

(English translation)

Petroleum Regulation, 2041 (1985)

[with amendments]

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In exercise of the powers conferred by Section 22 of the Nepal Petroleum Act, 2040 (1983), Government of Nepal has made the following Rules:

Chapter 1

Preliminary

1. Short Title and Commencement:

- (1) These Rules shall be called the "Petroleum Regulation, 2041 (1985)".
- (2) This Regulation shall come into force immediately.

2. Definitions :

Unless the subject or context otherwise requires, in this Regulation:

- (a) "Exploration Period" means initial Exploration Period and extension thereof as specified in Rule 16.
- (b) "Exploration Operations" means all work necessary to explore for Petroleum and evaluate the commercial development of any discovery of Petroleum as provided in a Petroleum Agreement.
- (c) "Exploration Block" means the Exploration Block marked under Rule 14 by demarcating boundaries under Rules 11 and 13.
- (d) "Production Permit" means the Production Permit to be issued under sub-rule (2) of Rule 20.
- (e) "Production Period" means the Production Period as specified in Rule 21.

- (f) "Production Operations" means all works necessary to produce, treat, transport, store and sell or dispose of Petroleum.
- (g) "Production Area" means an area described in a Production Permit.
- (h) "Act" means the Nepal Petroleum Act, 2040 (1983).
- (i) "Subcontractor" means any person hired by a Contractor to carry out Petroleum Operations.
- (j) "Contact Year" means a period of twelve (12) consecutive months beginning from the Effective Date or from the anniversary of such Effective Date according to the Gregorian Calendar.
- (k) "Contract Area" means the area described in a Petroleum Agreement, as reduced by the relinquishments pursuant to Rule 17.
- (l) "Dollar" means the United States dollar.
- (m) "Inspector" means an individual, official or authority authorized by Government under Section 11 of the Act.
- (n) "Petroleum Costs" means all expenditures incurred by a Contractor in conducting Petroleum Operations and which are defined in a Petroleum Agreement.
- (o) "Budget" means the itemized estimate of costs of all items included in a work program.
- (p) "Effective Date" means the date on which Government and a Contractor sign a Petroleum Agreement.
- (q) "Calendar Year" means a period of twelve (12) consecutive months beginning with January 1 and ending with the December 31 according to the Gregorian Calendar.
- (r) "Development Operations" means all work necessary to commercially develop a Field.
- (s) "Sale or Disposal" means any sale, exchange or transfer of petroleum with or without payment.

- (t) "Royalty" means the Royalty to be retained by Government pursuant to Section 13 of the Act.
- (u) "Commercial Production Day" means the day on which a Contractor makes its first sale or disposal of Petroleum produced in ²commercial quantities from a Production Area.
- (v) "Field" means an area consisting of a single or multiple Petroleum reservoirs all grouped on, or related to, the same individual geological structural feature, or stratigraphic conditions from which Petroleum may be produced commercially.
- (w) "Board" means the Petroleum Advisory Board constituted under Rule 43.
- (x) "Calendar Quarter" means a period of Three consecutive months beginning January 1, April 1, July 1 or October 1 and ending on the following March 31, June 30, September 30 or December 31, respectively, according to the Gregorian Calendar.

Chapter 2

Selection of Contractor and Petroleum Agreement

3. Invitation for Bid:

In case Government desires to conduct Petroleum Operations by employing a Contractor, Department shall issue an invitation for bid and publish notice thereto, in national and international newspapers prescribing a time limit of at least sixty (60)

days for the submission of bids.

4. Particulars to be Mentioned in Invitation for Bid :

The following details shall be mentioned in invitations for bid:

- (a) Exploration Blocks open for Petroleum Operations.
- (b) Basic information about the Exploration Blocks.

- (c) Bidding fee.
- (d) Other necessary particulars.

5. Particulars to be mentioned in Bid:

A company desirous of undertaking Petroleum Operations shall submit a sealed bid to Department in the format prescribed in Schedule-1 with the following details within the time-limit prescribed in the notice published under Rule 3.

- (a) Evidence showing that the bidder is a company.
- (b) Name and address of the person authorized to act on behalf of the bidder.
- (c) Evidence showing that the bidder commands capital, machinery, equipment, tools and specialists required for undertaking Petroleum Operations.
- (d) Methods and time schedule of Exploration Operations.
- (e) Minimum work programme and budget for the Exploration Period (including two extensions).
- (f) In the event of the bidder to be a joint venture of two or more persons, particulars pertaining to their relationship, responsibilities and percentage of their share.
- (g) Annual Work Programme and Budget for the first Contract Year.

6. Evaluation of Bids:

(1) While evaluating bid proposals received pursuant to Rule 5; it shall be done so on giving the following points for the following basis:

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|---|----------------|
| (a) Technical competence and work experience of the bidder | -Twenty points |
| (b) Financial competence of the bidder | -Twenty points |
| (c) Experience of the bidder in marketing of petroleum | -Five points |
| (d) Proposed minimum work and expenditure obligation during the Exploration periods | -Twenty points |
| (e) Proposed allocation of net petroleum | -Twenty points |
| (f) Proposed educational and training facilities | -Five points |
| (g) A scheme for investment and social development | -Five points |

- (h) Employment and any other relevant particulars -Five points
- (2) While giving points as per clauses (a), (b), (d) and (e) out of the basis set forth in sub-rule (1) herein above, such points shall be given by splitting up weightage of the point as per the additional basis prescribed. The basis and splitting up of weightage of the points so prescribed shall be approved by the Director General prior to evaluation of bid proposals.
- (3) While evaluating the bid proposals, a bidder who secures 60 points shall be considered a qualified bidder.
- (4) For evaluation of bid proposals, the following Bid Evaluation Committee shall be constituted:
- | | |
|---|--------------------|
| (a) Gazetted First Class Officer of the Department
designated by the Director General, or Gazetted
Second Class Officer in case a first class officer
is not available therein | - Coordinator |
| (b) Head of the Financial Section of the Department | - Member |
| (c) Subject expert designated by the Director General | - Member |
| (d) Law officer, if available in the Department | - Member |
| (e) Head of the Procurement Unit of the Department | - Member-secretary |
- (5) The Evaluation Committee may invite an expert of the concerned subject, or official of any entity in the evaluation meeting, when necessary.
- (6) The bid proposals evaluation works shall be completed within ninety (90) days of bid opening date.

7. Negotiations:

After evaluation of bids, Department may undertake negotiations with the qualified bidders.

8. Approval of Bids:

On the basis of its evaluation of bids and negotiations with bidders, Department shall

forward the bids with its recommendations to Government for approval and Government shall decide whether or not to sign any Petroleum Agreement.

9. Notice for Signing Petroleum Agreement:

- (1) Department shall inform any bidder approved by Government pursuant to Rule 8, and notify it of the date, time and place for signing the Petroleum Agreement.
- (2) In case a successful bidder without proper reason fails to appear for signing the Petroleum Agreement at the time mentioned in the notice sent under sub-rule (1), Government may make alternative arrangements.

10. Petroleum Agreement:

- (1) Normally, no bidder shall be granted more than two Exploration Blocks for Petroleum Operations.
- (2) Subject to sub-rule (1) One Petroleum Agreement may be signed covering more than one Exploration Block.
- (3) Petroleum Agreements shall be substantially signed in the format prescribed in Schedule 2 in Nepali or in English language with such additions or deletions as may be approved by Government.
- (4) Secretary, Ministry of Industry, shall sign Petroleum Agreements on behalf of the Government.
- (5) If the Petroleum Agreement concluded as per this Regulation has been violated by the contractor, the Government may terminate such agreement. The Contractor shall be given a reasonable opportunity to submit his/her clarification before termination of Agreement.

10a. Company, or Industry to be Registered:

A Contractor shall get a company or industry registered in accordance with prevailing law within ninety (90) days following entry into force of the Petroleum Agreement pursuant to Rule 10.

Chapter-3

Demarcation of areas

11. Surface Boundaries of Exploration Blocks and Contract Areas:

Exploration Blocks and Contract Areas shall be demarcated by longitudes and latitudes, and international boundaries or prominent natural topographic features, such as mountain divides or river courses.

12. Surface Boundaries of Production Areas:

Production Areas shall be polygons in shape and be demarcated by definite geographical co-ordinates.

13. Vertical Boundaries of Exploration Blocks, Contract Areas and Production Areas:

The vertical boundaries of Exploration Blocks, Contract Areas and Production Areas below the surface shall be vertical planes projected through the surface boundaries of such areas.

14. Area of Exploration Block:

The area of each Exploration Block shall be as demarcated by Department and shall not exceed Five Thousand (5000) square kilometers.

15. Power to Conduct Surveys:

For the purpose of clearly demarking Exploration Blocks, contract Areas, and Production Areas, Department may as it may deem necessary, at Contractor's cost,

conduct surveys or order Contractor to conduct surveys.

Chapter 4

Exploration

16. Exploration Period:

- (1) The duration of the Initial Exploration Period shall be Four Contract Years from the Effective Date of the commencement of petroleum agreement.
 - (1a) After the completion of the Initial Exploration Period pursuant to sub-rule (1), Government may extend up to five (5) contract years in total as necessary, consisting of three (3) contract years for the first extension, and two (2) contract years for second extension.
- (2) Department may further extend the duration of the Exploration Period for such time as may be reasonably necessary to complete drilling, logging, testing or plugging of any well which is actually being drilled, logged, tested or plugged at the end of an Exploration Period, or to complete any appraisal work, the evaluation of any discoveries, the preparation and submission of detailed development Work Programme and Budgets and/or an application for a Production Permit, or to secure an export market (including necessary arrangements and infrastructure) for Petroleum from a Field which has been discovered in a Contract Area.

17. Relinquishment of Areas:

- (1) Contractor shall relinquish areas as follows:
 - (a) At least fifty (50) per cent of the original Contract Area, excluding any area falling under a Production Area, by the end of the initial Exploration Period.
 - (b) Twenty five (25) per cent of the original Contract Area, excluding any area falling under a Production Area, by the end of first extension of the

Exploration Period.

- (c) Subject to sub-rule (2) of Rule 16, all remaining areas of the original Contract Area, excluding areas falling under a Production Area, by the end of the Exploration Period.

Explanation: For the purposes of sub-rule (1), Production Area includes any area over which a request for a Production Permit is under consideration.

- (2) Notwithstanding anything contained in sub-rule (1), each area which is relinquished from time to time shall be not less than Ten per cent of the original Contract Area and shall be composed of contiguous blocks.
- (3) Government shall have the right as agreed in the Petroleum Agreement to order a Contractor to relinquish additional areas containing a Field if after the completion of appraisal work in such areas Contractor does not apply for a Production Permit, in which case Contractor shall relinquish such areas as provided in the Petroleum Agreement.
- (4) During the Exploration Period, Contractor may at any time relinquish any portion of the Contract Area and all such voluntary relinquishments shall be credited towards the mandatory relinquishments as specified in sub-rule (1).

Chapter-5

Work Programme and Budget and Allocation of Petroleum

18. Report to be Submitted:

- (1) Contractor shall have to submit a report with conclusion to the Department pursuant to an Agreement containing therein findings as to whether petroleum has been discovered or not in a Contract Area.
- (2) If petroleum discovered in any Contract Area, Contractor shall immediately deliver to Department a notice of discovery.

19. Appraisal Work Programme and Budget to be submitted:

Contractor shall, within ninety (90) days after the date of submission of discovery report pursuant to Rule 18, submit a detailed appraisal Work Programme and Budget to evaluate the commercial development of the Field to Department.

20. Development Work Programme and Budget, and Production Permit:

- (1) In case appraisal work shows that a Field can be commercially developed, Contractor shall, within a reasonable period, apply to Department for a Production Permit. Such application for a Production Permit shall include a detailed Development Work Programme and Budget for commercially developing the Field, and a detailed description of the Production Area applied for.
- (2) A Contractor shall not proceed with Development Operations until it has obtained the approval of Department. Following the approval of the development Work Programme and Budget by Department, Department shall issue a Production Permit.
- (3) If the extent of a Field subject to a Production Permit is demonstrated to be different than that for which the Permit was issued, the Production Area subject to the Production Permit shall be adjusted accordingly, provided that the area covered shall be entirely within an unrelinquished Contract Area.
- (4) If a Contractor discovers Natural Gas, whether or not in association with Crude Oil, Department and Contractor shall immediately consult for the purpose of developing commercial use of such Natural Gas. If no commercial use for Natural Gas has been developed, Contractor shall have the right to request a Production Permit to enable Contractor to develop a commercial market, as specified in the Petroleum Agreement. In order to assist Contractor to develop a commercial market for such Natural Gas, a committee of representatives of both Department and Contractor shall be established. The committee shall jointly

review assessment of the discovery, adopt procedures for planning commercial development, and monitor progress in implementing agreed programme.

