor in the case that such infrastructure and facilities are owned by the State;
- (e) subject to the terms and conditions of an agreement between the Parties and the National Environmental Protection Agency to be executed concurrently with this Contract, assume responsibility for the rehabilitation of environmental contamination on State owned and private land identified in Baseline Environmental Assessments completed by the Contractor and approved by the National Environmental Protection Agency;

- (f) on the Effective Date, or no later than fifteen (15) Days thereafter, issue to the Contractor the appurtenant exclusive Licence for Hydrocarbons Operations certifying that the Contractor holds this Contract; and
- (g) upon application in the prescribed manner and pursuant to applicable legislation, provide or facilitate all necessary visas, work permits, import licences, export permits (including but not limited to licences for Hydrocarbons), rights of way and easements which (i) may be required by the Contractor and its subcontractors in connection with the Hydrocarbons Operations and (ii) may be available from resources within the Government's control.

9.3 **Security.** The Ministry shall endeavor to provide adequate security within the Contract Area and any other areas in Afghanistan in which Hydrocarbons Operations or operations related thereto are conducted, including during travel to and from such areas. However, in the event that the Contractor, in its reasonable opinion, considers the security provided for its personnel is inconsistent with its health, safety and environmental policies, International Best Practices or inadequate to allow Hydrocarbons Operations to be conducted safely and without threat to life, both Ministry and the Contractor hereby agree supplementary security measures shall be implemented by the Contractor, as the case may be, including, but not limited to, the engagement of competent private security providers licensed to operate in Afghanistan, such costs to be considered Hydrocarbons Operations Expenditures if included in an approved Work Programme and Work Programme Budget. Such arrangements shall be revised from time to time in response to changes in security conditions, subject to an international independent third party conducting a security review.

9.4 **Responsiveness.** If the Ministry's approval is required by the Contractor in accordance with this Contract, the Ministry shall endeavour to respond to such request as soon as reasonably practicable. Without prejudice to any time period otherwise specified herein or under applicable law, the Ministry's approval for any action or item (including Work Programmes and Work Programme Budgets) shall be deemed to have been given if the Ministry has not notified the Contractor of its disapproval or required clarification of such request within thirty (30) Days following the Contractor's request for such approval. If the Contractor requires the approval of the State or a licence or permit from an agency of the State in relation to Hydrocarbons Operations, the Ministry shall procure that the State or agency of the State (as the case may be) responds to such request as soon as reasonably practicable. The Ministry acknowledges and agrees that to the extent the Contractor is unable to carry out certain Hydrocarbons Operations as a result of a failure by the State or agency of the State to respond to or issue any approval, permit or license relating to Hydrocarbons Operations that any time periods applicable to the performance of the Contractor's obligations hereunder shall be suspended for the period during which the Contractor is prevented from performing and that the Parties shall meet and seek to agree to further extensions of time with regard to such delay.

**ARTICLE X**

**ALLOCATION OF PRODUCTION**

10.1 **Royalty; Production Share.** The Hydrocarbons produced and saved from the Contract Area in any Month and not used in Hydrocarbons Operations or flared or re-injected into the Contract Area shall be allocated as follows:

- (a) The first fifteen percent (15%) of such Hydrocarbons shall be allocated to the Ministry as the Royalty payable under the Hydrocarbons Law.
- (b) After payment of the Royalty, the Contractor shall be entitled to recover Hydrocarbons Operations Expenditures incurred by retaining and disposing of that amount of such Hydrocarbons equal in value to the unrecovered Hydrocarbons Operations Expenditures for that Month plus all unrecovered Hydrocarbons Operations Expenditures from prior Months; provided, however, that for Hydrocarbons Operations relating to areas other than the Designated Fields, the Contractor shall only be entitled to recover Hydrocarbons Operations Expenditures from Hydrocarbons produced from Fields other than the Designated Fields. All such Hydrocarbons Operations Expenditures shall be recovered without a ceiling in the manner and to the extent provided for in, and subject to, the Accounting Procedures. For the purpose of determining the quantity of such Hydrocarbons to which the Contractor is entitled in any Month pursuant to this Section 10.1(b), each type and grade of Hydrocarbons shall be valued at the weighted average net price per applicable unit, (i) in the case of Arm's-Length Sales made by the Contractor, actually received by the Contractor in respect of sales of such Hydrocarbons produced in such Month and (ii) in the case of other sales made by the Contractor, equal to the Formula Price for such Hydrocarbons; provided that this clause (ii) shall apply only if the sales referred to in this clause (ii) represent more than fifty percent (50%) of the total volume of sales made by the Contractor of such Hydrocarbons produced and saved in such Month.
- (c) The provisions and calculations of this Section 10.1(c) shall apply and be made separately in respect of (i) the Designated Fields taken as a whole and the Hydrocarbons Operations Expenditures, Net Hydrocarbons and Gross Contractor Revenues therein and (ii) the remainder of the Contract Area taken as a whole and the Hydrocarbons Operations Expenditures, Net Hydrocarbons and Gross Contractor Revenues therein. After deduction of the Royalty and recovery of the Hydrocarbons Operations Expenditures, the Ministry shall be allocated a portion of the Net Hydrocarbons produced and saved in any Month determined in accordance with the formula set forth below, and the remaining Net Hydrocarbons after such allocation shall be allocated to the Contractor:

If $R \leq 1$	then	$P = 0\%$
If $1 < R \leq 1.3$	then	$P = 50\%$
If $1.3 < R \leq 2.5$	then	$P = 70\% - [(2.5 - R) / (2.5 - 1.3)] \times 20\%$
If $R > 2.5$	then	$P = 70\%$

In the above formula:

“P” shall mean the Ministry’s percentage share of Net Hydrocarbons, valued at the applicable Formula Price; and

“R” shall mean the cumulative Gross Contractor Revenues up to the end of the Month immediately preceding the Month in question, divided by the cumulative Hydrocarbons Operations Expenditures incurred up to the end of the Month immediately preceding the Month in question.

- 10.2 **Calculations and Adjustments.** The calculations required by this Article X shall be made for each Month on a cumulative basis. To the extent that actual quantities, prices and expenses are not known, calculations shall be made on the basis of the estimate, and quarterly updates thereto, provided to the Ministry pursuant to Section 10.3. Within thirty (30) Days after the end of each Quarter, adjustments shall be made based on actual Hydrocarbons quantities, prices and expenses in relation to such Quarter to the extent then available. Within ninety (90) Days after the end of each Year, final calculations shall be prepared and submitted to the Ministry for approval, and any necessary adjustments shall be made based upon the detailed accounts submitted for such Year pursuant to Section 26.2.
- 10.3 **Estimates and Approvals.** Not less than ninety (90) Days prior to the beginning of each Year, the Contractor shall prepare and furnish to the Ministry for approval an estimate by Quarter for the forthcoming Year of all Gross Contractor Revenues and Hydrocarbons Operations Expenditures, and of the value of the Royalty and of the Ministry’s and the Contractor’s respective shares of Net Hydrocarbons, Net Taxable Income and Income Tax for such Year. Such estimate shall be consistent with the forecast statement furnished pursuant to Section 7.2(c) and the Work Programme Budget approved pursuant to Section 5.3, and shall set forth the other assumptions and projections upon which it is based. Upon approval by the Ministry, such estimate shall serve as the basis for the quarterly calculations required pursuant to Section 10.2 and for the Income Tax pursuant to Article XVI. Quarterly updates of such estimate shall be submitted by the Contractor to the Ministry within thirty (30) Days after the end of each Quarter.
- 10.4 **Deemed Sales.** The Hydrocarbons allocated to the Ministry under this Article X in any Month shall, unless the Ministry otherwise elects in accordance with Section 10.5, be deemed sold by the Ministry to the Contractor upon production at the wellhead. The purchase price for each type of Hydrocarbons produced shall be the applicable Formula Price for such Hydrocarbons, and shall be payable to the Ministry no later than the end of the Month following the Month in which such Hydrocarbons are produced. Payment shall be accompanied by a certificate from the Contractor setting forth in detail the basis for computation of the purchase price, in a form acceptable to the Ministry. The provisions of this Section 10.4 shall not apply to Hydrocarbons produced during production testing and sold by the Contractor, the proceeds of which shall be applied to reduce the amount of the Contractor’s capital expenditures in accordance with the Accounting Procedures.

- 10.5 **Notice and Election**. The Ministry may, in respect of any Year, elect to retain title to all or any part of the Hydrocarbons allocated to it under this Article X, rather than sell such Hydrocarbons to the Contractor. In such event, the Ministry shall provide the Contractor with notice of its election at least six (6) Months prior to the commencement of the Year in question.

## ARTICLE XI

### **FORMULA PRICE FOR HYDROCARBONS; MEASUREMENT OF HYDROCARBONS**

- 11.1 **Formula Price for Liquid Hydrocarbons**. The Formula Price for the Liquid Hydrocarbons produced and saved from any Field in the Contract Area in any Month shall be determined in accordance with the following formula:

$$P = U + (B-U) * (1 + 0.15139 * A_{P-B} - 0.1434 * S_{P-B}) - T - D$$

Where

- P* is the price of the Liquid Hydrocarbons produced and delivered to the Delivery Point (US\$ per Barrel);
- U* is the average of the Platt's Prices of Urals crude oil for the Month in question (US\$ per Barrel);
- B* is the average of the Platt's Prices of Dated Brent crude oil for the Month in question (US\$ per Barrel);
- A<sub>P-B</sub>* is the difference between the API degrees of the Liquid Hydrocarbons produced and 38.3 degrees;
- S<sub>P-B</sub>* is the difference between the percentage of sulphur content of the Liquid Hydrocarbons produced and 0.4 percent;
- T* is the deemed transport cost of the Liquid Hydrocarbons produced (US\$ per Barrel), determined in accordance with Section 11.3; and
- D* is the amount of the initial production discount (if any) on the price of the Liquid Hydrocarbons produced (US\$ per Barrel), determined in accordance with Section 11.4.




For purposes of calculating the average monthly Platt's Price, the Platt's Price for any Day of the Month means (i) in the case of Dated Brent crude oil, the average of the high and low spot prices for such crude oil as quoted for such Day in Platt's Crude Oil Marketwire (Spot Assessment Section, Dated Brent Assessment) and (ii) in the case of Urals crude oil, the average of the high and low spot prices for such crude oil as quoted for such Day in Platt's Crude Oil Marketwire (Spot Assessment Section, Urals MED Assessment). Transportation costs shall be reviewed every two (2) Years after the Initial Exploration Period according to Section 11.3, and the other coefficients and parameters in the Formula Price shall be reviewed by the Parties at the conclusion of the Initial Exploration Period and then every four (4) Years thereafter.

- 11.2 **Alternate Reference Prices.** If the Platt's Price is no longer available for either of the crude oils referenced in *U* and *B*, the Parties shall agree on similar published reference prices and adjust the parameters of the pricing formula accordingly.
- 11.3 **Transport Costs.** During the Initial Exploration Period, *T* in the formula set forth in Section 11.1 shall have a value of five U.S. Dollars (US\$ 5.00) per Barrel for Liquid Hydrocarbons produced from each Field in the Bazarkhami and Kashkari Blocks and seven U.S. Dollars (US\$ 7.00) per Barrel for Liquid Hydrocarbons produced from each Field in the Zamarudsay Block. Thereafter, the Parties shall meet at least once every two (2) Years to negotiate in good faith any adjustments to *T* that may be appropriate based upon then prevailing conditions regarding transportation costs for Liquid Hydrocarbons originating from each Field and the applicable Delivery Point for use in determining the Formula Price.
- 11.4 **Initial Production Discounts.** *D* in the formula set forth in Section 11.1 shall have a value of (i) twenty U.S. Dollars (US\$ 20.00) per Barrel for each Barrel of Liquid Hydrocarbons produced from the Contract Area during the first Year, (ii) ten U.S. Dollars (US\$ 10.00) per Barrel for each Barrel of Liquid Hydrocarbons produced from the Contract Area during the second Year, and (iii) zero U.S. Dollars (US\$ 0.00) per Barrel for each Barrel of Liquid Hydrocarbons produced thereafter.
- 11.5 **Formula Price for Natural Gas.** The Formula Price for Natural Gas shall be determined by agreement between the Ministry and the Contractor, provided, however, that such price or value shall reflect the following: (i) the quantity and quality of the Natural Gas; (ii) the price at which sales of Natural Gas from other sources in Afghanistan, if any, are then being made; (iii) the price at which sales, if any, of Natural Gas imported into Afghanistan for consumption in Afghanistan are being made; (iv) the purpose for which the Natural Gas is to be used; and (v) the international market price of competing or alternative fuels or feedstocks.
- 11.6 **Verification.** Within thirty (30) Days following the end of each Quarter, the Contractor shall submit to the Ministry for its verification the volumes, gravity in API and sulphur content of the Liquid Hydrocarbons produced and saved from the Contract Area during the Quarter in question. In the event that the Ministry raises objections to the Contractor's determinations, the Parties shall meet within fifteen (15) Days from the Ministry's notice of objection to mutually agree upon the appropriate determinations.

- 11.7 **Segregation of Liquid Hydrocarbons.** In the event that Hydrocarbons Operations involve the segregation of Liquid Hydrocarbons of different quality, grade or gravity, and if the Parties do not otherwise mutually agree, (i) any and all provisions of this Contract concerning valuation of Liquid Hydrocarbons shall separately apply to each segregated Liquid Hydrocarbon and (ii) each segregated Liquid Hydrocarbon produced in a given Month shall contribute to (a) recovery by the Contractor of Hydrocarbons Operations Expenditures pursuant to Section 10.1 and (b) the Liquid Hydrocarbons entitlements of each Party in the same proportion as the quantity of such Liquid Hydrocarbon produced and segregated bears to the total quantity of Liquid Hydrocarbons produced and saved from the Contract Area.
- 11.8 **Measuring Equipment.** The Contractor shall supply, operate and maintain equipment for measuring the volume and quality of the Hydrocarbons produced and saved, or transported, stored or exported under this Contract, including gravity, density, temperature and pressure measuring devices and any other devices that may be required. All measurement equipment and devices shall, prior to their installation or usage, be approved in writing by the Ministry. Such equipment and devices shall at all reasonable times be available for inspection and testing by the Ministry or its authorised representatives. Any such inspection or testing shall not interfere with the normal operation of the facilities involved. The equipment and devices used or installed pursuant to this Section 11.8 shall not be replaced or altered without the prior written approval of the Ministry.
- 11.9 **Measurement Standards.** The Contractor shall undertake to measure the volume and quality of the Hydrocarbons produced, saved, transported, stored and exported hereunder, consistent with International Best Practices for fiscal metering, with such frequency and according to such procedures as are approved in writing by the Ministry.
- 11.10 **Notice.** The Contractor shall give the Ministry timely notice of its intention to conduct measuring operations and the Ministry shall have the right to be present at and supervise, either directly or through authorised representatives, such operations.
- 11.11 **Measurement Inaccuracies and Adjustment.** If it is determined, following an inspection or test carried out by the Ministry or its representatives, that the equipment, devices or procedures used for measurement are inaccurate and exceed the permissible tolerances which shall be established by agreement between the Ministry and the Contractor to be entered into prior to the installation and usage of such equipment, and such determination is verified by an independent surveyor acceptable to both parties, such inaccuracy shall be deemed to have existed for one half of the period since the last previous such inspection or test, unless it is proved that such inaccuracy has been in existence for a longer or shorter period. Appropriate adjustments covering such period shall be made within thirty (30) Days from the date of such determination.



## ARTICLE XII

### DOMESTIC REQUIREMENTS

- 12.1 **Local Preference.** In marketing any part of its share of the Liquid Hydrocarbons produced and saved from the Contract Area, the Contractor shall give preference to purchases by Afghan nationals and companies, provided that such purchases are at prices that are not less than the price for Arm's-Length Sales or not less than the Formula Price.
- 12.2 **Storage.** Liquid Hydrocarbons that the Ministry has elected to take in kind and not to sell to the Contractor shall be delivered by the Contractor at regularly spaced intervals at the Delivery Point or to the Ministry's storage facilities in the Field, or both, at the option of the Ministry. The Ministry shall provide at such Delivery Points, at its sole expense and risk, all storage, transportation and other facilities necessary to receive such Liquid Hydrocarbons.
- 12.3 **Internal Consumption of Liquid Hydrocarbons.** Out of the total quantity of Liquid Hydrocarbons production to which the Contractor is entitled in each Year, the Ministry may elect to take a quantity of Liquid Hydrocarbons, of the gravity, grade and quality of its choice, that the Ministry requires to satisfy the requirements of internal consumption in Afghanistan for such Year. The Ministry shall reimburse the Contractor for such quantity at the Formula Price. The maximum quantity of Liquid Hydrocarbons that the Ministry may take to satisfy the internal consumption requirements of the country shall be calculated as follows:

$$DMOc = APc \times (DMOt - GOV) / APt$$

Where:

“DMOc” is the maximum quantity of Liquid Hydrocarbons from the Contract Area that the Ministry may take to satisfy the internal consumption requirements of the country in the period of reference;

“APc” is the total quantity of Liquid Hydrocarbons produced from the Contract Area during the reference period, less (a) the amount of the Royalty, (b) the Ministry's share of Liquid Hydrocarbons production under Section 10.1(c), and (c) consumption of Liquid Hydrocarbons incidental to Hydrocarbons Operations;

“DMOt” is the internal consumption requirements of Afghanistan during the reference period;

“GOV” is (a) the quantity of Liquid Hydrocarbons rendered, in the reference period, to the Ministry by all contractors in the form of production payments, royalties and production shares plus (b) any quantity of Liquid Hydrocarbons produced directly by the Ministry or any State oil company within Afghanistan in the reference period; and

“APt” is the volume of Liquid Hydrocarbons produced in Afghanistan by all contractors in the reference period as to which the Ministry has a right similar to that contained in this Section 12.3.

The Ministry shall procure that each exploration and production sharing contract (or similar agreement) that it enters into shall provide for the right of the Ministry to elect to purchase a quantity of Liquid Hydrocarbons for internal consumption, at a price equal to the value attributed in such other contract to Liquid Hydrocarbons to which the Ministry is entitled. If it is conclusively determined that the Ministry entered into an exploration and production sharing contract without such right, then the Contractor is excused from performance of this Section 12.3. The Ministry shall provide the Contractor (and its auditors) with such reasonable access to its records as may be requested in order for the Contractor to evaluate the quantities used in calculation of DMOc.

