

PROCLAMATION No. 108/2000
A REVISED PROCLAMATION TO GOVERN PETROLEUM
OPERATIONS

WHEREAS, the exploitation of Petroleum resources of the country will greatly contribute to the economic growth and welfare of the Eritrean nation;

WHEREAS, Petroleum Operations should be carried out in accordance with modern technology and sound principles of resource conservation and should provide a better knowledge of the Petroleum potential of the country;

WHEREAS, it is necessary to develop domestic expertise and Petroleum infrastructure by fostering the acquisition of Petroleum technology;

WHEREAS, to achieve these ends, it is essential to promulgate a special law on Petroleum Operations;

NOW, THEREFORE, the Government of Eritrea proclaims as follows:

1. Short Title

This Proclamation may be cited as the " Revised Petroleum Operations Proclamation No. 108/2000".

2. Definitions

For the purposes of this Proclamation:

- 1) "Contractor" means any Person with whom the Government establishes a Petroleum Agreement;
- 2) "Crude oil" means all hydrocarbons regardless of specific gravity which are produced in liquid state at atmospheric pressure at the well head or gas/ oil separator including asphalt and ozokerites or which are extracted from Natural Gas, including distillate and condensate;
- 3) "Government" means the Government of Eritrea and its administrative divisions, and all the officials in any capacity who conduct the business of or exercise authority within the Territory of Eritrea;
- 4) "Minister" or "Ministry" means the Minister of Energy and Mines and the Ministry of Energy and Mines respectively, or any successors in jurisdiction thereto;
- 5) "Natural Gas" shall mean all hydrocarbons which at atmospheric conditions of temperature and pressure are in a gaseous phase, including wet mineral gas, dry mineral gas, wet gas and residue gas remaining after the extraction, processing or separation of liquid hydrocarbons from wet gas, as well as non-hydrocarbon gas or gases produced in association with liquid or gaseous hydrocarbons;
- 6) "Person" means any natural or juridical person;

- 7) "Petroleum" shall mean all natural, organic substances composed of carbon and hydrogen called Petroleum, including Crude Oil and Natural Gas, and all other mineral substances, products, by-products and derivatives that are found in conjunction with the same;
- 8) "Petroleum Deposit " means an accumulation of Petroleum in a geological unit limited by the rock characteristics by structural or stratigraphic boundaries, contact surface between Petroleum and water in the formation, or a combination of these, so that all the Petroleum comprised is in pressure communication through liquid or gas;
- 9) "Petroleum Agreement" means a contract or other written arrangement between the Government and Contractor to conduct Petroleum Operations;
- 10) "Petroleum Operations" means Exploration Operations and Development and Production Operations, including without limitation, all operations related to , extraction, production, field separation, treatment (excluding refining), transportation, storage, sale or disposition of Petroleum to the delivery point, environmental protection, plugging wells and abandoning production facilities. The operations shall not include transportation beyond the Delivery Point, nor any process of refining or any handling of Petroleum which has been treated in a refinery or liquefaction plant or Natural Gas treatment plant;
- 11) "State" means the state of Eritrea;
- 12) "Subcontractor" means any Person with whom a Contractor establishes a contractual relationship for the provision of services required for performance under a Petroleum Agreement;
- 13) "Territory of Eritrea" means its land territory, internal waters, islands, archipelagic waters, territorial sea and its beds and subsoils, exclusive economic zone and continental shelf;

3. Scope

- 1) This proclamation shall govern Petroleum Operations carried out by a Contractor within the Territory of Eritrea.
- 2) Any agreement relating to Petroleum Operations entered into prior to the effective date of this Proclamation shall be governed by this Proclamation unless otherwise provided in the relevant Petroleum Agreement.
- 3) In addition to Petroleum, this Proclamation may apply to scientific research of the seabed and its subsoil and exploration for and exploitation of subsea natural resources other than Petroleum resources the implementation of which would need special agreements and arrangements.

4. Ownership of Petroleum

- 1) Ownership of Petroleum existing in its natural condition on, in and under the Territory of Eritrea is vested in the State.
- 2) Ownership of Petroleum when produced shall be determined in accordance with the provisions of the applicable Petroleum Agreement.

5. Undertaking of Petroleum Operations

The Government may undertake Petroleum Operations through Contractors in accordance with a Petroleum Agreement.

6. The Minister to Represent the Government

- 1) For purposes of this Proclamation, the Minister shall represent the Government in its dealings with a Contractor and shall also be responsible for the effective implementation of this Proclamation.
- 2) The Minister may delegate in writing any of his powers under this Proclamation, except his powers to issue regulations or to sign or revoke a Petroleum Agreement.

7. Powers of the Minister

The Minister has the power to:

- 1) issue regulations necessary for the effective implementation of the provisions of this Proclamation;
- 2) ensure that a Contractor has the requisite financial resources, technical competence and professional skills necessary to fulfill his obligations under the applicable Petroleum Agreement;
- 3) prepare model Petroleum Agreements, including Production Sharing or Modern Concession agreements, which will serve as a basis for the negotiation of a Petroleum Agreement;
- 4) either by competitive bidding or, subject to the directives of the Ministerial Cabinet, by direct negotiation enter into:
 - a) an exclusive Petroleum Agreement which authorizes the Contractor to carry out Petroleum Operations in a particular area; or
 - b) a non-exclusive Petroleum Agreement which authorizes the Contractor to carry out geological and geophysical surveys in a particular area;
- 5) inspect and ensure that the activities of the Contractor are carried out in accordance with the provisions of the Petroleum Agreement;

6) in consultation with the appropriate Ministry arrange for the granting of permits to parties other than the Contractor for the exploration or production of minerals or natural resources other than Petroleum within an area subject to the Petroleum Agreement, provided that such exploration or production activities shall not unreasonably interfere with Petroleum Operations;

7) calculate, collect and audit:

- a) royalties;
- b) surface fees;
- c) bonuses;
- d) rentals or
- e) any other payments;

made or required to be made by Contractors pursuant to the Petroleum Agreement or any regulations issued under this Proclamation.

8. Matters to be dealt with by Directives

The Minister may determine by directives:

- 1) the method and procedure for inviting and evaluating bids for a Petroleum Agreement;
- 2) the form and content of applications to conduct Petroleum Operations;
- 3) the qualifications and experience for Persons applying to undertake Petroleum Operations; and
- 4) other similar matters.

9. Particulars in a Petroleum Agreement

Any Petroleum Agreement shall provide, inter alia, for the following particulars:

- 1) royalties, surface fees, bonuses, rentals and any other payments to the State, excluding taxes levied pursuant to the Income Tax laws of Eritrea;
- 2) safety requirements and programs and other matters related to the working conditions of employees engaged in Petroleum Operations;
- 3) minimum work obligations, minimum expenditures and periodic surrender of any area subject to a Petroleum Agreement;
- 4) rights and obligations of the Contractor;

- 5) the Minister's authority to inspect and control Petroleum Operations;
- 6) time, manner and content of reports and information to be submitted to the Minister;
- 7) procedures for assignment or transfer of rights or obligations of the Contractor under a Petroleum Agreement;
- 8) conditions for revocation or termination of Petroleum Agreements and procedures for the settlement of disputes;
- 9) the terms and conditions of State Participation in some or all phases of Petroleum Operations;
- 10) clause providing for the stabilization of the rights and obligations of the parties;
- 11) requirements relating to environmental protection;
- 12) disposal of assets;
- 13) access to property;
- 14) accounting procedures;
- 15) sanctions for failure by Contractor to fulfill obligations contained in a Petroleum Agreement;
- 16) manner of employment, rights and obligations and, in particular, the training, of Eritrean nationals; and
- 17) any other matters of relevance to the proper execution of Petroleum Operations.

10. Areas Precluded from Petroleum Operations

- 1) The Minister shall, in consultation with the appropriate state organs, determine the areas in which Petroleum Operations may not be permitted for reasons of national interest and security;
- 2) The determination made under sub-Article (1) of this Article shall be without prejudice to existing rights in such areas as established by a Petroleum agreement.

11. Duration of Petroleum Agreements

- 1) The periods under a Petroleum Agreement shall be:

- a) up to two years for activities under non-exclusive Petroleum Agreements;
 - b) up to four years for exploration under exclusive Petroleum Agreements; and
 - c) up to twenty-five years for development and production under exclusive Petroleum Agreements.
- 2) The Minister may, where circumstances justify and on such terms and conditions as the Minister shall deem appropriate, grant or renew the initial periods set forth in sub-Article (1) of this Article for not more than:
- a) two years for activities under non-exclusive Petroleum Agreements;
 - b) four years for exploration under exclusive Petroleum Agreements; and
 - c) ten years for development and production under exclusive Petroleum Agreements.
- 3) The Minister may grant an extension to the periods set forth in sub- Article (2) of this Article for the purpose of allowing a Contractor to complete drilling, logging, testing or plugging of any well which is actually being drilled, logged, tested or plugged at the expiry of the applicable period (or sub-period, if applicable under the relevant Petroleum Agreement) or for the completion of the appraisal program of a discovery.
- 4) In addition to the renewal and extension periods set forth above, the Minister may grant a further extension as may be necessary for purposes of evaluating a Natural Gas discovery.

12. Preferences and Training

A Contractor shall:

- 1) give preference to the employment of Eritrean nationals to the fullest extent possible; provided, such nationals have the required qualifications and experience;
- 2) give preference to domestic materials, products and services where such materials, products and services are readily available at competitive prices and are of comparable quality;
- 3) train Eritrean nationals in Petroleum Operations in accordance with the relevant Petroleum Agreement.

13. Transfer and Assignment

- 1) A Contractor may transfer, assign or otherwise dispose of all or any part of his rights, obligations and interests under a Petroleum Agreement only with the prior written consent of the Minister, which consent shall not be unreasonably withheld.

- 2) Subject to sub-Article (1) of this Article the terms and conditions of said transfer, assignment or disposal shall be governed by the provisions of the Petroleum Agreement.

14. Operating Standards

Contractors shall conduct Petroleum Operations in accordance with generally accepted international Petroleum industry standards and practices and in a manner which is compatible with the conservation of Petroleum and other resources and the protection of human life, property and the environment.

15. Disposal of Assets

The Contractor shall transfer or remove at no cost to the Government plants, appliances and installations in an area which is subject to surrender or termination pursuant to the terms of a Petroleum Agreement.

16. Access to Property

If a Contractor requires the use of property in connection with Petroleum Operations, the Government may acquire the rights or interests thereon necessary for said operations; provided that the Contractor shall pay fair compensation to the Person holding such rights or interests.

17. Protection of Historical Sites and other Minerals

A Contractor shall:

- 1) conduct Petroleum Operations in a manner designed to protect anthropological, archaeological and historical objects and sites;
- 2) notify the Minister, as soon as practicable, in the event of discovery of anthropological, archaeological or historical objects or sites or other minerals;
- 3) not remove from their locations, any anthropological, archaeological and historical objects or other minerals discovered, without the prior authorization of the Minister.
- 4) notify the Minister of the existence of any significant aquifer encountered in the course of Petroleum Operations and take all appropriate steps to enable the Government to complete the relevant well as a water well as long as it does not unreasonably interfere with Petroleum Operations.