21. Production Period:

- (1) The duration of a Production Period shall expire thirty (30) years after the Effective Date.
- (2) Notwithstanding anything contained in sub-rule (1) herein above, if petroleum works have been halted due to the force majeure for more than thirty (30) days; Department may add on such halted period in the production period.

22. Allocation of Petroleum:

- (1) Government shall retain as royalty as referred to in Section 13 of the Act not less than 12.5 per cent of all Petroleum produced within a Contract Area.
- (2) The balance of Petroleum produced within a Contract Area remaining, after retention of Royalty by government, and payment of Petroleum Costs to Contractor, shall be allocated to Government and to Contractor in accordance with the provisions of the Petroleum Agreement.
- (3) For the purpose of this Rule, Petroleum produced within a Contract Area means the amount of Petroleum remaining after deducting the Petroleum used as follows from the amount of Petroleum produced from each Field within the Contract Area:
 - (a) Petroleum used for analysis, test, or in Petroleum Operations.
 - (b) Natural Gas made available without cost to other Contractors for the purpose of conservation of Petroleum resources or flared, with the prior approval of Department.
 - (c) Natural Gas utilized by Government at its own risk.

Chapter 6

Petroleum Operation

23. Details to be Furnished :

- (1) At least thirty (30) days prior to undertaking any Petroleum Operations Contractor shall submit the following details concerning the proposed work:
 - (a) Proposed work programme in detail.
 - (b) Time schedule.
 - (c) Map of the area showing proposed location of work.
 - (d) If the work is to be carried out by a Subcontractor, its name and address.
- (2) In case necessary changes is to be made in the details submitted under sub-rule (1) Contractor shall submit the details of proposed changes fifteen (15) days prior to such change is made.
- (3) After the details under sub-rule (1) or (2) is received, Department may ask for additional information from Contractor, and it shall be the duty of Contractor to furnish the information so requested as soon as possible.

24. Standards of Conducting Petroleum Operations to be Prescribed:

Department may prescribe that Contractor in respect of any specific Petroleum Operations shall comply with the standards of oil field operations published by a recognized professional institution, with or without any modifications for conditions in Nepal.

25. Conduct of Petroleum Operations:

Contractor shall make the following arrangements while conducting Petroleum Operations:

- (a) Establish security areas around all machinery, equipment and tools.
- (b) Erect fences at a distance of not less than fifty (50) meters from any drilling rig, generator, and other structures.

- (c) Provide secure storage areas for all explosive, detonators, and similar dangerous materials used in Petroleum Operations.
- (d) Avoid causing any loss or damage to life, property or crops.
- (e) Maintain records of workers working in each work area, and send a copy thereof to Department within fifteen (15) days from the date of commencing of operations in the area.
- (f) Maintain a register of workers in the form prescribed by Department, and send details of workers joining or leaving every month to Department within the first week of the following month.
- (g) Report to Department within seventy two (72) hours in case any worker is injured while performing his/her duties in connection with Petroleum Operations.
- (h) Arrange an adequate supply of first-aid medicines and equipment at each area and maintain healthy environment for the workers. Arrange necessary insurance as provided in Petroleum Agreement.
- (i) Provide safety and fire-fighting equipment in each work area.

26. Operation and Maintenance of Wells:

- (1) Contractor, before undertaking any drilling or workover operations, shall give written notice to Department at least fifteen (15) days prior hereto including such notice of its detail drilling programme. Contractor shall give Department as much notice as practicable before undertaking logging or casing.
- (2) In all well drilling, production and maintenance operations, Contractor shall:
 - (a) Not drill a well in such a manner that it passes through an underground vertical plane of the boundary of the Production Area.
 - (b) Install and keep in good working order blow-out preventers on all wells, and in accordance with the prescribed procedure, test such equipment from time to time and maintain records thereof.
 - (c) Use drilling mud of proper specifications and in appropriate quantities in order to prevent the blow-out of Petroleum from any well.

- (d) Take cutting samples at intervals not exceeding Ten meters apart or as directed by Department throughout the depth of the well while drilling wells. Such samples shall be labeled with the number and the relevant interval of depths of the concerned well.
- (e) In cases where core samples are taken, the cores shall be split and placed in core boxes in stratigraphic order. The body of each core box shall be accurately labeled with number of cores, the depth of top and bottom intervals of the cores, percentage of core recovery, and the name of the well.
- (f) Make available to Department within a reasonable time period one set each of cutting and core samples taken under Clauses (d) and (e).

27. Flow Rate Measurement Equipment and Method:

- (1) In the production of Crude Oil or Natural Gas, Contractor shall install equipment for measuring the rate of flow of Crude Oil or Natural Gas of the type as prescribed by Department.
- (2) The method of installation of equipment under sub-rule (1) or procedure for measurement, calculation and calibration of the rate of flow of Crude Oil or Natural Gas shall be as prescribed by Department.
- (3) The basis and procedure for determination of the specific gravity and average temperature of Crude Oil and the quantity of sediment and water in Crude Oil shall be prescribed by Department.
- (4) In the event equipment for measuring the rate of flow of Crude Oil or Natural Gas is damaged or unable to be used for any reason, Contractor shall evaluate the rate of flow by using the best available data, as approved by Department.
- (5) A Contractor shall submit to Department a report of the calibration of equipment for measurement of rate of flow of Crude Oil or Natural Gas in the form prescribed by Department within seven (7) days from the date of completion of calibration.

28. Construction, Maintenance and Use of Permanent Facilities:

- (1) Contractor shall construct, operate, repair and maintain all facilities required in a Production Area in connection with Petroleum Operations.
- (2) Contractor shall have the right to construct, operate, repair and maintain road, pipe-line and other transportation, communication and storage facilities outside a Production Area necessary for Petroleum Operations subject to prior approval of work programme and budget by Department and the acquisition of land required for such operations under Section 17 of the Act.
- (3) If Government of Nepal undertakes the construction, operation, repair and maintenance of the facilities described in sub-rule (2), Contractor shall have the right to use such facilities for appropriate tariffs as fixed by Government.
- (4) Government of Nepal or other persons may use the facilities constructed under sub-rule (1) or (2) in such a way as not to impair the work of Contractor and as mentioned in a Petroleum Agreement.
- (5) All permanent facilities constructed and all other assets other than those which are leased or imported for temporary use, which are permanently installed for the exploration, production, treatment, transportation or storage of Petroleum, shall become the property of Government of Nepal upon completion of construction or installation.
- (6) Government of Nepal may order a Contractor to remove at the cost of Contractor, all or part of the facilities and other assets described in sub-rule (5) at the end of Petroleum Agreement.
- (7) Title to the facilities and assets removed under sub-rule (6) shall pass to Contractor.

29. Work upon Completion of Petroleum Operations:

After completion of Petroleum Operations in any area or after the expiry of the

duration of Petroleum Agreement or after the termination of the Petroleum Agreement, Contractor shall perform the following work at his own cost:

- (a) Restore the area used for Petroleum Operations to its original condition, unless otherwise instructed by Department.
- (b) Erect walls or fences around any holes, pits, trenches, or wells in order to prevent any possible danger to persons or animals.
- (c) Remove all structures, foundations, machinery, equipment, and other materials which are of no further use, unless otherwise instructed by Department.

Chapter 7

Report and Information

30. Reports and Information:

- (1) Contractor shall submit to Department the following reports and information concerning Petroleum Operations undertaken by it.
 - (a) Monthly, quarterly and annual reports.
 - (b) Reports on magnetic and gravity surveys.
 - (c) Reports on surface geological surveys.
 - (d) Reports on seismic data and interpretations thereof.
 - (e) Reports on drilling operations.
 - (f) Reports on investigation of Petroleum reserves, Field limits and economic evaluations.
 - (g) Reports on production of Petroleum.
 - (h) Safety programmes and reports on accidents.
 - (i) Procurement plans for goods and services, and copies of all contracts with Subcontractors.
 - (j) Design criteria, specifications, maps and construction records.

- (k) Reports of technical investigations relating to Petroleum Operations.
 - (l) Statements of Petroleum Costs.
 - (m) Reports on education and training programmes.
 - (n) Such other reports as may be required according to the accounting procedures prescribed by Government of Nepal.
 - (o) Any other reports as may be required by Department.
- (2) Contractor shall submit to Department all other samples, reports, documents, data and information which are required under Petroleum Agreement.

31. Magnetic and Gravity Surveys:

- (1) Contractor shall submit the following to Department concerning magnetic and gravity surveys:
- (a) Flight path maps in 1:50,000 and 1:250,000 scales.
 - (b) Aerial magnetic recording tapes.
 - (c) Daily records of the earth's magnetic fields.
 - (d) Specifications of equipment used in the magnetic and gravity surveys.
 - (e) Reports on the interpretation of Clauses (a), (b) and (c) together with maps showing the intensity of magnetic and/or gravity and depth of basement, and structural maps in both transparencies and paper prints at scales used by Contractor as well as 1:50,000 and 1:250,000 scales.
- (2) Reports on Clauses (a), (b), (c) and (d) shall be submitted within thirty (30) days after completion of the magnetic and gravity surveys, and reports on Clause (e) shall be submitted within ninety (90) days thereof.

32. Surface Geological Surveys:

Contractor shall submit the results of surface geological surveys within a reasonable time but in any case not later than six (6) months after the completion of the survey including but not limited to:

- (a) Geological maps in scales used by Contractor and at scales of 1:50,000 and 1:250,000 and maps showing the location of the collection of samples in

1:50,000 scale in both transparencies and paper prints.

- (b) Analysis of Petroleum reservoirs specifying the rock types, petrology, permeability and porosity.
- (c) Petroleum source rocks analysis, consisting of total organic carbon contents, types and maturity.
- (d) Paleontology analysis, stratigraphy, and environment of deposition.

33. Seismic Surveys:

- (1) Contractor shall submit the following in relation to seismic surveys:
 - (a) Source and receiver pattern diagrams.
 - (b) Specifications of equipment used in seismic surveys.
 - (c) Maps showing permanent marks used in the survey in 1:50,000 scale.
 - (d) Seismic shot point maps at Contractor's scales and also at 1:50,000 and 1:250,000 scales, if used by Contractor, in both transparencies and paper prints.
 - (e) Source wave form characteristic analysis.
 - (f) Weathering profile.
 - (g) Magnetic field tapes and final processed tapes; and reprocessed tapes if they have been used for reinterpretation and/or location of well(s).
 - (h) Seismic sections processed and reprocessed in both transparencies and paper prints at scales of one second per Ten cm. and one second per Five cm. vertical scale.
 - (i) Copies of all seismic sections interpreted and reinterpreted by Contractor.
 - (j) Velocity analysis and interval velocities at each shot point location which Contractor has determined.
 - (k) Seismic interpretation of every horizon which Contractor has interpreted, including thickness, structure, facies, environment, geochemical maturity and any other interpretive maps which Contractor has constructed during the course of his study.
 - (l) Maps prepared under Clauses (j) and (k) at the scales used by Contractor as

well as 1:250,000.

- (2) Reports on Clauses (a), (b), (c), (d), (e), (f), (g), (h), and (i) shall be submitted as soon as possible after the acquisition of the seismic profiles and in no case later than sixty (60) days after the interpretation of the seismic profile.
- (3) Reports on Clauses (j), (k) and (l) shall be submitted within ninety (90) days after completion of the interpretation.

