

МОНГОЛ УЛСЫН ХУУЛЬ

LAW OF MONGOLIA

July 01, 2014 Ulaanbaatar City

ON PETROLEUM
(the new edition)

CHAPTER ONE
GENERAL PROVISIONS

Article 1. Aim of the Law

1.1.The aim of this law is to regulate matters pertaining to petroleum and unconventional petroleum prospecting, exploration, and exploitation within the territory of Mongolia.

Article 2. Legislation on petroleum

2.1. Legislation on petroleum consists of this law and other legislative acts issued in conformity therewith.

2.2.If a provision of this law conflicts with a provision of an international treaty to which Mongolia is a party, the respective provision of the treaty shall prevail.

Article 3. Scope of the Law

3.1. This Law shall apply to the petroleum and unconventional petroleum relations within the territory of Mongolia.

Article 4. Definitions

4.1. The following terms used in this law shall have the meaning below:

4.1.1.“petroleum” means hydrocarbon compounds occurring in a solid, liquid, or gaseous state in the subsoil at the ordinary atmospheric pressure and temperature (crude oil, natural gas);

4.1.2.“crude oil” means hydrocarbon compounds occurring in a liquid state in the subsoil at ordinary atmospheric pressure and temperature;

4.1.3.“natural gas” means hydrocarbon compounds occurring only in a gaseous state in the subsoil at the ordinary atmospheric pressure and temperature;

4.1.4.“unconventional petroleum” means natural bitumen, oil shale, tar sand, gas-rich shale, gas sand, and coal bed methane;

4.1.5.“coal bed methane” means gas accumulated in coal during the process of carbonization;

4.1.6.“petroleum operations” means activities pertaining to petroleum and unconventional petroleum prospecting, exploration, exploitation, storage, transporting, sales, and dismantling;

4.1.7.“prospecting” means geological, geochemical, and geophysical survey workto be performed for the purpose of determining the prospects of petroleum and unconventional petroleum in a certain region;

4.1.8.“exploration” means geological, geochemical, geophysical, drilling, and extraction testing work to be performed for the purpose of finding an oilfield and establishing an amount of the reserves;

4.1.9.“evaluation” means work to be performed for the purpose of determining whether or not an occurrence discovered by a discovery well is a commercial discovery;

4.1.10.“exploration area” means a field announced for exploration by Petroleum Authority of Mongolia;

4.1.11.“contractor” means a company that entered into a contract to conduct petroleum exploration or exploitation within the territory of Mongolia;

4.1.12.“operator company” means a company registered and paying taxes in Mongolia that will conduct contractor’s petroleum exploration or exploitation;

4.1.13.“subcontractor” means a legal entity registered and paying taxes Mongolian that has concluded a contract with a contractor or operator company to perform a certain part of its petroleum operations;

4.1.14. “exploration and exploitation contract” means a contract to conduct petroleum exploration or exploitation that has been made between the Petroleum Authority of Mongolia and a contractor;

4.1.15. “exploitation area” means a field for which an exploitation operations permit has been issued by the Ministry of Mining;

4.1.16. “exploitation” means development and extraction operations for exploiting a petroleum and unconventional petroleum deposit;

4.1.17. “development” means erecting petroleum extraction structures, transmission pipelines, and infrastructure up to a delivery point;

4.1.18. “extraction” means all operations of extracting except for the development;

4.1.19. “dismantling” means operations connected with completely restoring the environment and dismantling and moving buildings and structures that have been installed upon expiry of an exploration and exploitation contract;

4.1.20. “discovery well” means a well that has discovered a petroleum occurrence;

4.1.21. “discovery” means a petroleum occurrence established by an exploration well;

4.1.22. “extraction testing” means extraction done during the period provided in clause22.4 of this law performed for the purpose of establishing economic profitability;

4.1.23. “petroleum deposit” means one or several reservoirs containing structure or stratum with a petroleum occurrence that formed in the subsoil under geological changes and evolution of which the quality and reserves have been established;

4.1.24. “commercial discovery” means an reservoir having a petroleum occurrence that is economically profitable when exploited at the current technical and technological levels;

4.1.25.“delivery point” means a point within territory of Mongolia where petroleum oil shall be measured and split between the Government of Mongolia and contractor in accordance with the agreement;