18. Books and Records

1) A Contractor shall:

- a) keep complete and accurate books of accounts on Petroleum Operations at the locations and in the manner prescribed in the relevant Petroleum Agreement;

b) annually submit to the Minister and other appropriate authorities financial statements, including balance sheets and profit and loss accounts, audited by a recognized, independent auditor acceptable to the Minister.

2) A Contractor shall keep records of his Petroleum Operations, including drilling, geophysical and geological data; and shall submit such data, reports and notices to the Minister in accordance with regulations issued by the Minister or, in the absence of such regulations, in accordance with the Petroleum Agreement.

19. Insurance and Indemnity

1) A Contractor shall, prior to commencing Petroleum Operations, obtain and, maintain in force workmen's compensation, property and third party liability insurance in such reasonable amounts and coverage as has been approved in writing by the Minister.

2) A Contractor shall indemnify, defend and save the Government harmless against all claims, losses and damage of any nature what so ever, including without limitation claims for loss of or damage to property, or death of or injury to Persons caused by, or resulting from, any operations conducted by, or on behalf of, the Contractor under the terms of the relevant Petroleum Agreement.

20. Supply of Domestic Market

1) The Minister may require the contractor in writing to supply Crude Oil, for domestic consumption, to the Government from the Contractor's share of production.

2) The price, quantity and any other relevant terms of said supply shall be specified in the Petroleum Agreement.

21. Exemption from Customs Duties and Levies

1) A Contractor and a Subcontractor shall be entitled to import into Eritrea any and all drilling, geological, geophysical, production, treating, processing, transportation and other machinery and equipment necessary in Petroleum Operations, including aircraft, vessels, vehicles and other transportation equipment and parts therefor (other than sedan car and fuel therefor), fuels chemicals, lubricants, films, seismic tapes, house trailers, office trailers, disassembled prefabricated structures and other materials necessary for Petroleum Operations free of import duties, taxes, levies and imposts of any kind.

2) Expatriate employees of a Contractor and a Subcontractor shall be entitled to import into Eritrea household goods and personal effects, including one sedan car, free of import duties, taxes, levies and imposts of any kind, in accordance with prevailing regulations.

3) All items imported under sub- Article (1) and (2) of this Article and taken out of Eritrea shall be exempt from export duties and other taxes levied on exports; provided, however, that if these items

are disposed of within Eritrea, the Contractor, Subcontractor or their expatriate employees, as the case may be, shall pay customs duties and levies in accordance with the applicable laws.

- 4) The Contractor shall be entitled to export Petroleum produced free of export duties, taxes or imposts of any kind.
- 5) The relevant Petroleum Agreement may include additional provisions concerning the matters addressed in this Article 21.

22. Royalties

- 1) A Contractor shall pay royalty for the Petroleum produced.
- 2) The Petroleum Agreement shall specify the rate of royalty and the method of payment.

23. Income Taxes and other Payments

- 1) A Contractor and a Subcontractor shall pay income tax in accordance with the applicable Income Tax laws of Eritrea.
- 2) The salaries and other benefits in cash or in kind of expatriate employees of a Contractor and a Subcontractor who spend more than ninety-two (92) days of the taxable year in Eritrea derived from activities carried out in Eritrea and required for performance under a Petroleum Agreement shall be subject to personal income tax under the income tax laws of Eritrea, except that their taxable income shall be subject to a flat rate of ten percent (10%).
- 3) A Contractor shall pay any additional payments, whether characterized as tax or otherwise, specified under any applicable Petroleum Agreement.

24. Exchange Regulations

- 1) Contractors and Subcontractors shall be subject to the applicable exchange control legislation and directives in effect from time to time in Eritrea; provided, however, that Contractors and Subcontractors shall have the following rights after meeting all their respective payments and tax obligations under any applicable Petroleum Agreement and under the applicable Income Tax laws of Eritrea:
 - a) to retain or dispose of any fund outside Eritrea including such funds as may result from Petroleum Operations;
 - b) to pay foreign Subcontractors and expatriate employees of the Contractor outside Eritrea; provided, however, that such foreign Subcontractors and expatriate employees shall be required to bring into Eritrea such foreign exchange as required to meet payment of Eritrean tax and living expenses;
 - c) to export such funds as Contractors or Subcontractors shall have imported into Eritrea or derived from Petroleum Operations or the sale or lease of goods or performance of services under a Petroleum Agreement.

- 2) Contractors and Subcontractors shall make regular reports to the National Bank of Eritrea regarding all currency received, imported, remitted and maintained abroad. The manner of reporting shall be specified in the applicable Petroleum Agreement.
- 3) The relevant Petroleum Agreement may include additional provisions concerning the matters addressed in this Article 24.

25. Arbitration

- 1) Any dispute, controversy or claim between the Government and the Contractor arising out of, or relating to, the Petroleum Agreement or the interpretation, breach or termination thereof shall, to the extent possible, be resolved through negotiations.
- 2) In the event the dispute is not settled through negotiations, it shall be submitted to expert determination or to binding arbitration in accordance with the procedures specified in the Petroleum Agreement.

26. Applicable Law

Without prejudice to Article 25 of this Proclamation, all Petroleum Agreements and Petroleum Operations shall be governed by the laws of Eritrea.

27. Conflict With Other Laws

No laws or rules, whether written or customary, shall apply to matters expressly provided for in this Proclamation.

28. Repealed Laws

The Petroleum Operations Proclamation No. 40/1993 and other laws issued in accordance with it or to amend it or correct it are hereby repealed and replaced by this Proclamation.

29. Entry into force

This Proclamation shall enter into force on the date of its publication in the Gazette of Eritrean Laws.

Asmara, July 15/2000
Government of Eritrea

PROCLAMATION No. 109/2000
A REVISED PROCLAMATION TO PROVIDE FOR PAYMENT OF INCOME TAX
ON PETROLEUM OPERATIONS

WHEREAS, it is necessary to regulate the payment of tax on income from Petroleum Operations;

WHEREAS, the nature of Petroleum Operations calls for a special law to regulate the payment of income tax thereon;

NOW THEREFORE, the Government of Eritrea hereby proclaims as follows:

1. Short Title

This Proclamation may be cited as the "Revised Petroleum Operations Income Tax Proclamation No. 109/2000"

2. Definitions

For purposes of this Proclamation, unless the context otherwise requires:

- 1) "Accounting Year" means the Calendar Year ending December 31, according to the Gregorian Calendar;
- 2) "Affiliated Person" means any juridical Person directly or indirectly effectively controlling, or effectively controlled by, or under direct or indirect effective common control of, a specified Person. For the purposes of this definition, "control", when used with respect to any specified Person, means the power to direct, administer and/or dictate policies of such Person (it being understood that it is not necessary to own directly or indirectly fifty percent (50%) or more of such Person's voting shares to have effective control over such Person; however, ownership, whether direct or indirect, of fifty percent (50%) or more of such Person's voting shares shall automatically indicate effective control). The terms "controlling" and "controlled" have meanings corresponding to the foregoing term "control";
- 3) "Calendar Quarter" means the quarter ending March 31, June 30, September 30 and December 31 according to the Gregorian Calendar;
- 4) "Capital Expenditure" means expenditure, other than Pre-production costs, the benefit of which extends beyond the Accounting Year in which the expenditure is incurred;
- 5) "Contractor" means any Person with whom the Government establishes a Petroleum Agreement;

- 6) "Field" means an area consisting of a Petroleum reservoir or multiple Petroleum reservoirs all grouped on or related to the same individual geological structure features or stratigraphic conditions from which Petroleum may be produced commercially, the development of which has been approved by the Minister of Energy and Mines. All reservoirs overlying and underlying a Field shall constitute part of such Field.
- 7) "First Accounting Year" means the Accounting Year in which commercial production commences from the first Field developed by the Contractor;
- 8) "Income" means every sort of revenue, from whatever source derived and in whatever form paid, credited or received in relation to Petroleum Operations which has its origin within Eritrea, irrespective of whether it is paid, credited or received within or outside Eritrea;
- 9) "Initial Regular production" means the commencement of regular production from the first development area developed by the Contractor;
- 10) "Person" means any natural or juridical person;
- 11) "Petroleum" means all natural, organic substances composed of carbon and hydrogen called Petroleum, including Crude Oil and Natural Gas, and all other mineral substances, products, byproducts and derivatives that are found in conjunction with the same;
- 12) "Petroleum Agreement" means a contract or other arrangement between the Government and a Contractor to conduct Petroleum Operations;
- 13) "Petroleum Operations" means exploration operations and development and production operations, including without limitation, all operations related to exploration, development, extraction, production, Field separation treatment (excluding refining), transportation, storage, sale or disposition of Petroleum to the delivery point, environmental protection, plugging wells and abandoning production facilities. The operations shall not include transportation beyond delivery point, nor any process of refining or any handling of Petroleum which has been treated in a refinery or liquefaction plant or Natural Gas treatment plant;
- 14) "Petroleum Operations Costs" means all the costs and expenses incurred for the purposes of Petroleum operations including both capital expenditure and Revenue Expenditure;
- 15) "Pre-Production Costs" means all Petroleum Operations costs incurred before the commencement of regular production;
- 16) "Revenue Expenditure" means expenditure other than capital expenditure and Pre-production costs;
- 17) "Subcontractor" means any Person with whom a Contractor establishes a contractual relationship for the provision of services required for performance under a Petroleum agreement;

- 18) "Taxable Income" means the amount of income, calculated in accordance with the provisions of this Proclamation, on which tax shall be charged, levied and collected.

3. Levying of Tax

- 1) Any Person engaged in Petroleum Operations under a Petroleum Agreement shall pay income tax at the rate of thirty- five percent (35%) of its Taxable Income.
- 2) Tax on income from Petroleum Operations shall be imposed on a Person's Taxable Income for the current Accounting Year.

4. Determination of Income

- 1) In determining the income of a Person from Petroleum Operations, there shall be brought into account the value of all Petroleum produced and saved and not used in Petroleum Operations to which that Person is entitled under a Petroleum Agreement.
- 2) The value of Petroleum produced and saved shall be calculated in accordance with the provisions of the Petroleum Agreement and shall be communicated by the Minister of Energy and Mines to the Minister of Finance.
- 3) Where a Person is entitled to Petroleum under more than one Petroleum Agreement, the value of Petroleum produced and saved under each agreement shall be consolidated in determining income.