34. Drilling of Exploration and Production Wells:

Contractor shall submit the following details to Department in regard to the drilling of exploration and production wells within the following time-limits:

- (a) A daily report within 13:00 hours of the following day, which must contain the following details:
 - (1) Names of well and Contractor.
 - (2) Date and time of operation.
 - (3) Name of drilling rig.
 - (4) Days of previous operation on the particular well.
 - (5) Depth of well at time of report.
 - (6) Diameter of well.
 - (7) Type and size of drill bit.
 - (8) Deviation of well.
 - (9) Type, weight, and specification of drilling mud (Soil).
 - (10) Operation and problems during previous 24 hours.
 - (11) Lithology within previous 24 hours.
 - (12) Petroleum found.
 - (13) Type, size, weight and depth of casing.
 - (14) Cementing.
 - (15) Pressure test of Petroleum blow-out preventer, casing, and other related equipment.
 - (16) Well-logging, including type and depth of logging.
 - (17) Core sampling.

- (18) Flow tests and the depth thereof.
 - (19) Well abandonment.
 - (20) Drilling rig, release.
 - (21) Conditions of weather.
- (b) A complete suite of continuously spliced well logs at a scale of 1:1,000 in transparency and paper print within thirty (30) days of the completion of the logging operations in addition to the well logs at various scales which are received in the normal course of logging.
- (c) The well completion report shall be submitted within ninety (90) days after the completion of a well. In case there are clear reasons and basis due to which the report could not be submitted within the said period, Department may extend the period by additional ninety (90) days. This report shall include a complete description of the results of the well, test results, details of geology and lithology, log interpretation results, including formulae and methods of calculations, and petroleum, water and pressure analyses. The well completion log shall be at a scale of 1:1,000 and shall consist of:
- (1) Log curves.
 - (2) Lithologic descriptions.
 - (3) Formation tops.
 - (4) Velocity information.
 - (5) Shows and tests.
 - (6) Casing and plugs.
 - (7) Cores.
 - (8) Paleontologic and palynologic markers.
 - (9) Environment of deposition.
 - (10) Other information which Contractor has plotted on its own well logs and which contributes to the interpretation of the results of the well.
- (d) Interpretation of the logging of well including formula calculation within thirty (30) days after completion of interpretation.

- (e) Sample report analysis within thirty (30) days after completion of digging the well.
- (f) Test report including following details within thirty (30) days after completion of the test of the well.
 - (1) Depth of test.
 - (2) Hydrocarbon and water.
 - (3) Analysis of Hydrocarbons and water.
 - (4) Pressure analysis.

35. Petroleum Production:

Contractor shall submit the following details to Department in regard to petroleum production within the following time-limits:

- (a) A daily report within 13:00 hours of the following day, with following details:
 - (1) Amount of Petroleum produced.
 - (2) Amount of Petroleum stored, sold, or disposed.
 - (3) Amount of Petroleum used as fuel.
 - (4) Amount of Petroleum flared.
 - (5) Gravity and viscosity.
 - (6) Vapour pressure.
 - (7) Pour point.
 - (8) Dew-point and composition of Natural
 - (9) Impurities.
 - (10) Water produced and result of the analysis.
 - (11) Tubing and casing pressure.
 - (12) Choke size.
 - (13) Well test.
 - (14) Operation during the previous 24 hours.
- (b) Workover report, giving reasons, length and details of work over within thirty (30) days after the completion of the workover.
- (c) Stimulation report, stating methods and details of materials used for the purpose

- within thirty (30) days after the completion of such operations.
- (d) Bottom hole pressure test report within fifteen (15) days after the completion of such test.
 - (e) Production test report including details of calculation within thirty (30) days after completion of the test.
 - (f) Reports concerning petroleum reserves, limits of the field, and economic evaluation(s) (as specified in Development Work Programme).

Chapter 8

Surface Rental, Bonus and other Fees

36. Surface Rental and Other Fees :

Contractor shall pay surface rental and other fees to Government in Dollars at the rates mentioned in Schedule-3.

37. Calculation of Surface Rental:

All payments of surface rental shall be computed on a Calendar Year basis, reduced *pro rata* to reflect rights to areas for less than a full Calendar Year. Each payment shall be accompanied by a summary which indicates its basis of computation. If during any Calendar Year a change occurs in the area of the Contract Area which results in a change in the payment due, the payment for the following Calendar Year shall be adjusted accordingly to compensate for the change.

38. Time for Paying Surface Rental:

Contractor shall pay surface rental for the first Calendar Year within a period of thirty (30) days after the Effective Date, and for each successive Calendar Year within thirty (30) days after the beginning of the Calendar Year.

39. Signature and Production Bonus:

The signature bonus shall be paid within thirty (30) days of the Effective Date and the production bonus shall be paid within ninety (90) days of the Commercial

Production Day, if the Petroleum Agreement includes the provision of such payments.

Chapter 9

Inspection and Investigations

40. Inspections and Investigations:

- (1) An Inspector may at any time visit any Contract Area and initiate inspections and investigations.
- (2) An Inspector may take necessary equipment and personnel along with him/her while undertaking inspections and investigations under sub-rule (1).

41. Power to Demand Clarifications:

In course of inspections and investigations in case it is found that a Contractor has failed to perform his/her work in accordance with the Act, this Rules or Petroleum Agreement, or it is found to have committed any irregularities, the Inspector may ask for clarification from Contractor in respect thereto, and Contractor shall give written explanation within the time prescribed by the Inspector.

42. Inspection and Investigation Reports:

- (1) An Inspector shall submit the report of inspections and investigations to Department within the time limit prescribed by Department.
- (2) After receiving reports under sub-rule (1), Department may issue necessary directives to Contractor, and it shall be Contractor's duty to comply with them.

Chapter-10

Advisory Board

43. Constitution of Petroleum Advisory Board :

- (1) A Petroleum Advisory Board comprising of the following members shall be

constituted as referred to in Section 7 of the Act:

- | | |
|--|-------------------|
| (a) Minister, or State Minister, Ministry of Industry | - Chairperson |
| (b) Governor, Nepal Rastra Bank | - Member |
| (c) Secretary, Ministry of Industry | - Member |
| (d) Secretary, Ministry of Finance | - Member |
| (e) Secretary, Ministry of Home Affairs | - Member |
| (f) Secretary, Ministry of Law, Justice and
Parliamentary Affairs | - Member |
| (g) Secretary, Ministry of Forest and Soil Conservation | - Member |
| (h) Director General, Department of Mines and Geology | - Member |
| (i) Project Chief, Petroleum Exploration Promotion Project | -Member Secretary |
- (2) Notwithstanding anything contained in sub-rule (1) herein above, the State Minister of Industry shall function as Vice-chairperson of the Committee, in cases where both Minister and State Minister have been assigned in the Ministry of Industry.

44. Functions, Duties, and Powers of the Board:

The duty of the Board shall be to advise Government of Nepal on the following matters:

- (a) Selection of Contractor to carry out Petroleum Operations.
- (b) Amendments of Petroleum Agreements.
- (c) Participation by Government of Nepal in Petroleum Operations.
- (d) Supply of Petroleum to meet internal demand.
- (e) Imposition of temporary ban on the export of Petroleum pursuant to the Section 12 of the Act.

- (f) Transfers of rights and obligations by Contractors.
- (g) Joint Venture arrangements.
- (h) Arbitration.
- (i) Termination of Petroleum Agreements.
- (j) Any other matters referred by Government of Nepal.

45. Meetings and Procedure of the Board:

- (1) Meetings of the Board shall be held at the time and venue as specified by the Chairperson.
- (2) Meetings of the Board shall be presided over by the Chairperson, and, in his absence, by a person designated by the Chairperson, or by a person selected by the members in case the Chairperson has not designated any person to preside over the meeting.
- (3) The opinion of the majority shall be binding at meetings of the Board. In the event of a tie, the person presiding over the meeting may exercise a casting vote.
- (4) The Member-Secretary shall record and certify the decisions of the Board.
 - (4a) The Committee may invite a concerned expert related to petroleum exploration, or production, or industry, or official of any entity; if it deems necessary.
- (5) Other procedures of the Board shall be as determined by the Board.

Chapter-11

Governmental participation

46. Right of Participation:

Government of Nepal shall have the right to participate in Petroleum Operations under Petroleum Agreements, to the extent of the percentage interest specified in a Petroleum Agreement.

47. Procedure for Participation:

The procedures for participation by Government of Nepal in Petroleum Operations under a Petroleum Agreement shall be as specified in the Petroleum Agreement.

48. Reimbursement of the Expenditure:

In case Government of Nepal participates in Petroleum Operations, it shall reimburse to Contractor its share of Petroleum Costs without interest incurred by Contractor up to the time Government of Nepal elects to participate, on the terms specified in the Petroleum Agreement. However, in no case shall Government of Nepal reimburse any share of expenses incurred by Contractor for training and education, bonus and any other payments made by Contractor to Government of Nepal.

49. Operating Agreement:

In case Government of Nepal participates in Petroleum Operations under a Petroleum Agreement, an operating agreement shall be concluded between Government of Nepal and Contractor according to international oil industry practice.

Chapter 12

Miscellaneous

50. Power to Sell Data, Information, etc.:

Department shall have the power to sell geo-physical and geological data, maps, reports, and analyses, as well as other information relating to Exploration Blocks opened for Petroleum Operations.

51. Basic Data and Samples to be Kept in Nepal:

Contractor shall keep all basic data and samples, and reports relating thereto, obtained in the course of Petroleum Operations in Nepal, except in cases in which Department grants permission for taking them out of Nepal for tests, analysis and evaluation.

52. Facilities to be provided:

Department shall have the authority to assign representatives to observe all Petroleum Operations and to assist Contractors, and Contractors shall bear the reasonable costs of such representatives.

53. Guarantees to be Furnished:

Contractor must provide a guarantee of a financial institution acceptable to Government of Nepal to secure performance of its work obligations under a Petroleum Agreement.

53A. Confidentiality:

All information, documents, data and materials acquired by a Contractor during Petroleum Operations shall be kept confidential in accordance with

the provisions of the Petroleum Agreement.

54. Valuation of Petroleum:

Price of the Petroleum shall be fixed based on the objective standards. Exported crude oil is to be valued at weighted average realized price received in arm's length transactions in freely convertible currencies from non-affiliated third parties, not involving barter or other special considerations.

55. Unitization:

In cases in which joint development and operation of one or more Fields is desirable to conserve Petroleum resources and to facilitate development more economically, Department shall have the authority to order one or more Contractors to jointly develop an area under a joint operating programme approved by Department.

56. Use of Associated Natural Gas:

In case, a Contractor who is producing Crude Oil determines that it will not be commercial to develop Natural Gas found in association with Crude Oil, Government of Nepal shall have the Authority to take and utilize such gas as described in the Petroleum Agreement.

57. Notifications to be Published:

Notifications relating to the following matters shall be published in the Nepal Gazette:

- (a) Invitations for bids to undertake Petroleum Operations.
- (b) Singing of Petroleum Agreement.
- (c) Relinquishment of area by Contractor.

(d) Issue of Production Permit to Contractor.

(e) Termination of Petroleum Agreement.

58. To be Kept in Black List:

- (1) The Department may enlist any bidder or contractor in a blacklist on the following circumstances:
 - (a) If a bidder selected for petroleum agreement does not come to conclude such agreement,
 - (b) If documents of particulars pertaining to technical and financial capacity of a bidder submitted with a bid are found false,
 - (c) If agreement has cancelled due to not fulfilling liabilities set forth in an agreement by a contractor.
- (2) A reasonable opportunity shall be provided to the concerned bidder or contractor to submit his/her clarifications prior to enlisting in a black list.
- (3) The bidder or contractor enlisted in the blacklist pursuant to sub-rule (1) herein above shall not be permitted to participate in petroleum or procurement related works to be awarded by the Department for a period of three (3) years from the blacklisting date.
- (4) The Department shall post on its website the details of the bidder, or contractors enlisted in the black list pursuant to sub-rule (1) herein above, and inform the same to them.

59. Delegation of Powers:

The Department may, as required, delegate some of the powers conferred to it by this Regulation to any officers of the Department or under it.

Schedule 1
(Related to Rule 5)

Form of Bid

Date:.....

Government of Nepal
Department of Mines and Geology
Lainchour, Kathmandu
Nepal

We with our head office located at
.....and registered under the laws of
.....in the name of..... desire to undertake Petroleum Operations in
Exploration Block No. under a Petroleum Agreement subject to Nepal
Petroleum Act, 2040 (1983) and Petroleum Regulation, 2041 (1985). We hereby
submit this bid along with the following details and bank draft of Dollars
.....as bidding fee.