- 12.4 **Notification and Election.** If the Ministry elects to exercise its rights under Section 12.3, it shall so notify the Contractor in accordance with the provisions of Section 10.5 relating to the Ministry’s election to take its share of Liquid Hydrocarbons production or the Royalty in kind. The amounts to be taken shall be based upon estimates, including those contained in the forecast statement furnished pursuant to Section 7.2(c), and final adjustments shall be made within ninety (90) Days after the end of each Year on the basis of actual quantities.
- 12.5 **Internal Consumption of Natural Gas.** Out of the total quantity of Natural Gas to which the Contractor is entitled in each Year, the Ministry may elect to take a quantity of Natural Gas to meet its internal consumption requirements. The Contractor shall be obliged to provide and supply to the State such quantities on a prorated basis with all other producing contractors (according to the principles set forth in Section 12.3 for Liquid Hydrocarbons) at the price calculated pursuant to Section 11.5, provided that if the Contractor has committed volumes of Natural Gas to purchasers under long term sales contracts previously disclosed to the Ministry, such volumes shall be excluded from the amounts that might be available to the State for internal consumption and provided that the Contractor shall have no obligation to pay for any infrastructure necessary to transport, process or deliver Natural Gas to the Ministry.

### ARTICLE XIII

#### **PAYMENT PROCEDURE**

- 13.1 **Payments to the Ministry.** All payments due to the Ministry hereunder shall be made in U.S. Dollars to the Treasury Single Account in Da Afghanistan Bank, details of which may be provided from time to time by the Ministry, and shall be made in accordance with the provisions of the Public Finance and Expenditure Management Law.
- 13.2 **Payments to the Contractor.** All payments due to the Contractor hereunder shall be made in U.S. Dollars at a domestic or an international bank with offshore banking



facilities to be designated by the Contractor or, at the Ministry's election, such other currency as is acceptable to the Contractor.

- 13.3 **Timing of Payments.** Except as otherwise expressly provided herein, all payments required to be made pursuant to this Contract shall be made within thirty (30) Days following the end of the Month in which the obligation to make such payment occurs.
- 13.4 **Late Payments.** If any payment is not made when due, such unpaid amount shall bear interest as from and after the due date until the date of payment at an interest rate, compounded monthly, of five percent (5%) above the London Interbank Offer Rate ("**LIBOR**") for one (1) month deposits of U.S. Dollars, as reported in the London Financial Times or any other agreed publication.

## ARTICLE XIV

### **SURFACE RENTAL FEES**

- 14.1 **State-owned Land.** The Contractor shall be liable for payment of the following annual surface rental fees to the Ministry in respect of all State-owned land:
- (a) during the Initial Exploration Period, one U.S. Dollar (US\$ 1.00) per hectare of all unsurrendered State-owned land forming part of the Contract Area, excluding Fields;
  - (b) during the First Extension Period, four U.S. Dollars (US\$ 4.00) per hectare of all unsurrendered State-owned land forming part of the Contract Area, excluding Fields;
  - (c) during the Second Extension Period and any extension granted pursuant to Section 3.1(a), eight U.S. Dollars (US\$ 8.00) per hectare of all unsurrendered State-owned land forming part of the Contract Area, excluding Fields;
  - (d) during the period from the first declaration of Commercial Discovery with respect to any Field other than a Designated Field, fifteen U.S. Dollars (US\$ 15.00) per hectare of all unsurrendered State-owned land forming part of such Commercial Discovery; and
  - (e) during the Development and Production Phase with respect to each Field (including the Designated Fields) in which production has started, the Contractor shall pay forty U.S. Dollars (US\$ 40.00) per hectare of State-owned land forming part of such Field.
- 14.2 **Timing of Payments.** The Contractor shall make surface rental fee payments to the Ministry annually in respect of the then current Year. The first annual surface rental fee payment under Section 14.1 shall be made within thirty (30) Days after the Effective Date. All subsequent annual surface rental fee payments shall be made within thirty (30) Days after each anniversary of the Effective Date. In the event the area of a Field

is further delineated or otherwise adjusted during a Year so as to increase or decrease the number of hectares of State-owned land forming part of such Field, no corresponding adjustment shall be made to the amount of any surface rental fee payment already paid in respect of such Year.

- 14.3 **Privately Owned Land.** For its use of privately owned land, the Contractor shall pay such rental fees as are agreed with the owner, or decided by the Ministry as stipulated in Article 12 of the Hydrocarbons Law, or as determined by a dispute resolution board which shall consist of representatives from the Ministries of Justice, Mines, Agriculture, and Finance and the National Environmental Protection Agency. If the Parties do not agree with the decision of the dispute resolution board, the dispute shall be settled through the courts. All such rental fee payments shall be considered Hydrocarbons Operations Expenditures recoverable by the Contractor in accordance with Section 10.1(b).
- 14.4 **Area Subject to Surface Rental Fees.** The area of State-owned land subject to surface rental fees under Section 14.1 shall be determined by a survey approved by the Ministry; provided, however, that in the absence of such a survey, such area shall be determined on the basis of a geographic projection approved by the Ministry. In the case of the Designated Fields, in the absence of a survey approved by the Ministry, the area of State-owned land subject to surface rental fees under Section 14.1(e) shall be equal to the area comprising the Quadrants containing the Designated Fields.

## ARTICLE XV

### NATURAL GAS

- 15.1 **Associated Gas.** Associated Gas that is not processed and sold or subject to off-take by the Ministry in accordance with this Section 15.1 may be used by the Contractor for Hydrocarbons Operations, including reinjection for pressure, free of charge. Associated Gas that is not used in Hydrocarbons Operations, and the processing and utilization of which, in the opinion of both the Contractor and the Ministry, is not economical, shall be returned to the subsurface structure, or shall be flared or otherwise disposed of, so long as such alternate disposition is in accordance with International Best Practices. In the event that the Contractor chooses to process and sell Associated Gas, the Contractor shall notify the Ministry of the same and upon such notification, the Ministry and the Contractor shall, as soon as practicable thereafter, meet together with a view to reaching an agreement on the production, processing and sale of such gas. In the event the Contractor chooses not to process and sell Associated Gas, the Ministry may elect to off-take at the outlet flange of the gas-oil separator and use such Associated Gas which is not required for Hydrocarbons Operations. There shall be no charge to the Ministry for such Associated Gas, provided that the cost to gather such Associated Gas in the Field and to process and utilize it shall be for the account of the Ministry.
- 15.2 **Non-Associated Gas.** Where Non-Associated Gas is discovered in the Contract Area and the Contractor has, pursuant to Section 7.1(b), informed the Ministry that the



Discovery is of commercial interest, a Natural Gas development committee composed of representatives of the Ministry and the Contractor shall be established upon approval of the Appraisal Programme relating to such Discovery for purposes of jointly evaluating the use of such Natural Gas in the domestic market and the chain of downstream activities required to bring the Natural Gas to the end consumers in such market. Simultaneously, the Contractor shall be free to evaluate the viability of exporting Natural Gas. Within one (1) year from the date of completion of the Appraisal Programme, the Ministry and the Contractor will meet with a view to assessing whether the outlets for such Natural Gas and other relevant factors warrant the development and production of the Natural Gas for sale to the domestic market and/or, if such market was found not to be capable of absorbing the Natural Gas production, for export. The Ministry and the Contractor will, upon completion of the Appraisal Programme or sooner if so agreed, or upon the Contractor notifying the Ministry that the Discovery is a Commercial Discovery, meet with a view to reaching an agreement on the development, production, processing, utilization, disposition, export duty status and such other terms as may be necessary to enhance the commerciality of any Non-Associated Gas development, or sale of such Non-Associated Gas in accordance with Sections 7.1(h), 7.1(i) and 7.1(j).

- 15.3 **Allocation of Revenues and Expenditures.** In the event that the development, production, processing, utilization, disposition or sale of Natural Gas from the Contract Area is determined by the Parties to be economically feasible in accordance with this Article XV, the costs of development and production of the same from the reservoir to the Delivery Point, and the revenues derived therefrom, shall, unless otherwise agreed pursuant to Sections 15.1 and 15.2, be included in Hydrocarbons Operations Expenditures and Gross Contractor Revenues, respectively, for all purposes of this Contract, subject to the Accounting Procedures.

## ARTICLE XVI

### INCOME TAX

- 16.1 **Income Taxes.** Income tax issues related to Hydrocarbons Operations are governed by the Income Tax Law of Afghanistan, as amended or replaced and in force from time to time. At the Effective Date, the prevailing Income Tax rate in Afghanistan is twenty percent (20%).
- 16.2 **Income Tax Stabilization.** The Contractor agrees that its taxable income shall be subject to an Income Tax rate of thirty percent (30%) stabilized for the remaining period of this Contract, subject to the provisions of Section 5.1(l).
- 16.3 **Business Receipt Tax.** The Contractor shall be exempted from Business Receipt Tax during the term of this Contract for all business conducted in connection with this Contract.

## ARTICLE XVII

### CUSTOMS DUTIES

- 17.1 Customs Duties related to Hydrocarbons Operations are governed by the Customs Law of Afghanistan, as amended or replaced from time to time. The Contractor shall be subject to the applicable Customs Duties provided in the Customs Tariff in effect from time to time in Afghanistan, provided, however, that:
- (a) for the duration of this Contract, the Contractor shall be entitled to import into Afghanistan the equipment and supplies listed in Exhibit I for use in the Contract Area free of Customs Duties; and
  - (b) for a period of two (2) Years from the Effective Date, the Contractor shall be entitled to export Liquid Hydrocarbons free of Customs Duties, which are currently set by Code 2709.0000 of the Customs Tariff at two and one half percent (2.5%). This temporary waiver of Customs Duties on Liquid Hydrocarbons exported by the Contractor may be extended for the duration of the Initial Exploration Period pursuant to the terms and conditions of a letter of cooperation between the Parties, to be entered into on or about the date hereof, leading toward the completion of a refinery contract by December 31, 2012.
  - (c) Customs Duties on Natural Gas shall be determined in accordance with the provisions of Section 15.2.
- 17.2 Exhibit I is a statement of the equipment that, as of the execution date of this Contract, the Parties consider will be required to be imported for Hydrocarbons Operations. The Parties acknowledge and agree that such list is not exhaustive and that further items shall be added to the list at the Contractor's request in writing, provided the Inter-ministerial Commission approves of such request (such approval not to be unreasonably withheld).

## ARTICLE XVIII

### EXCHANGE AND CURRENCY CONTROLS

The Contractor shall be subject to the applicable exchange control legislation and regulations in effect from time to time in Afghanistan, provided, however, that:

- (a) the Contractor shall be entitled to retain outside Afghanistan, and freely transfer, foreign currency received by it outside of Afghanistan, including the proceeds of sales of Hydrocarbons to which it is entitled hereunder;
- (b) the Contractor shall be entitled to export from Afghanistan, free of limitation or restriction, in the same currency as that in which the investment was made, the

funds held by it, provided, however, that this subsection (b) shall not impose any obligation upon the Ministry to provide foreign currency to the Contractor;

- (c) in the matter of purchase and sale of currency within Afghanistan, whether of Afghanistan or other countries, the rates of exchange shall not be less favourable to the Contractor than those granted to any investor that introduces or transfers foreign currency into Afghanistan. Any gain or loss resulting from the exchange of currency in connection with Hydrocarbons Operations shall result in a corresponding reduction or increase, as the case may be, in the Hydrocarbons Operations Expenditures recoverable by the Contractor in accordance with Section 10.1(b);
- (d) no restriction shall be placed on the importation by the Contractor of funds necessary for carrying out Hydrocarbons Operations under this Contract; and
- (e) the Contractor shall have the right to pay directly outside of Afghanistan from its offices abroad for purchases or services for Hydrocarbons Operations hereunder, provided that no such payments shall be made to Afghan citizens or to firms using Afghanistan as their main base of operations, whether natural or juridical, contrary to the laws of Afghanistan.

## ARTICLE XIX

### TREATMENT UNDER INTERNATIONAL LAW

The treatment accorded to the Contractor by Afghanistan shall not be less favourable than the treatment required to be accorded by Afghanistan to foreign investors under applicable law.

## ARTICLE XX

### TRAINING, EMPLOYMENT AND LOCAL CONTENT

- 20.1 **Training of Afghan Nationals.** The Contractor agrees to as far as possible train and employ qualified Afghan nationals in the Hydrocarbons Operations and after Initial Commercial Production will undertake the schooling and training of Afghan nationals for staff positions, including administrative and executive management positions. The Contractor will require its contractors and subcontractors to do the same. The Contractor undertakes to give priority to Afghan nationals with equivalent qualifications and experience and actively search for Afghan nationals in order to meet the training and employment obligations established in the prevailing legislation and to gradually replace its expatriate staff with qualified Afghan nationals as they become available. An annual programme for training and phasing-in of Afghan nationals shall be established by the Contractor and shall be submitted for approval to the Ministry. Such programme shall be included in the Work Programmes submitted by the Contractor pursuant to Section 5.3. Within thirty (30) Days after the end of each Year, the Contractor shall submit a written report to the Ministry describing the number of personnel employed,

their nationality, their positions and the status of training programmes for Afghan nationals.

- 20.2 **Training of Ministry Personnel.** The Contractor shall also be required to establish a programme, reasonably satisfactory to the Ministry, to train personnel of the Ministry to undertake skilled and technical jobs in Hydrocarbons Operations for the State. Such programme shall include provisions for involving representatives of the Ministry in the preparation of the Work Programmes and Work Programme Budgets as required by Section 5.3(c).
- 20.3 **Minimum Expenditures.** The Contractor shall expend a minimum of fifty thousand U.S. Dollars (US\$ 50,000.00) in the first Year for training pursuant to Sections 20.1 and 20.2. Thereafter the minimum expenditure for training pursuant to Sections 20.1 and 20.2 shall be increased by five thousand U.S. Dollars (US\$ 5,000.00) annually. All training costs pursuant to Sections 20.1 and 20.2 shall be recoverable by the Contractor in accordance with Exhibit C, Accounting Procedures.
- 20.4 **Long Range Plan and Budget.** A long range plan and budget for the training programmes described in Sections 20.1 and 20.2 is attached hereto as Exhibit F. All annual training programmes and budgets therefor shall be consistent with such long range plan and budget.

## ARTICLE XXI

### PURCHASES IN AFGHANISTAN

- 21.1 **Local Preference.** In procurement, the Contractor shall give preference to goods that are produced or available in Afghanistan and services that are rendered by Afghan nationals and companies, provided that such goods and services are similar in quality, quantity and price to imported foreign goods and services and available at the time. The Contractor shall, upon request of the Ministry, develop local preference targets and specific plans to meet such targets. Such plans shall be provided as part of the Contractor's Work Programmes to be approved by the Ministry and shall include, but not be limited to, timelines, key milestones and formal review dates, a description of potential areas of the Contractor's business in which to integrate local preferences, and a summary of the Contractor's local preference initiatives and results, including the then current percentage and sources of Afghan goods and services used in the Contractor's Hydrocarbons Operations.
- 21.2 **Equivalency.** Locally produced or available equipment, materials and supplies shall be deemed equal in price to imported items if the local cost of such locally produced or available items at the Contractor's operating base in Afghanistan is not more than fifteen percent (15%) higher than the cost of such imported items before Customs Duties but after transportation and insurance costs have been added.





## ARTICLE XXII

### JOINT DEVELOPMENT / UNITIZATION

- 22.1 **Joint Development in Other Awarded Areas.** If a Field is designated within the Contract Area and such Field extends beyond the Contract Area to other areas of Afghanistan over which other parties have the right to conduct exploration, development and production operations, the Ministry may require that the development of the Field and the production of Hydrocarbons therefrom be carried out in collaboration with the other contractors. The same rule shall be applicable if deposits of Hydrocarbons within the Contract Area, although not equivalent to a Commercial Discovery if developed alone, would be deemed to be a Commercial Discovery if developed with those parts of the deposits that extend to areas controlled by other contractors.
- 22.2 **Joint Development in Non-Awarded Areas.** If a Hydrocarbons deposit extends onto a non-awarded block or if deposits of Hydrocarbons within the Contract Area, although not equivalent to a Commercial Discovery if developed alone, would be deemed to be a Commercial Discovery if developed with those parts of the deposits that extend to such areas, the Contractor shall promptly notify the Ministry. The Ministry may decide if and how the non-awarded area shall be awarded, and any terms and conditions for such joint development.
- 22.3 **Collaborative Proposals.** The Contractor shall collaborate with other contractors in preparing a collective proposal for common development and production of the deposits of Hydrocarbons for approval by the Ministry.
- 22.4 **Ministry Proposals.** If the proposal for common development and production has not been presented within ninety (90) Days of the request described in Section 22.1, or if the Ministry does not approve such proposal, the Ministry may prepare or cause to be prepared, for the account of the Contractor and the other contractors involved, a reasonable plan for common development and production. If the Ministry adopts such plan, the Contractor shall comply with all conditions established in such plan.
- 22.5 **International Coordination.** This Article XXII shall also be applicable to Discoveries of Hydrocarbons within the Contract Area which extend to areas that are not within the dominion of Afghanistan, provided that in these cases the Government shall be empowered to impose the special rules and conditions which may be necessary to satisfy obligations under any agreements with international organizations or adjacent states with respect to the development and production of such Hydrocarbons. If a Liquid Hydrocarbons deposit extends onto the territory of another state, the Ministry will assist the Contractor in, as far as possible, negotiating an agreement with the government of that other state on the most efficient co-ordination of Hydrocarbons Operations in connection with the Liquid Hydrocarbons deposit as well as on the apportionment of the Liquid Hydrocarbons deposit. This shall apply similarly when, in the case of several Liquid Hydrocarbons deposits, joint Liquid Hydrocarbons activities would obviously be more efficient.

- 22.6 **Unitization.** Within ninety (90) Days following the approval or adoption of a unitization plan for common development and production by the Ministry, the Contractor shall proceed to operate under any such plan. If a clause of a cooperative or unitary development and production plan which has been approved or adopted by the Ministry, and which by its terms affects the Contract Area or a part of the same, contradicts a clause of this Contract, the clause of the cooperative or unitary plan shall prevail.