5. Deductions

- 1) In determining the Taxable Income of a Person from Petroleum Operations, all Petroleum Operations costs and any special charge shall be deducted in accordance with the provisions of this Article.
- 2) Where a Person incurs costs under more than one Petroleum Agreement, the costs shall be consolidated and be deducted in accordance with the following provisions of this Article.
- 3) Pre-production costs shall be capitalized and a fraction equal to one fifth of the capitalized costs shall be deducted in the first Accounting Year and each of the four succeeding Accounting Years; provided that:
 - a) Pre-production costs incurred in an area surrendered prior to initial commercial production; and
 - b) Pre-production costs in respect of a well abandoned prior to the initial commercial production shall be deducted in full in the first Accounting Year;
- 4) In an Accounting Year in which capital expenditure is incurred and in each of the four succeeding Accounting Years there shall be deducted a fraction equal to one-fifth of the capital expenditure incurred in that year;

- 5) In each Accounting Year in which Revenue Expenditure is incurred there shall be deducted an amount equal to the Revenue Expenditure incurred.
- 6) If the deductions referred to in Article 5 sub-article 3 and 4 above will cause the taxpayer involved to sustain a loss, the deduction for the relevant portion of Pre-production costs or capital expenditure shall be deferred to the next accounting year.

6. Period of Payments

- 1) Any Person conducting Petroleum Operations in Eritrea shall make quarterly payment on account at the end of each Calendar Quarter of each Accounting Year of Petroleum Operations.
- 2) Each quarterly payment on account shall be calculated as one quarter of the tax estimated to be payable for that Accounting Year. The estimates shall be based on budgets submitted by the Person to, and verified by, the Minister of Energy and Mines.
- 3) The sum of these quarterly payments shall satisfy the liability of that Person for the tax due on that Person's declared Taxable Income for the Accounting Year concerned.
- 4) In the event that the sum of the quarterly payments is less than the tax due on the declared Taxable Income for the Accounting Year concerned, the difference shall be paid with the submission of the declaration of income. In the event that the sum of the quarterly payments is greater than the tax due on the declared Taxable Income for the Accounting Year concerned, the difference shall be refunded within 30 days from the date of notification of the assessment.

7. Capital Expenditure

- 1) Capital expenditure shall include, but shall not be limited to expenditure on the following:
 - a) wells drilled in any Field during the development and production period;
 - b) wells drilled outside a Field which result in a commercial discovery;
 - c) plants, platforms and other production facilities, machinery, fixtures, pumps and the installation thereof;
 - d) pipelines and storage tanks and the installation thereof;
 - e) the construction of industrial buildings, structures and works of a permanent nature;
 - f) major enhancement expenditure on any production facility;
 - g) the acquisition of, or of rights in or over, Petroleum Deposits.

- 2) Notwithstanding the definition of capital expenditure in Article 2(4) above, capital expenditure shall not include expenditure on the following items:
 - a) furniture and office equipment excluding data processing equipment;
 - b) buildings used as retail shop, showroom, offices and dwelling houses.

8. Revenue Expenditure

- 1) Revenue Expenditure shall include, but shall not be limited to expenditure on the following:
 - a) geological and geophysical studies and surveys as well as topographical and geographical surveys preparatory to drilling;
 - b) drilled wells which do not result in commercial discovery other than wells in any Field;
 - c) costs of production including pumping, transportation, storage and handling of Petroleum; repairs, maintenance and replacement expenditure but excluding major enhancement expenditure;
 - d) the costs of abandoning a well and the related production facilities, if any, including the costs of making safe the abandoned area, removing the production facilities and restoring the environment;
 - e) general and administrative expenses incurred in Eritrea for the purposes of Petroleum Operations;
 - f) general and administrative expenses incurred outside Eritrea, and the costs of processing survey results, technical reports and other data in a country outside Eritrea; provided, however, that:
 - i) the amounts expended are directly attributable to Petroleum Operations in Eritrea and are fairly and reasonably allocated thereto;
 - ii) the expenses incurred were for services actually rendered; and
 - iii) the amount paid for such services corresponds to the normal rates paid by other businesses or Persons similarly situated for similar services rendered in similar circumstances.
 - g) management or professional commissions or fees, including those paid to Persons outside Eritrea: provided, however, that:
 - i) the amounts paid are directly attributable to Petroleum Operations in Eritrea and are fairly and reasonably allocated thereto;

- ii) such commissions or fees were paid for services actually rendered; and
 - iii) the amount paid for such services corresponds to the normal rates paid by other businesses or Persons similarly situated for similar services rendered in similar circumstances.
- h) interest payments on loans raised for the purpose of conducting Petroleum Operations, other than exploration, including interest payments by a Person outside Eritrea which are fairly and reasonably allocated to a branch, office or other division maintained in Eritrea by that Person; provided, however, that interest payments shall not be deductible:
- i) where the interest payment exceeds the amount that would have been payable on a loan concluded at arm's length where the loan, the repayment thereof and the interest payable constitute the only consideration for the making of the loan;
 - ii) unless the loan proceeds, with respect to which interest is paid are applied to Petroleum Operations in Eritrea. Where only part of the loan proceeds are applied to Petroleum Operations in Eritrea, only the interest payable with respect to that part of the loan proceeds shall be deductible;
 - iii) unless tax on interest payments has been deducted and paid to the Income Tax Authority in accordance with Article 15(2) of this Proclamation; or
 - iv) unless the loan which may have been obtained from a bank, insurance or other sources with respect to which interest is paid, has been approved by the Minister of Finance in consultation with the Minister of Energy and Mines.
- 2) Revenue Expenditure shall also include payments, except income tax, made to the Government or any agency thereof pursuant to any Petroleum Agreement including, as appropriate, royalties, annual rentals, special charges, bonuses and supplementary revenue payments.

9. Surrender or Abandonment

- 1) Where the Contractor:
- a) surrenders all or part of a contract area; or

- b) abandons any well after the initial commercial production, the balance of any costs incurred in the area surrendered or in respect of the well abandoned not previously deducted against income shall be deducted in the Accounting Year of surrender or abandonment.
- 2) The Petroleum Agreement may provide for the creation of a reserve for abandonment costs.

10. Transfer or Assignments of Rights

- 1) Where rights under a Petroleum Agreement are transferred or assigned, the consideration received by the transferor or assignor shall be treated as a receipt derived from Petroleum Operations. The transferee or assignee shall in such cases be treated as having incurred capital expenditure or, where appropriate, Pre-production costs of an amount equal to that consideration.
- 2) Where the transfer or assignment takes place before initial commercial production, the transferor or assignor shall be entitled to deduct, from the receipts all the Petroleum Operations costs incurred in respect of the rights transferred or assigned.

11. Valuation of Assets

- 1) If an asset representing capital expenditure is brought into use by being transferred or purchased from an Affiliated Person for use in Petroleum Operations, or if an asset representing capital expenditure is brought into use without being purchased or transferred, it shall be deemed, for purposes of income tax, to have been transferred, purchased or brought into use at the lowest of the following:
 - a) the market value of the asset at the date of purchase or transfer;
 - b) the actual cost of the asset to the Person that uses the asset in Petroleum Operations at the date of purchase or transfer;
 - c) the actual cost of the asset to any affiliate of the Person that uses the asset in Petroleum Operations.
- 2) Where an asset ceases to be used for the purposes of Petroleum Operations, the value to be taken on the account for the purposes for income tax shall be:
 - a) in the case of a sale at arm's length, the proceeds therefrom; and
 - b) in any other case the market value of the asset at the date it ceases to be used.
- 3) Except for income received in the form of Petroleum, the valuation of all other income received in the form of a benefit in kind shall be approved by the Income Tax Authority.

12. Dividend

No income tax shall be paid on dividends paid to shareholders by a Person out of income derived from Petroleum Operations.

13. Taxation of Foreign Subcontractors

- 1) Foreign Subcontractors engaged in performing services in Eritrea for a Contractor in connection with Petroleum Operations shall, commencing from the date of adoption by the Minister of Energy and Mines of the development plan in respect of a commercial discovery, be deemed to have earned a Taxable Income equal to ten percent (10%) of all amounts paid by a Contractor to the foreign Subcontractor.
- 2) Notwithstanding sub-Article (1) of this Article, the following payments shall be deducted in calculating the Taxable Income of a foreign Subcontractor:
 - a) reasonable and fair amounts paid for the movement of personnel and equipment to Eritrea prior to commencement of Petroleum Operation in Eritrea and from Eritrea after completion thereof; and
 - b) payment by a Contractor to a foreign Subcontractor to reimburse that Subcontractor for payment made to a third party on behalf of the Contractor for goods and services which are incidental to the subcontract and would not normally, under generally accepted international Petroleum industry practice, be regarded as payment for services rendered by the foreign Subcontractor, and does not include a charge of handling or administration.
- 3) Where services are provided outside Eritrea, the foreign Subcontractor shall not be liable to income tax in Eritrea.
- 4) For the purposes of this Article, payments made under sub-Article (2) (a) above in excess of the amounts normally paid under generally accepted international Petroleum industry practice, having regard to the circumstances of the agreement, shall not be deducted.
- 5) Payment made by, or on behalf of, a Contractor to a foreign Subcontractor shall be deductible only where an invoice has been issued therefor. The Subcontractor shall in each case issue distinct and separate invoice to the Contractor with respect to:
 - a) payment for services ;
 - b) payments made for the movement of personnel and equipment as stated under sub-Article (2)(a) above; and
 - c) payments made under sub-Article (2) (b) above, with copies of all supporting documents.
- 6) When paying an invoice rendered by a foreign Subcontractor, a Contractor shall:

- a) deduct an amount of tax payable by the Subcontractor at the rate of thirty-five percent (35%) on the Taxable Income calculated in accordance with sub-Article (1) and (2) of this Article;
 - b) issue to the Subcontractor a certificate showing the gross amount of the invoice, the amount deducted for the tax and the net amount payable; and
 - c) retain a copy of the invoice and certificate for a period of three years.
- 7) The deduction by a Contractor of tax from payments to a foreign Subcontractor in accordance with the provision of this Article shall discharge the full income tax liability of the foreign Subcontractor.
- 8) Any Person conducting Petroleum Operations in Eritrea that engages a foreign Subcontractor to perform services in Eritrea in connection with these Petroleum Operations shall pay to the Income Tax Authority the tax owed by such Subcontractor within fourteen (14) days after the end of the Calendar Quarter in which payment to the Subcontractor takes place.

14. Carry Forward of Losses

A loss sustained by a Person engaged in Petroleum Operations in one Accounting Year may be carried forward for a maximum of ten (10) succeeding Accounting Years.

15. Tax on Interest Payments

- 1) Where interest is paid on a loan, the lender shall be liable to income tax at the rate of fifteen percent (15%) on the interest.
- 2) The borrower shall deduct from payment of interest income tax at the rate of fifteen percent (15%) and shall pay to the Income Tax Authority the tax deducted within fourteen(14) days after the end the Calendar Quarter in which the interest is paid and shall make a return of interest paid and tax deducted in such form as the Income Tax Authority shall specify.
- 3) The deduction by the borrower of tax from interest payment to the lender shall discharge in full the income tax liability of the lender in respect of said interest.