(1) Person authorized to act on behalf of the bidder:

(a) Name:

(b) Address:

(2) Minimum work obligations to be undertaken and expenses to be incurred during
the Exploration Period: [See Section 10 of Schedule 2].

(a) During the initial Exploration Period at least the following work obligations
shall be carried out:

Work Obligations
[insert details]

Amount

.....
.....

Drill.....well(s) to a depth of
meters or economic basement, whichever
is reached first. US\$.....

In carrying out such work obligations, Petroleum Costs of.....
(.....) Dollars will be budgeted, which amount is allocated to the
portions of the work obligations as indicated above.

Note: Drilling of a well is not mandatory in the initial Exploration
Period.

(b) During the first extension of Exploration Period at least the following work
obligations shall be carried out:

<u>Work Obligations</u>	<u>Amount</u>
[insert details]	
.....
.....

Drill.....well(s) to a depth of
.....meters of economic basement,
whichever is reached first. US\$.....

In carrying out such work obligations, Petroleum Costs of.....
(.....) Dollars will be budgeted, which amount is allocated to
the portions of the work obligations as indicated above.

(c) During the second extension of Exploration Period at least the following work obligations shall be carried out:

<u>Work obligations</u>	<u>Amount</u>
[insert details]	
.....
.....
Drill.....well(s) to a depth of..... meters	
or economic basement, whichever is reached first.	US\$.....

In carrying out such work obligations, Petroleum Costs of..... (.....) Dollars will be budgeted, which amount is allocated to the portions of the work obligations as indicated above.

Note:

- 1) In case the bidder undertakes Petroleum Operations in more than one Exploration Block under one Petroleum Agreement, work obligations and expenses are to be proposed for each exploration Block separately.
 - 2) Obligation to drill a well is not mandatory in the Initial Exploration Period.
- 3) Education and training facilities to be provided: [See sub-sections (2) and (3) of Section 48 of Schedule 2].
- (a) During each Contract Year of the Exploration Period, a minimum of..... (.....) Dollars shall be spent, as directed by the Department, on the education and training of Nepalese nationals (who are not employees of Contractor) in fields related to petroleum resource development, such as:

.....

 (specify the scholarships, educational grants, study programmes, libraries, laboratories, equipment, etc. to be provided).
 - (b) Within sixty (60) days after the Effective Date, an additional sum of (.....) Dollars shall be made available, as directed by the Department, to be utilized in the

same manner as under sub Clause (a).

(4) Allocation of Petroleum after retention of royalty and recovery of Petroleum Costs:

Crude Oil

Portion of Average daily Production (barrels per day)	Government's Allocation of Net Petroleum	Contractor's Allocation of Net Petroleum
Up to 10,000	.....percent	.....percent
10,000 to .....	.....percent	.....percent
..... to .....	.....percent	.....percent
..... to .....	.....percent	.....percent
Over 100,000	.....percent	.....percent

Natural Gas

Portion of Average daily Production (mmcf/d)	Government's Allocation of Net Petroleum	Contractor's Allocation of Net Petroleum
Up to 10,000	.....percent	.....percent
10,000 to .....	.....percent	.....percent
..... to .....	.....percent	.....percent
..... to .....	.....percent	.....percent
Over .....	.....percent	.....percent

(5) Documents Attached

- (a) Evidence of the legal status of the bidder.
- (b) Evidence of authority of the person signing the bid.
- (c) Evidence of the capital, machinery, equipment, tools, specialists and experience possessed by the bidder to carry out Petroleum Operations.
- (d) Methods and time schedule of Exploration Operations.
- (e) Annual Work Programme and Budget for Explorations Operations during the first Contract Year.
- (f) Evidence of joint venture, if applicable.

Name of Bidder:

Authorized Signature:

Schedule-2

(Related to Rule 10)

Model Petroleum Agreement

This agreement is made between Government of Nepal (hereinafter called "Government"), and , a corporation organized and existing under the laws of (hereinafter called "Contractor").

WITNESSETH:

Whereas, title to Petroleum existing within the territory of Nepal is vested in Government, and all rights related to Petroleum Operations belong exclusively to Government;

Whereas, Government wishes to promote the development of Petroleum resources within Nepal for the economic and social benefit of the people;

Whereas, Contractor has the capital, technical competence and professional skills necessary to carry out Petroleum Operations, and wishes to carry out Petroleum Operations in Exploration Block No.; and

Whereas, Nepal Petroleum Act, 2040 (1983), provides that Petroleum Agreements may be entered into between Government and qualified contractors;

Now, therefore, in consideration of the undertakings and covenants contained herein, Government and Contractor hereby agree as follows in respect of Petroleum Operations in Exploration Block No.

Chapter 1

Scope and Definitions

1. Scope:

- (1) The object of this Agreement is the exploration, development and production of Petroleum in the Contract Area.
- (2) Contractor shall be responsible to Government for the execution of Petroleum Operations in accordance with the provisions of this Agreement, and under the supervision of Government.
- (3) Department shall be responsible for administering on behalf of Government the Petroleum Operations contemplated hereunder.
- (4) Contractor shall provide all capital, technology and manpower necessary to conduct Petroleum Operations, except as otherwise provided in this Agreement.
- (5) Contractor shall carry out Petroleum Operations at its sole cost and risk, except as otherwise provided in this Agreement. The costs incurred by Contractor in carrying out the said Petroleum Operations will be reimbursed to Contractor in accordance with Chapter-6 hereof. If no commercial field is discovered in the Contract Area or if the production achieved is insufficient to reimburse Contractor, Contractor shall bear its own losses.
- (6) Contractor shall not have any rights to Petroleum in the Contract Area, except the right to carry out Petroleum Operations and to receive an allocation of the Petroleum produced as provided in this Agreement.

2. Definitions:

The words defined in Nepal Petroleum Act, 2040 (1983), shall have the same meanings for the purpose of this Agreement. In this Agreement, unless the context indicates otherwise:

- (a) "Exploration Period" means the initial exploration period and extensions thereof, specified in Chapter 2.
- (b) "Exploration Operations" means all work necessary to explore for Petroleum and

to evaluate the commercial development of any discovery of Petroleum, as may be described in an annual Work Programme under Sections 13 to 15 or appraisal Work Programme under Section 17.

- (c) “Non-Affiliated Party” means a person who is independent from either party under this Agreement.
- (d) “Production Permit” means a permit to be issued under Section 24.
- (e) “Production Period” means the period specified in Section 23.
- (f) “Production Operations” means all work necessary to produce, treat, transport, store and sell or dispose of Petroleum.
- (g) “Production Area” means the area described in a Production Permit, and for the purpose of Sections 5, 6 and 8, it includes any area over which a request for a Production Permit is under consideration.
- (h) “Act” means Nepal Petroleum Act, 2040 (1983).
- (i) “Subcontractor” means any person hired by Contractor to carry out Petroleum Operations.
- (j) “Contract Year” means a period of twelve consecutive months beginning on the Effective Date or on an anniversary of the Effective Date, according to the Gregorian Calendar.
- (k) “Contract Area” means the area described in the Annex hereto, as reduced by relinquishments in accordance with the provisions of Chapter 2 and 3.
- (l) “Work Programme” means an initial, annual, appraisal or development work programme under Section 13, 14, 17 or 18.
- (m) “Contractor's Entitlement” means Contractor's allocation of Petroleum produced in the Contract Area as determined under Section 34.
- (n) “Dollars” means United States Dollars.
- (o) “Rules” means the Petroleum Rules, 2041 (1985).
- (p) “Petroleum Costs” means all expenditures incurred by Contractor in the conduct of Petroleum Operations under this Agreement and as defined in Chapter 7.

- (q) "Budget" means the itemized estimate of costs of all items included in a Work Programme.
- (r) "Calendar Year" means a period of twelve (12) consecutive months beginning January 1 and ending on the following December 31, according to the Gregorian calendar.
- (s) "Development Operations" means all work necessary to commercially develop a Field and as may be described in a development Work Programme under Section 18.
- (t) "Sale or Disposal" means any sale, exchange or transfer of Petroleum with or without payment.
- (u) "Commercial Production Day" means the day on which Contractor makes its first sale or disposal of Petroleum produced in commercial quantities from a Production Area under this Agreement.
- (v) "Royalty" means the amount of Petroleum to be retained by Government pursuant to Section 13 of the Act.
- (w) "Effective Date" means the date on which Government and Contractor sign this Agreement.
- (x) "Field" means an area consisting of a single or multiple Petroleum reservoirs all grouped on, or related to, the same individual geological structural feature, or stratigraphic conditions from which Petroleum may be produced commercially.
- (y) "Government's Entitlement" means Government's entitlement of Petroleum produced in the Contract Area as determined under Section 34.
- (z) "Calendar Quarter" means a period of three (3) consecutive months beginning January 1, April 1, July 1 or October 1 and ending on the following March 31, June 30, September 30 or December 31, respectively, according to the Gregorian calendar.

Chapter 2

Exploration Period

3. Exploration Period:

The duration of the initial Exploration Period shall be four (4) Contract Years, starting on the Effective Date. The duration of the Exploration Period shall be extended for two successive periods of three (3) and two (2) Contract Years respectively, subject to Section 4.

4. Extensions of Exploration Period:

If Contractor wishes to extend the Exploration Period, it shall give notice to the Department at least ninety (90) days prior to the termination date of the current Exploration Period. Department shall extend the duration of the Exploration Period, provided Contractor has fulfilled the work obligations set forth in this Chapter for the current period, and has provided a new bank guarantee under Section 12.

5. Additional Extensions:

If Contractor applies at least ninety (90) days prior to the termination date of the second extension of the Exploration Period, to extend the duration of the Exploration Period to complete drilling, logging, testing or plugging of any well which is actually being drilled, logged, tested or plugged at the end of the Exploration Period, or to complete any appraisal work, the evaluation of any discoveries, the preparation and submission of detailed development Work Programme and Budgets and/or the application for a Production Permit, or to secure an export market (including necessary arrangements and infrastructure, if any, between Nepal border and point of FOB delivery to buyer outside of Nepal) for Petroleum from a Field which has been discovered in the Contract Area, Department may further extend the duration of the Exploration Period for such time as may be reasonably necessary (for no more

than.....days). Contractor shall designate the area subject to continuing work and relinquish the balance of the Contract Area which does not fall within a Production Area.

6. Mandatory Area Relinquishments:

- (1) Contractor shall relinquish at least fifty (50) percent of the original Contract Area less any area which falls within a Production Area by the end of the initial Exploration Period.
- (2) Contractor shall relinquish an additional area of at least Twenty Five percent of the original Contract Area less any area which falls within a Production Area by the end of the first extension to the Exploration Period.
- (3) Subject to Section 5, Contractor shall relinquish the remainder of the original Contract Area which does not fall within a Production Area by the end of the Exploration Period.

7. Voluntary Relinquishments:

During the Exploration Period, Contractor may at any time relinquish any portion of the Contract Area upon giving Department ninety (90) days prior notice, and all such voluntary relinquishments shall be credited toward the mandatory relinquishments specified in Section 6.

8. Minimum Obligations:

No relinquishment shall relieve Contractor of its obligations under Section 10 below, except that a voluntary relinquishment of all of the remaining Contract Area prior to commencement of the first or second extension to the Exploration Period shall relieve Contractor of its obligations during the first or second extension, respectively.

9. Restrictions on Area Relinquished:

Each area which is relinquished shall be not less than ten (10) percent of the original Contract Area and shall be composed of contiguous blocks which shall conform to the geometric requirements prescribed in the Rules.

10. Work Obligations:

(1) Contractor shall carry out during the initial Exploration Period at least the following work obligations:

Work Obligations	Amount
[insert details]	
Drill.....well (s) to a depth of meters or economic basement, whichever is reached first.	US\$

In carrying out such work obligations, Contractor has budgeted Petroleum Costs of(.....) Dollars, which amount is allocated to the portions of the work obligations as indicated above.