## ARTICLE XXIII

### **HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION**

- 23.1 **Compliance with Laws.** In the conduct of the Hydrocarbons Operations, the Contractor shall comply, and shall require its subcontractors to comply, with any applicable laws and regulations, including the Hydrocarbons Law and any regulations issued thereunder, relating to the protection of the environment and the health, safety and welfare of workers and the public.
- 23.2 **Oversight and Rehabilitation.** Prior to the commencement of Hydrocarbons Operations in a Designated Field or other area of a Block outside of a Designated Field, the Contractor shall undertake and complete a Baseline Environmental Assessment of the Designated Field or other area consistent with International Best Practices and applicable laws and noting any existing deficiencies, including any environmental contamination existing in the Designated Field or other area on or prior to the commencement of Hydrocarbons Operations. In the course of the Hydrocarbons Operations, the Contractor shall consider, investigate, assess and manage the impact of the Hydrocarbons Operations on the environment and the socio-economic conditions of any Person who might directly be affected thereby. Furthermore the Contractor shall, upon completion of any Hydrocarbons Operations, rehabilitate as far as reasonably practicable the environment affected thereby to its natural or predetermined state or to land use.
- 23.3 **Health and Safety Plan.** The Contractor shall take all necessary measures to secure the health, safety and welfare of individuals. Prior to the commencement of Hydrocarbons Operations in the Contract Area, the Contractor shall establish, submit to the Ministry and publish, implement and enforce a health and safety plan throughout all Hydrocarbons Operations, which shall include the following measures:
- (a) all equipment and facilities shall afford reasonable safety from accidents, and shall be inspected by a qualified person as often as may be necessary to ensure the safety of the equipment or facility and compliance with the relevant laws and regulations;
  - (b) the person performing the inspection shall make a written report of the inspection and shall forward a copy of the report to the Ministry, and any equipment found to be defective or unsafe shall be repaired or replaced;

- (c) adequately designed, tested and maintained blowout prevention equipment shall be employed in connection with the drilling, testing, completing or working over of any Well;
- (d) adequate, easily accessible and properly maintained fire fighting equipment shall be provided at all operational locations where the potential of fire exists, the personnel shall be trained in the effective use of such equipment and fire fighting contingency procedures shall be published and displayed around the site;
- (e) all completed Wells shall be reasonably protected and a notice warning persons of the danger that exists shall be prominently displayed;
- (f) 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 and hearing protection equipment;
- (g) where appropriate, notices in English and in the prevalent language of the area of operations shall be displayed at the operational sites warning all personnel of any potential danger and of the associated safety requirements;
- (h) 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;
- (i) reliable communication facilities shall be provided at all operational locations; and
- (j) all aircraft operations shall be conducted in accordance with existing laws of Afghanistan.

23.4 **Manuals.** The Contractor shall prepare and submit to the Ministry for approval prior to the commencement of Hydrocarbons Operations:

- (a) a manual of instructions for the safety operations which shall detail procedures to be followed to safeguard the health and safety of all personnel associated with all foreseen operations and to safeguard the environment;
- (b) a manual of response to emergencies which may occur, including the escape or ignition of Hydrocarbons, serious injuries, and other conditions requiring the evacuation of the site; and
- (c) a manual of procedures for the maintenance of Well control which shall detail procedures and equipment which will be used in the event of a blowout.

All appropriate personnel at the site shall be made aware of and be trained in the procedures detailed in the manuals.

- 23.5 **Additional Protective Measures.** In addition to the requirements for the protection of the environment as is provided in the environmental management plan approved by the Ministry, the Contractor shall, when carrying out Hydrocarbons Operations, take all practical measures to:
- (a) prevent the pollution of any water well, spring, river, lake or reservoir by the escape of Hydrocarbons, drilling fluids, chemical additives or any other waste product or effluent;
  - (b) where pollution occurs, treat or disperse it in an environmentally acceptable manner;
  - (c) dispose of all waste liquids used during the drilling of a Well in a manner approved by the Ministry;
  - (d) properly secure permanent installations;
  - (e) remove all worn, damaged or surplus equipment and supplies, and other rubbish from site to an approved waste disposal site to be reused or recycled if possible; and
  - (f) on the completion or abandonment of a Well, promptly restore the Well site and any surrounding area as near to the state existing prior to the conduct of Hydrocarbons Operations as may practically be done and render that area safe.
- 23.6 **Minimization of Flaring.** When carrying out Hydrocarbons Operations, the Contractor shall furthermore take all practical measures to minimize flaring of any Natural Gas by re-injecting such Natural Gas into suitable strata or underground storage in accordance with International Best Practices or in any other approved scheme. The Contractor shall seek the Ministry's approval to flare any such gas which cannot be re-injected due to specific reservoir considerations or for other reasons that are accepted internationally or in an approved scheme in line with International Best Practices. Before flaring, the Contractor shall take reasonable measures to ensure the extraction of Natural Gas and other liquids contained in the Associated Gas if the Ministry and the Contractor have agreed that such extraction is economically justifiable. Notwithstanding anything in this Article XXIII to the contrary, Associated Gas may be flared if necessary for the conducting of Well and production tests and during any emergency.
- 23.7 **Remedial Measures.** If the Ministry reasonably determines that any works or installations erected by the Contractor or any operations conducted by the Contractor endanger or may endanger persons or third party property or cause pollution or harm wildlife or the environment to an unacceptable degree, or are otherwise not in compliance with the provisions of the applicable laws and regulations or of this Contract, the Ministry may require the Contractor to take remedial measures within a reasonable period established by the Ministry and to repair any damage to the environment. If the Ministry deems it necessary, it may also require the Contractor to discontinue Hydrocarbons Operations in whole or in part until the Contractor has taken such remedial measures or has repaired any damage. The period of discontinuance shall

not exceed six (6) Months. In the event that the Contractor fails to take the remedial measures required by the Ministry within the time period established by the Ministry, the Ministry may carry out such remedial measures for the Contractor's account.

- 23.8 **Reporting of Accidents or Hazards.** The Contractor shall as soon as possible report any serious or fatal accident that occurs, or any imminent hazard that arises, in connection with the Hydrocarbons Operations by the most rapid means of communication to the Ministry and the local State administrative authorities under whose jurisdiction the accident or hazard occurs or arises.
- 23.9 **Emergency Measures.** In case of imminent threat to life, property, or the environment, the Contractor shall take every measure possible in accordance with the risk management plan to mitigate or avoid such imminent threat and such immediate action as is necessary to preserve life, prevent destruction of property, or protect the environment. The Contractor shall as soon as possible thereafter notify the Ministry of the action taken. The costs incurred by the Contractor in relation to such action shall be recoverable as Hydrocarbons Operations Expenditures. The Ministry shall take such measures to assist in efforts to mitigate or avoid such imminent threat as it deems appropriate and issue such orders and/or instructions as it deems necessary.

## ARTICLE XXIV

### DISPUTE SETTLEMENT/ ARBITRATION

- 24.1 **Arbitration.** Subject to Section 24.3, any dispute, controversy or claim arising out of or relating to this Contract which shall not be determined by mutual agreement within forty-five (45) Days from the date on which the existence of a dispute is notified in writing by one Party to the other shall be settled by arbitration initiated by either Party by submission to the International Centre for Settlement of Investment Disputes (ICSID) pursuant to the Convention on the Settlement of Investment Disputes between States and Nationals of other States as of March 18, 1965 (ICSID Convention) and the arbitration rules promulgated thereunder. For the avoidance of doubt, the State hereby expressly consents to the submission of any dispute which may arise under this Contract to ICSID for settlement by arbitration in accordance with Article 25 (1) of the ICSID Convention. For the purpose of Article 25 (2) (b) of the ICSID Convention, the Contractor shall be treated as a national of a state other than Afghanistan. The number of arbitrators shall be three. The arbitration shall be conducted in the English language. The arbitration award may take the form of an order to pay a sum of money, or an order to perform an act, or an order to refrain from an act, or any combination of such orders. The place of arbitration shall be London, England. The award rendered shall be final and conclusive. Judgment on the award rendered may be entered in any court having jurisdiction or application may be made in such court for a judicial acceptance of the award and an order of enforcement, as the case may be. As far as practicable, both the Contractor and the Ministry shall continue to implement this Contract during pendency of any dispute.

- 24.2 **Sovereign Immunity.** The Ministry hereby waives any rights it may have now or in the future to claim sovereign immunity for itself or any of its assets to the fullest extent permitted by the laws of any applicable jurisdiction. This waiver includes a waiver of any claim to immunity from any legal proceeding commenced in connection with this Contract including any application for interim relief and any action to enforce or execute any award or judgment.
- 24.3 **Expertise Proceedings.** In the event of any dispute arising out of or in connection with Section 6.4, Section 7.1(j)(iii), or Section 36.2 of this Contract, the Parties agree to submit the matter, in the first instance, to administered expertise proceedings in accordance with the Rules for Expertise of the International Chamber of Commerce. The determination of the expertise proceedings shall be non-binding and the proceedings and all documents used or produced in connection therewith shall be confidential and may not be used in connection with any arbitration or judicial proceeding, whether pursuant to Section 24.1 or otherwise. If following such administered expertise proceedings the dispute has not been resolved by mutual agreement of the Parties it shall, after notification from the International Centre for Expertise of the termination of the expertise proceedings, be finally settled by arbitration conducted in accordance with Section 24.1.

## ARTICLE XXV

### **TERMINATION, REVOCATION AND RENEGOTIATION**

- 25.1 **Termination for Default.** In accordance with the provisions of the Hydrocarbons Law, the Ministry shall have the right to terminate this Contract upon giving thirty (30) Days written notice of its intention to do so if the Contractor: (a) fails to provide or maintain in effect such guarantees required by law or under this Contract, including the Financial Guarantee, on the due date for providing such guarantees; (b) fails to make any monetary payment required by law or under this Contract, including any payment in respect of the purchase price of the Hydrocarbons deemed sold by the Ministry to the Contractor pursuant to Article X, for a period of thirty (30) Days after the due date for such payment; (c) fails to comply with any other material obligation that it has assumed under this Contract, including the obligation to perform the Minimum Exploration Programme; (d) fails to comply with the Hydrocarbons Law or regulations thereunder or fails to comply in any material respect with any other lawful acts, regulations, orders or instructions issued by the Government or any department or agency of the Government; or (e) becomes bankrupt, or goes into liquidation because of insolvency or makes a composition with its creditors; provided, however, that a termination for failure to perform part of the Minimum Exploration Programme shall only apply in respect of the Block or Blocks (excluding any Fields therein) to which the unperformed obligation relates.
- 25.2 **Cure Period.** If the circumstance or circumstances that result in termination under Section 25.1 are remedied by the Contractor (i) in the case of Section 25.1(a) or (b), within the sixty (60) Day period following the notice of termination as aforesaid or (ii)

in the case of Section 25.1(c) or (d), within the ninety (90) Day period following the notice of termination as aforesaid, such termination shall not become effective.

- 25.3 **False or Fraudulent Information.** If the Ministry finds that the Contractor has presented false or fraudulent information or information has been withheld by the Contractor, the Ministry may require the Contractor to provide any necessary information and explanation. If the Contractor fails to provide such information or the information and/or explanations provided are unsatisfactory, and the incorrect information provided or the omission to provide information constitutes a material breach of Contract, the Contract may be revoked and the State is entitled to compensation for losses incurred as a result of the breach of contract or other remedies for breach of contract. Likewise, where the Contractor otherwise repeatedly or materially violates the Contract, or is in breach of the prohibition of bribing State Officials pursuant to Article 69 of the Hydrocarbons Law, the Contract may be revoked and the State is entitled to compensation for losses incurred as a result of the breach of contract or other remedies for breach of contract. In case of revocation, the Ministry shall publish reasons justifying revocation of the Contract and shall send a copy thereof to the Contractor. In such case, the rights and privileges granted to the Contractor shall be revoked, and the Contract Area shall be forfeited as well as the Financial Guarantee in accordance with its terms.
- 25.4 **Continuing Obligations.** The termination or revocation of this Contract for whatever reason shall be without prejudice to the obligations incurred and not discharged by the Contractor prior to the date of termination. In the case of any termination, the Ministry and the Contractor shall promptly agree on a plan for take-over and/or abandonment. The Contractor is liable to pay compensation for any damage incurred in the Contract Area, including the environment.
- 25.5 **Continuing Performance.** In the event of termination pursuant to Section 25.1, Section 25.3 or Section 25.8, the Ministry may require the Contractor, for a period not to exceed one hundred eighty (180) Days from the effective date of termination, to continue, for the account of the Ministry, Liquid Hydrocarbons or Natural Gas production activities until the right to continue such production has been transferred to another entity. During such period, the Contractor shall be entitled to its share of Hydrocarbons production as determined in accordance with Section 10.1. Upon termination, the provisions of Sections 4.4 and 4.5 shall apply.
- 25.6 **Mitigating Environmental Damages or Hazards.** Within ninety (90) Days after the termination or revocation of this Contract pursuant to Section 25.1, Section 25.3 or Section 25.8, unless the Ministry has granted an extension of this period, the Contractor shall complete any reasonably necessary action as directed by the Ministry to avoid environmental damage or a hazard to human life or third-party property.
- 25.7 **Transfer of Ownership.** Upon the termination or revocation of this Contract for any reason, ownership of all pipes, pipelines, installations, facilities, downhole well equipment, wellhead equipment and other equipment or materials within the geographic limits of the Contract Area shall be transferred to the Ministry, other than leased

equipment and other Contractor equipment which can be removed without damage to the Contract Area.

- 25.8 **Area Closed to Hydrocarbons Operations.** If, after the Contractor has signed this Contract, the State declares or designates an area as disputed, prohibited or unauthorised in accordance with Article 15 of the Hydrocarbons Law, then the Contractor shall be entitled to terminate or re-negotiate this Contract. The Contractor shall also be entitled to damages for losses incurred due to such declaration or designation.

## ARTICLE XXVI

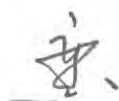
### **BOOKS, ACCOUNTS AND AUDITS; RECORDS, REPORTS AND INSPECTIONS**

- 26.1 **Maintenance of Accounts, Books and Records.** The Contractor shall, in accordance with prevailing legislation and regulations and International Financial Reporting Standards, be obliged to keep and maintain complete accounts, books and records at its registered office in Afghanistan reflecting all Hydrocarbons Operations, Hydrocarbons Operations Expenditures and Gross Contractor Revenues consistent with generally accepted procedures and standards in the international petroleum industry and in accordance with this Contract and the Accounting Procedures.
- 26.2 **Submission of Accounts.** No later than June 30 each Year, the Contractor shall submit to the Ministry detailed accounts showing all Hydrocarbons Operations Expenditures and all Gross Contractor Revenues during the past Year. Before submission to the Ministry, the accounts shall be audited and certified by an independent chartered accountant or certified public accountant acceptable to both Parties, at the expense of the Contractor (such expense to be considered as Hydrocarbons Operations Expenditures recoverable by the Contractor in accordance with Section 10.1(b)). It is understood that the Ministry retains the authority to review and audit the Contractor's accounts, books and records with respect to Hydrocarbons Operations conducted hereunder either directly or through an independent accountant designated by the Ministry.
- 26.3 **Inspection Rights.** The Ministry shall have full and complete access to the Contract Area at all reasonable times with a right to observe Hydrocarbons Operations and shall have the right to inspect all accounts, books, records, assets and data kept by the Contractor relating to Hydrocarbons Operations and this Contract, such observations and inspections to be conducted at the expense of the Ministry. The Ministry may, upon reasonable advance notice to the Person-in-Charge, perform examinations, surveys, drawings, tests and analyses, inspect and make copies for the purpose of implementing this Contract. In doing so, the Ministry shall not unduly interfere with the Contractor's Hydrocarbons Operations. The Ministry shall be entitled to make reasonable use of the equipment and instruments of the Contractor for purposes of this Section 26.3, provided that no damage to the equipment or instruments or impediment to the Hydrocarbons Operations hereunder shall result from such use. The Ministry shall indemnify and



reimburse the Contractor for any loss or damage that may in fact result from any such use of equipment and instruments. The Ministry shall be given reasonable assistance by the Contractor for such functions, and the Contractor, the Person-in-Charge and the Contractor's representatives shall be required to provide the Ministry with all reasonable facilities and assistance for the effective exercise of its functions, inter alia by affording to the Ministry all facilities and privileges afforded to its own personnel in the field including the use of available office space and housing free of charge.

- 26.4 **Current Recordkeeping and Reporting.** The Contractor shall prepare and maintain accurate and current records of its activities in the Contract Area. The Contractor shall furnish the Ministry all information, reports and data concerning its activities and operations under this Contract at such times and with such intervals as are required under the Hydrocarbon Law and any regulations issued thereunder.
- 26.5 **Samples.** The Contractor shall save and keep for the duration of this Contract all unused cores and samples taken from the Wells drilled, which shall be forwarded to the Ministry or its representatives at such time and in the manner directed by the Ministry. All cores and samples acquired by the Contractor shall be available for inspection by the Ministry or its representatives at all reasonable times. Unless previously forwarded to the Ministry pursuant to instructions given under this Section 26.5, the Contractor shall forward to the Ministry all remaining cores and samples upon expiration or termination of this Contract. Unless otherwise agreed to by the Ministry, in the case of exporting any rock or Hydrocarbons samples from Afghanistan for the purpose of testing and analysis, samples equivalent in size and quantity shall, before such exportation, be delivered to the Ministry.
- 26.6 **Exportation of Original Data.** Originals of records and other data can be exported only with the prior permission in writing of the Ministry; provided, however, that any data which must be processed or analyzed outside Afghanistan may be exported if a comparable record is maintained in Afghanistan and such exported records and data, including processed and interpreted data, are repatriated to Afghanistan. Response to a request for such permission shall be given without undue delay.
- 26.7 **Ownership of Data.** The Contractor shall provide to the Ministry in appropriate form all original data resulting from Hydrocarbons Operations, including geological, geophysical, petrophysical, engineering, Well logs, production data and completion status reports and any other data (including derivative data) which the Contractor may compile during the term hereof, including all reports, analyses, interpretations, maps and evaluations thereof prepared by the Contractor and any contractors, subcontractors or consultants to the Contractor or by its Affiliated Entities, and cuttings of all samples that have been obtained or compiled during the term hereof ("**Data**"). The State shall have title to all Data. The Data shall not be disclosed to third parties by the Ministry prior to relinquishment of the area to which they relate, or prior to the end of the Exploration Phase if such area is not sooner relinquished, provided, however, that the Ministry may make copies available to professional consultants, legal counsel, accountants, underwriters, lenders and such Government entities as may need to be made aware thereof or have the right to require disclosure. In any event, the Contractor may retain



copies of all Data. The Contractor shall not disclose the Data to any third parties without the Ministry's prior written consent, provided, however, that the Contractor may make copies available to professional consultants, legal counsel, accountants, underwriters, lenders, its Affiliated Entities and contractors and subcontractors of the Contractor and such government entities as may need to be made aware thereof or have the right to require disclosure. Any Data that are disclosed by the Ministry or the Contractor to third parties pursuant to this Section 26.7 shall be disclosed on terms that ensure that the Data are treated as confidential by the recipient. To the extent that there is any inconsistency between the provisions of this Section 26.7 and the provisions of Article XXXIII, the provisions of this Section 26.7 shall govern except to the extent that application of this Section 26.7 would violate applicable law.