16. Drilling Costs

- 1) When for the purposes of Articles 7(1) (b) and 8(1) (b) above, it is not possible to determine before the declaration of income is made for any Accounting Year whether a well drilled during the Accounting Year has resulted in a commercial discovery the expenditure on drilling the well shall be treated as Capital Expenditure under Article 7.

- 2) Where in any later Accounting Year it is determined that a well to which sub-Article (1) of this Article applies has not resulted in a commercial discovery, the expenditure shall be reclassified as Revenue Expenditure and a deduction shall be made in determining Taxable Income for the later year of an amount equal to the balance of the expenditure not previously allowed.

17. Maintenance of Books and Foreign Currency

Where a Contractor elects, which election shall be final, to maintain all books and records relating to Petroleum Operations in the currency of the United States of America:

- a) The Income Tax Authority shall determine the Taxable Income or assessed loss attributable to Petroleum Operations for any year of assessment in that currency; and
- b) Notice of assessment and of any amount of tax payable shall be given to the taxpayer in that currency; and
- c) Payment of tax and refunds, if applicable, shall be effected in that currency.

18. Conflict With Other Laws

The income tax laws presently in force in Eritrea shall not apply to matters provided for in this Proclamation.

19. Power to Issue Regulations

The Minister of Finance shall have the power to issue regulations necessary for the effective implementation of this Proclamation.

20. Repealed Laws

The Petroleum Operations Income Tax Proclamation No. 41/1993 and any other laws issued to correct it are hereby repealed and replaced by this Proclamation.

21. Effective Date

This Proclamation shall enter into force on the date of its publication in the Gazette of Eritrean Laws.

Asmara, July 15/2000
Government of Eritrea.

LEGAL NOTICE NO. 45/2000
THE REVISED REGULATIONS ON PETROLEUM OPERATIONS

Issued by the Minister of Energy and Mines pursuant to the powers vested in him under Article 7 (1) of the Revised Petroleum Operations Proclamation No. 108/2000.

PART I
PRELIMINARY

1. Short Title

These Regulations may be cited as “the Revised Regulations on Petroleum Operations - Legal Notice No. 45/2000.

2. Interpretation

In these Regulations unless the context otherwise requires-

"Commercial Discovery" means a Discovery that can be produced commercially after consideration of all pertinent operating and financial data collected during the performance of the appraisal work program and otherwise, including but not limited to Crude Oil or Natural Gas recoverable reserves, sustainable production levels and other relevant technical and economic factors, according to generally accepted international petroleum industry practices.

"Contract" means a Petroleum Agreement as defined in the Revised Petroleum Operations Proclamation No. 108/2000.

"Development and Production Operations" means operations for or in connection with the production of Petroleum .

"Discovery" means a significant occurrence of Petroleum recovered at the surface which was not previously known to have existed and which is measurable by generally accepted petroleum industry practices.

"Drilling" means operations for or in connection with the perforation of the earth's surface, whether the hole is vertical, inclined or horizontal, and includes all operations for preventing the hole from becoming filled by extraneous materials (including water) and the fitting of wellheads, or coring or logging, and any operations incidental thereto;

"Environmental Damage" means, *inter alia*, soil erosion, removal of vegetation, destruction of wild life and marine organisms, pollution of groundwater, pollution of surface water, land or sea contamination, air pollution, noise pollution, bush fire, disruption to water supplies, disruption to natural drainage and damage to archaeological, paleontological and cultural sites.

"Exploration Operations" means geological, geophysical and geochemical studies, aerial mapping, seismic surveys, investigations relating to the subsurface geology including structure test Drilling, stratigraphic test Drilling, Drilling of Exploration Wells and Appraisal Wells, and other related activities such as surveying, drill site preparation and all work necessarily connected therewith, that is conducted in connection with exploration for Petroleum.

"Factors constituting Control" means:

- Protocols, agreements or Contracts binding a Contractor with another Contractor or with third parties and relating to the conduct of operations and management of their companies, to the sharing of expenditures and profit, or to the sharing and disposal of products and, if such companies are liquidated, to the distribution of assets;
- Provisions of the Contractor's articles of incorporation and by laws relating to the head office, the rights attached to capital stock, the majority required in annual general meetings;
- The list and nationalities of any physical or legal Person which holds more than ten percent (10%) of the Contractor's capital stock;
- When the Contractor's debts maturing in more than four (4) years exceed its shareholders equity: names, nationalities and countries of residence of physical or legal Persons who hold debt in an amount of more than twenty percent (20%) of the said shareholders' equity as well as the nature and term of loans obtained from such Persons;
- And generally, any transaction the result of which is to make one or more physical or legal Persons gain or lose a controlling interest in the operations and management of the Contractor.

"Initial Regular Production" means the commencement of regular production from the first Field developed by the Contractor.

"Site Restoration" means all activities required to return a site to its natural state or to render a site compatible with its intended after-use (to the extent reasonable), after cessation of Petroleum Operations in relation thereto. Such activities shall include, where appropriate, removal of equipment, offshore structures and debris, pipelines, establishment of compatible contours and drainage, replacement of top soil, re-vegetation, slope stabilization, infilling of excavations, or any other appropriate actions.

"Well" means any opening in the ground made or being made by Drilling or boring, or in any other manner, in connection with exploration operations or development and production operations, other than a seismic hole.

Other defined words shall have the meanings ascribed to them in the Revised Petroleum Operations Proclamation No. 108/2000 or the Revised Petroleum Operations Income Tax Proclamation No. 109/2000.

PART II BLOCKS

3. Constitution of blocks

- (1) The Petroleum prospective territory under the sovereignty of Eritrea and its exclusive economic zone is divided into 21 blocks, numbered 1 to 21 and delineated according to the UTM grid, as shown on the map attached as Schedule 1 to these Regulations.
- (2) Each full block measures one degree by one degree square and comprises a surface area of approximately 11,800 square kilometers, and is itself divided into thirty-six sub-blocks measuring ten minutes square each comprising a surface area of approximately 330 square kilometers.

PART III BIDS

4. Applications and Petroleum Registry

Any individual or corporation intending to carry out activities relating to Petroleum Operations shall apply to the Minister in writing and every application shall include, *inter alia*, the following information:

- (a) the name, address and nationality of the applicant;
- (b) where the applicant is a corporation:
 - (i) the applicant's place of registration or incorporation, its principal place of business, its board of directors and senior management, the domicile and nationality of the members the board of directors and its capital structure;
 - (ii) the form of organization of the applicant, including information concerning the bidder's relationship with its parent company and ultimate parent company, if any, and other affiliated Persons;
 - (iii) the financial structure of the applicant and its parent company and ultimate parent company, if any, including annual reports, audited balance sheets and profit and loss statements for the past three years, and any reports which the applicant or its parent company may have filled with government agencies responsible for securities regulation during that period; and
 - (iv) the Factors constituting Control of the applicant.
- (c) the manner in which exploration and development activities would be financed if the application is successful and how performance would be guaranteed; and

- (d) the applicant's previous experience in Petroleum exploration, development, production, refining and marketing, as well as information on the applicant's research and development competence.
- (2) Where an application is submitted by a group of two or more Persons, the information referred to in sub-article 4 (1) of these Regulations shall be submitted for each Person and the group shall designate one Person as the negotiator.
- (3) Where, following the submission of the information referred to in sub-article 4(1) of these Regulations, but prior to the selection of the successful applicant, there has been any change in the information so submitted, the applicant shall forthwith inform the Minister, specifying all particulars of the change.
- (4) Upon payment by the applicant of the appropriate application fee listed in the schedule to these Regulations, the Minister shall cause the entrance of the application in a Petroleum Registry which shall be open for examination by the public. The information entered in the Petroleum Registry shall include the serial number of the application, the date of the application, the description of the area applied for, a map of the area applied for, the amount of fee paid and the status of the application. Each application shall be numbered sequentially and a receipt for the application and the application fee delivered to the applicant from a note book where each form of receipt is pre-numbered, with a duplicate receipt to be retained by the Minister.

5. Additional Information to be furnished

- (1) Each application shall also include, *inter alia*, the following:
 - (a) a description of the block or blocks applied for, and if the application is made in respect of more than one block, the priority assigned to each block;
 - (b) a detailed description of the exploration program proposed for the block or blocks applied for and its geographical distribution over each such block or blocks;
 - (c) the minimum work and expenditure obligations proposed to be undertaken during the exploration period;
 - (d) proposals with respect to the training of Eritrean nationals and expenditures to be incurred therefor;
 - (e) proposals with respect to the sharing of net revenues or production between the applicant and the Government;
 - (f) any agreement, formal or informal, between any Persons relating to the manner in which Petroleum Operations are to be financed;

- (g) information relating to the geological and geophysical data on which the application is based; and
- (h) such other matters as may be required by the Minister or which the applicant wishes the Minister to consider.

(2) Additional information on all matters referred to in sub-article 5(1) of this Regulation shall be promptly supplied by the applicant, if so requested by the Minister at any time after the application has been received.

(3) All such application information shall be treated as confidential for five (5) years by the Minister and shall not be disclosed to third Persons without the written consent of the applicant.

6. Selection Criteria

The following shall be the criteria for the evaluation of all applications and selection of applicants for negotiations:

- (a) the technical competence and experience of the applicant with respect to Petroleum Operations;
- (b) the financial resources available to the applicant to fulfill the petroleum exploration, development and production obligations under a Contract;
- (c) the extent to which the applicant will provide advanced technology and skills to the Eritrean petroleum industry;
- (d) the specific contents of the application; and
- (e) applicant's willingness to accept the model production sharing Contract.

7. Grant and Rejection of Applications

The Minister shall decide whether to grant or reject any application hereunder. No rights of any kind shall be created in favor of any applicant by virtue of the submission of a bid proposal and the Minister reserves the right to accept or reject any or all applications without assigning any reason therefor.

PART IV TRANSFERS, ASSIGNMENTS AND CHANGES IN CONTROL

8. Transfers and Assignments

- (1) An application for approval to assign, encumber or transfer any Contract, or any rights or obligations arising out of a Contract, shall be made in writing to the Minister, and every such application shall include:
 - (a) the name and nationality of the proposed assignee or transferee, and, in the case of a corporate assignee or transferee, the place of its incorporation and principal place of business;
 - (b) evidence of the proposed assignee's or transferee's technical and financial ability to assume and undertake the work obligations and other commitments set forth in the Contract concerned;
 - (c) any agreement, formal or informal, between any Persons relating to the manner in which Petroleum Operations are to be financed;
 - (d) an unconditional written undertaking by the assignee or transferee to assume all the obligations assigned and transferred by the transferor or assignor under the Contract; and
 - (e) such other particulars as the Minister may reasonably require.
- (2) In addition to any information required under Article 8(1) of these Regulations the Contractor may be requested, before the application is disposed of, to submit further relevant information within a specified reasonable time, and where such further information is not supplied within the time specified, the application shall be deemed to have been withdrawn.
- (3) The assignment, encumbrance or transfer of any Contract or interest therein shall not affect any liability of the transferor or assignor incurred before the date upon which such assignment, encumbrance or transfer takes effect.