(2) Contractor shall carry out during the first extension to the Exploration Period at least the following work obligations:

Work Obligations	Amount
[insert details]	
Drill well(s) to a depth of meters or economic basement, whichever is reached first.	US\$

In carrying out such work obligations, Contractor has budgeted Petroleum Costs of (.....) Dollars, which amount is allocated to the portions of the work obligations as indicated above.

(3) Contractor shall carry out during the second extension to the Exploration Period at least the following work obligations:

Work Obligations	Amount
[insert details]	
Drill .....well(s) to a depth of .....meters or economic basement, whichever is reached first.	US\$

In carrying out such work obligations, Contractor has budgeted Petroleum Costs of (.....) Dollars, which amount is allocated to the portions of the work obligations as indicated above.

11. Performance of Obligations:

- (1) Fulfillment of any expenditure obligation set forth in Section 10 shall not relieve Contractor of the corresponding work obligation therein. Fulfillment of any work obligation set forth in Section 10 shall relieve Contractor of the corresponding expenditure obligation.
- (2) If, during either the initial Exploration Period or the first extension thereof, Contractor exceeds the work obligation then such excess may be credited toward the respective work obligation of the next succeeding extension of the Exploration Period.

12. Bank Guarantee:

- (1) Contractor shall provide to Government, within thirty (30) days of the effective date of the Agreement in the case of initial Exploration Period, and along with an application for each extension of exploration periods thereof, a bank guarantee from an institution and in a form acceptable to Government, in an amount which shall correspond to the total Dollar amount indicated for the work obligation

during the relevant period of the Exploration Period. Each identifiable item of work committed shall be assigned a portion of the amount of the bank guarantee.

(2) The amount of such bank guarantee shall be reduced from time to time upon completion of identifiable portions of the work obligations by the amount assigned to such portion of the work in the bank guarantee.

(3) If, at the end of the initial Exploration Period, any extension thereof or upon the date of termination of this Agreement, Contractor has failed to perform all or part of any of its work obligations, then Contractor or its guarantor shall immediately pay the entire amount corresponding to the uncompleted items of work under the current bank guarantee to Department.

13. Work Programme and Budget for Initial Exploration Period:

Within thirty (30) days after the Effective Date, Contractor shall submit to Department a Work Programme and Budget which summarize the Exploration Operations that Contractor proposes to carry out and the Petroleum Costs to be incurred during the initial Exploration Period, and the Exploration Operations that Contractor proposes to carry out and the Petroleum Costs to be incurred during the first Contract Year.

14. Annual Work Programme and Budget:

At least ninety (90) days prior to the beginning of each subsequent Contract Year, Contractor shall submit to Department an annual Work Programme and Budget specifying the Exploration Operations that Contractor proposes to carry out and the related Petroleum Costs to be incurred during the ensuing Contract Year.

15. Amendments to Work Programme and Budget:

The Work Programme and Budget submitted pursuant to Sections 13 and 14 shall be consistent with Contractor's obligations under Sections 10 and 17. However, if details of a Work Programme set forth under Section 13 or 14 require change due to new geological information or more modern exploration technology, Contractor may

with the approval of the Department make such changes as it deems necessary, provided that the changes do not alter the main objectives of that Programme. In no event shall the work obligations set forth in Section 10 be excused except in accordance with the provisions of Agreement.

Chapter 3

Appraisal and Development

16. Notice of Discovery:

Contractor shall notify Department immediately when Exploration Operations indicate the existence of Petroleum within the Contract Area. This notice shall include all available details of the discovery. Contractor shall provide information to the Department even in the case of non-discovery in the Contract Area.

17. Appraisal Work Programme and Budget:

- (1) In the case of a discovery of Petroleum of possible commercial significance, then within ninety (90) days after the date of the notice of such discovery given under Section 16, Contractor shall submit for approval to Department a detail appraisal Work Programme and Budget to evaluate the commercial development of the Field to which the discovery relates.
- (2) The appraisal Work Programme, which may be supplemented by further appraisal Work Programme, shall include the drilling and, testing of one or more wells and, if appropriate, studies related to recovery, treatment, transport, storage and marketing of Petroleum. The duration of such Work Programme shall be for such periods as are reasonable to accomplish the appraisal work, and may be extended for justifiable reasons.

18. Development Work Programme and Budget:

- (1) If Contractor considers that the field may be commercially developed, Contractor shall, within a reasonable period, request a Production Permit and give

Department a detailed development Work Programme and Budget for the construction, establishment and operation of all facilities and services related to the recovery, treatment, transport and storage of Petroleum from the Field.

- (2) The development Work Programme shall include design and engineering, necessary infrastructure investments, training and employment of Nepalese nationals, plans to maximize the use of Nepalese goods and services, plans to protect the environment and indication of the sources and amount of financing. Such work Programme shall describe the Production Area over which a Production Permit is requested.

19. Approval of Work Programme and Budget:

- (1) Following the submission of an appraisal or development Work Programme and Budget, Department may require Contractor to provide within thirty (30) days such further information as it may require to evaluate the Work Programme and Budget.
- (2) Within sixty (60) days after submission of each appraisal or development Work Programme and Budget or further information requested, Department may advise Contractor of revisions it considers appropriate based on generally accepted oil field practice. Upon Contractor making such revisions as may be mutually agreed, Department will approve the Work Programme and Budget.
- (3) If it becomes necessary to amend an approved Work Programme or Budget due to new geological information or more appropriate petroleum industry technology, Department and Contractor shall mutually agree on such amendments.

20. Annual Work Programme and Budget:

At least ninety (90) days prior to the beginning of each Calendar Year after the approval of an appraisal or development Work Programme and Budget by Department, Contractor shall submit to Department an annual Work Programme and

Budget specifying the Petroleum Operations that Contractor proposes to carry out and the Petroleum Costs to be incurred during the next Calendar Year relating to the Field for which the appraisal or development Work Programme and Budget was approved. Each such annual Work Programme and Budget shall be in conformity with the appraisal or development Work Programme and Budget approved by Department.

21. Relinquishment After Appraisal Period:

If within twelve (12) months after completion of appraisal work for a Field, Contractor decides not to apply for a Production Permit for that Field and has not relinquished the area including the Field, Government may order Contractor to relinquish said area unless Contractor's reason for not applying for a Production Permit arises from (1) a need to combine development of another Field to make the Field commercial, or (2) its delay in securing an export market (including necessary arrangements and infrastructure, if any, between Nepal border and point of FOB delivery to buyer outside Nepal) for Petroleum from a Field which has been discovered in the Contract Area.

Upon receipt of said notice, Contractor shall within thirty (30) days relinquish an area including the Field. Any such relinquishment shall be credited towards the mandatory relinquishments specified in Section-6, and shall meet the requirements of Section 9.

22. Use of Associated Natural Gas:

If Contractor considers that Natural Gas found in association with Crude Oil may not be commercial to develop, government may choose to take and utilize such Natural Gas without charge, except that all handling from the point of separation from Crude Oil shall be at the sole cost and risk of Government.

Chapter 4

Production Period

23. Production Period:

The duration of the Production Period shall expire thirty (30) years after the Effective Date of Production Permit. If petroleum works have been halted due to the Force Majeure; Department may add on such halted period in the production period pursuant to Rule 21.

24. Production Permit:

- (1) After Contractor's development Work Programme and Budget have been approved by Department, Department shall issue to Contractor a Production Permit which shall describe the Production Area. The Production Area shall be a polygon in shape having geographical co-ordinates, and shall enclose the area of the Field, plus a buffer zone within the Contract Area not exceeding the area of the Field.
- (2) If Contractor discovers more than one commercial Field within the Contract Area, a separate Production Permit shall be issued for each Field.
- (3) If Contractor discovers a Field containing Natural Gas not in association with Crude Oil for which no commercial use has been developed, and if Contractor applies for a Production Permit together with a conceptual development Work Programme prior to the end of the Exploration Period, then Department shall issue a Production Permit for an initial period of five (5) years to enable Contractor to develop a commercial market. Prior to the end of said five year period (and each subsequent five year period), Department and Contractor shall review the development of commercial use for the Natural Gas, and if found desirable by both parties the Production Permit may be renewed for periods of up to five (5) years each, subject to Section 23. As soon as Contractor finds a commercial outlet for such Natural Gas, Contractor shall submit a detailed

development Work Programme.

25. Adjustment of Production Area:

If, following the issue of a Production Permit, the extent of the Field subject to the Permit is demonstrated to be different than that for which the Permit was issued, the Production Area subject to the Permit shall be adjusted accordingly, provided that the area covered shall be entirely within the unrelinquished Contract Area.

Chapter 5

Obligations of Contractor

26. Standards of Operations:

- (1) Contractor shall conduct Petroleum Operations diligently and in accordance with the Act, Rules, and generally accepted standards of the petroleum industry designed to achieve the efficient and safe exploration and production of Petroleum and to maximize the ultimate economic recovery of Petroleum from the Contract Area.
- (2) All materials, equipment and facilities used in Petroleum Operations shall comply with generally accepted engineering standards, and shall be kept in good working order.
- (3) While conducting Petroleum Operations Contractor shall:
 - (a) Ensure that Petroleum discovered and produced within the Contract Area does not escape and is not wasted in any other way.
 - (b) Prevent damage to any adjacent Petroleum, water bearing formations, and other natural resources.
 - (c) Prevent non-intentional entrance of water into Petroleum formations.
 - (d) Take all necessary precautions to prevent pollution of or damage to the environment.

27. Measurements:

- (1) Contractor shall provide and install the necessary equipment and perform all measurements of Petroleum produced from the Contract Area and sold or disposed of. If it is necessary or desirable to replace or repair such equipment, Contractor shall so inform Department in advance.
- (2) Government may inspect itself or cause to be inspected by a selected qualified specialist said measurements and the equipment used at any time at its own cost and risk.

28. Reports and Information:

- (1) Contractor shall keep Department regularly and fully informed of all Petroleum Operations. Contractor shall notify Department in advance of all individual Petroleum Operations scheduled. Government has the right, at its own cost and risk, to observe all Petroleum Operations. Contractor shall provide local transportation and accommodation for a reasonable number of representatives of Government on terms and conditions to be mutually agreed.
- (2) Contractor shall submit to Department within thirty (30) days after the end of each Calendar Quarter, a report on all Petroleum Operations and a statement of Petroleum Costs incurred in that Calendar Quarter, and within ninety (90) days after the end of each Calendar Year, a report on all Petroleum Operations and a statement of Petroleum Costs incurred in that calendar Year. All such quarterly and annual reports shall include such information as Department may prescribe.
- (3) Contractor shall deliver to Department all reports, data and information, and analyses and interpretations thereof, pertaining to the Contract Area and Petroleum Operations which are required under this Agreement or the Rules within the times prescribed.

29. Confidentiality:

- (1) All information, documents, data and materials supplied by either party to the other pursuant to this Agreement shall be kept confidential by the parties for not less than twenty four (24) months after the date on which such information,

documents, data or materials were delivered by one party to the other, subject to the following:

- (a) Information, documents, data and materials which pertain to a portion of the Contract Area which has been relinquished by Contractor or to areas outside the Contract Area may be made available by Department to other persons at any time.
 - (b) Department or Contractor may at any time request another person to review and analyze the information, documents, data and materials supplied by Contractor, provided that such person shall maintain the confidentiality of such information, documents, data and materials.
 - (c) Technical reports, professional papers and other information may be published or otherwise disclosed with the prior written consent of the other party.
- (2) Contractor shall not sell or otherwise dispose of or disclose any such information, documents, data or materials, within the period mentioned in sub-section (1) to any person (including, without limitation, any affiliated company) unless Department has given prior written approval thereto, and the person to whom such disclosure is made has given an undertaking in form and substance satisfactory to Department to keep such information, documents, data or materials confidential.
 - (3) Obligations of Contractor (and each person constituting Contractor under Section 63) under this Section shall survive the termination of this Agreement, and the withdrawal of any person constituting Contractor from this Agreement.
 - (4) This Section shall not apply to information, documents, data and materials already in the public domain, or already in the possession of the receiving party.

30. Obligations to Commence and Continue Work:

- (1) Contractor shall commence Exploration Operations within ninety (90) days after the Effective Date and shall continue such operations during the Exploration period.
- (2) Contractor shall commence Appraisal Work after an appraisal Work Programme and Budget have been approved by Department according to the time schedule

therein. Contractor shall commence Development Operations after a development Work Programme and Budget have been approved by Department according to the time schedule therein, and a Production Permit has been issued.