## ARTICLE XXVII

### INSURANCE AND INDEMNIFICATION

- 27.1 **Insurance.** To ensure that the Contractor shall meet its obligations to third parties, or to Government agencies, that might arise in the event of damage or injury (including environmental damage or injury and cleanup of accidents) caused by Hydrocarbons Operations, notwithstanding that the damage is accidental, the Contractor shall maintain in force a third-party liability insurance policy through an internationally recognized insurance company reasonably acceptable to the Ministry covering the activities of itself, its contractors and subcontractors and the employees of all such parties. Such insurance policy shall include the Ministry as an additional insured, shall waive subrogation against the Ministry, and shall provide that it may not be cancelled except upon thirty (30) Days prior written notice to the Ministry. A certificate evidencing such insurance policy shall be furnished to the Ministry within ninety (90) Days of the Effective Date. The limits, coverage, deductibles and other terms thereof shall be subject to approval in writing by the Ministry. To the extent that such third party liability insurance is unavailable or is not obtained, or does not cover part or all of any claims or damage caused by or resulting from Hydrocarbons Operations, the Contractor shall remain fully responsible and shall defend, indemnify and hold the Ministry harmless against all such claims, losses and damages of any nature whatsoever.
- 27.2 **Indemnification.** Subject to Section 27.3, the Contractor shall indemnify, defend and hold the Government harmless against all claims, losses and damages of any nature whatsoever, including, without limitation, claims for loss or damage to property or injury or death to persons, caused by or resulting from any Hydrocarbons Operations conducted by or on behalf of the Contractor, provided that the Contractor shall not be held responsible to the Government under this Section 27.2 for any loss, claim, damage or injury caused by or resulting from any negligent action of personnel of the Government or from any environmental contamination existing in the Contract Area on or prior to the Effective Date. The Ministry shall be solely responsible for its use of and or reliance upon any interpretations, reservoir descriptions, recommendations or advice furnished by the Contractor, the accuracy, correctness or completeness of which has not been expressly warranted by the Contractor.



- 27.3 **Limitation on Liability.** Neither Party shall be liable to the other Party (and for the benefit of the Contractor, the Ministry agrees that no subcontractor of the Contractor shall be liable to the Ministry) for reservoir or formation damage, inability to produce, loss of use or disposal of Hydrocarbons, loss or deferment of income, loss of profits, punitive damages, exemplary or indirect damages, business interruption damages or loss of goodwill arising out of a breach of this Contract or in connection with Hydrocarbons Operations, including under any indemnity provision under this Contract, unless such Party has caused the damages or losses by its willful misconduct or gross negligence. Reference to “willful misconduct or gross negligence” means (a) a marked and flagrant departure from the standard of conduct that a reasonable and prudent person acting in such circumstances would have been expected to display at the time of the purported misconduct, or such wanton and reckless conduct as constitutes in effect an utter disregard for harmful, foreseeable, and avoidable consequences; or (b) an act or failure to act with knowledge or reckless disregard of the harmful, foreseeable, and avoidable consequences. Nothing contained in this Section 27.3 shall limit any obligations of either Party under applicable law or regulation in respect of its activities or limit any remedies available to any regulatory agency (except for the Contractor’s limitation of liability under this provision).

## ARTICLE XXVIII

### **ASSIGNMENT AND SUBCONTRACTORS**

- 28.1 **Assignment.** Subject to Article XXXVI, the Contractor may not sell, assign, transfer, convey, pledge or otherwise dispose of any part or all of its rights or obligations under this Contract to any person or entity, unless approved by the Council of Ministers and subsequently authorised by the Ministry. In the case of any assignment authorised under this Section 28.1, the assignor shall provide to the Ministry an unconditional undertaking by the assignee to assume all obligations of the assignor under this Contract. The assignment, encumbrance or transfer of this Contract or interests hereunder shall not affect any liability that the assignor has incurred prior to the date upon which such assignment, encumbrance or transfer takes effect. Notwithstanding such undertaking, the assignor shall remain jointly and severally liable with the assignee for performance of the obligations of the assignor unless the assignor assigns its entire interest under this Contract.
- 28.2 **Indirect Transfers; Change of Control.** The Ministry shall have the right to terminate this Contract upon notice to the Contractor if, without the prior approval of the Council of Ministers and subsequent approval of the Ministry: (i) the Contractor, CNPCI, or Watan shall, during the life of this Contract, undergo, directly or indirectly, a change in control (it being understood that for this purpose “control” means the power, directly or indirectly, to direct or change its management or policies, whether through ownership of shares or other voting securities or by any other means); or (ii) CNPCI, Watan or any of their respective Affiliated Entities sells, assigns, transfers, conveys, pledges or otherwise disposes, directly or indirectly, of any interest in the Contractor. Notwithstanding the foregoing, nothing in this Article XXVIII shall prohibit CNPCI, Watan or any other

entity holding an ownership interest in the Contractor from entering into any merger, acquisition or other business combination.

28.3 **Application to the Ministry.** Any proposed assignment, change of control or reduction of ownership interest shall be notified to the Ministry in advance together with an application which shall include:

- (a) the name, address and nationality of the third party;
- (b) in the case of the third party organized as a corporation:
  - (i) its place of registration or incorporation, its principal place of business, the names, addresses and nationality of the directors, principal officers and authorised signatories of the company and its capital structure;
  - (ii) the corporate structure of the third party, its parent company, if any, and other Affiliated Entities;
  - (iii) financial information on the third party and its parent company, if any, including annual reports, audited balance sheets and profit and loss statements for the past three years, and any reports of relevance for the Hydrocarbons Operations which the third party or its parent company may have filed with government agencies responsible for securities regulation during that period;
- (c) how the Hydrocarbons Operations would be financed;
- (d) the third party's previous experience and technical expertise in Hydrocarbons Operations, specifically including the third party's experience in developing countries;
- (e) information concerning experience and technical competence of significance to the area or areas to which an application applies;
- (f) a description of the organization and expertise which the third party will have available in Afghanistan and elsewhere for activities in connection with the Contract Area;
- (g) a description of the relevant equipment, machinery, tools and personnel that will be available for the Hydrocarbons Operations of that third party;
- (h) an indication of who in Afghanistan will be the representative in relation to the authorities;
- (i) a description of the third party's experience and procedures that will apply for securing the health, safety and welfare of persons involved in or affected by the Hydrocarbons Operations;

- (j) a description of the third party's experience and procedures that will apply for protecting the environment, preventing, minimizing and remedying pollution and other harm from the Hydrocarbons Operations;
- (k) proposals with respect to the training of Afghan nationals and expenditures to be incurred therefor;
- (l) such guarantees required pursuant to Article 40, Section 14 of the Hydrocarbons Law and as required herein; and
- (m) such other particulars as the Ministry may reasonably require to be submitted within a reasonable specified timeframe.

If such further information is not submitted within the specified timeframe, the application shall be deemed to be withdrawn. The Ministry will not unreasonably withhold its consent to any such assignment, change of control or reduction in ownership interest, except that the Ministry may in its sole discretion withhold any such consent in the event of any transaction which would result in the ultimate parent entity of CNPCI owning, directly or indirectly, less than fifty-one percent (51%) of the Contractor at any time during the Exploration Phase.

28.4 **Subcontractors.** The provisions of this Article XXVIII shall not apply to the engagement of subcontractors that are engaged to perform special operations or provide services. The Contractor undertakes to provide copies of all such subcontracts to the Ministry and the Ministry of Finance.

## ARTICLE XXIX

### LAW OF THE CONTRACT

This Contract shall be governed by, construed under and interpreted in accordance with the laws of Afghanistan, as such laws may be amended from time to time.

## ARTICLE XXX

### FORCE MAJEURE

Except as otherwise provided in this Article, each Party shall be excused from complying with, or permitted to delay its performance of, this Contract, except for the payment of money due and only with respect to those terms that are directly affected by the event in question, for so long as such compliance is prevented or delay in performance is caused by Force Majeure. "**Force Majeure**" shall mean any act or cause that is unforeseeable, unavoidable and reasonably beyond the control of such Party and does not result from the fault or negligence of such Party, including natural catastrophes, fires, earthquakes, strikes (except strikes by the Contractor's employees), wars (declared or undeclared), acts of terrorism, and acts of God. It is expressly understood that Force Majeure shall not mean economic hardship or change in market conditions. In the event

that either Party hereto is rendered unable, wholly or in part, by any of these causes to carry out its obligations under this Contract, such Party shall give notice and details of Force Majeure in writing to the other Party within seven (7) Days after its occurrence. In such cases, the obligations of the Party giving the notice shall be suspended during the continuance of any inability so caused, and the duration of any period specified in this Contract for carrying out the obligations affected by any of the aforesaid causes shall be extended for a period equal to the impact of delay caused by the Force Majeure occurrence; and the term of this Contract shall be extended accordingly, provided that such extension does not violate the laws of Afghanistan. The Party claiming Force Majeure shall use all reasonable efforts to remove or correct the event that gave rise to the Force Majeure. If the duration of a Force Majeure event exceeds three hundred and sixty-five (365) Days, either Party shall have the right, upon notice to the other, to terminate this Contract with respect to the part or parts of the Contract Area affected.

## ARTICLE XXXI

### ENTIRE CONTRACT AND AMENDMENTS

- 31.1 **Entire Agreement.** This Contract embodies the entire agreement and understanding between the Contractor and the Ministry relative to the subject matter hereof, and supersedes and replaces any provisions on the same subject in any other agreement between the Parties, whether written or oral, prior to the date of this Contract.
- 31.2 **Amendment.** This Contract may not be amended, modified, varied or supplemented except by mutual consent in writing, executed, endorsed and approved in accordance with the Hydrocarbons Law, and signed by the Contractor and the Ministry.

## ARTICLE XXXII

### WAIVERS; CUMULATIVE REMEDIES

- 32.1 **Express Waiver Required.** Performance of any condition or obligation to be performed hereunder shall not be deemed to have been waived or postponed except by an instrument in writing signed by the Party that is claimed to have granted such waiver or postponement.
- 32.2 **No General Waivers.** No waiver by either Party of any one or more obligations or defaults by the other Party in the performance of this Contract shall operate or be construed as a waiver of any other obligations or defaults, whether of a like or of a different character.
- 32.3 **Cumulative Remedies.** All rights, powers, and remedies provided hereunder are cumulative and not exclusive of any other rights, powers or remedies provided hereunder or under applicable laws.



## ARTICLE XXXIII

### TRANSPARENCY IN AFGHAN HYDROCARBONS OPERATIONS

- 33.1 **Transparency.** The Ministry shall have the right to keep a copy of this Contract in the Hydrocarbons Register, publish and keep publicly available and distribute to provincial offices such information and reports on the Contract, related documents and the Contractor as is required pursuant to the Hydrocarbons Law, any regulations issued thereunder and internationally accepted norms relating to transparency in the extractive industries, including production and financial data concerning all revenues from income taxes, production shares, royalties, fees and other taxes and other direct or indirect economic benefits received by the Ministry and all amounts paid by the Contractor under or in relation to this Contract.
- 33.2 **Trade Secrets.** Notwithstanding the above, if such information concerns technical devices, production methods, business analyses and calculations and any other industrial and trade secrets and are of such a nature that others may exploit them in their own business activities, the Ministry may approve that such information may rightfully be subject to confidentiality for a certain period of time.
- 33.3 **Press Release.** All press releases and information intended to be reported to news media relating to the contracting and/or Contract execution and/or Hydrocarbons Operations shall be subject to prior mutual approval of both the Ministry and the Contractor. Notwithstanding the foregoing, the Ministry may without the Contractor's consent report to news media or other public sources any information that the Ministry is required by law to report and shall notify the Contractor of the information it reports prior to such reporting if reasonably practicable.

## ARTICLE XXXIV

### NOTICES

All notices, reports and other communications required or permitted hereunder or any notices that one Party may desire to give to the other Party shall be in writing in the English language and deemed to have been properly delivered if personally handed to an authorised representative of the Party for whom intended or sent by electronic mail, registered airmail or cable, except as otherwise provided herein, at or to the address of such Party for whom intended as indicated below, or such other address as either Party may from time to time designate by notice in writing to the other Party:

THE CONTRACTOR: c/o CNPC International Ltd.  
No. 6-1, Fuchengmen Beidajie, Xicheng District  
Beijing, China 100034  
Telephone +86 10 5855 1114  
Fax +86 10 5855 1110  
ATTN: Mr. BO Qiliang



MINISTRY: Ministry of Mines  
Pashtoonistan Watt  
Across from Ministry of Finance  
Kabul, Afghanistan  
Telephone +93 (0) 202 100 309  
ATTN: Director of Petroleum Authority

## ARTICLE XXXV

### EFFECTIVENESS AND REGISTRATION

- 35.1 **Effective Date and Validity.** This Contract, which has been endorsed by the Inter-ministerial Commission, shall become effective and binding on the Parties on the Effective Date. The Ministry shall inform the Contactor of the Effective Date within forty-eight (48) hours thereof. The Ministry represents that it has all requisite power and authority to enter into this Contract and perform its obligations hereunder and that the execution, delivery and performance of this Contract by the Ministry has been duly authorized in accordance with the constitutional and administrative procedures of the Ministry and that only the approval of the Council of Ministers is required to give this Contract legal effect.
- 35.2 **Registration of Contract and License; Publication.** Within ten (10) Days following the Effective Date, the Ministry shall (i) register this Contract and the appurtenant exclusive License for Hydrocarbons Operations in the Hydrocarbons Register and (ii) publish in at least three (3) newspapers of national circulation in Afghanistan and on the Ministry's website an announcement summarizing the material terms of the Contract.
- 35.3 **No Corrupt Action.** Each Party represents and covenants that it is, and during the term of this Contract will remain, in full compliance with all laws applicable to it prohibiting corrupt business practices, including Article 69 of the Hydrocarbons Law.

## ARTICLE XXXVI

### CHANGE OF LAW

- 36.1 **Structure of the Contractor** Subject to Article XXVIII, the Ministry undertakes that in the event that, at any time during the term of this Contract, the Hydrocarbons Law or any other applicable law changes in such a manner as to permit the Ministry to enter into agreements similar to the Contract with more than one party, the Ministry shall, at the request of the Contractor and at no cost to the Contractor, assign and novate this Contract to CNPCI and Watan (or their Affiliated Entities) such that each such entity is a party to the Contract with liability to the Ministry on a joint and several basis.
- 36.2 **No Double Taxation.** The Ministry acknowledges and agrees that the Contractor has entered into this Contract in reliance on the Ministry's representation that the revenues



generated from Hydrocarbons Operations for the Contractor's account shall only be subject to income tax once in Afghanistan. The Ministry represents that either the Contractor shall be liable to pay Income Tax on such revenue or the owners of the Contractor shall be liable to pay Income Tax on such revenue in accordance with applicable laws. If at any time after the Effective Date, there is any change in the legal, fiscal and/or economic framework applicable to the Contract (or the interpretation thereof) which results in the Contractor and the owners of the Contractor both being liable to pay Income Tax on such revenue, the terms and conditions of this Contract shall be altered so as to restore the Contractor and the owners of the Contractor to the same overall economic position as that which such person would have been in, had no such change in the legal fiscal and/or economic framework occurred. If the Contractor believes that its economic position, or the economic position of its owners, has been detrimentally affected herein by a change or interpretation of law that results in a double taxation of income, upon the Contractor's written request, the Parties shall meet to agree on any necessary measure to resolve the issue. Should the Parties be unable to agree on a method to resolve the issue, the Contractor may refer the matter in dispute to expertise proceedings as provided in Section 24.3, without the necessity of first referring the matter to negotiation and mediation.



**IN WITNESS WHEREOF**, the Parties hereto have caused this Contract to be executed by their respective duly authorised representatives as of the date first above written.

CNPCI WATAN OIL AND GAS AFGHANISTAN LTD.

By  \_\_\_\_\_  
Managing Director

THE MINISTRY OF MINES OF THE  
GOVERNMENT OF THE ISLAMIC REPUBLIC  
OF AFGHANISTAN

By  \_\_\_\_\_  
Minister of Mines

**EXHIBIT A**

**DESCRIPTION OF CONTRACT AREA**

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**COORDINATES OF CONTRACT AREA**

The Contract Area consists of the following three Blocks comprising the interiors of the geographic regions described by the respective corners, stated with reference to the meridian of Greenwich and the Equator:

**KASHKARI BLOCK**

65° 45' 0'' E	36° 25' 0'' N
66° 10' 0'' E	36° 25' 0'' N
66° 10' 0'' E	36° 0' 0'' N
65° 45' 0'' E	36° 0' 0'' N

**BAZARKHAMI BLOCK**

65° 25' 0'' E	36° 25' 0'' N
65° 45' 0'' E	36° 25' 0'' N
65° 45' 0'' E	36° 5' 0'' N
65° 25' 0'' E	36° 5' 0'' N

**ZAMARUDSAY BLOCK**

64° 35' 0'' E	36° 20' 0'' N
65° 25' 0'' E	36° 20' 0'' N
65° 25' 0'' E	36° 5' 0'' N
65° 0' 0'' E	36° 5' 0'' N
65° 0' 0'' E	36° 10' 0'' N
64° 35' 0'' E	36° 10' 0'' N

## COORDINATES OF QUADRANTS CONTAINING THE DESIGNATED FIELDS

The Designated Fields consist of the following five Fields located in the quadrants comprising the interiors of the geographic regions described by the respective corners, stated with reference to the meridian of Greenwich and the Equator:

### ANGOT FIELD

65° 55' 0" E	36° 15' 0" N
66° 05' 0" E	36° 15' 0" N
66° 05' 0" E	36° 10' 0" N
65° 55' 0" E	36° 10' 0" N

### KASHKARI FIELD

65° 55' 0" E	36° 10' 0" N
66° 0' 0" E	36° 10' 0" N
66° 0' 0" E	36° 5' 0" N
65° 55' 0" E	36° 5' 0" N

### AQ DARYA FIELD

66° 0' 0" E	36° 10' 0" N
66° 5' 0" E	36° 10' 0" N
66° 5' 0" E	36° 5' 0" N
66° 0' 0" E	36° 5' 0" N

### BAZARKHAMI FIELD

65° 40' 0" E	36° 15' 0" N
65° 45' 0" E	36° 15' 0" N
65° 45' 0" E	36° 10' 0" N
65° 40' 0" E	36° 10' 0" N

### ZAMARUDSAY FIELD

65° 10' 0" E	36° 15' 0" N
65° 20' 0" E	36° 15' 0" N
65° 20' 0" E	36° 10' 0" N
65° 10' 0" E	36° 10' 0" N

**EXHIBIT B**

**MAP OF CONTRACT AREA**

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**EXHIBIT C**  
**ACCOUNTING PROCEDURES**

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## EXHIBIT C

### ACCOUNTING PROCEDURES

#### ARTICLE I

##### General Provisions

#### 1.1 Definitions and Scope

The Accounting Procedures described herein are to be followed and observed in the performance of both Parties' obligations for purposes of Article X of the Contract. Except as otherwise provided in the Contract, these Accounting Procedures shall not apply to the Contractor's Income Tax obligations, which shall be governed by the provisions of the Income Tax Law (2009) as amended or replaced and in effect from time to time.

The definitions appearing in Article I of the Contract shall also apply to this Exhibit C.

In order to determine the "R" Factor, the Contractor shall keep a particular system of accounts to record, in U.S. Dollars, income and expenditure related to the Hydrocarbons Operations. This system shall consist of two main accounts: the "R" Factor Income Account, and the "R" Factor Expenditure Account as defined in this Exhibit C. A separate system of accounts shall be kept in respect of Hydrocarbons Operations relating to (i) the Designated Fields and (ii) each Block (excluding any Designated Fields in such Block).