9. Changes in Factors Constituting Control

Any Changes in Factors Constituting Control, the result of which is to make one or more physical or legal Persons gain or lose a controlling interest in the operations and management of the Contractor, requires the consent of the Minister.

PART V

WORK PRACTICES

10. Work Practices and Directions

- (1) Every Contractor shall, in carrying out Petroleum Operations, always act in accordance with generally accepted practices in the international petroleum industry.

A Contractor shall:

- (a) ensure that all materials, supplies, machinery, plant, equipment and installations used by the Contractor, and Subcontractors comply with generally accepted standards in the international petroleum industry and are of proper construction and kept in good working order;
 - (b) use the resources of the contract area as productively as practicable, prevent damage to producing formations and ensure that Petroleum discovered, mud or any other fluids or substances do not escape or waste;
 - (c) prevent damage to Petroleum and water bearing strata that are adjacent to a producing formation or formations and prevent water from entering any strata bearing Petroleum, except where water injection methods are used for secondary recovery operations or are intended otherwise in accordance with generally accepted international petroleum industry practice;
 - (d) continually monitor the reservoir during production to the extent possible, the contractor shall, in each zone of each Well, including injection Wells, regularly measure or determine the pressure and flow conditions, quantities produced or injected, the composition of components of oil, gas and water and the location of the contact zones between oil, gas and water;
 - (e) properly store Petroleum in receptacles constructed for that purpose, and not store Crude Oil in an earthen reservoir, except temporarily in an emergency;
 - (f) drain waste oil and salt water and place refuse into receptacles constructed for that purpose and situated at a safe distance from any tank, Well, storage or other facility and dispose of waste oil, salt water and refuse in accordance with generally accepted international petroleum industry practice, avoiding pollution; and
 - (g) ensure that all Persons working for him shall, in their respective fields comply with all generally accepted international practices as well as with all relevant laws and regulations of Eritrea.
- (2) Where the Minister considers that a Contractor has not acted in accordance with such practices and in particular with the conservation and work practices, he may notify such Contractor in writing accordingly and require him to show cause, within such reasonable time as the Minister shall specify, why he has failed to act in accordance with such practices.

- (3) Where, within the time specified in any notice issued under Article 10 (2) of these Regulations, the Contractor fails to satisfy the Minister that he has acted in accordance with such practices or that his failure to so act is justified, the Minister may direct the Contractor to take such steps as may be necessary to ensure compliance therewith.
- (4) Where a Contractor fails to comply with a direction given to him under Article 10(3) of these Regulations, the Minister may direct and cause to be done all or any of the things required by such direction.
- (5) Any cost or expenses reasonably incurred by the Minister under Article 10 (4) of these Regulations shall be a debt due to the Government by the Contractor to whom the direction was given and shall be paid into the bank to be designated by the Minister.
- (6) Nothing in this Article or in any direction given thereunder shall be construed as requiring any Contractor to do anything which is not, or to refrain from doing anything which is, in accordance with generally accepted practices in the international petroleum industry.

11. Environment and, Pollution Control and Safety Measures

- (1) The Minister shall ensure that all Petroleum Operations comply with the requirements of environmental standards and the relevant laws of Eritrea.

Each Contractor, consistent with Article 30 of these Regulations, shall take necessary and adequate steps to:

- a) ensure adequate compensation for injury to Persons or damage to property caused by the effect of Petroleum Operations; and
 - b) minimize Environmental Damage to the contract area.
- (2) If the Contractor's failure to comply with the provisions of sub-article (1) (b) of this Article and any relevant laws results in Environmental Damage, the Contractor shall take all necessary and reasonable measures to remedy the failure and the effects thereof.
 - (3) If the Minister reasonably determines that any works or installations erected by the Contractor or any operations conducted by the Contractor endanger or may endanger Persons or third-party property, or cause pollution or harm wildlife and marine organisms or the environment to a degree which the Minister deems unacceptable, the Minister may require the Contractor to take remedial measures within a reasonable period established by the Minister, and to repair any damage to the environment. If the Minister deems it necessary, he may also require the Contractor to discontinue Petroleum Operations in whole or in part until the Contractor has taken such remedial measures or has repaired any damage.
 - (4) The measures and methods to be used by the Contractor for the purpose of sub-article (1) (b) of this Article shall be agreed in timely consultation with the Minister upon the commencement of Petroleum Operations or whenever there is a significant change in the scope or method of

conducting Petroleum Operations, and shall take into account the international standards applicable in similar circumstances, and the relevant “ Environmental Impact Study” prepared, as provided in sub-article (5) of this Article.

The measures and methods, when finally agreed, shall be notified by the Contractor to the Minister and shall be reviewed from time to time in the light of prevailing circumstances.

- (5) The Contractor shall contract specialists, approved by the Minister, to carry out one or more "Environmental Impact Studies", the purpose of which shall be:
- a) To determine the prevailing situation at the time of the studies, of the environment, and of the wildlife, marine organisms and human groups in the contract area;
 - b) To establish what could be the impact of carrying out the relevant Petroleum Operations in the contract area; and
 - c) To submit for consideration by the Minister methods and measures for minimizing Environmental Damage and carrying out Site Restoration activities.

The first of the aforementioned studies shall be carried out in two parts, a preliminary one which must be ready before starting the field work for a seismographic survey which does not lie wholly offshore, and a later definitive one, applicable for the exploration Drilling stage. The second study shall be completed before starting the development and production operations, and shall be submitted as part of the development work program and work program budget submitted pursuant to Article 18 of these Regulations.

- (6) The studies mentioned in sub-article (5) of this Article shall contain proposed environmental guidelines to be followed in order to minimize Environmental Damage, and shall include, but not be limited to, the following, to the extent possible and as appropriate to the respective study:

- Fuel Storage and Handling;
- Use of Explosives;
- Camps and Staging Areas;
- Liquid and Solid Waste Disposal;
- Cultural and Archaeological Sites;
- Selection of Drilling Sites;
- Terrain Stabilization;
- Protection of Freshwater Horizons;
- Blowout Prevention Plan;
- Flaring During Completion and Testing of Gas & Oil Wells;
- Well Abandonment;
- Rig Dismantling and Site Completion;
- Reclamation for Abandonment; and
- Noise Control.

(7)The Contractor shall ensure that:

- (a) Petroleum Operations are conducted in an environmentally acceptable and safe manner consistent with generally accepted international petroleum industry practice, and are monitored to ensure the same;
- (b) the pertinent completed Environmental Impact Study (EIS) is made available to his employees and to his Subcontractors to develop adequate and proper awareness of the measures and methods of environmental protection to be used in carrying out the Petroleum Operations; and
- (c) to the extent pertinent, the contracts entered into between the Contractor and his Subcontractors, relating to the Petroleum Operations, shall include the provisions stipulated herein and any established measures and methods for the implementation of each Contractor's obligation under the relevant Petroleum Contract.

(8) Each Contractor shall prepare and submit prior to conducting Drilling, for review by the Minister, an oil spill and fire contingency plan. Such plan should be maintained during the development and production period. The contingency plan(s) shall be designed to achieve rapid and effective emergency response in the event of an oil spill or fire. In the event of an emergency or accident arising from the Petroleum Operations affecting the environment, the Contractor shall forthwith notify the Minister. In the event of any fire or oil spill, the Contractor shall promptly implement the relevant contingency plan. In the event of any other emergency or accident arising from the Petroleum Operations affecting the environment, the Contractor shall take such action as may be prudent and necessary in accordance with generally accepted international petroleum industry practice in such circumstances.

(9) The Contractor shall be liable for any Environmental Damage, without regard to fault, caused by his own activities, as well as the activities of:

- (a) his Subcontractors and sub-suppliers of goods and services,

- (b) the employees of the Contractor and his Subcontractors and sub-suppliers.

If there are several Contractors who are parties to the same Petroleum Contract, and one of them has been designated as the operator, claims for compensation shall initially be directed to the operator. If any part of the compensation is not paid by the operator, all Contractors may be held liable, jointly and severally.

The period of prescriptions for claims relating to Environmental Damage shall begin to run as of the time the victim has become aware of the occurrence of the damage and has established the identity of the perpetrator of the damage.

The high court of Eritrea shall have exclusive jurisdiction for all claims for Environmental Damage.

- (10) Unless otherwise directed by the Minister, on expiry or termination of a Petroleum Contract or relinquishment of part of the contract area, the Contractor shall:
- (a) remove all equipment and installations, structures, plants, appliances and pipelines from the relinquished area or former contract area in a manner agreed with the Minister pursuant to an abandonment plan; and
 - (b) perform all necessary Site Restoration activities in accordance with generally accepted international petroleum industry practice, and shall take all other action necessary to prevent hazards to human life or to the property of others or the environment.

To ensure compliance with the requirements of this Article, the Minister may at any time during the currency of a Petroleum Contract, require the Contractor to post a guarantee acceptable to the Minister, or in the alternative, to fund a reserve for future estimated abandonment and Site Restoration costs.

- (11) Nothing contained in Article 11 of these Regulations shall be construed to relieve a Contractor from his obligations of indemnification as set out in his Contract.

12. Drilling Practices and Abandonment

- (1) Every Contractor shall ensure that his Well design and conduct of Drilling operations, including his casing, cementing, Well spacing, plugging operations, etc. are in accordance with generally accepted practices in the international petroleum industry.
- (2) Every Well shall be identified by a geographic name, number and geographic co-ordinates which shall be shown on maps, plans and similar records which a Contractor is required to keep, and the Minister shall at once be notified in writing of any change of the name of a Well.
- (3) Before commencing any work on or Drilling any Well, or recommencing work on any Well on which work has been discontinued for more than six months, a Contractor shall give the Minister seven (7) days' notice in writing of his intention and such notice shall include:
 - (a) the official name and number of the Well;
 - (b) a description of its precise location by reference to geographical co-ordinates;
 - (c) a detailed report on the Drilling technique to be employed, an estimate of the time to be taken and depth objective, the material to be used, and the safety measures to be employed, in the Drilling of the Well; and
 - (d) a summary of the geological, geochemical and geophysical data, and any interpretations thereof, upon which the Contractor made his proposal to drill the Well in the particular location.