(3) Upon commencement of commercial production, Contractor shall continue production as long as commercial production remains possible.

(4) Contractor shall not suspend any Petroleum Operations, except for justifiable technical reasons with the prior approval of Department. Such prior approval is not required for temporary suspensions arising due to emergencies or other causes threatening personal injury or serious damage.

31. Conservation of Natural Gas:

Natural Gas found in association with Crude Oil which is not used in Petroleum Operations or is not developed or sold pursuant to this Agreement shall be re-injected into the subsurface structure. However, Department may permit the flaring of Natural Gas for reasonable time periods, when it is in accordance with good oilfield practice, or when it is required by technical circumstances. Natural Gas flared with the approval of Department shall be deemed to be used in Petroleum Operations.

32. Insurance:

Contractor shall obtain and maintain throughout the period of this Agreement insurance of such kinds covering such risks and for such amounts as shall be in accordance with international petroleum industry practices, and such additional insurance on such terms as Department and Contractor may mutually agree. The parties shall review the insurance programme annually and make such adjustments thereto as Department may prescribe. Upon reasonable notice Contractor shall provide evidence of such insurances to Department on demand.

33. Permanent Facilities:

(1) Contractor shall construct, operate, repair and maintain all facilities required in a

Production Area in connection with Petroleum Operations.

- (2) Contractor shall have the right to construct, operate, repair and maintain roads, pipelines and other transportation, communications and storage facilities in Nepal outside a Production Area necessary to carry on Petroleum Operations, subject to prior approval of a development Work Programme and Budget by Department, and acquisition of land under Section 53.
- (3) If Government undertakes the construction, operation, repair and maintenance of any such facilities outside a Production Area which are required by Contractor in order to carry on Petroleum Operations, Contractor shall have the right to use such facilities for tariffs which do not exceed Contractor's share of the costs of operation, repair and maintenance plus amortization, interest and a reasonable profit.
- (4) All permanent facilities and all other assets other than those which are leased or imported for temporary use which are permanently installed for the exploration, production, treatment, transportation or storage of Petroleum, shall become the property of Government upon completion of construction or installation. Government may order Contractor to remove all or part of such facilities and assets at Contractor's cost at the end of this Agreement, and title to the facilities and assets so removed shall pass to Contractor.
- (5) Government may require that the infrastructure facilities (including, but not limited to, roads, pipelines and other transportation, communication and storage facilities) constructed in Nepal in or outside a Production Area by Contractor be made available to Government and other persons in an emergency or in the event that such facilities are not utilized to capacity by Contractor; provided that in the latter case such use does not materially impair the efficient and economic conduct of Petroleum Operations by Contractor. Contractor shall have a priority right to use said infrastructure facilities. Government and such other persons shall compensate Contractor for their share of the costs of operation, repair and

maintenance of such infrastructure facilities plus a mutually agreed fee to cover amortization, interest and a reasonable profit.

Chapter 6

Allocation of Production and Marketing

34. Allocation of Production:

- (1) For purposes of allocation of production, Petroleum produced by Contractor within the Contract Area means the total amount of Petroleum produced from each Field within the Contract Area (less the amount of Petroleum used for Petroleum Operations) and which is saved and measured by the measuring device at each field main gathering station or other point as mutually agreed.
- (2) Petroleum produced by Contractor within the Contract Area shall be allocated as follows:
 - (a) 12.5 percent shall be retained by Government as Royalty according to Section 13 of the Act;
 - (b) After retention of the amount of Petroleum under Clause (a), Contractor shall have the right to take an amount of Petroleum equal in value to its unrecovered Petroleum Costs for the current and prior Calendar Years;
 - (c) After distribution of the amounts of Petroleum under Clauses (a) and (b) the remainder shall be allocated according to the following schedule:

Crude Oil

Portion of Average daily Production (barrels per day)	Government's Allocation of Net Petroleum	Contractor's Allocation of Net Petroleum
Up to 10,000	.....percent	.....percent
10,000 to .....	.....percent	.....percent
..... to .....	.....percent	.....percent

..... to .....	.....percent	.....percent
Over 100,000	.....percent	.....percent

Natural Gas

Portion of Average daily Production (mmcf/d)	Government's Allocation of Net Petroleum	Contractor's Allocation of Net Petroleum
Up to 10,000	.....percent	.....percent
10,000 to .....	.....percent	.....percent
..... to .....	.....percent	.....percent
..... to .....	.....percent	.....percent
Over .....	.....percent	.....percent

Explanation: "Net Petroleum" means the amount of Petroleum available for allocation between Government and Contractor after retention of Royalty and recovery of Petroleum Costs.

35. Mechanics for Allocation of Production:

- (1) Prior to the Commercial Production Day and the beginning of each Calendar Year, Contractor shall submit to Department an estimate of production for the coming Calendar Year. Contractor may submit revisions of said estimate from time to time as justified by actual operations, together with supporting evidence.
- (2) Department shall notify Contractor of the delivery schedules and amounts of Petroleum that Government will take in kind, and such Petroleum shall be delivered to Government at field main gathering station, or other point as mutually agreed.
- (3) Contractor shall take its entitlement to Petroleum produced in the Contract Area at the field main gathering station, or other point to be mutually agreed.
- (4) Government and Contractor shall agree on appropriate lifting arrangements for their respective entitlements.

36. Marketing:

- (1) Contractor shall have the right to sell, dispose of, and export Contractor's Entitlement subject to Section 55.
- (2) Contractor shall not enter into a contract for the sale of any part of Contractor's Entitlement for a period of time which exceeds four (4) Calendar Quarters without Department's prior consent. If Department grants such consent, Government shall not require Contractor under Section 55 to supply internal demand from that Petroleum which is subject to such contract.
- (3) Government may, at its option and upon at least ninety (90) days prior notice, require Contractor to market all or part of Government's Entitlement. Contractor shall give Department all information available to it concerning possible purchasers of Government's Entitlement and terms and conditions of sale, and Government shall give instructions in a timely manner so as not to interfere with agreed lifting arrangements. Contractor shall not enter into a contract for the sale of any part of Government's Entitlement without Department's prior consent.

Chapter 7 Petroleum Cost

37. Petroleum Costs:

- (1) The following expenditures which are incurred by Contractor in carrying on Petroleum Operations under this Agreement shall be deemed Petroleum Costs.
 - (a) Exploration Capital Cost: All expenses which are incurred in Petroleum Operation prior to the issue of a notice of discovery of Petroleum under this Agreement, and all such expenditures incurred after the issue of a notice of discovery of Petroleum in any part of a Contract Area if Petroleum so discovered is subsequently deemed not to be a commercial discovery.
 - (b) Current Operating Costs: All non capital expenses incurred after

Commercial Production Day including the following expenses:

- (1) Labor, materials and services used directly in day-to-day Petroleum Operations including surveys, development, production, treatment, transfer, storage, handling and delivery of Petroleum and repair, maintenance and analogous activities.
 - (2) General and office administration, services and operating overhead expenses incurred in Nepal and abroad directly in connection with Petroleum Operations, including expenses relating to technical and related services, materials, transportation, rentals and professional personnel and similar expenses.
 - (3) Insurance premiums, fees and all expenses incurred by Contractor in settlement of all losses, claims, damages and judgments related to Petroleum Operations.
 - (4) Expenses incurred for education and training under section 48.
 - (5) Losses arising from inventory adjustments.
- (c) Capital Costs: All expenses (excluding Exploration Capital Costs) incurred for goods that normally have a commercial life or value of more than one year, including the following expenses:
- (1) All expenses relating to exploration and appraisal work undertaken in the Contract Area, and all expenses incurred in drilling, testing and completing of development wells and construction of permanent facilities for production, treatment, storage and transportation of Petroleum.
 - (2) Fees paid by Contractor to Government for seismic and other information and reports.
 - (3) All other capital expenses incurred by Contractor related to Petroleum

Operations under the Agreement after Commercial Production Day.

- (2) Petroleum Costs shall be reduced by the amount of credits arising from removal and sale of equipment and materials out of inventory, sale of information, sale of rights under this Agreement, insurance proceeds and like income items, excluding foreign exchange gains.

38. Ceilings on Petroleum Costs:

Petroleum Costs shall be subject to the following ceilings:

- (a) Costs and expenses of work performed directly by Contractor shall be limited to costs and expenses which are actually incurred by Contractor and are not in excess of competitive charges by Non- Affiliated parties for the performance of such work.
- (b) Overhead expenses incurred by Contractor in Nepal shall be limited to actual expenses.
- (c) Overhead expenses incurred by Contractor (and all entities affiliated with Contractor) outside Nepal shall be limited to amounts approved annually in advance by Government, which amounts shall in no event exceed the following ceilings:

Portion of Annual Petroleum Costs (excluding overhead expenses incurred outside Nepal)	Ceiling on Overhead Expenses
Up to \$1,000,000	5 percent
\$1,000,000 to \$5,000,000	3 percent
\$5,000,000 to \$20,000,000	1 percent
Over \$20,000,000	0.25 percent

- (d) Expenditures incurred by Contractor for goods and services of Subcontractors shall be limited to actual costs incurred by Contractor, provided such costs are not in excess of competitive charges by Non-Affiliated Parties at the time the goods and services are contracted for.
- (e) Acquisition or rental costs of material, equipment and supplies and construction costs of facilities shall be limited to actual costs not in excess of competitive prices, rentals and construction costs for similar goods and facilities, and may include all transportation, insurance and installation costs, but shall not include any mark-up or commission payable to Contractor or any of its affiliated companies. Following issue of a Production Permit, no capital goods acquired for development of the Production area shall be leased without the prior consent of Department.

39. Exclusions from Petroleum Costs:

The following costs and expenses shall not be included in Petroleum Costs:

- (a) Costs and expenses not directly related to Petroleum Operations in the Contract Area under this Agreement.
- (b) Costs and expenses in excess of the limits specified in Section 38 above.
- (c) Income tax and penalties paid in Nepal or in foreign countries.
- (d) Expenses incurred for the marketing of Petroleum outside Nepal and costs of transporting, storing, handling and export of Petroleum beyond the point of export from Nepal.
- (e) Any cost incurred which was not reported in a statement of Petroleum Costs under Section 47, or in a following quarterly statement or in the annual statement of Petroleum Costs for the Calendar Year to which it pertains.
- (f) Losses which are recovered through insurance or any contract of indemnity.
- (g) Expenditures of a personal nature, gifts and donations.
- (h) Expenses incurred prior to the Effective Date.

- (i) Interest, fees and commissions on loans and guarantees.
- (j) Foreign exchange losses.
- (k) Bonuses paid to Government.

Chapter 8

Financial Obligations

40. Income Tax:

Contractor shall pay income tax of net profit derived from Petroleum Operations in accordance with the prevailing law related to Income Tax.

41. Surface Rental and Other Fees:

(1) Contractor shall pay annual surface rental for the first Calendar Year or portion thereof within a period of thirty (30) days after the Effective Date, and for each successive Calendar Year within thirty (30) days after the beginning of the Calendar Year to Government as follows:

S.N.	Annual Surface Rental	Rate (Dollars)
1.	For area other than area under Production Area during initial Exploration Period, per square kilometer	10
2.	For area other than area under Production Area during the first extension of Exploration Period, per square kilometer	20
3.	For area other than area under Production Area during additional extension of Exploration Period, per square kilometer	40
4.	Within a Production Area, per square kilometer	500

(2) Other Fees:

Contractor shall pay to Department other fees as prescribed in the Rules which are in force on the Effective Date.

42. Other Taxes, Fees and Charges:

- (1) Contractor shall pay all land tax, registration fees, forestry fees, and other fees and charges of general application.
- (2) Contractor shall pay all generally applicable charges for services actually rendered by Government.

43. Exemption from Other Tax, Duty and Charges:

Except as provided in Sections 40, 41 and 42, Contractor shall be exempt from all other income tax, contract tax, sales tax, Customs duty, excise duty, and other taxes and charges due to Government or local authorities which would otherwise be imposed in connection with or arising out of Petroleum Operations or the Sale or Disposal or export of Petroleum.