#### 1.2 Inconsistency

In the event of any inconsistency or conflict between the provisions of this Exhibit C and the other provisions of the Contract, the other provisions of the Contract shall prevail.

#### 1.3 Accounting Records and Reports

- (a) The 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 hereunder in accordance with International Financial Reporting Standards and generally accepted procedures and standards in the international petroleum industry. Such accounts, books, records and reports will be available for the inspection and use of the Government and its representatives in carrying out its supervisory, financial and fiscal functions under the Contract.
- (b) All accounts, books, records, reports and statements will be prepared in accordance with the Contract, the laws of Afghanistan, and where there are no

relevant provisions of either of these, in accordance with International Financial Reporting Standards and International Best Practices.

- (c) The Ministry may, in accordance with the prevailing laws and regulations, from time to time by no less than thirty (30) Days notice to the Contractor, specify the style, format and level of details of the reports, documents and materials that Ministry may reasonably require from the Contractor.

#### **1.4 Language and Units of Account**

Unless otherwise agreed or prescribed in prevailing legislation, all accounts, records, books and reports shall be maintained and prepared in the English language and shall be recorded in U.S. Dollars.

#### **1.5 Cash Basis**

All financial books, accounts and records shall be prepared on a cash basis. All cash receipts and cash expenditures will be attributed to the time period in which the cash receipt or expenditure is realized.

#### **1.6 "R" Factor Expenditure Account**

Hydrocarbons Operations Expenditures may consist of capital and operating expenditures as follows:

- (a) Capital Expenditures

Capital expenditures are those Hydrocarbons Operations Expenditures for assets that normally have a useful life that extends beyond the year in which the asset was acquired.

In addition to expenditures relating to assets that normally have a useful life beyond the year in which the asset was acquired, the costs of exploration and development operations, as described in Sections 1.6(a)(v), (vi), (vii), (viii), (ix), and (x) of this Exhibit C, will be classified as capital expenditures. Capital expenditures shall be reduced by the amount of any proceeds received by the Contractor from sales of Liquid Hydrocarbons or Natural Gas produced during production testing, such sales to be valued at the net realized price obtained by the Contractor therefor.

Capital expenditures include, but are not limited to, the following:

- (i) Construction utilities and auxiliaries – work shops, power and water facilities, warehouses, and field roads. Cost of Liquid Hydrocarbons treating plants and equipment, secondary recovery systems, Natural Gas plants and steam systems;

- (ii) Construction housing and welfare housing – recreational facilities and other tangible property incidental to construction;
  - (iii) Production facilities – production rigs (including the costs of labour, fuel, hauling and supplies for both the offsite fabrication and onsite installation of rigs, and other construction costs in erecting rigs and installing pipelines), wellhead equipment, subsurface lifting equipment, production tubing, sucker rods, surface pumps, flow lines, gathering equipment, delivery lines and storage facilities;
  - (iv) Movables – surface and subsurface drilling and production tools, equipment and instruments, barges, floating craft, automotive equipment, aircraft, construction equipment, furniture and office equipment and miscellaneous equipment;
  - (v) Development and production drilling – labour, materials and services used in drilling Wells with the object of penetrating a proven reservoir, including the drilling of delineation Wells as well as redrilling, deepening or recompleting Wells, and access roads, if any, leading directly to Wells;
  - (vi) Exploration drilling – labour, materials and services used in the drilling of Wells with the object of finding unproven reservoirs of Liquid Hydrocarbons and Natural Gas, and access roads, if any, leading directly to Wells;
  - (vii) Surveys – labour, materials and services used in aerial, geological, topographical, geophysical and seismic surveys, and core hole drilling;
  - (viii) Security and De-mining – the engagement of private security providers licensed in Afghanistan and de-mining or mine clearance costs associated with Hydrocarbons Operations;
  - (ix) Third-Party Assessments – the engagement of internationally recognized third parties to conduct assessments, including Baseline Environmental Assessments, wireline, well-logging and testing, logistics, security and de-mining assessments;
  - (x) Other exploration expenditures – auxiliary or temporary facilities having lives of one year or less used in exploration and purchased geological and geophysical information; and
  - (xi) Any expenditures in relation to the foregoing incurred prior to the Effective Date of the Contract, provided the Ministry has provided approval in writing of such expenditure.
- (b) Operating Expenditures

Operating expenditures are all Hydrocarbons Operations Expenditures other than capital expenditures.

### **1.7 "R" Factor Income Account**

The following shall be recognized as income and recorded in the "R" Factor Income Account:

- (a) The value of Cost Recovery Hydrocarbons allocated to the Contractor in accordance with Section 10.1(b) of the Contract.
- (b) The value of Net Hydrocarbons allocated to the Contractor in accordance with Section 10.1(c) of the Contract, determined in accordance with the Formula Price applicable to such Hydrocarbons.
- (c) Income from sales of assets acquired by the Contractor for Hydrocarbons Operations, the cost of which was recorded in the "R" Factor Expenditure Account.
- (d) Income from services rendered to third parties involving personnel whose remuneration and benefits are recorded in the "R" Factor Expenditure Account and/or involving goods whose acquisition cost has been recorded in the "R" Factor Expenditure Account.
- (e) Income from letting assets belonging to the Contractor, whose acquisition cost has been recorded in the "R" Factor Expenditure Account or subletting of goods whose hire is charged to the "R" Factor Expenditure Account.
- (f) Compensation received from insurance policies taken out in relation to Contract activities for damaged goods, including compensation for loss of profits.
- (g) Income resulting from the exchange of currency in accordance with Section 1.10.
- (h) Other income representing credits applicable to charges to the "R" Factor Expenditure Account.

### **1.8 Arm's Length Transactions**

Except as may be otherwise agreed in writing between the Ministry and the Contractor, all transactions giving rise to revenues, costs or expenses which will be credited or charged to the books, accounts, records and reports prepared, maintained or submitted hereunder shall be conducted at arm's length or on such a basis as will assure that all such revenues, costs or expenses will not be higher or lower, as the case may be, than would result from a transaction conducted at arm's length on a competitive basis with third parties.

## 1.9 General Exclusions

The following expenditures shall not be included in Hydrocarbons Operations Expenditures:

- (a) costs and expenses incurred at any time prior to the Effective Date, except any expenditures pursuant to Section 1.6(a)(xi);
- (b) costs relating to Hydrocarbons refining, marketing or transportation beyond the Delivery Point;
- (c) contributions and donations, except those approved by the Government;
- (d) gifts or rebates to suppliers, and gifts or commissions to intermediaries arranging service or supply contracts;
- (e) any costs relating to the provision of the Financial Guarantee including payments made to the Ministry pursuant thereto or otherwise for failure to perform the work commitments in accordance with Section 6.3 of the Contract;
- (f) any interest, fees and other financial charges relating to loans and credits obtained by the Contractor to acquire funds for the execution of Hydrocarbons Operations, as well as amortization of such loans and credits;
- (g) any fines, interest, monetary corrections or increases in expenses resulting from the Contractor's failure to comply with its obligations under the Contract, applicable law or agreements with third parties;
- (h) overhead or payments to any Affiliated Entity of the Contractor or CNPCI or Watan that do not comply with Section 1.8 and are not otherwise allocable to Hydrocarbon Operations Expenditures pursuant to Section 2.6;
- (i) any other expenditures not directly related to Hydrocarbons Operations or not in compliance with the provisions of this Exhibit C; and
- (j) costs that would otherwise be recoverable as Hydrocarbons Operations Expenditures but exceed by ten percent (10%) or more the approved Work Programme Budget as may be amended by the Parties from time to time; provided, however, that costs in excess of one hundred and ten percent (110%) of any approved Work Programme Budget shall be included in Hydrocarbons Operations Expenditures where such costs are associated with emergency measures taken in accordance with Section 23.9 of the Contract. Without prejudice to the foregoing, costs that are less than ten percent (10%) in excess of the approved Work Programme Budget shall be recovered as Hydrocarbons Operations Expenditures without need for further review by the Ministry.

The following shall not be recognized as income for the purposes of calculating the "R" Factor:



- (a) Financial income in general.
- (b) Income received for services rendered by the Contractor or sales of the Contractor's assets occurring before the Effective Date.
- (c) Income received for activities not related to the Hydrocarbons Operations.

#### **1.10 Currency Exchange Rates**

For conversion purposes between Afghanis, or any other currency, and U.S. Dollars, the average of the buying and selling rate of exchange shall be used as issued by Da Afghanistan Bank on the first Day of the Month in which the revenues, costs or expenses are recorded.

#### **1.11 Acceptance of Costs**

The acceptance by the Ministry of the values and treatment proposed by the Contractor relating to all costs and expenses may be conditional upon the presentation by the Contractor, following a request by the Ministry or its representatives, of all records and original documents supporting such costs and expenses, such as invoices, cash vouchers, debit notes, price lists or similar documentation verifying the value and treatment proposed.

### **ARTICLE II**

#### **Accounting Methods and Principles**

Hydrocarbons Operations Expenditures incurred hereunder shall be calculated and accounted for in a manner consistent with the following principles and definitions and shall include:

##### **2.1 Labour Costs**

Costs of salaries and wages of the Contractor's employees directly engaged in Hydrocarbons Operations, including costs of holidays, vacations, sickness, living and housing allowances, travel time, bonuses and other established plans for employee benefits customarily granted to the Contractor's employees and their families in similar ventures.

##### **2.2 Material Costs**

Costs of materials, equipment, machines, tools and any other goods of a similar nature used or consumed in Hydrocarbons Operations, subject to the following:

Acquisition - the Contractor shall only supply or purchase materials for use in Hydrocarbons Operations that may be used in the foreseeable future. The accumulation of surplus stocks and inventory shall be avoided. Inventory levels shall, however, take into account the time lag for replacement, emergency needs and similar considerations;

Components of Costs - costs of materials purchased by the Contractor for use in Hydrocarbons Operations may include, in addition to the invoice price for such materials (subtracting the discounts given, if any) and provided that they are properly documented with invoices:

- (a) freight costs and costs of transportation between the supply point and delivery point (provided that such costs are not included in the invoice price);
- (b) inspection costs;
- (c) insurance; and
- (d) customs duties, taxes and other items that may be charged to imported materials or to materials purchased in Afghanistan; and

Inventories - the Contractor shall maintain both a physical and accounting inventory of all materials in stock in accordance with International Best Practices. The Contractor shall make a physical inventory of all such materials at least once in any Year. The Ministry may carry out total or partial inventories whenever it deems it necessary.

### **2.3 Technical Services Costs**

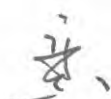
The value of technical services costs relating to Hydrocarbons Operations, which shall be:

In the case of technical services performed by third parties directly subcontracted, including outside consultants, the contractors and utilities, the price paid by the Contractor, provided that such prices are no higher than the prices charged by other suppliers for comparable work and services; and

In the case of technical services performed by the Contractor or its Affiliated Entities, prices which are no higher than the prevailing prices charged to other Affiliated Entities of the Contractor and to third parties for comparable services.

### **2.4 Insurance and Claims**

Costs relating to insurance, provided such insurance is customary, affords prudent protection against risks and is at a premium no higher than that charged on a competitive basis by insurance companies which are not Affiliated Entities of the Contractor. The proceeds of any insurance or claim shall be credited against Hydrocarbons Operations Expenditures. Except in cases where insurance coverage is required pursuant to Article XXVII of the Contract, if no insurance is carried for a particular risk, all costs incurred by the Contractor in settlement of any related loss, claim, damage or judgment, including legal services, shall be includable in Hydrocarbons Operations Expenditures, provided that such costs did not result from the Contractor's gross negligence.





## **2.5 Legal and Litigation Costs**

Costs and expenses of litigation and legal or related services necessary or expedient for the protection of the Contract Area. Any damages or compensation received shall be credited against Hydrocarbons Operations Expenditures. Under no circumstances may the Contractor's costs incurred in the course of arbitration entered into under Article XXIV of this Contract be included in Hydrocarbons Operations Expenditures.

## **2.6 Overhead Costs**

Overhead costs, other than direct costs, including:

- (a) The Contractor's personnel, personnel of CNPCI or Watan, and services costs, incurred outside of Afghanistan, relating to administration, legal, accounting, treasury, auditing, taxation, planning, employee relations, purchasing and other functions required for Hydrocarbons Operations under the Contract; and
- (b) Reasonable travel expenses of the Contractor's, CNPCI's or Watan's personnel in the general and administrative categories listed in (a) above for the purpose of inspection and supervision of Hydrocarbons Operations in Afghanistan;

shall be allocable to Hydrocarbons Operations Expenditures according to methods agreed to by the Contractor and the Ministry. The methods agreed shall result from a detailed study and the methods selected following such study shall be applied each Year consistently unless otherwise agreed by the Parties. These general and administration and services overhead costs shall not exceed two percent (2%) of the direct costs incurred in Hydrocarbons Operations in each Month.

## **2.7 Office Costs, *et cetera*, in Afghanistan and Dubai**

Staffing and maintenance of the Contractor's head office in Afghanistan and other offices in Afghanistan and Dubai, including rent, telephone and radio expenses, as well as the expenses of general facilities such as bases, warehouses, water, power and communications systems, roads and bridges.

## **2.8 Land Use and Surface Rental Fees**

Any compensation paid to private landowners or occupiers pursuant to Section 9.2 of this Contract and any annual surface rental fees paid to the Ministry in respect of State-owned land in accordance with Article XIV of this Contract shall be included in Hydrocarbons Operations Expenditures.

## **2.9 Training Costs**

Any expenditures pursuant to Sections 20.1 or 20.2 of this Contract for the purposes of training Afghan nationals and Ministry personnel.



### ARTICLE III

#### **Audit and Inspection Rights of the Ministry**

The Ministry, upon thirty (30) Days advance written notice to the Contractor, shall have the right to inspect and audit, during normal business hours, the Contractor's accounts, books and records with respect to the Hydrocarbons Operations conducted hereunder. During the Exploration Phase of the Contract, it may be necessary to conduct such an examination at the Contractor's or an Affiliated Entity's office in Beijing, the People's Republic of China. Where this is the case, the Contractor agrees to reimburse the Ministry direct economy airfare costs to and return from Beijing, the People's Republic of China, and a reasonable foreign per diem living allowance for a reasonable period for two auditors to conduct such an examination. The cost of any audits or examinations by the Ministry within Afghanistan shall be for its sole expense. Any audit exceptions must be in writing within one hundred and eighty (180) Days following completion of such audit and failure to give such written exception within such time shall establish the correctness of the Contractor's books and accounts.

For purposes of auditing, the Ministry may examine and verify, at reasonable times upon prior notice to the Contractor, all charges and credits relating to the Hydrocarbons Operations, such as books of account, accounting entries, material records and inventories, vouchers, payrolls, invoices and any other documents, correspondence and records necessary to audit and verify the charges and credits.

The auditors shall have the right in connection with such audit, to visit and inspect at reasonable times, all sites, plants, facilities, warehouses and offices of the Contractor directly or indirectly serving the Hydrocarbons Operations.

The Contractor shall include in its contracts with subcontractors provisions granting to the Ministry the same audit and inspection rights in respect of the subcontractors that it has in respect of the Contractor pursuant to this Contract.

The provisions of the present Article shall not infringe with the power of inspection for authorised representatives of the Ministry pursuant to the laws and regulations of Afghanistan.

All agreed adjustments resulting from an audit shall be made in the Contractor's accounts.



**APPENDIX 1  
TO ACCOUNTING PROCEDURES**

**Example Calculation of Escrow Under Section 7.3(c) of the Contract:**

At beginning of month,

ROIP = 2,000,000 barrels

Decommissioning and Abandonment Budget = US\$ 2,400,000

Amount in Escrow Account = US\$ 800,000

Net shortfall = US\$ 2,400,000 – US\$ 800,000 = US\$ 1,600,000

Monthly production = 100,000 barrels

Monthly contribution =  $100,000 / 2,000,000 \times \text{US\$ } 1,600,000 = \text{US\$ } 80,000$

At end of month,

ROIP = 1,900,000 barrels

Amount in Escrow Account = US\$ 880,000

**APPENDIX 2  
TO ACCOUNTING PROCEDURES  
PROCUREMENT MANUAL**

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## **Procurement Procedures**

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## **1.0 INTRODUCTION**

### **1.1 PURPOSE OF THE MANUAL**

**1.1.1** The purpose of Operator (hereafter called “the COMPANY”) Procurement Procedures Manual (hereafter called “Manual”) is to provide COMPANY with guidelines and procedures that are to be adhered to in conducting its procurement activities. Note that “procurement” covers both purchasing and contracting.

**1.1.2** This manual is designed to ensure that:

The COMPANY procurement objectives, policies and principles are explicitly stated and consistently applied;

- a) Standards of ethics and fairness in procurement of materials and services are maintained; and
- b) Standard guidelines are presented to all departments in COMPANY.

### **1.2 SCOPE OF THIS MANUAL**

**1.2.1** This Manual shall apply to inquires and tenders issued and contracts entered into for procurement of equipment, facilities, goods, materials, supplies and services required by COMPANY for carrying out Hydrocarbons Operations.

**1.2.2** Failure to follow the procedures of this Manual for procurement may result in the purchase or contract being disallowed from inclusion as a Hydrocarbons Operations Expenditure under the CONTRACT.

### **1.3 CONTROL OF THE MANUAL**

**1.3.1** The Procurement Department of the COMPANY shall be responsible for the contents of the manual and shall ensure that all relevant functional and procedural checks have been made before authorizing any amendment thereto.

## **2.0 PROCUREMENT OBJECTIVES AND PRINCIPLES**



## 2.1 COMPANY PROCUREMENT OBJECTIVES

The COMPANY's objectives in procurement and contracting are to ensure that all equipment facilities, goods, materials, supplies and services required for Hydrocarbons Operations are obtained at the right time in the right quantity and right quality at the right price from the right sources.

## 2.2 COMPANY PROCUREMENT PRINCIPLES/POLICIES

The following shall form the basis of COMPANY's procurement principles/policies for purchases and contracts;

- 2.2.1 All procurement of equipment, facilities, goods, materials, supplies and services required for Hydrocarbons Operations shall be on arms length basis and shall be obtained as a result of competitive bidding. Any deviation shall be fully justified by a technical and cost-benefit analysis and shall provide the report to detail the reason, and shall be agreed in writing by the President.
- 2.2.2 All purchases and contracts shall be adequately covered under an approved Work Program and Budget.
- 2.2.3 Contracts shall not be segmented to circumvent the requirement for competitive bidding or to circumvent the requirements of the Limits of Authority or to circumvent the need to obtain Partners.
- 2.2.4 Contracts shall at all times be awarded to the technically acceptable bidder that offers the best overall cost advantage to the COMPANY. Contracts may be awarded to companies on other considerations provided that the quality of materials and services are not sacrificed.
- 2.2.5 Where technically possible and practicable, due consideration and preference should be given to local companies to supply materials and services provided they are competitive in price and in conformity to the specifications, terms and conditions of the purchase inquires or tender documents. Note that under Section 21.2 of the **CONTRACT**, locally produced or available equipment, materials and supplies that cost no more than 15 percent more than the equivalent imported equipment, materials or services (before import duties) shall be deemed to be equivalent in price.