- (4) Where any work or Drilling relating to any Well is discontinued for a period exceeding thirty (30) days, a Contractor shall notify the Minister in writing to that effect.
- (5) Before recommencing any work on or Drilling, with respect to any Well on which work has been discontinued for more than thirty (30) days but for less than six (6) months, a Contractor shall give forty-eight (48) hours' notice in writing of his intention to do so.
- (6) Except with the written approval of the Minister, no Contractor shall drill a Well from any surface area within the contract area which is less than one thousand (1000) meters from a boundary of such contract area.
- (7) No Well shall be drilled from within a contract area through any vertical boundary of such contract area.
- (8) A directional Well drilled under a contract area from a surface location on nearby land not within such contract area shall be deemed to have the same effect for all purposes of the Revised Petroleum Operations Proclamation No. 108/2000 as a Well drilled from a surface location within such contract area and, in such circumstances, the production of Petroleum from the contract area through a directional Well surfaced on nearby land, or Drilling or reworking of any such directional Well shall be considered production, Drilling or reworking operations, as the case may be, in the contract area.
- (9) Nothing contained in sub-article 12 (8) above shall be construed to grant to a Contractor any leasehold interest, license, easement, right-of-way or other right which such Contractor is required to acquire under the Revised Petroleum Operations Proclamation No. 108/2000 or any other law.
- (10) Before abandoning any Well, the Contractor shall give, in the case of a producing Well, not less than thirty (30) days, and, in the case of any other Well, not less than seventy-two (72) hours' written notice to the Minister of his intention to abandon and such notice shall be accompanied by a satisfactory program for the abandonment and plugging of the Well identified in the notice.
- (11) A Contractor shall state in its notice of abandonment of a Well whether the Well is capable of providing a fresh water supply and shall comply with the provisions of Article 17 (4) of the Revised Petroleum Operations Proclamation No. 108/2000.
- (12) Subject to the terms and conditions of a Contract, a Contractor may, upon the expiration of the relevant period of notice or upon receipt by the Contractor of the written approval of the Minister of the program submitted pursuant to the preceding sub-article, whichever is earlier, commence the abandonment operations in relation to such Well; provided that in all cases the Contractor shall have given the Minister reasonable notice of the commencement of such operations and the Contractor shall:

- (i) undertake to securely plug such Well to prevent pollution and possible damage to the deposit, and shall, except as the Minister may otherwise direct or the Contract may otherwise provide, remove all equipment, materials and facilities relating thereto;
- (ii) not withdraw cemented strings or other forms of casing without the prior written approval of the Minister; and
- (iii) permit a representative of the Minister to observe such operations.

13. Construction of Offshore Installations, Pipelines and Related facilities

- (1) In conducting offshore operations the Minister shall furnish the Contractor maps and charts which identify major shipping channels and the Contractor shall, in accordance with generally accepted international petroleum industry practice and any applicable law and regulations, ensure that works and installations erected shall not hinder unduly navigation or fishing or cause pollution of the sea or rivers and shall be :
 - (a) constructed, placed, marked, buoyed, equipped and maintained so that there are safe and convenient channels for shipping;
 - (b) fitted with navigational aids approved by the appropriate Government authority;
 - (c) illuminated between sunset and sunrise in a manner approved by the appropriate Government authority; and
 - (d) kept in good repair and working order.
- (2) Each Contractor shall, prior to commencing the construction, significant alteration or operation of a pipeline, pumping station, storage facility or any other related facilities for the conveyance or storage of Petroleum from a contract area, apply in writing to the Minister for authorization.
- (3) The written application submitted pursuant to Article 13 (2) of these Regulations shall be accompanied by particulars of:
 - (a) the proposed design and construction of the pipeline, pumping station, storage facility or other related facilities;
 - (b) the proposed work program and budget and the technical and financial resources available to the Contractor for the construction, alteration or operation of the pipeline, pumping station, storage facility or any other related facilities; and
 - (c) the proposed route to be followed by the pipeline and the location of any pumping station, storage facility or other related facilities to be constructed, altered or operated.
- (4) Subject to any conditions which may have been agreed in a Contract and the provisions of Article 13(5) of these Regulations and upon receipt of the Minister's written approval, a

Contractor may commence the construction, alteration or operation of the pipeline, pumping station, storage facility or related facilities.

- (5) Where the Minister determines that the national interest will be best served and economic benefits achieved by constructing and operating facilities common to more than one contract area (including, but not limited to, roads, pipelines, processing facilities and other transportation, communication and storage facilities), the Contractors involved shall use their best efforts to reach agreement on the construction and operation of such common facilities and shall report to the Minister on the progress of their negotiations.
- (6) Contractors may use the facilities of other Contractors (including, but not limited to, roads, pipelines, processing facilities and other transportation, communication and storage facilities), where there exists excess capacity and on payment of a reasonable compensation which includes a reasonable return on investment and provided such use does not materially interfere with the Petroleum Operations of the Contractor which constructed the facilities.
- (7) If the Contractors fail to agree on joint construction and operation of facilities under Article 13(5), or on use of such facilities under Article 13(6) of these Regulations, within a reasonable time, the Minister may require that the Contractors involved refer their dispute for resolution by expert determination in accordance with the provisions of Part IX of these Regulations.
- (8) The award of a Petroleum Contract does not preclude Persons other than the Contractor, from being permitted by the Minister, in or over the area covered by the Contractor's Petroleum Contract, to:
 - (a) lay and operate pipelines or cables, or other installations,
 - (b) explore for and extract other natural resources other than Petroleum, or
 - (c) undertake scientific research,

provided this does not unreasonably interfere with the activities of the Contractor.

- (9) Nothing contained in this Article is intended, or shall be construed, to grant any leasehold interest, license, easement, right-of-way or other right which the Contractor requires. Such interests and rights shall be acquired under the provisions of Article 16 of the Revised Petroleum Operations Proclamation No. 108/2000.

14. Measurement

- (1) Each Contractor shall supply, operate and maintain equipment for measuring the volume and quality of any Petroleum produced and saved pursuant to his Contract, including gravity, density, temperature and pressure measuring devices and any other devices that may be required, and all such equipment and devices shall, prior to their installation or usage be approved by the Minister and following such installation or usage shall not be replaced or altered without the prior written approval of the Minister.

- (2) Measurement equipment and devices shall be available for inspection and testing at all reasonable times by the Minister or any Person duly authorized by him; provided that any such inspection or testing shall not unreasonably interfere with the normal operation of the facilities involved.
- (3) Each Contractor shall measure the volume and quality of the Petroleum produced and saved pursuant to the relevant Contract, consistent with generally accepted practices in the international petroleum industry, with the frequency and according to procedures which shall be approved by the Minister.
- (4) Each Contractor shall give to the Minister timely notice of his intention to conduct measuring operations and the Minister shall have the right to be present at and supervise, either directly or through authorized Persons, such operations.
- (5) Where it is determined, following an inspection or test carried out by an authorized Person, that the equipment, devices or procedures used for measurement are inaccurate and exceed the permissible tolerances approved under Article 14(1) of these Regulations which shall be established by prior approval to the installation and usage of such equipment, devices or procedures, and such determination is verified by an independent surveyor acceptable to the Minister and the Contractor, such inaccuracy shall be deemed to have existed for the entire period since the last such inspection or test, unless it is proved that the inaccuracy has been in existence for a longer or shorter period. The corrections which are due as a result of such inaccuracy during such period shall be made within thirty (30) days from the date of such determination.

PART VI RETURNS, RECORDS, PLANS, ETC.

15. Notice of Commencement

- (1) Every Contractor shall, prior to the commencement of Petroleum Operations, or re-commencement of Petroleum Operations which have been discontinued for a period exceeding ninety days, give the Minister not less than forty-eight (48) hours notice in writing of his intention to commence or re-commence such operations.
- (2) Any notice given pursuant to Article 15 (1) of these Regulations shall include the name and address of the local resident manager under whose supervision such operations are to be carried out.

16. Report of Commercial Discovery and Development Plan

In the event that a Discovery of Petroleum is made in a contract area which the Contractor considers to be commercial, the Contractor shall, prior to the commencement of development and production operations, submit to the Minister the following:

- (a) a description and map of the area containing such Discovery which the Contractor proposes to delineate as a Field defined by reference to the UTM grid;
- (b) a detailed report accompanied by supporting data and all analyses and interpretations thereof, which demonstrates that the area described in paragraph (a) above contains, alone or in conjunction with other areas, as the case may be, a Commercial Discovery; the report required by this paragraph shall be accompanied by a report on the Discovery, setting forth all relevant technical and economic data, including, but not limited to, geological, geochemical and geophysical information, areas, thickness and extent of the productive strata, petrophysical properties of the reservoir formations, PVT data, the reservoir's productivity indices for the Wells tested at various rates of flow, permeability and porosity of the reservoir formation, the relevant characteristics and qualities of the Petroleum discovered, additional geological data and evaluations of the reservoir, Crude Oil and Natural Gas reserves estimates, and any other relevant characteristics and properties of the reservoirs and fluids contained therein, as well as all evaluations, interpretations and analyses of such data, and feasibility studies relating to the Discovery, prepared by or for the Contractor, with respect to the Discovery;
- (c) a work program and work program budget for the development of such Discovery. Such development work program and work program budget shall set out detailed proposals, including cost estimates, Drilling schedules, number and types of Wells and Well spacing, amount of reserves to be developed, production forecasts and a timing schedule, in accordance with generally accepted engineering practices and economics of the international petroleum industry for the establishment and operation of all the facilities, installations and services required for the production, processing, storage and transportation of Petroleum from the area in which the Discovery is located, and any other activities incidental thereto. The overall safety objectives as well as the general safety arrangements shall be described. Proposals relating to production procedures shall ensure that the area does not suffer an excessive rate of decline of production, or an excessive loss of reservoir pressure, and shall ensure environmental protection conforming to generally accepted practices in the petroleum industry and these Regulations. Such development work program and work program budget shall also contain particulars of feasible alternatives, if any, considered by the Contractor for the development and exploitation of the Discovery, and economic feasibility studies carried out by or for the Contractor with respect to the Discovery, taking into account the location, meteorological conditions, cost estimates, the forecast price of Petroleum, and any other relevant data and evaluations thereof;
- (d) full information as to the Contractor's current financial status, technical competence and experience;
- (e) detailed proposals for the design, construction, establishment and operation of all facilities (including their location) for and incidental to the planning, development, extraction (including plans for injection), production, processing, metering, storage, transportation (including the routing of any proposed pipeline), sale and other disposal of Petroleum, and a proposed time table for the commencement of Petroleum production;

- (f) a detailed forecast of capital investment requirements, operating costs and sales revenues and the anticipated type and source of financing;
- (g) proposals relating to necessary infrastructure investments, training and employment of Eritrean nationals, and plans to maximize the use of Eritrean materials, products and services ; and
- (h) such other matters as may be required under the Contract or as the Minister may reasonably require

17. Quarterly Reports

- (1) Every Contractor shall submit to the Minister, on or before the 30th day of January, April, July and October, a report in respect of the preceding quarter containing or showing:
 - (a) a description of the results of all Petroleum Operations carried out by the Contractor;
 - (b) in the case of exploration operations, a summary of all geological, geochemical and geophysical work carried out by the Contractor, including a summary of all Drilling activities;
 - (c) a list of maps, reports and other geological, geochemical and geophysical data prepared by, or on behalf of, the Contractor in respect of the period concerned;
 - (d) in the case of development and production operations, the gross volume and quality of all Petroleum produced, saved, sold or otherwise disposed of from his contract area, the consideration accrued or received the quantity disposed of and identity of the Person to whom such quantity was disposed, and the balance of stocks on hand at the end of the period concerned;
 - (e) the average number of Persons employed in Eritrea, in terms of Eritrean nationals and expatriate personnel, in connection with the Petroleum Operations carried out;
 - (f) the sums disbursed in Eritrea in respect of wages, overtime, allowances or other emoluments or benefits;
 - (g) the sums disbursed in Eritrea and externally, for the purchase of fuels, stores, foodstuffs or other materials, equipment or services;
 - (h) the total Revenue and Capital Expenditures incurred, both in Eritrea and externally, in respect of the Petroleum Operations carried out, determined in accordance with the relevant Petroleum Contract;
 - (i) all data resulting from Petroleum Operations, including, but not limited to geological, geophysical, geo-chemical, petrophysical, engineering, Well logs, production data, completion status reports, and any other data which the Contractor may compile during

the term of the relevant Contract, including all reports, analyses, interpretations, maps, and evaluations thereof prepared by the Contractor and any Contractors, Subcontractors or consultants to the Contractor, or by affiliated persons, that have been obtained or compiled during the term of the Petroleum Contract.