Chapter 9

Valuation and Accounting

44. Valuation of Petroleum:

- (1) The value of Petroleum for all purposes under this Agreement and for purpose of income tax shall be determined according to the provisions of this Section.
- (2) All Crude Oil from the Contract Area sold for export during a Calendar Quarter shall be valued on the following basis:
 - (a) The weighted average Export Price realized by Government and/or Contractor for Crude Oil from the Contract Area sold during the preceding Calendar Quarter; or
 - (b) In the absence of sales under Clause (a) reflecting at least ten (10) percent of the total volume of Crude Oil produced from the Contract Area sold for export during the preceding Calendar Quarter, at a price determined by mutual agreement of Department and Contractor based on:
 - (i) the weighted average Export Price received for Crude Oil of comparable

gravity and quality exported from all producing areas in Nepal, and

(ii) the prevailing export market price for Crude Oil of comparable gravity and quality produced in the Arabian Gulf area, both suitably adjusted for all relevant factors.

(3) For purposes of sub-section (2), "Export Price" means the net price received at the Valuation Point from Non-Affiliated Parties in arms length sales transactions in freely convertible currencies, not involving barter or other special considerations. In calculating the Export Price, adjustments for transportation, storage, handling, export facilities, commissions, brokerages and any other infrastructure, services or costs between Valuation Point and the point of FOB export sale shall be limited to amounts that do not exceed customary and prevailing rates charged therefor in the international oil industry between independent parties. In the event such infrastructure is owned wholly or partly by a party hereto or an affiliate, tariffs therefor shall be based on the principles established in Section 33.

Explanation: Valuation Point means the point in Nepal up to which services or facilities have been included in Petroleum Costs.

(4) The value of Crude Oil sold for the Nepalese market shall be equal to the value determined under sub-section (2) for such Calendar Quarter, less such discount as may be mutually agreed between Department and Contractor.

(5) Natural Gas produced and sold during a Calendar Quarter shall be valued at the weighted average net price realized by Government and/or Contractor for such Natural Gas under the sales contract or contracts therefor. In negotiating contracts for the sale of such Natural Gas, Contractor shall endeavor to obtain the best price and terms and conditions available at the time such Contract is entered into, taking into account all relevant factors including the purpose for which such gas will be used and the value of the form of energy being replaced thereby (if applicable).

(6) If Contractor foresees that a price determination by mutual agreement will be required under Clause (b) of sub-section (2), Contractor shall so notify Department as soon as possible before the end of the current Calendar Quarter. Following consultations between Department and Contractor to develop the factual information on which the valuation is to be based, Contractor shall propose in writing to Department the price to apply for Crude Oil for the ensuing Calendar Quarter. Department and Contractor shall meet as soon thereafter as practicable, but in no event later than the beginning of the Calendar Quarter for which the price is to apply, to discuss and agree upon the price. Pending such mutual agreement, the price from the prior Calendar Quarter shall continue to apply subject to appropriate adjustment being made when the price for the Calendar Quarter in question is finally agreed.

45. Payment:

- (1) All payments by Contractor to Government under this Agreement shall be made in Dollars, except for payments under Sections 42, 53 and 54, which may be paid in Nepalese currency.
- (2) All payments by Government to Contractor under this Agreement shall be made in Nepalese currency, which Contractor may convert to foreign exchange pursuant to Section 15 of the Act. Payment in respect of obligations expressed in a foreign currency shall be made in an amount sufficient to buy the foreign exchange necessary to satisfy the obligation at the applicable rate of the Nepal Rastra Bank on the date of payment.
- (3) For purposes of foreign currency conversion, foreign currencies shall be valued in terms of Nepalese currency at the applicable buying or selling rate of the Rastra Bank on the date of payment.

46. Accounting:

- (1) Contractor shall keep complete financial accounts and records in English language reflecting all Petroleum Operations. Such accounts and records shall

be kept in Dollars or such other currency as may be mutually agreed, and shall be kept at the office of Contractor in Kathmandu, Nepal.

- (2) Contractor shall prepare annual balance sheets and profit and loss statements in accordance with this Agreement and applicable law of Nepal. Accounting methods, Rules and practices for determining revenue, expenses and net profits of Contractor shall be as prescribed by Government and be consistent with accounting methods, Rules and practices which are sound and usual in the international petroleum industry.
- (3) Contractor's accounts shall be certified by an independent auditor acceptable to the Office of the Auditor General and shall be submitted, along with the auditor's report, to Department within ninety (90) days after the end of the Calendar Year to which they pertain.
- (4) Government shall have the right to inspect and audit Contractor's books and accounts for any Calendar Year relating to this Agreement for the purpose of verifying Contractor's compliance with the terms and conditions of this Agreement at any time up to two (2) years after the end of the Calendar Year to which they pertain. Any exception must be made in writing within sixty (60) days following the completion of such inspection and audit.
- (5) Department may employ a firm of independent accountants with experience in the international petroleum industry to inspect and audit Contractor's books and accounts relating to this Agreement. Contractor shall pay the fees and expenses of said firm of independent accountants and such payments shall be deemed Petroleum Costs.

47. Statements of Petroleum Costs:

- (1) Contractor shall submit to Department within thirty (30) days after the end of each Calendar Quarter a statement of Petroleum Costs showing:
 - (a) The total amount of unrecovered Petroleum Costs carried forward from the

preceding Calendar Quarter.

- (b) The amount of Petroleum Costs incurred during the Calendar Quarter, itemized in such classifications of expenditures as Department may prescribe.
 - (c) The amount of Petroleum Costs recovered during the Calendar Quarter, showing the calculation of the amount.
 - (d) The total amount of unrecovered Petroleum Costs as at the end of the Calendar Quarter, to be carried forward to the next Calendar Quarter.
- (2) All documents required to support a quarterly statement of unrecovered Petroleum Costs shall be available for inspection by Department at any time during office working hours at the office of Contractor in Kathmandu.
- (3) Department may, within one hundred and twenty (120) days following the end of a Calendar Quarter covered by a statement of Petroleum Costs, notify Contractor that it considers such statement to be inaccurate. Such notice shall be in writing and shall specify which items may be inaccurate and shall also state the reasons for such opinion. Upon receipt of such notice Contractor shall confer with Department and resolve the issue in a satisfactory manner. If Department does not give such notice within the time period stated above, then such statement shall be considered as approved.
- (4) Department's right to disallow Petroleum Costs shall be limited to costs for which inadequate documentation is presented, and costs which do not fall within the definition of Petroleum Costs in Chapter 7.

Chapter 10

Personnel and Training

48. Obligations to Employ and Train Nepalese:

- (1) Contractor shall employ, to the maximum extent possible, Nepalese nationals in Petroleum Operations, and Contractor shall undertake education and training programmes for Nepalese employees of Contractor to ensure the maximum participation of Nepalese personnel in Petroleum Operations at all levels. Each Work Programme and Budget shall contain provisions which set forth the steps which Contractor intends to take in this regard.
- (2) During each Contract Year of the Exploration Period, Contractor shall spend as directed by Department a minimum of (.....) Dollars on the education and training of Nepalese nationals (who are not employees of Contractor) in fields related to petroleum resource development. These funds are to be utilized for purposes such as staff training, scholarships, conferences and purchases of equipment.
- (3) Within sixty (60) days after the Effective Date, Contractor shall make available, as directed by Department, an additional sum of (.....) Dollars, to be utilized in the same manner as under sub-section (2).
- (4) During each year of the Production Period, after the end of the Exploration Period, Contractor shall spend the amount specified for education and training in the Budget related to the Production Area.
- (5) Contractor agrees to provide on-the-job training for personnel of Department who will be seconded to Contractor in order to gain experience in the fields of oil industry practice relevant to Petroleum Operations in Nepal. The number and selection of seconded personnel and terms of their temporary assignment shall be subject to mutual agreement, it being understood that the qualifications and performance of such personnel shall meet Contractor's standards for Nepalese employees. The remuneration of seconded personnel shall be mutually agreed and shall be deemed Petroleum Costs.

49. Right to Employ Foreign Nationals:

- (1) Contractor and its Subcontractor may employ qualified foreign nationals to the extent that qualified Nepalese nationals cannot be found to fill the positions required. On the recommendation of Department, Government shall issue permits required for the employment of foreign nationals and visas required for said foreign nationals and their family members to stay in Nepal.
- (2) In case any foreign national or family member engages in any activity which is against the interests of the country Department may order Contractor to cause such person to leave the country.

50. Reports on Employment:

Contractor shall within fifteen (15) days after the end of each Calendar Quarter submit a report to Department on the nationality, employer, job position, remuneration and other benefits of all personnel employed by Contractor and each of Subcontractor working in Nepal under this Agreement for any period of time.

Chapter 11

Purchase of Goods and Services

51. Purchase of Goods and Services:

- (1) Contractor shall purchase Nepalese goods and services where such goods and services are competitive in quality, quantity, price and availability with imported goods and services.
- (2) If Nepalese goods and services are not competitive with imported goods and services, Contractor with the approval of Department shall be entitled to import all goods and services which may be needed for conducting Petroleum Operations.

52. Subcontractors:

- (1) When hiring a Subcontractor, Contractor shall ensure that the Subcontractor has

the necessary professional expertise and experience to perform the work to be assigned to it.

- (2) Contractor shall notify Department of the name and address of each Subcontractor and the identity of its authorized representative, and deliver a copy of the contract to Department, within thirty (30) days after such Subcontractor has been hired by Contractor. Contractor shall include reports on the work of all Subcontractors in its reports under Section 28.

Chapter 12

Land Utilization and Government Assistance

53. Land Utilization:

- (1) Except for areas prohibited for Petroleum Operations under sub-section (1) of Section 9 of the Act, Government shall place at the disposal of Contractor public land reasonably required by Contractor for Petroleum Operations at a reasonable surface rent to be fixed by Government. Possession of such land shall be returned to Government when no longer required for Petroleum Operations.
- (2) If land required for Petroleum Operations is private land, Contractor may utilize it by paying appropriate compensation, or by directly concluded a lease agreement with the landowner, or by purchasing such land in the name of Government, subject to the conditions prescribed by Department. In case it is not practical or possible to utilize the land in that manner, Government shall acquire such land on a permanent or temporary basis according to prevailing law in its name at Contractor's cost and make it available to Contractor for utilization for Petroleum Operations under this Agreement.

54. Government Assistance:

- (1) Department shall assist Contractor and its Subcontractors in obtaining all government permissions, registrations, licenses, visas and other approvals and

rights which are necessary to carry on Petroleum Operations under this Agreement.

- (2) Department shall assign two (2) representatives (or more than two upon Contractor's request) on a permanent basis to assist Contractor. Contractor shall bear the reasonable expenses of said representatives in amounts which shall be mutually agreed by Department and Contractor.

Chapter 13

Supply of Internal Demand

55. Obligation to Supply Internal Demand:

Subject to the provisions of sub-section (2) of Section 36 and Department giving prior notice of at least two (2) Calendar Quarters to Contractor, Department has the right to order Contractor to sell for domestic consumption such portion of Contractor's Entitlement as is required to meet internal demand of Nepal.

56. Contractor's Share of Internal Demand:

The maximum quantity of Contractor's Entitlement that it must sell to Government to meet such internal demand shall not exceed the amount which is equal to the total such demand which cannot be met by all Petroleum produced in Nepal to which Government is entitled, multiplied by the amount of Contractor's Entitlement and divided by the total amount of entitlements of all Contractor's producing Petroleum in Nepal.

57. Valuation and Payment:

If Contractor sells some portion of Contractor's Entitlement to meet domestic consumption needs, the relevant valuation and payment provisions of Chapter-9 shall apply.

Chapter 14

Unitization

58. Compulsory Unitization:

Department may order that the development and production of a Field be carried out jointly if a Field within the Contract Area extends into another area which is subject to another Petroleum Agreement, or if a Field within the Contract Area is not commercial unless its development and production is combined with another Field within the Contract Area which extends into or is within another area which is subject to another Petroleum Agreement.

59. Joint Operating Programme:

If Department orders the unitization of a Field, Contractor shall collaborate with other contractors in preparing a joint operating programme for the development of the Field involved, which programme shall be submitted promptly for approval to Department. If such programme is not promptly submitted or is not acceptable to Department, Department may prepare or cause to be prepared, at the cost of contractors involved, a joint operating programme to achieve the efficient development of the Field.