- 2.2.6** The COMPANY shall have a program for qualification of local vendors to be eligible to supply materials and services, with a goal of having at least three qualified competitive local suppliers for every nontechnical good or service generally available in the market. In resource-poor emergency or special cases, with the written approval of President, 2 qualified competitive local suppliers for every nontechnical good or service will be acceptable.
- 2.2.7** Procurement of materials and contracts for services shall, as and when practicable, be grouped together to take advantage of bulk buying and consolidation. All Divisions and Departments in the COMPANY shall endeavor to plan and group their procurement requirements for each budget year based on the foregoing principles.
- 2.2.8** Procurement of spare or salvage materials and services from affiliates of CNPCI or Watan shall be priced at the lower of cost or market, plus transportation and other charges. To take advantage of potential salvage from other activities of CNPCI or Watan or their affiliates, from time to time CNPCI, Watan, and their affiliates may make available to the COMPANY spare or surplus materials or services previously purchased for other projects or activities.
- 2.2.9** Tenders shall be advertised in a manner to ensure that all potential bidders who are qualified have the opportunity to be aware of the tender.

### **3.0 DEFINITION / ABBREVIATION**

The following definitions and/or abbreviations shall apply to this Manual:

#### **3.1 AA**

“Approving Authority” as designated in the COMPANY Limits of Authority (LOA) Manual.

#### **3.2 AGREEMENT**

A document identifying and binding the parties to an agreement and outlining all the applicable terms and conditions thereto.

#### **3.3 BOARD OF DIRECTORS**

“Board of Directors” means the board of directors of the Company.

#### **3.4 COMPANY**





Means Operator.

**3.5 CONTRACT**

“CONTRACT” means EPSC, to explore and exploit hydrocarbons resources in the Contract Area within the contract period.

**3.6 INCOTERMS**

“International Commercial Terms” as defined by the International Chambers of Commerce outlining the responsibilities and obligations of the parties in the purchasing supplying agreement. Examples of Incoterms are FOB (Free on Board), CFR (Cost and Freight), CIF (Cost, Insurance and Freight), etc.

**3.7 ITB**

“Invitation to Bid” means the document sent to an approved bidder for purposes of inviting the bidder to submit a bona-fide proposal. The ITB outlines the scope of supply/services required, and the proposed contractual terms and conditions.

**3.8 LOA**

“Limits of Authority” means the levels of delegated responsibility and accountability for approving of commitments accorded to the respective management officer of Operator.

**3.9 MR**

“Materials Requisition” is a form raised by the user department and approved according to the LOA, to request for the supply of materials required for the operations as per approved budgets. The MR specifies the description of the materials, the required delivery date, final destination for delivery and estimated budgets. The MR is used by the purchasing / materials personnel to source the items internally from warehouse stock or to call against existing contracts, price agreements or any open purchase orders or to initiate a new ITB/ purchasing inquiry.

**3.10 PA**

“Price Agreement” is a form of a long-term supply contract, normally limited by a specified maximum quantity or maximum total price or

duration of time. Supply and delivery of individual requirement is initiated via an approved indent.

**3.11 PO**

“Purchase Order” is a company document issued by the COMPANY to an approved Supplier for the supply and delivery of materials, the PO will contain name and address of the supplier, the delivery required date, the delivery point, the terms and conditions of purchase, the descriptions, quantity and unit price of the individual line items and the total value. The PO is to be signed by the AA according to Operator LOA.

**3.12 SR**

“Service Requisition” is a form raised by the user department and approved according to the LOA, to request for the provision of service required for operation as per approved budgets. The SR is used for the contract personnel to source the required services either from existing contract or service agreements or to initiate a new ITB.

**3.13 TC**

“Tender Committee” is an organization within the COMPANY, whose responsibility is to oversee the proper conduct in the Procurement activities, ensure all established policies and principles are being followed and review and endorse the respective ITB, procurement schedules, evaluation reports and award recommendation.

**3.14 USER DEPARTMENT**

The department holding the approved budgets, which is responsible to raise the MR, SR or WO.

**3.15 WO**

“Work Order” is a form raised by the User Department and approved according to the LOA to a service company for the provision of service. The WO will contain name and address of the service company, the phone and fax number or E-mail address, period of service, work site, the terms and condition of service, scope of work, price etc.

**4.0 MATERIAL / SERVICE REQUISITION FORMS AND APPROVALS**

#### **4.1 MR / SR APPROVAL**

All Material/Service Requisitions must be approved and signed by User Department and AA according to LOA. Without proper authorized approval, Procurement Department shall not process the purchasing request, unless written approval has been obtained from AA according to LOA.

#### **4.2 MR / SR PROFESSIONAL**

The User Department will describe in detail the material and specifications including Technical parameters model and/or part number for each item as well as details of service required.

In case the description of the item is incomplete, Procurement Department may return it to User Department for clarification and modification. In those instances where the User Department has indicated a technical preference in material, service or source of supply, Procurement Department may, evaluate alternative sources. In all such instances the User Department will be advised of the alternatives and mutual agreement reached prior to placement of the commitment, of the purchase order or contract as the case may be. All changes to the requisition must be subject to LOA.

A soft copy of each MR/SR should be submitted to Procurement Department for convenience of processing.

When raising any MR, User Departments should contact warehouse to check the inventory first to ensure a reasonable stock.

All MR should be reviewed and item coded by warehouse supervisor first before sending to Procurement Department.

#### **4.3 CENTRALIZED ITEMS**

For centralized items, the User Department shall send its detailed requirement to the Department – in – Charge. The Department – in – Charge will then compose a consolidated request and send the consolidated material requisition with detailed specifications, on Quarterly basis or as deemed necessary to Procurement Department for action.

For the purpose of centralized control of materials, approval by the Department – in – Charge will be required as follows, for example:

<u>Department-in -Charge</u>	<u>Material/Service Description</u>
General Services	Includes Office Vehicle, Catering, House Rental, Maintenance, Furniture, Book & Publication and Stationary. Operation Vehicle, Fuel, Air Conditioner.
Information Technology	Computer, Photocopier, Telephone, Fax Machine, Radio and Software, Overhead Projector.
Human Resource	Consultant, Labor, Direct Hires.

**4.3 MR / SR ISSUE IN ADVANCE**

Except for emergency requirement, all materials, equipment and service requisitions should be planned in advance with a four to six month lead-time in order to follow a normal bid evaluation and purchasing process. Some daily-required materials like casing, bits, wellhead, mud and other consumables, will be encouraged to be requisitioned in bulk, reducing cost both for material and administration.

**4.4 MR PLANNING**

User Departments shall work out detailed material requisition plan each year. The material requisition plan shall be presented to COMPANY management for approval according to LOA. This is to establish the best material stock to meet the User Departments needs. This timing may be revised to suit the needs and planning of the operations.

**4.6 MR /SR RECEIVING**

The Manager of Procurement Department will be responsible to receive, register and assign all Material/Service requisitions. The material requisition will be forwarded to the Section Head of Purchasing for

action. Service requisitions shall be forwarded to the Section Head of Contracts for action. All requisitions shall be logged, with a unique number for the purpose of tracking through Procurement and ultimately to the User Department.

#### **4.7 MR / SR FORMALITY**

A Material/Service requisition prepared by the User Department will include Budget Code, approved AFE Number and proper account coding. The User Department is responsible to ensure that such information is present and accurate.

### **5.0 PURCHASING METHOD AND AUTHORITY**

#### **5.1 SCOPE OF WORK**

5.1.1 Procurement Department will be responsible for receiving Material or Service Requisitions, and in consultation with the User Department, preparing inquiry and tender documents, evaluating quotations or bids, commercial terms, preparing Tender Committee approval documents, issuing Purchase Orders or the result of evaluation of informal bids, coordinating quality control and inspection, expediting delivery and mobilization in international logistic, monitoring and analyzing material receiving, transfer, and inventory through the Material Management System.

#### **5.2 PURCHASING METHOD AGAINST EXPENDITURE LEVELS**

5.2.1 For the purchase and services not exceeding US \$100,000, the procurement method is subject to or governed by the terms of Single Source; For the purchase and services not exceeding US \$500,000, the procurement method is subject to or governed by the terms of Inquiry purchase ; For the purchase and service orders exceeding US \$500,000, and not exceeding US \$2,000,000, the procurement method is subject to or governed by the terms of Limited Tendering bidding; For the purchase and service orders exceeding US \$2,000,000, the procurement method is subject to or governed by the terms of Public Tendering bidding.

5.2.2 Competitive sealed bids will be solicited for all material and service requirements where the anticipated cost exceeds the limits set out below:



- (a) Material and/or Equipment supply where the anticipated cost exceeds US \$500,000 total requirement.
  - (b) Miscellaneous Service Contracts for operations maintenance services where the anticipated costs exceed US\$500,000 per job or extend over a six (6) month time period.
  - (c) Except in special circumstances, such as bids could not arrive by post and have to use e-mail, etc., competitive sealed bids will not be solicited
- 5.2.3 Written and duly signed competitive quotations/bids must be received for any material and/or service requirement.
- 5.2.4 Low value purchase, less than US\$500,000 spot check price and rotate opportunity to quote.
- 5.2.5 Consultants, Contractors and Agents who are required to purchase materials and services on behalf of the COMPANY will be required to follow the same procurement procedures.
- 5.2.6 Purchase Orders and Contracts may only be issued and signed by authorized personnel or their delegate whom has been authorized by the LOA of COMPANY.

### **5.3 PURCHASE ORDERS**

- 5.3.1 Purchase Orders shall apply to all the purchasing activities for and by COMPANY, for the acquisition of materials and or services.
- 5.3.1 Only authorized personnel can issue Purchase Orders according to the LOA.
- 5.3.2 The Procurement Department shall register all Purchase Orders in the PO register for ease of tracking.

### **5.4 SERVICE CONTRACTS**



- 5.4.1 Service Contracts apply to all the services provided by a contractor, supplier, consultant, including, but not limited to drilling, oil testing, production testing, seismic data acquisition, data processing and interpretation, transportation, house rental, consultants and any other supporting operations or services, etc.
- 5.4.2 Service contracts should be awarded according to the procurement procedures and signed according to the LOA.
- 5.4.3 All contracts shall be vetted by the Legal Department/Legal Advisor to safeguard the legal aspect and agreed to by the User Department.
- 5.4.4 All contracts will be registered and assigned a unique contract number by the Procurement Department. The contract number shall be indicated in all the related documents including invoices.

## **5.5 TERM PURCHASE ORDERS**

- 5.5.1 In consultation with the User Departments, the term of the Purchase Orders, are arranged by the Procurement Department for procurement of equipment, materials, and/or supplies that are ordered frequently. This is also known as a Price Agreement (PA).
- 5.5.2 Term Purchase Orders will be effective for a specific time period unless it is in the best interest of COMPANY to extend or reduce the period. Such extensions or reductions will be subject to approval assigned in the LOA.

## **5.6 PURCHASE AND SERVICE ORDER APPROVAL AUTHORITY**

- 5.6.1 Purchasing and service approval authority is derived from duly approved material /service requisitions, and is subject to Bid Evaluation approval authority or other approvals authorized according to LOA.
- 5.6.2 For the purchase and service orders exceeding US \$500,000, Tender Committee approval is required.

## **5.7 PURCHASE AND SERVICE ORDER SIGNING AUTHORITY**

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5.7.1 Purchase/Service Order signing authority is restricted to the AA according to LOA.

## **5.8 CONTRACT SIGNING AUTHORITY**

5.8.1 Contract signing authority is conveyed from duly approved service requisition and is subject to competitive bidding procedures and AA delegated by LOA.

5.8.2 Contract signing authority is limited to the AA according to LOA.

## **6.0 TENDER PROCEDURE FLOW**

### **6.1 PURPOSE**

6.1.1 To describe the normal practice to be followed when the purchase of materials or services is subject to or governed by the terms and conditions of a written contract or agreement.

### **6.2 TENDER PROCEDURE FLOW**

6.2.1 Procurement Department shall receive Material Requisitions (MR) and Service Requisitions (SR) from User Department with proper approvals according to the LOA.

6.2.2 The Tender Working Team will be organized according to Tender Committee Working Procedures.

6.2.3 The Tender Working Team will draft the contract strategy, which shall be reviewed by User Department Manager and Procurement Department Manager, endorsed by President. This signed approved strategy will then be presented to the Tender Committee for final review and approval.

6.2.4 The Tender Working Team shall prepare the Tender Documents and have them reviewed by Legal Department/Legal Advisor, User Department, Procurement Department, Finance and Planning Department and HSE Department (if necessary).



- 6.2.5 The President will seek input for adding Bidders to the short list approved by the Tender Committee in cases where the estimated cost is in excess of US \$1,000,000 for material or US \$1,500,000 for service.
- 6.2.6 The Secretary of Tender Committee will then formally issue the tender as per approved short list and schedule. Tender invitation to bidders shall be made at least 30 days before the closing date or otherwise decided by tender working team.
- 6.2.7 In consultation with the User Department, the Secretary of Tender Committee or his/her Designee will clarify bidders inquiries.
- 6.2.8 The Secretary of Tender Committee, or his Designee will receive bidding documents.
- 6.2.9 Tender Working Team will open bids, but in no case shall bids be opened without three or more representatives being present. Bids will not be opened prior to closing time.
- 6.2.10 Tender will be evaluated in a two layer system, i.e. technical evaluation and the commercial evaluation according to Tender Committee Working Procedure. “NOTE THE COMMERCIAL PORTION OF ANY TENDER OR BID SHALL NOT BE OPENED UNTIL THE TECHNICAL EVALUATION IS COMPLETED AND SIGNED OFF BY ALL USER DEPARTMENT MANAGER (S),”AND THE PRESIDENT ACCORDING TO LOA AND TENDER COMMITTEE WORKING PROCEDURES.
- 6.2.11 A joint recommendation approved and signed by all User Departments if required will be prepared and presented to Tender Committee.
- 6.2.12 The Tender Working Team will respond to all queries or questions on clarifications requested by the Tender Committee. All major exceptions proposed by the bidder will not be taken into consideration unless approved by Tender Committee

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- 6.2.13 The Tender Committee will approve or comment on the recommendation.
- 6.2.14 Once all questions have been answered and approvals given, the Secretary will then prepare the letter of approval, signed by President, according to Tender Committee Working Procedure.
- 6.2.15 Letter of Award will be prepared by the Secretary of Tender Committee, reviewed by Legal Department/Legal Advisor and signed by the President or other delegate according to LOA after receiving approval.
- 6.2.16 If performance Bank Guarantee is applicable, the successful bidder shall submit the required Bank Guarantee within 30 days after issuing date of Letter of Award or signature of contract. The original Bank Guarantee will be submitted and kept by Finance Department.
- 6.2.17 The Contract will be signed within one month from the date of Letter of Award and by the President or other delegate according to LOA. In case the contract value is more than US\$4,000,000 the approval from Board of Directors is required.
- 6.2.18 The original contract will be kept in Procurement Department for safe keeping, and one more copy retained in procurement. Two copies will be distributed to User Department, one copy to Finance/Planning Department and any other copy will be available upon the approval of Procurement Manager for department or person who requires a copy to perform his/her duties related to the contract. Priced copies of purchase orders and contracts will be supplied to those departments or persons who require them for contract management.

## **7.0 PURCHASE AND SERVICE ORDER FLOW**

### **7.1 PURPOSE**

- 7.1.1 To describe the normal practice to be followed when the purchase of materials or services is subject to or governed by the terms and conditions of Purchase/Service Order.



## 7.2 PURCHASE AND SERVICE ORDER FLOW

- 7.2.1 Material Requisitions (MR) and Service Requisitions (SR) shall be received by Procurement Manager for proper approvals according to LOA.
- 7.2.2 The Section Head of Purchasing will register and assign Material requisition to Buyers.
- 7.2.3 The Buyer will issue at least 3 inquiries to the vendors from the domestic or international market. EXAMPLE: Far East, Middle East, Europe, and North America. The inquiry shall state the detailed material specification and requirements along with COMPANY Standard terms and conditions. The buyer will at all times source the materials or services from at least three of the market locations or companies listed above. Any deviation from this will require the Procurement Department Manager's written approval in advance.
- 7.2.4 The buyer shall state the complete information in its inquiries including, but not limited to, specification, quantity, delivery and destination, time for submission of quotation etc. No one shall disclose COMPANY estimated cost to the supplier and the supplier's competitor in any circumstances.
- 7.2.5 The buyer shall receive the qualified quotations for the inquiry. After the technical confirmation by User Department, the buyer will then prepare a commercial evaluation to the Management or TC for approval as per the requirement of LOA. The evaluation will be based on the ~~DDP-xxx;~~ ~~DDP-xxx Warehouse~~, CIF ~~Port XXXXXXXXX~~ Hairatan Port of Entry only.
- 7.2.6 A material Requisition shall not be purposely split in an attempt to circumvent the requirement for competitive bidding on LOA Manual on the need to obtain Manager, Vice President, President approval.
- 7.2.7 The award of the Purchase /Service Order shall be based on the Bid Evaluation and approved according to LOA. The Bid Evaluation Form shall be supported by MR/SR, inquiries, quotations and prepared by the

Buyer, approved by Procurement Department Manager or other AA as per LOA.

**7.2.8** The Purchase Order (PO) shall only be signed by President as per LOA.

**7.2.9** The original Purchase Order (PO) will be kept in Procurement Department and copies shall be distributed to Logistics, User Department, Finance Department, Warehouse, and any other department or person requiring the information.

**7.2.10** Buyer may fill out a Payment Requisition (PR) duly verified by Procurement manager and approved by Line Manager or President as per LOA and submit it to the Finance Department for action. The Payment Requisition (PR) shall be registered in the Accounting Management System and the copy shall be retained in the Procurement Department. The Payment Term refers to the Payment Policy hereinafter.

**7.2.11** For the local purchase, the Payment requisition (PR) shall be attached to the vendor's original commercial invoices, with the tax stamp affixed to the invoice prior to requesting payment. The buyer and Procurement Department Manager must sign all payment requests which should be duly approved by AA as per LOA prior to submission to Finance Department for payment.

**7.2.12** The Payment Requisition (PR) shall attach the copies of Purchase Order (PO), Material Requisition (MR), Bill of Lading/Airway Bill, and Packing List. The commercial invoice or pro-forma invoice sent by courier or fax is needed for payment in advance.