During the exploration period of any Petroleum Contract, the Contractor shall store for the Government, at its own expense, a copy of all digital tapes of data acquired through geological, geochemical, geophysical, engineering, and Drilling operations conducted as part of the work program. For the remainder of the term of the Petroleum Contract, such data shall be stored on a calendar year basis and delivered to the Minister as soon as practicable after it has been acquired ; and

- (j) any other relevant information which may be required by his Contract or which the Minister may reasonably require.
- (2) With respect to paragraphs (f), (g) and (h) of Article 17 (1) of these Regulations, when the precise amount is not ascertainable by the date upon which the report is due, figures which are the best possible approximation shall be given.

18. Annual Work Program and Budget

At least forty five (45) days prior to the beginning of each calendar year each Contractor shall prepare and submit for review by the Minister a detailed annual work program and work program budget of Petroleum Operations and Petroleum Operations Expenditures by Quarters for the contract area, setting forth the Petroleum Operations the Contractor proposes to carry out during the ensuing calendar year. Such annual Work programs and Work program budgets shall comply with the minimum work and expenditure obligations and other provisions of the relevant Contract.

19. Annual Report

- (1) Not less than ninety (90) days prior to the beginning of each calendar year following Initial Regular Production, the Contractor shall prepare and furnish to the Minister for approval, forecast statement setting forth by Quarters the total quantity of Crude Oil (by quality, grade and gravity) and Natural Gas that the Contractor estimates can be produced, saved and transported under its Contract, during such Calendar Year, in accordance with generally accepted practice in the international petroleum industry and market demand.
- (2) On or before the 31st day of March of each year, every Contractor shall submit to the Minister an annual report in respect of the preceding year containing:

- (a) the information required by Articles 17 (1) (d) and (h) and 21 (1) (a) to (g) of these Regulations for the entire year;
- (b) estimates (if available) of economically recoverable reserves of Crude Oil and Natural Gas at the end of the year concerned; and
- (c)
 - (i) the boundaries of the contract area,
 - (ii) the total surface area of the contract area in square kilometers,
 - (iii) the location of any Wells drilled by the Contractor during that year, and
 - (iv) the location or routing of any platforms, pipelines and similar permanent installations.

20. Periodic Reports

- (1) During the conduct of Drilling operations, every Contractor shall be required to submit daily Drilling reports to the Minister describing the progress and results of such operations.
- (2) Every Contractor shall within one hundred and eighty days (180) of the completion of any survey, test or Drilling operations, or, in the case of data that cannot reasonably be obtained or compiled in that period, as soon as possible thereafter, submit to the Minister the following samples and data including any interpretations thereof:
 - (a) geological data including but not limited to:
 - (i) surface/subsurface maps of the area explored,
 - (ii) stratigraphic data, including measured stratigraphic surface sections, lithological groups, information relating to the porosity and the permeability of Petroleum bearing zones,
 - (iii) lithologic and/or paleontologic samples, and
 - (iv) summary reports of the geological data including references to the survey and processing techniques utilized;
 - (b) geophysical data including but not limited to:
 - (i) seismic data, including -
 - (A) shot point and elevation maps,
 - (B) interpretive contour maps on critical or outstanding mapping horizons,

- (C) seismic record sections,
 - (D) summary reports of the seismic data including references to the survey and processing techniques utilized, and
 - (E) copy of seismic tapes,
- (ii) gravimetric data, including -
 - (A) observed gravity value contour maps and any derivative maps,
 - (B) gravimetric survey notes,
 - (C) summary reports of the gravimetric data including references to the survey and processing techniques utilized, and coordinates of the stations, and
 - (D) recorded gravity values;
 - (iii) magnetic data, including -
 - (A) station and/or flight line base maps,
 - (B) total intensity value maps and any derivative maps,
 - (C) summary reports of the magnetic data including references to the survey and processing techniques utilized, and
 - (D) recorded magnetic values;
- (c) Well completion reports including -
 - (i) engineering data,
 - (ii) geological data,
 - (iii) drill stem/production test results,
 - (iv) all wireline logs (at recommended scales of 1:1000, 1:500 and 1:200),
 - (v) samples and sample descriptions,
 - (vi) core samples, core descriptions and laboratory analyses of the same,
 - (vii) a composite Well log,
 - (viii) the measurements made pursuant to sub-article 10(1)(d), and

- (ix) copies of any other analyses performed, including stratigraphic and lithological studies; and
 - (d) such other data as the Minister may, by written notice to the Contractor, reasonably require him to so submit.
- (3) Originals of records, magnetic tapes and other data can be exported by Contractors upon prior notification to the Minister, provided, however, that magnetic tapes and any other data which must be processed or analyzed outside of Eritrea may be exported if a comparable record is maintained in Eritrea and provided that such exported originals of records, tapes and data shall be repatriated to Eritrea within a reasonable time.

Ownership of all original data shall vest in the State when such data is acquired.

21. Records, Accounts, etc., to be maintained

- (1) Every Contractor shall, in respect of his contract area, keep at his registered office in Eritrea, accurate records containing full particulars of the following matters:
- (a) the Drilling operation, deepening, plugging or abandonment of Wells;
 - (b) the strata and subsoil through which Wells are drilled;
 - (c) the casing inserted in Wells and any alteration to such casing;
 - (d) any Petroleum, water and other economic minerals encountered;
 - (e) the areas in which any geological, geochemical or geophysical work has been carried out;
 - (f) accurate geological maps and plans, geophysical records, representative geological samples and test results, and all interpretations thereof; and
 - (g) such other matters as may be provided in his Contract or as the Minister may reasonably require by notice in writing to the Contractor.
- (2) Every Contractor shall keep at his registered office in Eritrea accurate accounts containing full particulars of the following:
- (a) the gross quantity of any Crude Oil and Natural Gas produced and saved from the contract area;
 - (b) the grades and gravity of any Crude Oil produced and the composition of any Natural Gas produced;

- (c) any quantities of Crude Oil, Natural Gas and sulphur, in any form, or any other minerals, gases, liquids or solids disposed of by way of sale or otherwise, the consideration received, the quantity disposed of and the name and address of the person or company to whom any such quantity was disposed;
- (d) the quantity of Crude Oil, Natural Gas and other liquids or gases injected into a formation;
- (e) the quantity of Crude Oil and Natural Gas consumed for Drilling and other development and production operations (other than quantities reported under paragraph (d) above) and consumed in pumping to field storage, refineries in Eritrea or the point of export;
- (f) the quantity of Crude Oil refined by or for the Contractor in Eritrea;
- (g) the quantity of Natural Gas treated in Eritrea by him or on his behalf for the removal of liquids and liquified Petroleum gases and the quantity of butane, propane and any other liquids, gases or any solids obtained;
- (h) the quantity of Natural Gas flared; and
- (i) such further information as may be required by his Contract or as the Minister may reasonably require.

22. Final Reports

Prior to the termination of a Contract, or upon the relinquishment of any part of a contract area, the Contractor shall forthwith submit to the Minister, in relation to the contract area or part thereof, copies of such documents or materials not previously furnished as the Minister may, by notice given to the Contractor, reasonably require the Contractor to so submit.

23. Modification of Duties

The Minister may, on application made to him in writing by a Contractor, by notice in writing, dispense with or modify any of the requirements of Articles 20 to 25 and Article 30 of these Regulations which are of a non-fundamental nature and whose dispensing with or modifications do not affect or distort the essence of the obligations attendant to the said Articles.

24. Confidentiality

- (1) All returns, reports, plans and other information submitted under these Regulations shall be treated as confidential by the Minister and shall not, unless otherwise provided in a Contract, be disclosed to third Persons prior to the relinquishment of the area to which they relate or prior to the end of the exploration period if such area is not sooner relinquished:

Provided that -

- (a) any surface geological maps and interpretations may be utilized at any time by the Government departments concerned for incorporation into official maps;
 - (b) annual statistical information may be published at any time by the Government in a form which does not disclose the operations of any particular Contractor; and
 - (c) the Government may make such returns, reports, plans, data and other information available at any time to professional consultants, legal counsel, accountants, underwriters, lenders and such Government entities as may need to be made aware thereof.
- (2) No Contractor shall, unless otherwise provided in a Contract, disclose any returns, reports, plans, data, records and other information compiled, received, maintained or submitted pursuant to these Regulations or the terms and conditions of a Contract without the prior written approval of the Minister.
- (3) Provided that a Contractor may make such returns, reports, plans, records and other information available, without the approval of the Minister, to professional consultants, legal counsel, accountants, underwriters, lenders, companies in which a Contractor maintains a controlling interest and such Government entities as may need to be made aware thereof or have the right to require such disclosure.

Any disclosure made by a Contractor or the Minister to third parties pursuant to this sub-article shall only be made on terms which ensure that the information so disclosed is treated as confidential by the recipient.

25. Power of Entry and Inspection

- (1) Any Person authorized by the Minister may at all reasonable times :
- (a) enter any area, building, structure, vehicle, vessel or aircraft or examine or have examined by a qualified Person any machinery or equipment, which has been, is being or is to be, used in connection with Petroleum Operations;
 - (b) take or remove samples of Petroleum, water or other substances for the purpose of testing or analysis;
 - (c) inspect, make copies of or take extracts from, any document, book or data relating to Petroleum Operations; and
 - (d) make such examinations and enquiries and carry out such functions as may be necessary to ensure that the provisions of the Revised Petroleum Operations Proclamation No. 108/2000 and these Regulations or the terms and conditions of a Contract are being complied with.