60. Obligation to Proceed Under Joint Operating Programme:

Within one hundred and eighty (180) days after Department's notice to Contractor that a joint operating programme under Section 59 has been approved or adopted, Contractor shall proceed under such joint operating programme. Contractor shall at all times be entitled to relinquish the area including the Field. The minimum area restriction in Section 9 shall not apply. Any such relinquishment shall be credited towards the mandatory relinquishment specified in Section 6.

Chapter 15
Joint Review Committee

61. Establishment of Joint Review Committee:

Within three (3) months after the Effective Date a Joint Review Committee composed of six (6) members, three (3) of whom shall be appointed by Contractor and three (3) by Government, shall be established. Additional representatives of each party may attend meetings of the Joint Review Committee as observers or alternate members.

62. Meetings of Joint Review Committee:

- (1) Commencing within one (1) month after its establishment, ordinary meetings of the Joint Review Committee shall be held in Kathmandu regularly every three (3) months on dates to be mutually agreed, or failing such agreement on dates specified by Department. The Joint Review Committee shall review the following:
 - (a) All Work Programmes, Budgets, Quarterly Reports, Annual Reports and other reports and proposals required to be submitted to Government.
 - (b) Progress of Contractor's work.
 - (c) Contractor's statements of Petroleum Costs under Section 47.
 - (d) Terms of contracts with Subcontractors and performance of Subcontractor's work.
 - (e) Any problems arising in Petroleum Operations.
 - (f) Such additional subjects as may be requested by either party.
- (2) Special Meetings of the Joint Review Committee may be called on reasonable notice by either party for the purposes of reviewing any major development or problems in Petroleum Operations, and proposing appropriate actions to be taken.
- (3) Recommendations or opinions of the Joint Review Committee shall be delivered to Department for information and appropriate action.

Chapter 16

Joint Ventures and Transfers

63. Joint Ventures:

If more than one person constitutes Contractor, each shall be jointly and severally bound by the provisions of this Agreement. A copy of any agreement which governs relations between persons constituting Contractor, or a copy of any agreement under which any person is designated the "operator" for Petroleum Operations, shall be delivered immediately to Department.

64. Transfer of Rights and Obligations:

- (1) Contractor shall not transfer any or all of its rights and obligations under this Agreement to anyone without the prior written approval of Government.
- (2) If Contractor wishes to transfer any or all of its rights and obligations under this Agreement to anyone, it must submit a request to Department for the approval of Government together with evidence of the qualifications of the transferee. Department shall within sixty (60) days from the date of receipt of such application review the qualifications of the proposed transferee and shall give its approval or state the basis for its disapproval.
- (3) A transfer shall not become effective until the parties execute an agreement in a form prescribed by Government.

Chapter 17

Suspension and Termination

65. Right to Order Suspension:

In the event of an infraction of this Agreement by Contractor which is not corrected within thirty (30) days after notice is given to Contractor by Department to do so or

in the event of a situation which poses a serious and imminent threat to persons, property or environment, Department may order Contractor to temporarily suspend all or part of its Petroleum Operations or to take such other measures as may be reasonably necessary until such infraction or situation has been rectified.

66. Right to Terminate:

- (1) Government may terminate this Agreement by issuing a written notice to Contractor in the following cases:
 - (a) If Contractor has failed to comply with any provision of the Act, Rules, this Agreement or any order or instruction issued by Department and failed to comply with any obligation within thirty (30) days after being ordered to do so, or within such longer period as Department may prescribe, or
 - (b) If Contractor becomes insolvent, bankrupt or in liquidation.
- (2) Within thirty (30) days after receipt of the notice under sub-section (1), Contractor may refer the issue to arbitration under Section 68 and give notice thereof to Department. If Contractor fails to refer the issue to arbitration within the period specified, this Agreement shall terminate upon the expiration of said thirty (30) days.
 - (2a.) The Contractor may terminate this Agreement after issue of a Production Permit by issuing a written notice to Department if, in the opinion of both the Contractor and Department, continuation of Petroleum Operations is not justified for technical or economic reasons. Such notice of termination must be delivered to Department at least [] days prior to the effective date of termination.
- (3) Termination of this Agreement shall not relieve Contractor from the performance of its obligations outstanding prior to termination.
- (4) In the event of termination of this Agreement after issue of a Production Permit,

Department may delay the effective date of termination and require Contractor to continue Petroleum Operations on behalf and at the cost of Government for a reasonable time until Government assigns the right to conduct Petroleum Operations to another person or has assumed control of Petroleum Operations.

Chapter 18

Settlement of Disputes

67. Consultation:

Government and Contractor agree to make every effort to settle amicably any problem arising under this Agreement.

68. Arbitration:

- (1) The parties consent to submit any dispute, controversy or claim between Government and Contractor arising out of or relating to this Agreement or the interpretation, breach or termination thereof which cannot be settled amicably, to arbitration in accordance with the provisions of this Section.
- (2) The number of arbitrators shall be three. Government on the one hand and Contractor on the other hand shall each appoint one arbitrator and so advise the other party and these two arbitrators will appoint a third. If either party fails to appoint an arbitrator within thirty (30) days after receipt of a written request to do so, such arbitrator shall, at the request of the other party, if the parties do not otherwise agree, be appointed by the President of the International Court of Justice at The Hague. If the first two arbitrators appointed as aforesaid fail to agree on a third within thirty (30) days following the appointment of the second arbitrator, the third arbitrator shall, if the parties do not otherwise agree, be appointed, at the request of either party, by the President of the International Court of Justice of The Hague. If an arbitrator fails or is unable to act, his successor will be appointed in the same manner as the arbitrator whom he

- succeeds.
- (3) The place of arbitration shall be Kathmandu, Nepal, unless otherwise mutually agreed.
 - (4) The language to be used in the arbitral proceedings shall be English.
 - (5) The award of the arbitrators shall be final and binding on both parties.
 - (6) Except as provided in this Section, arbitration shall be conducted in accordance with the arbitration rules of United Nations Commission on International Trade law (UNCITRAL) or arbitration Rules of International Centre for Settlement of Investment Disputes (ICSID) then in force.
 - (7) Contractor shall continue its work under this Agreement during the arbitration proceedings and no allocation of Petroleum or payment due to or from either party shall be withheld on account of such proceedings.

Chapter 19

Miscellaneous

69. Applicable Law:

This Agreement shall be interpreted according to the Law of Nepal.

70. Sanctity of Fundamental Provisions:

- (1) Government shall ensure that during the term of this Agreement Contractor's rights and obligations hereunder shall not be changed unilaterally.
- (2) Contractor shall not disclose the text of this Agreement, any amendment thereto, or any correspondence with Department relating thereto even after termination of this Agreement to any person (including without limitation, any affiliated company) unless Department has given prior written approval thereto, and the person to whom such disclosure is made has given an undertaking in form and substance satisfactory to Department to keep such information confidential.

70A. Co-operation:

The Act, Rules and this Agreement require consents, approvals and information to be given and certain measures to be prescribed for the proper execution and supervision of Petroleum Operations. Delays in giving such consents, approvals and information and the taking of such measures may hinder the expeditious execution and supervision of Petroleum Operations. Therefore, Department and Contractor agree that any requested consents, approvals and information shall be given expeditiously and shall only be withheld if there are overriding reasons to do so, and that only such measures shall be prescribed as Department deems are essential for the proper execution and supervision of Petroleum Operations.

71. Force Majeure Defined:

For purposes of this Agreement "Force Majeure" means an event which could not reasonably be expected to be prevented or controlled, including, but not limited to, accidents, earthquake, storm, flood, lightning or other adverse weather condition, war, embargo, blockage, riot or civil disorder, terrorist acts, or acts of God, but shall not include any event caused by the negligence of Contractor, its Subcontractors or any of its employees; strike, lockout or similar situation emerged due to industrial disputes between contractor and worker, or employees of sub-contractor thereof, or by a failure to observe good petroleum industry practice.

72. Effect of Force Majeure:

(1) The failure of a party to fulfill any of the terms and conditions of this Agreement shall not be considered as a breach of this Agreement insofar as such inability arises from Force Majeure, the affected party having taken all appropriate precautions, due care and reasonable alternative measures with the objective of carrying out the terms and conditions of this Agreement.

However, other works pertaining to petroleum exploration not having direct impact in such situation shall be kept continued.

(2) The affected party shall take all reasonable measures to remove such inability to

fulfill the terms and conditions of this Agreement with a minimum of delay.

(3) The affected party shall notify to the Department within seven (7) days mentioning the following particulars, in an event of Force Majeure:

(a) Details of the circumstances,

(b) Impacts on the rights and obligations of the affected party due to the Force Majeure.

(c) Tentative Period of said Force Majeure.

(d) Details pertaining to measures adopted, or to be adopted to minimize impacts of Force Majeure.

(3a) The affected party shall notify in writing to the Department within seven (7) days of restoration of normal situation following the lifting of Force Majeure.

(4) Both parties shall take all reasonable measures to minimize the consequences of any event of Force Majeure.

(5) The term of this Agreement shall be extended to the extent if the period during which operations were suspended or delayed for more than thirty (30) days by an event of Force Majeure.

(6) One party may terminate the Petroleum Agreement by giving fifteen (15) day notice to other party in a situation where the petroleum works suspended continuously for one year period due to the Force Majeure pursuant to section 71.

73. Indemnity:

Contractor shall indemnify, defend and hold harmless Government against all claims, losses and damages whatsoever caused by or resulting from Petroleum Operations conducted by or on behalf of Contractor, provided that Contractor shall not be liable to Government hereunder for any loss, claim, damage or injury caused by or resulting from the negligence of Government personnel.

74. Notices:

All notices required to be given by either party to the other under this Agreement shall be in writing and may be made by prepaid airmail, or by telex or facsimile confirmed by prepaid air mail, or by hand to the respective address of each party indicated below or to such other address as either party may subsequently notify the other. All notices shall be deemed to be duly made when received.

Government:

Project Chief
Petroleum Exploration Promotion Project
Lainchour, Kathmandu, Nepal
Attn: The Director General
Telex No. : 2320 MINES NP
Fax No. : (977) (1) 4411783

Contractor:

.....
.....
.....
Telex No. :
Fax No. :

75. Office:

Within Ninety days after the Effective Date, Contractor shall establish an office in Kathmandu and maintain such an office for the duration of this Agreement.

76. Interpretation:

The captions and headings in this Agreement are solely for reference purposes and shall not affect the interpretation thereof.

77. Completeness of the Agreement:

This Agreement constitutes the entire understanding between the parties and shall not be amended or changed without the prior written consent of both parties.

IN WITNESS WHEREOF, the parties have executed this Agreement in English language in Kathmandu, Nepal on thisday of,, B.S. corresponding to the day of, One Thousand Nine Hundredinoriginal copies.

GOVERNMENT OF NEPAL:

By _____

Secretary

Ministry of Industry

CONTRACTOR:

By _____

Annex

(Related to Clause (k) of Section 2)

Contract Area

The boundaries of Exploration Block No. (.....) are bounded by straight lines, or between Pointsandthe international boundary between Nepal and India, joining the following points:

Point	Latitude North	Longitude East
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The area of Exploration Block No.(.....) issq. km.

Note: In the case of a discrepancy between geographical co-ordinates and the map, the geographical co-ordinates shall govern.

Schedule 3
(Related to Rule 36)

Surface Rental and Other Fees

a)	Annual Surface Rental	Rate (Dollars)
1.	For area other than area under Production Area during initial Exploration Period, per square kilometer	10
2.	For area other than area under Production Area during the first extension of Exploration Period, per square kilometer	20
3.	For area other than area under Production Area during additional extension of Exploration Period, per square kilometer	40
4.	For areas within Production Areas, per square kilometer	500
b)	Other Fees	
1.	For each extension of an Exploration Period	1000
2.	For each Production Permit	10000
3.	For any adjustment to a Production Permit	1000
4.	For extension of Production Period	10000
5.	For transfer of any rights for Petroleum Operation	15000
6.	Survey fees	at cost
7.	Boundary demarcation	at cost

Although care was taken to make this English translation as reliable as possible, it does not carry any legal authority. Only the original text in Nepali has legal force.