## **8.0 TENDER AND EVALUATION METHODOLOGY**

### **8.1 GENERAL**

**8.1.1** Upon selection of the supplier of material and/or service through the sealed bid, price negotiation, written quotation, verbal quotation, rate schedule, etc., the Procurement Department is responsible for ensuring that the contractual agreement is properly documented and authorized. And also that the following is included in the Purchase Order (PO): all



pertinent cost, specifications, inspections, testing, services, technical, routing, packaging, insurance, warranty information, payment terms, promised delivery and delivery time constraint data.

**8.1.2** The confidentiality of the information provided above must be strictly observed and not used for personal gain and/or divulged to any third parties. Breach of or failure to comply and follow this guideline will be grounds for immediate dismissal from the employ of COMPANY or punishment.

## **8.2 TC WORKING PROCEDURES**

As per Tender Committee Working Procedures in the separate document.

## **9.0 PAYMENT POLICY**

### **9.1 PURPOSE**


9.1.1 To describe practices and procedures to be followed to provide protection of COMPANY's interests in cases where suppliers of services or materials fail to perform.

### **9.2 PURCHASE ORDER**

9.2.1 Payment to suppliers will be made within thirty (30) days after receipt of vendor's undisputed invoice and shipping documents, or Letter of Credit as agreed in the Purchase Order or Contract.

9.2.2 In any case, 100 percent payment in advance will not be allowed unless proper approval has been obtained. If the supplier does not accept net thirty (30) days payment as described in Article 9.2.1., COMPANY can accept payment in several installments, i.e. at placing Purchase Order, at presentation of original shipping documents and/or thirty (30) days presentation of shipping documents.

### **9.3 SERVICE CONTRACT BONDS**



9.3.1 The Bank Guarantees and/or Parent Company Guarantee may apply to COMPANY service contracts. Unless otherwise approved by Tender Committee, the Bank Guarantee will not be waived or reduced.

#### **9.4 BID BOND**

9.4.1 This is usually 2-5% of contract price and is provided by a bidder on a project and it is payable to COMPANY, should the successful bidder not accept the contract award.

#### **9.5 PERFORMANCE BANK GUARANTEE**

9.5.1 The performance bank guarantee is binding the contractor to complete the contract. The performance bank guarantee will be five to ten (5-10) percent of the contract value and be valid for sixty (60) days after the contract has expired. If the contractor is unable to perform its obligation against the contract, or major defects are found in the completed work the performance bank guarantee will be paid to COMPANY unconditionally.

### **10.0 TAX AND DUTY INSTRUCTIONS**

#### **10.1 GENERAL**

10.1.1 All taxes are charged on all material purchases and service contracts except where specifically exempt, or a tax exemption can be obtained.

10.1.2 The Purchase Order must indicate any item, which are exempt.

10.1.3 If unsure of the tax status on a specific item, on a Purchase Order, contact the Finance/Planning Manager for assistance and clarification.

#### **10.2 TAX**

10.2.1 According to CONTRACT, the COMPANY will be permitted and shall be exempted from all customs duties with respect to the importation of certain listed machinery, equipment, material, vehicles, supplies and

consumable or movable property which is a piece of capital equipment and/or necessary for Hydrocarbons Operations .

10.2.2 All goods and services purchased in ~~XXXXXXXX~~ Afghanistan will be subject to ~~XXXXXX~~ Taxes Laws of ~~XXXXXXXX~~ Afghanistan, unless exempted by CONTRACT. The COMPANY will not pay the VAT but instead of issuing the VAT certificate for contractor or supplier to refund from the government according to CONTRACT

10.2.3 Material re-exported from ~~XXXXXXXX~~ Afghanistan may be exempt from tax. However, all customs duty exemption certificates shall be kept by Logistic Section, Procurement Department, for this purpose.

10.2.4 Tax policy and procedure questions regarding the import and/or export of materials should be directed to the Finance/Planning Department Manager.

10.2.5 All contractors shall be responsible for their own taxes, including but not limited to ~~XXXXXXXX~~ Afghanistan income taxes, sales taxes, etc. The COMPANY will only assist contractors for the exemption of the customs duties.

## **11.0 EXPEDITING**

### **11.1 PURPOSE**

11.1.1 The expediter is a delegated responsibility from the Procurement Department. Expeditor or Logistic Supervisor is responsible of supervising and follow up the custom clearance and transportation of materials from and to the site. These missions are performed by agents through a contract with specified obligations and price lists.

### **11.2 RESPONSIBILITIES**

11.2.1 Expediter is responsible of seeking exemption and other necessary governmental approvals for all the imported and exported materials and submits the relevant documents to the agent.



11.2.2 Expediter will follow up the custom clearance process to avoid the occurrence of any delay and to ensure the process duration is within the duration agreed upon and stated in the contract.

11.2.3 Expediter is responsible of measuring and weighing the consignments to specify the load capacity of the trucks needed for inland transportation to the site.

11.2.4 Full loads will be utilized at all times when and wherever possible. This will include the holding of some items whenever conditions and schedules will allow.

### **11.3 CUSTOMS CLEARANCE (IMPORT AND EXPORT)**

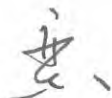
The Logistic Section/Procurement Department will be responsible for the custom clearance together with the custom clearance agent for the importation of the equipments, materials, or personal effects into Xxxxxxxx (and also with the export arrangements for any of the foregoing) and for regular maintenance items and/ or emergency services.

- 11.3.1 For importation, the needed documents are
- a. One Original of commercial invoice.
  - b. One original of Bill of Lading or Airway Bill.
  - c. One original of packing list
  - d. One original of certificate of Origin.
  - e. Three copies of the purchase order.

These documents will be prepared by Purchasing Section/Procurement Department in sufficient lead – time (preferably 72 hours).

- 11.3.2 For exportation, the needed documents are:
- (a) Two originals of commercial invoice {For custom purposes only}
  - (b) Two originals of packing lists

These documents will be prepared by the user end in the cases of dispatching samples for testing and analysis, maintenance, warranty and others.





## **12.0 INSPECTION**

### **12.1 PURPOSE**

12.1.1 Inspection is performed preferably at the vendor's manufacturing facilities and alternatively at the storage or marshalling location prior to shipment, or after it reaches the COMPANY operation site in order to ensure that the material and equipment is of the same design, dimensions, material and quality as specified and conforms to minimum requirements of the COMPANY's purchase order or contract. Procurement Department will be responsible for, arranging and assisting the User Department with inspection arrangements.

### **12.2 USER/PROCUREMENT DEPARTMENT RESPONSIBILITIES**

12.2.1 User Department, via Material Requisition, is responsible for determining any specific items that will require inspection.

12.2.2 Procurement Department will indicate on the Purchase Order that the material and/or equipment are subject to shipment, and the scope of inspection.

## **13.0 RECEIVING MATERIAL**

### **13.1 PURPOSE**

13.1.1 To outline the practices to be followed when receiving materials and services. Warehouse will follow this procedure.

### **13.2 GENERAL**

13.2.1 The following general instructions apply for all receiving regardless of the type of commitment document (purchase order, contract, etc.)

### **13.3 RECEIVING**



13.3.1 The person who receives goods or services from a supplier is responsible to ensure that:

- a) Quantities and description of services or materials received, and all exceptions are properly recorded on the packing slip, time sheets, waybill and or material receiving report. The purchase order number shall be recorded on all documents.
- b) A receiving exception report (over short damaged report) is prepared for all shipments received that are not as ordered, or that are over, short, or damaged.
- c) Appropriate copies of the above documents are sent to Accounts Payable who will attach to the supplier's invoice, they may then forward to User Department and/ or Procurement Department for approval, or pay invoice directly in accordance with the Financial Procedure.

## **14.0 MATERIAL TRANSFERS AND RETURNS**

### **14.1 PURPOSE**

14.1.1 To control and record the movement or transfer of materials, equipment or services controlled or owned by COMPANY or in COMPANY's custody through the material management system.

### **14.2 SCOPE**

14.2.1 The material transfer form is used to accomplish the above purpose and is to be completed when:

- a) Materials are moved from one cost center, AFE, or inventory location to another.
- b) Surplus materials are returned to suppliers for credit or in.
- c) Materials are lost or destroyed.
- d) Materials are sold to outsiders.
- e) Materials are sent to outside suppliers or contractors for repair and will be away more than 15 days or where otherwise necessary for control purposes.

- f) Materials are returned from repairing suppliers or contractors as in 14.2.1 above.
- g) Services are performed or supplied by COMPANY to or for contractors and are chargeable to the contractor or other third party.

### **14.3 RESPONSIBILITIES**

14.3.1 Complete and register the Materials Transfer Form in material management system before the material moves or services are supplied.

14.3.2 Send the Materials Transfer Form to Accounting in Field Office.

14.3.3 Send a copy of Material Transfer Form to receiving Unit for signature.

## **15.0 ETHICAL PRACTISES STATEMENT**

### **15.1 PURPOSE**

15.1.1 The purpose of this policy is to provide guidance on ethical practices when an employee, consultant, contractor, or agent is engaged in a supplier – related activity.

### **15.2 GENERAL**

15.2.1 It is the responsibility of all employees to maintain the good name and reputation of the COMPANY and its partners and to consistently exercise good judgment in the interest of COMPANY. The COMPANY and reputation for honest, forthright treatment of suppliers is an indispensable asset.

15.2.2 In personal contacts with suppliers, all employees represent COMPANY and their actions and decisions on behalf of COMPANY, must be impartial and objective in the performance of their work.

15.2.3 Employees must maintain an impeccable standard of integrity in all transactions and must not allow themselves to be put into a position where their judgment can be influenced or be seen to be influenced.



- 15.2.4 No employee shall use their authority of office or position for personal gain, or other advantages. In any business transaction, the employees must not allow themselves, to be put into a position, which might affect or be seen by others as possibly affecting the employee's judgment or impartiality.
- 15.2.5 No employee shall seek or accept gifts other than items of small intrinsic value that is not normally saleable and is designed primarily for advertising and represents cordial relations only.
- 15.2.6 No employee shall seek or accept any payments, loans or services from any organization, company, or person doing or seeking to do business with COMPANY.
- 15.2.7 Any personal interest which may impinge or might reasonably be deemed by others to impinge on an employee's impartiality must be declared to COMPANY in writing. This shall be ground for the company to prohibit the employees from taking part in certain purchases of products, goods or services as well in ITB for goods or services.
- 15.2.8 No employee shall use or cause to be used, COMPANY's name or the employee's title or position within COMPANY to obtain any benefits for any other affiliated or unaffiliated company or organization without proper management approval.
- 15.2.9 The confidentiality of information received in the course of the employee's duties must be strictly observed at all times and shall not be released to any other company, person, or organization and shall not be used for personal gain or himself or others.

## **16.0 EMERGENCY PROCUREMENT**

### **16.1 APPLICABILITY**

16.1.1 From time to time, local management may be required to purchase materials or services for the preservation of life, for protection of the environment, or to prevent destruction of property. The emergency



purchase materials or services should not exceeding US \$500,000, and such occasions are to last no longer than 48 hours without the written approval of the President.

## 16.2 PROCEDURES

16.2.1 When an emergency situation occurs, the onsite manager must first take action to preserve life, protect the environment, or prevent destruction of property. As soon as is reasonably practicable, the onsite manager must notify COMPANY of the nature of the emergency and the actions taken.

16.2.2 Procurement of materials or services under emergency circumstances is presumed prudent and the policies in this manual are waived temporarily to the extent necessary to contain the emergency for up to 48 hours.

16.2.3 Upon notice of the emergency, COMPANY will immediately activate emergency procurement procedures. These may include previously purchased services (e.g., well control, fire fighting) or services from affiliates. If the emergency is of longer than 48 hours duration, local management emergency procurement authority is superseded by the COMPANY procurement authority. After procurement, the User Department should submit purchase report to LOA relate personnel.



**EXHIBIT D**

**FINANCIAL GUARANTEE FOR  
MINIMUM EXPLORATION PROGRAMME**

*[Handwritten signature]*

*WS*

## EXHIBIT D

### FINANCIAL GUARANTEE

Ministry of Mines of the Islamic Republic of Afghanistan  
Kabul  
Islamic Republic of Afghanistan

Gentlemen:

Re: Our Irrevocable Letter of Guarantee No. \_\_\_\_\_

In compliance with the request of CNPCI Watan Oil and Gas Afghanistan Ltd. (the "Contractor"), we, (Name of bank), issue this unconditional irrevocable letter of guarantee in your favour for a sum not exceeding \_\_\_\_\_ U.S. Dollars (US\$ \_\_\_\_\_), which represents the total estimated expenditures for the Minimum Exploration Programme during [the Initial Exploration Period] [the First Extension Period] [the Second Extension Period], as set forth in Part I of Exhibit H of the Exploration and Production Sharing Contract (the "Contract"), dated December 26, 2011, between the Contractor and the Ministry of Mines of the Government of the Islamic Republic of Afghanistan (the "Ministry"), relating to Hydrocarbons Operations in Afghanistan, to guarantee the Contractor's faithful performance of such Minimum Exploration Programme. The said sum of \_\_\_\_\_ U.S. Dollars (US\$ \_\_\_\_\_) shall be reduced as of the end of each Month in [the Initial Exploration Period] [the First Extension Period] [the Second Extension Period] by the amount determined in accordance with Section 8.2 of the Contract, as such amount is evidenced by a signed certificate from the Ministry.

The terms and conditions of this Letter of Guarantee are as follows:

1. Capitalized terms used herein and not otherwise defined shall have the meanings as set forth in the Contract.
2. The said amount, or any part thereof, shall be paid to the Ministry upon our receipt of your demand by way of a written statement that the amount claimed is duly payable under the Contract.
3. We hereby waive diligence, presentment, demand for payment, protest, any requirement that the Ministry exhaust any right or power or take any action against the Contractor, all notices (whether of non-payment by the Contractor, dishonour, protest or otherwise) and all demands whatsoever. Our obligations hereunder are continuing, absolute and unconditional, and will not be in any way affected by giving of time or any forbearance by the Ministry, the waiver or consent by the Ministry with respect to any provision of the Contract, and irrespective of the validity, regularity, enforceability or value of the

Contract, or by any other circumstances which might otherwise constitute a legal or equitable discharge or defence of a surety or guarantor, all of which are hereby expressly waived.

4. Our obligations hereunder shall be paid in U.S. Dollars to the bank account designated by the Ministry, free and clear of and without reduction by reason of any and all present and future taxes, levies, imposts, deductions, assessments, charges or withholdings whatsoever levied, assessed, imposed or collected with respect thereto by the government of [name of jurisdiction of issuing bank] or any political sub-division or taxing authority thereof or therein. We shall bear and pay any and all fees and expenses in relation to or in connection with this Letter of Guarantee.
5. In order to give effect to this Letter of Guarantee, we hereby declare that the Ministry shall be at liberty to act as though we were the principal debtor, and we hereby waive all and any of the rights as surety which may at any time be inconsistent with any of the above provisions.
6. Any claim or demand under this Letter of Guarantee shall be presented to us on or before the expiration of the date of the validity of this Letter of Guarantee.
7. This Letter of Guarantee shall be effective immediately [enter date that is ninety (90) days after the last day of the Initial Exploration Period, the First Extension Period or the Second Extension Period, as applicable], and thereafter automatically without any formality become null and void for all its effects and this Letter of Guarantee shall be returned to us immediately.

Yours very truly,

\_\_\_\_\_  
(Name of Bank)





**EXHIBIT E**

**GENERAL PERFORMANCE GUARANTEE**

*[Handwritten mark]*

## EXHIBIT E

### GENERAL PERFORMANCE GUARANTEE

Reference is made to the Exploration and Production Sharing Contract (the "Contract"), dated December 26, 2011, entered into between CNPCI Watan Oil and Gas Afghanistan Ltd. (the "Contractor") and the Ministry of Mines of the Government of the Islamic Republic of Afghanistan (the "Ministry").

With regard to the obligations assumed by the Contractor under the Contract or that may be imposed upon the Contractor under or in connection with the Contract, we, CNPC International Ltd. (the "Guarantor"), a corporation organized under the laws of Cayman Islands, agree as follows:

1. Capitalized terms used herein and not otherwise defined shall have the meanings as set forth in the Contract.
2. The Guarantor hereby expressly represents and warrants to the Ministry that (i) it is duly organized, validly existing and in good standing order under the laws of its jurisdiction of organization, (ii) it has all requisite corporate power and authority to execute, deliver and perform this Guarantee, (iii) the execution, delivery and performance of this Guarantee have been duly authorised by all necessary corporate action, (iv) this Guarantee constitutes the legal, valid and binding obligation of the Guarantor, enforceable against the Guarantor in accordance with its terms, (v) no governmental approvals are required in connection with the execution, delivery and performance of this Guarantee, except as has been obtained and is in force on this day of signature as set forth below, and (vi) execution, delivery and performance of this Guarantee by the Guarantor will not violate any provision of any existing law or regulation to which the Guarantor is subject or any provision of the Guarantor's constitutive documents or of any material agreements to which it may be a party.
3. The Guarantor hereby unconditionally and irrevocably guarantees to the Ministry, as a primary obligor, the due and punctual performance of all the obligations of the Contractor under or in connection with the Contract.
4. This Guarantee is irrevocable and unconditional and shall remain in full force and effect until all obligations of the Contractor under or in connection with the Contract are fully and irrevocably satisfied and discharged, notwithstanding (a) any amendment or termination of the Contract, (b) any extension of time, or (c) any delay or failure of the Government in pursuing any remedies against the Contractor.
5. The Ministry shall have no obligation to pursue any remedy or take any action against or in respect of the Contractor or any other Guarantor or surety prior to enforcing its right directly against the Guarantor. In addition, the Guarantor may not claim that the Ministry

could have avoided or mitigated, in any manner or through any action, the damages resulting from a default of the Contractor under the Contract or resort to any other guarantee held at any time in its favour, before proceeding against the Guarantor in connection with its obligations under this Guarantee. The Guarantor's obligations under this Guarantee shall be independent and absolute, and the Guarantor shall have no right to set-off or counterclaim with respect to any other claims it may have against the Government or any other Person.