- (2) Where there is a Person present who is or appears to be in charge of the area, building, structure, vehicle, vessel, aircraft, machinery, equipment or matter or thing in respect of which any of the powers under Article 25(1) of these Regulations are to be exercised, any authorized Person shall, before exercising any such power, identify himself to that first mentioned Person and shall, if so requested by that Person, produce evidence of his authority.
- (3) In exercising his power under Article 25(1) of these Regulations, an authorized Person shall not unduly interfere with any Petroleum Operations being carried out.
- (4) Any Person who is an occupier or Person in charge of an area, building or structure, or the Person in charge of any vehicle, vessel, aircraft, machinery, equipment, records and reports or matter or thing referred to in Article 25 (1) of these Regulations shall provide the authorized Person with all reasonable facilities and assistance for the effective exercise of his functions under these Regulations. The Contractor shall provide: (a) transportation to and from vessels and installations, (b) accommodation, (c) medical attention, and (d) other amenities and facilities which are located offshore. The costs of such facilities shall be borne by the Contractor.
- (5) The Contractor shall make available to the Minister those computer programs which are necessary to process the information submitted by the Contractor, including the necessary documentation. The Contractor shall also pay the costs of transmissions to the users' computers.

PART VII UNITIZATION

26. Unit Development

- (1) If at any time in which a Petroleum Contract is in force the Minister shall be satisfied that the strata in the contract area or any part thereof form part of a single geological Petroleum structure or Petroleum deposit (hereinafter referred to as "an oil field") other parts whereof are formed by strata in areas in respect of which other Petroleum Contracts granted in pursuance of the Revised Petroleum Operations Proclamation No. 108/2000 are then in force and the Minister shall consider that it is in the national interest in order to secure the maximum ultimate recovery of Petroleum and in order to avoid unnecessary competitive Drilling that the oil field should be worked and developed as a unit in co-operation by all Persons including the Contractors whose Contracts extend to or include any part thereof the following provisions of this Article apply.
- (2) Upon being so required by notice in writing by the Minister the Contractor shall co-operate with other Persons holding Petroleum Contract under the Revised Petroleum Operations Proclamation No. 108/2000 in respect of any part or parts of the oil field (hereinafter referred to as "the other Contractors") as may be specified in the said notice in the preparation of a scheme (hereinafter referred to as " a development scheme ") for the working and development of the oil field as a unit by the Contractor and the other Contractors in co-operation, and shall, jointly with the other Contractors, submit such scheme for the approval of the Minister.

- (3) The said notice shall also contain or refer to a description of the area or areas in respect of which the Minister requires a development scheme to be submitted and shall state the period within which such scheme is to be submitted for approval by the Minister.
- (4) If a development scheme shall not be submitted to the Minister within the period so stated or if a development scheme so submitted shall not be approved by the Minister, the Minister may himself prepare a development scheme which shall be fair and equitable to the Contractor and all other Contractors, and the Contractor shall perform and observe all the terms and conditions thereof.
- (5) If the Contractor shall object to any such development scheme prepared by the Minister he may within thirty (30) days from the date on which notice in writing of the said scheme shall have been given to him by the Minister refer the matter to binding expert determination in the manner provided in Part IX of these Regulations.
- (6) Any such development scheme or the determination of any expert in relation thereto shall have regard to any direction issued pursuant to Article 27 of these Regulations in force at the date of such scheme.

27. Directions as to Oil Fields across International Boundaries

- (1) Where the Minister is satisfied that any strata in the licensed area or any part thereof form part of an oil field, other parts whereof are in an area which lies outside the jurisdiction of Eritrea and the Minister is satisfied that it is expedient that the oil field should be worked and developed as a unit in co-operation by the Contractor and all other Persons having an interest in any part of the oil field, the Minister may from time to time by notice in writing give to the Contractor such directions as the Minister may think fit, as to the manner in which the rights conferred by the relevant Petroleum Contract shall be exercised.
- (2) The Contractor shall observe and perform all such requirements in relation to the contract area as may be specified in any such direction.
- (3) Any such direction may add to, vary or revoke the provisions of a development plan or development scheme.

PART VIII FINANCIAL PROVISIONS

28. Fees and Rentals Schedule

- (1) The fees and surface rentals set out in the Schedule shall be payable in respect of the matters specified therein.
- (2) All fees and annual surface rentals payable under these Regulations shall be paid in advance and without demand into the bank designated by the Minister.

29. Royalty and Production Payment Schedule

- (1) A royalty or production payment shall be payable at the rates prescribed in the relevant contract in respect of the annual gross production of :
 - (a) Crude Oil produced and saved in each year from a contract area, and
 - (b) Natural Gas produced, saved and sold in each year from a contract area.
- (2) The royalty due shall be payable within ten (10) days of the end of each Calendar Quarter.
- (3) The Minister shall be entitled to take royalty due under the Petroleum Contract, wholly or partly, in the form of Petroleum in kind. Notice of such election, and of suspension or termination thereof, as well as any subsequent new election must be given at least six months in advance. The Minister may require that the Petroleum is processed, transported, stored and made available at prices, priorities and other conditions which are no less favorable than those applicable to the Contractor's own Petroleum.

30. Insurance

The Contractor and its Subcontractors shall effect and maintain for the Petroleum Operations insurance coverage of the type and in such amount as is required by law and as is customary in the international petroleum industry in accordance with good oil field practice, including blowout insurance and shall furnish to the Government certificates evidencing that such coverage is in effect. Such insurance policies shall include the Government as an additional insured and shall waive subrogation against the Government. The said insurance shall, without prejudice to the generality of the foregoing cover:

- (a) Loss or damage to any installations, equipment and other assets for so long as they are used in the Petroleum Operations; provided, however, if for any reason the Contractor fails to insure any such installation, equipment or assets, it shall replace any loss thereof or repair any damage caused thereto to the extent required for the proper conduct of Petroleum Operations;
- (b) Environmental Damage caused in the course of the Petroleum Operations for which the Contractor or the Government may be held responsible;
- (c) Property loss or damage or bodily injury suffered by any third party in the course of the Petroleum Operations for which the Contractor or the Government may be liable or the Contractor may be liable to indemnify the Government;
- (d) With respect to offshore operations, the cost of removing wrecks and cleaning up operations following any accident in the course of the Petroleum Operations; and

- (e) The Contractor's liability for any injury to its employees engaged in the Petroleum Operations.

**PART IX
RESOLUTION OF CERTAIN DISPUTES**

31. Expert Determination

Where this Petroleum Regulation provides that a certain dispute shall be resolved by expert determination the issue involved shall be submitted for international expert determination in accordance with the Rules of Technical Expertise of the International Chamber of Commerce.

**PART X
MISCELLANEOUS**

32. Offences

Willful or negligent violation of the provisions of these Regulations or any decisions or directions issued thereunder, is punishable by fines up to two hundred thousand (\$ 200,000) US dollars.

In addition, in case of serious or repeated violations of the Contractor's obligations, the Petroleum Contract may be cancelled.

33. Repealed Laws

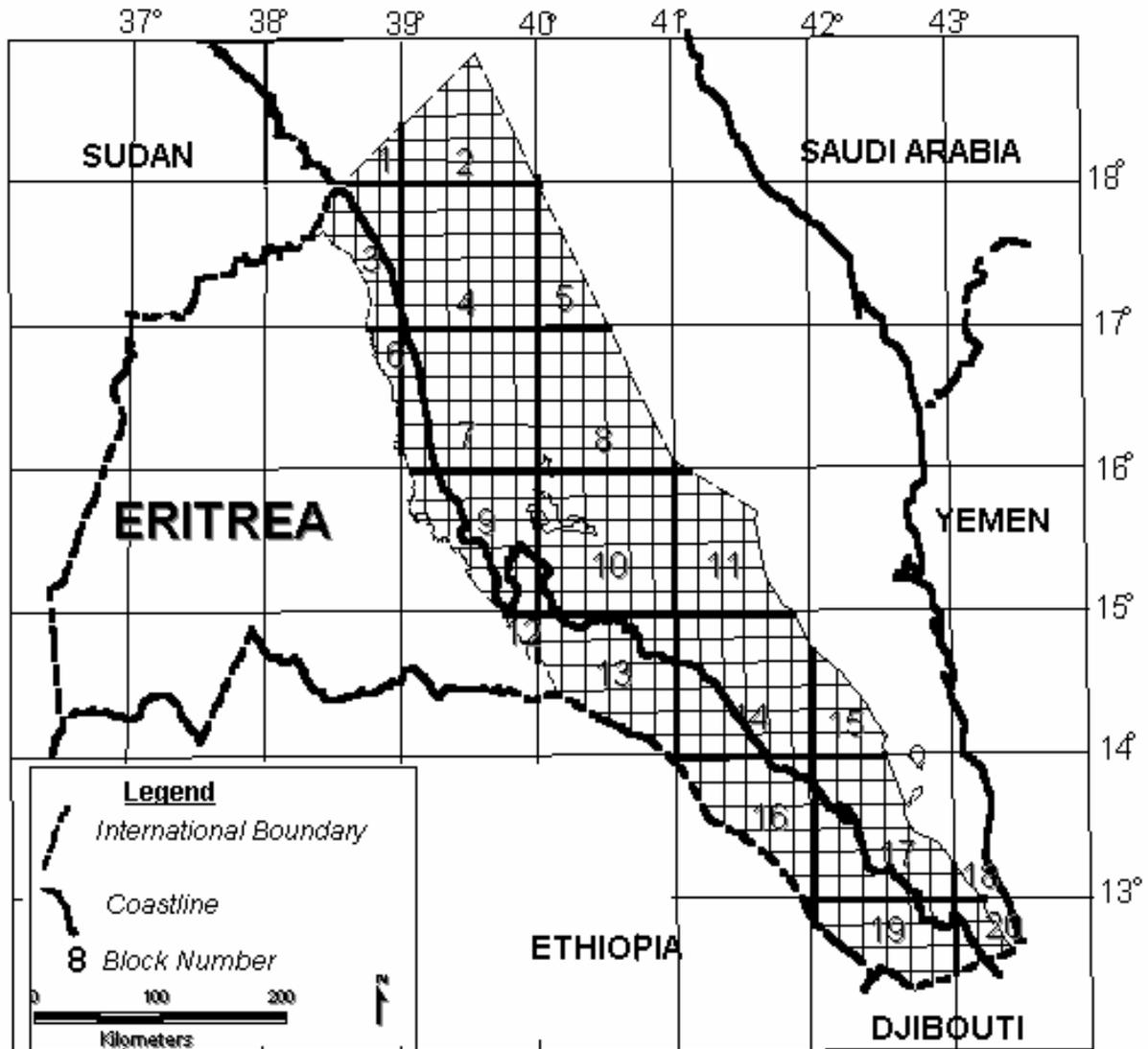
The Regulations on Petroleum Operations – Legal notice No. 24/1995 are hereby repealed and replaced by these Regulations.

34. Effective Date

These Regulations shall enter into force as of the date of their publication in the **Gazette of Eritrean Laws**.

**Asmara, July 15, 2000
Tesfai Ghebreselassie,
Minister of Energy and Mines.**

SCHEDULE 1
Map showing constitution of blocks in Eritrea



SCHEDULE 2

Fees

Fee payable on Application for Production Sharing Contract:

one (\$1.00) US dollar per square kilometer applied for.

Fee payable on signature of Production Sharing Contract:

five (\$ 5.00) US dollars per square kilometer comprised in the contract area.