6. All of the obligations of the Guarantor set forth herein shall bind the Guarantor and its successors. The Guarantor may not assign or delegate its duties hereunder without the prior written consent of the Ministry, and any purported assignment or delegation without such consent shall be null and void. The Guarantor confirms that this Guarantee shall remain in effect with respect to any assignee of the Contractor that is an Affiliated Entity of the Contractor. Upon any such assignment the assignee shall be considered the Contractor for all purposes hereunder to the extent of the assigned obligations. The Guarantor also confirms that any assignee of the Ministry under the Contract may exercise all rights and remedies of the Ministry under this Guarantee. No other person or entity shall be a beneficiary of this Guarantee or have or acquire any rights by reason of this Guarantee.
7. This Guarantee shall be governed and construed in accordance with the laws of Afghanistan, as amended or replaced and in effect from time to time.
8. Any failure of the Ministry to exercise any right, in whole or in part, hereunder shall not be construed as a waiver of the right to exercise the same or any other right.
9. No amendment or modification of this Guarantee shall be effective unless in writing and signed by both the Guarantor and the Ministry.
10. Any dispute concerning the legal interpretation hereunder shall be settled in accordance with Article XXIV of the Contract.
11. The Guarantor shall pay upon demand and presentation of invoices all reasonable and actual costs and expenses incurred by the Ministry in connection with the successful enforcement of this Guarantee, including, without limitation, reasonable fees and expenses of counsel.
12. All notices, demands, instructions, waivers, consents or other communications hereunder shall be in writing in the English language and deemed to have been properly effective upon receipt, and shall be sent by personal delivery, courier, first class mail or fax to the following addresses:

GUARANTOR:           CNPC International Ltd.  
                              No. 6-1, Fuchengmen Beidajie, Xicheng District  
                              Beijing, China 100034  
                              Telephone +86 10 5855 1114  
                              Fax +86 10 5855 1110  
                              ATTN: Mr. BO Qiliang



MINISTRY: Ministry of Mines  
Pashtoonistan Watt  
Across from Ministry of Finance  
Kabul, Afghanistan  
Telephone +93 (0) 202 100 309  
ATTN: Director of Petroleum Authority

The Addresses and fax numbers by either Party for notices given pursuant to this Guarantee may be changed by means of written notice to the other Party at least 14 working days prior to effective date of such change.

13. This Guarantee shall be effective immediately.

IN WITNESS WHEREOF, the Guarantor has caused this Guarantee to be executed and the Ministry duly authorised the same, both parties represented by their respective duly authorised representatives on this day of \_\_\_\_\_.

CNPC INTERNATIONAL LTD.

By \_\_\_\_\_  
President

THE MINISTRY OF MINES OF THE  
GOVERNMENT OF THE ISLAMIC REPUBLIC  
OF AFGHANISTAN

By \_\_\_\_\_  
The Minister of Mines

،  
☆  
—

**EXHIBIT F**

**LONG RANGE PLAN FOR  
THE TRAINING OF AFGHAN NATIONALS**

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## EXHIBIT F

### LONG RANGE PLAN FOR THE TRAINING OF AFGHAN NATIONALS

#### **Introduction**

One of the fundamental principles of CNPCI is the development of local resources in the places where we work. This consists primarily of a national workforce and reliable supporting suppliers and service organizations. Our staffing philosophy has been developed over sixty-five years of oilfield operations, in established, emerging and new oil sectors throughout the world. CNPCI is committed to recruiting, training and developing nationals in all the countries in which we operate and committed to complying with local laws and regulations. Our objective is to have, within CNPCI, sufficient national personnel to completely staff all our operations in that country. To ensure key employees are continually developed, we offer engineers the opportunity of overseas assignments, which broaden their technical and experience horizons. Cultivation of international talents is a key part of our internationalization strategy. On June 1, 2006, the International Talents Training Project was launched in a aim to cultivate a group of international talents with excellent specializations, work ethics, language skills, and a profound understanding of management and international operation rules.

#### **Workforce Nationalization**

A competent national workforce at all levels of our local organizations is crucial in enabling us to perform at a world class level. Engineers, managers and technical staff are especially important, and significant resources are dedicated to recruiting, training and developing this population.

To ensure common, high standards of **recruiting**, we have a dedicated recruiting department that focuses on recruiting engineers and technicians from the best universities and institutions in Afghanistan. Our recruiters have the charter to hire sufficient national personnel to staff all our operations in a particular country, and such is the case in Afghanistan.

Once an individual is recruited, he/she should follow a structured **training** programme. CNPCI respects the personalities and interests of all employees and pays attentions to their career plans. Through the skills cultivation, selection and allocation mechanism, we aim to create a suitable development channel for every employee. Recruited employees follow a structured training programme comprised of about [70%] technical material and about [30%] management material. This split has been set to ensure that individuals are technically prepared for running any wellsite operation as well as prepared to eventually take management positions.

## **Development Plan, Career Paths, and Technical Training of Afghan Nationals**

Any training programme shall incorporate a mix of theoretical and practical training. Some of training courses we will provide are:

### **Health, Safety, and Environment:**

Field Introduction, Specific Location Induction, H<sub>2</sub>S Safety, Explosives Safety, Radiation Safety, Lifting & Stepping, Rig Safety, Language Training, Defensive Driving and Journey Management, First Aid, all tailored to the needs of the individual's development plan.

The above training will be mandatory training for all Afghan national and expatriate technical professionals to ensure safe operations in all hydrocarbons operations.

### **Technical Skills:**

Technical training is key to all hydrocarbons operations. All new hires in Afghanistan hired for technical positions will follow an intensive three-year technical training programme. A technician training system is occupied to train front-line teams and cultivate highly skilled staff. The training programmes for the different functions involved in hydrocarbons operations will include intensive classroom and on-the-job training with regular review and assessment.

### **Management:**

We focus on the enhancement of management and innovative capabilities. All field professional staff, irrespective of discipline, will participate in the following management skills seminars:

- Introduction to Exploration & Production Industry (2 weeks)
- Basic Management Tools (1 week)
- People Skills (1 week)
- Finance (1 week)

### **Logistics:**

In order to ensure success of this crucial role, we will focus on training logistics personnel in local Afghan procedures as well as the provision of industry logistics.

**Administration:**

Centrally administered training for personnel, financial and legal, professional and administrative staff, including computer training and language training.

**E-learning in CNPC:**

Our parent entity, China National Petroleum Corporation ("CNPC"), has developed CNPC E-learning College, which is a specialized remote training institution devoted to establishing a modern enterprise training system offering both classroom and online training. By leveraging the network training resources of CNPC and its subsidiaries, the college provides employees with an autonomic learning platform. About 20,000 person times of employees are expected to be trained through the E-learning College in [2009]. The CNPC E-learning website also provides a way for publics to learn more about petroleum.

**Mentoring**

CNPCI understands that to provide sustainable economic gains for Afghanistan, we must facilitate learning-by-doing for our Afghan personnel to progressively assume greater leadership roles and responsibility in hydrocarbons operations. CNPCI will pair senior project staff and junior project staff to develop on-the-job mentoring opportunities. This approach will allow senior staff to enter into a surge capacity on new sites and junior staff to step into more senior roles on existing sites.

**Ministerial Training Courses**

In addition to developing Afghan nationals for the private sector, a wide range of courses and programmes, covering all hydrocarbons operations, will be offered to ministerial staff. This will be in addition to the mentoring required during the development of the Work Programmes. Such courses could be in reservoir studies, evaluation, as well as modeling and production management.

**Nationalization Plan**

Position	Start Up	2013	2014
	AFG % of Total	AFG % of Total	AFG % of Total
Management	0%	10 %	20 %
Engineers & Professionals	20 %	30 %	40 %
Field Technicians	40 %	50 %	60 %

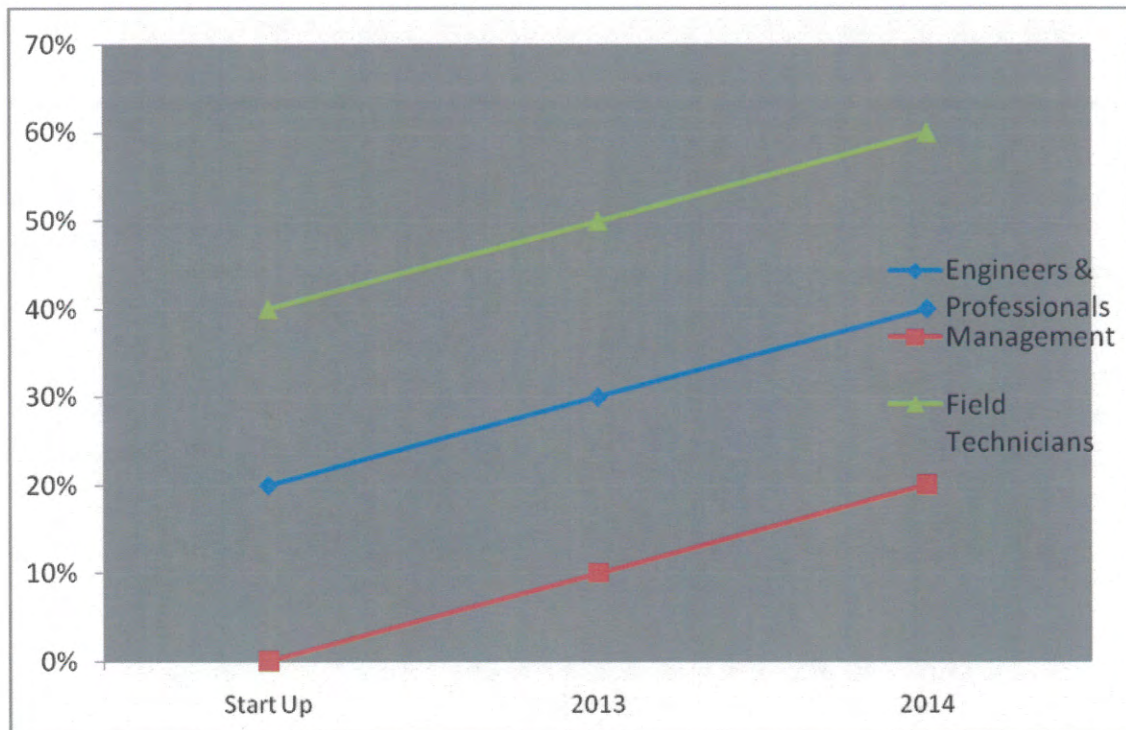


As seen in the table above, CNPCI is committed to developing Afghan national personnel to assume positions at ALL levels within the organization.

### Key Technical and Management Positions

Development of Afghan nationals into key technical and management jobs is an operational priority. Several positions have been identified and targeted for Afghan national employees. These positions will be tracked accordingly. The CNPCI plan for key technical and management positions is illustrated in the following graph.

### Nationalization by Key Positions



**Training plan of students abroad and officer and staff from 2012 to 2014**

<b>Personnel</b>	<b>Total</b>	<b>Training site</b>	<b>Content</b>	<b>Budget</b>
<b>2012</b>				
Students abroad	2	China	Professional education	10000
Governor Officer	2	China	Management ,HSE, etc	12000
Management	5	Afghanistan	HSE ,Management ,E-language, etc	6000
Engineers & Professionals	10	Afghanistan	HSE , E-language, specialty knowledge specialty skill, etc	9000
technician	50	Afghanistan	Operation skill, HSE, E-language ,etc	13000
<b>2013</b>				
Students abroad	2	China	Professional education	10000
Governor Officer	2	China	Management ,HSE, etc	10000
Management	10	Afghanistan	HSE ,Management ,E-language ,etc	8000
Engineers & Professionals	20	Afghanistan	HSE , E-language, specialty knowledge specialty skill ,etc	12000
technician	100	Afghanistan	Operation skill, HSE, E-language ,etc	15000
<b>2014</b>				
Students abroad	2	China	Professional education	10000
Governor Officer	2	China	Management ,HSE, etc	10000
Management	15	Afghanistan	HSE ,Management ,E-language, etc	11000
Engineers &	20	Afghanistan	HSE , E-language,	14000

Professionals			specialty knowledge specialty skill, etc	
technician	150	Afghanistan	Operation skill, HSE, E-language ,etc	15000

In addition to the sourcing and hiring of experienced, qualified management and technical staff currently employed within the Ministry, additional hiring will be done at the university level. The recruiting of personnel must provide several candidates with the necessary levels of training, expertise and experience to develop into field managers. In the hydrocarbons operations disciplines there will be candidates working in Afghanistan and abroad who will be selected for development into a field management role during the first three years of the EPSC.

In the first three years, CNPCIW will arrange Students abroad, Governor Officers of mine ministry, managements, Engineers and technicians take part in training in china or in Afghanistan, in next five years, we will arrange an another long term training plan according to the development of AD project , there are the particular description in follow chart:




# AD PROJECT LONG TERM TRAINING PLAN

标识号	任务名称	开始时间	完成时间	2012	2013	2014	2015	2016	2017	2018	2019
1	Training schedule planning	2012年07月03日	2019年09月30日	▬	▬	▬	▬	▬	▬	▬	▬
2	Students abroad	2012年09月03日	2019年09月30日	▬	▬	▬	▬	▬	▬	▬	▬
3	year2012 two students	2012年09月03日	2012年12月04日	▬							
4	year2013 two students	2013年01月31日	2013年12月03日		▬						
5	year2014 two students	2014年01月31日	2014年12月03日			▬					
6	2nd, 5year	2015年02月02日	2019年09月30日				▬				
7	Governor Officer	2012年07月03日	2019年09月30日	▬	▬	▬	▬	▬	▬	▬	▬
8	year2012 two persons	2012年07月03日	2012年08月08日	▬							
9	year2013 two persons	2013年07月03日	2013年09月25日		▬						
10	year2014 two persons	2014年07月02日	2014年09月30日			▬					
11	2nd, 5year	2015年02月02日	2019年09月30日				▬				
12	Management	2012年10月08日	2019年09月30日	▬	▬	▬	▬	▬	▬	▬	▬
13	year2012 5persons	2012年10月08日	2012年12月18日	▬							
14	year2013 10persons	2013年04月02日	2013年06月26日		▬						
15	year2014 15persons	2014年04月03日	2014年06月30日			▬					
16	2nd, 5year	2015年02月02日	2019年09月30日				▬				
17	Engineers & Professionals	2012年10月08日	2019年09月30日	▬	▬	▬	▬	▬	▬	▬	▬
18	year2012 10persons	2012年10月08日	2012年12月18日	▬							
19	year2013 20persons	2013年05月08日	2013年10月30日		▬						
20	year2014 20persons	2014年05月08日	2014年10月30日			▬					
21	2nd, 5year	2015年02月02日	2019年09月30日				▬				
22	technician	2012年09月05日	2019年09月30日	▬	▬	▬	▬	▬	▬	▬	▬
23	year2012 50persons	2012年09月05日	2012年12月18日	▬							
24	year2013 100persons	2013年03月04日	2013年09月27日		▬						
25	year2014 150persons	2014年03月05日	2014年10月30日			▬					
26	2nd, 5year	2015年02月02日	2019年09月30日				▬				



项目: 项目TRAINING PLAN 1.mpp  
 日期: 2011年12月08日

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**EXHIBIT G**  
**BIDDING FORM**

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**Exhibit IV: Bidding Form**

**AMU DARYA OIL TENDER OF 2011**

**BIDDING FORM**

Ministry of Mines of the Islamic Republic of Afghanistan  
Kabul  
Islamic Republic of Afghanistan

BIDDER: Consortium of CNPC International, Ltd. and Watan Oil and Gas, Ltd.

ROYALTY BID: Fifteen percent ( 15.000 %)

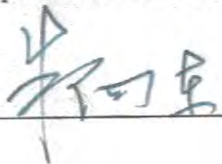
The undersigned, CNPC International, Ltd. and Watan Oil and Gas Ltd., hereby unconditionally commit that, if selected as the winning bidder in the above-referenced tender process, they will cause a company organized under the laws of the Islamic Republic of Afghanistan and wholly owned by them to enter into the Exploration and Production Sharing Contract (the "EPSC") in the final form distributed to the bidders in the above-referenced tender process, with the royalty referred to in Section 10.1 of the EPSC being the percentage indicated above. Unless such period is extended by the Ministry, the EPSC shall be executed no later than thirty (30) days after notification by the Ministry of award of the EPSC. The undersigned acknowledge that non-compliance with the obligation set forth above shall result in a drawing on the Bid Guarantee.

Zhu Xiangdong


Ahmad Rateb Popal

Representative of CNPC International, Ltd.

Representative of Watan Oil and Gas Ltd.

  
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**EXHIBIT H**

**MINIMUM EXPLORATION PROGRAMME;**  
**MINIMUM PRODUCTION REQUIREMENTS FOR**  
**DESIGNATED FIELDS**

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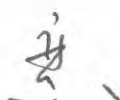
**EXHIBIT H**  
**MINIMUM EXPLORATION PROGRAMME;**  
**MINIMUM PRODUCTION REQUIREMENTS**  
**FOR DESIGNATED FIELDS**

**I. Minimum Exploration Programme**

The Contractor shall perform the following minimum Exploration Operations during the Exploration Phase:

	<b>Block</b>	<b>2D Seismic (km)</b>	<b>Wells</b>
<b>Initial Exploration Period</b>	<b>Kashkari</b>	100	3
	<b>Bazarkhami</b>	100	
	<b>Zamarudsay</b>	100	
<b>First Extension Period</b>	<b>Kashkari</b>	100	3
	<b>Bazarkhami</b>	100	
	<b>Zamarudsay</b>	100	
<b>Second Extension Period</b>	<b>Kashkari</b>	100	3
	<b>Bazarkhami</b>	100	
	<b>Zamarudsay</b>	100	

For purposes of the foregoing and for calculation of the amount of the Financial Guarantee required pursuant to Section 3.1(a), each kilometer of 2D seismic survey shall be deemed to have a value of US\$30,000; each square kilometer of 3D seismic survey shall be deemed equivalent to 3 kilometers of 2D seismic survey; and each Exploration Well shall be drilled to the Hauterivian horizon and shall be deemed to have a value of US\$2,000,000. The Contractor may drill the required Exploration Wells in any portion of the Contract Area outside of the Designated Fields. The Ministry may grant credit for Wells that do not reach target depth in accordance with Section 5.4(k). The amount of any seismic surveys undertaken or Exploration Wells drilled in excess of the required





minimum Exploration Operations for any given period shall be carried forward to the next period and shall be taken into account to satisfy the required minimum Exploration Operations and/or calculate the amount of the Financial Guarantee required for such subsequent period.

## II. Minimum Production Requirements for Designated Fields

The Contractor shall meet the minimum cumulative production requirements from each of the Designated Fields during the Years indicated under either Option 1 or Option 2 below. The Contractor shall elect either Option 1 or Option 2 in the manner prescribed by Section 6.4 of this Contract. Liquid Hydrocarbons produced during production testing shall not be counted toward satisfaction of the minimum cumulative production requirements.

### Option 1

Designated Field	Cumulative Production (thousand barrels of Liquid Hydrocarbons)				
	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Kashkari Field</b>	50	1400	3000	5000	7000
<b>Angot Field</b>	100	250	400	500	600
<b>Aq Darya Field</b>	0	0	500	1500	2700
<b>Bazarkhami Field</b>	0	0	0	100	200
<b>Zamarudsay Field</b>	0	0	0	300	1800



**Option 2**

<b>Designated Field</b>	<b>Cumulative Production (thousand barrels of Liquid Hydrocarbons)</b>				
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
<b>Kashkari Field</b>	0	1400	3000	5000	7000
<b>Angot Field</b>	100	250	400	500	600
<b>Aq Darya Field</b>	50	1050	2250	3500	4700
<b>Bazarkhami Field</b>	0	0	0	100	200
<b>Zamarudsay Field</b>	0	0	0	300	1800

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