4.1.26. “royalties” means the fees imposed on extracted petroleum;

4.1.27. “exploration work costs” means costs incurred in connection with operations specified in clause 4.1.8 of this law;

4.1.28. “development costs” means costs incurred in connection with operations specified in clause 4.1.17 of this law;

4.1.29. “operating costs” means costs incurred in connection with petroleum extraction except for the costs incurred in connection with the development and dismantling on an exploitation area;

4.1.30. “dismantling costs” means costs incurred in connection with completely restoring the environment, closing the extraction wells, and dismantling and moving buildings and structures upon expiry of an exploration and exploitation contract;

4.1.31. “cost recoverable expenses” means the sum of exploration work costs, development costs, operating costs and dismantling costs.

4.1.32. “cost oil” means petroleum calculated by the percentage specified in clause 32.4 of this law intended to recover the costs specified in clause 4.3.31 of this law from crude oil;

4.1.33. “profit oil” means petroleum divided between the Government and a contractor after deduction of the petroleum specified in clauses 4.1.26 and 4.1.32 of this law from the total petroleum measured at a delivery point.

Article 5. Ownership of petroleum

5.1. Petroleum and unconventional petroleum existing in subsoil or on surface in its natural state shall be the property of the State.

5.2.The State shall exercise its ownership title by means of issuing petroleum and unconventional petroleum exploration and exploitation licenses.

CHAPTER TWO
THE AUTHORITY OF STATE AND LOCAL SELF-GOVERNING BODIES

Article 6. The powers of State Great Hural (Parliament)

6.1. The Parliament shall exercise the following powers pertaining to petroleum:

6.1.1.approving the government policy to develop the petroleum sector;

6.1.2.resolving on issues of signing contracts to conduct petroleum exploration, or exploitation within the state special protected areas; and

6.1.3.restricting or prohibiting petroleum prospecting, exploration, or exploitation in certain areas as represented by the Cabinet or on own initiative.

Article 7. The powers of Cabinet

7.1.The Cabinet shall exercise the following powers pertaining to petroleum:

7.1.1.ensuring the implementation of legislation on petroleum operations;

7.1.2.promoting investment in the petroleum sector in accordance with the laws and regulations of Mongolia;

7.1.3.resolving the issue of exploration and exploitation operations in special use areas other than those specified in clause 6.1.2 of this law;

7.1.4.approve regulations on "Payment, allocation and spending of royalty and license payment", "Petroleum accounts and calculations", and "Regulating exploration and exploitation of unconventional petroleum";

7.1.5. receive the royalty and petroleum allotted to the Government in cash and petroleum oil or unconventional petroleum products as mutually agreed with a contractor;

7.1.6.in the event that a petroleum refinery is installed within the territory of Mongolia, enjoying the right to preemptively purchase at the market price the petroleum allotted to the contractor and the cost oil;

7.1.7.in the event an accumulation of petroleum deposit or oil reservoir was discovered and it extends beyond the national border, regulating this matter by an inter-governmental treaty;

7.1.8.giving a permission to approve or terminate a production sharing agreement, deciding the matter of transferring the rights and obligations of a contractor under a production sharing contract;

7.1.9.deciding on issue of petroleum and unconventional petroleum prospecting, exploration, and exploitation operations within the national border areas;

7.1.10. in the event that a petroleum exploration or exploitation area overlaps with an exploration or exploitation area for another mineral, resolving the matter by priority of social and economic significance;

7.1.11.issuing permits on installing a petroleum transmission pipeline intended for selling the petroleum.

7.1.12.approving a template of PSA;

7.1.13.approving a template of contract specified in Article 11.2.17 of this law.

Article 8. Functions of the Ministry of Mining[1]- the Central State Administrative Body

[1]Literally, "central state administrative body in charge for petroleum"

8.1.The central state administrative body in charge for petroleum (the central state administrative body, henceforth, "the Ministry of Mining") shall perform the following functions with regards to petroleum affairs:

8.1.1.drafting the government policy for developing the petroleum sector;

8.1.2.ensuring the implementation of petroleum legislation and of decisions of the Cabinet pertaining to the implementation thereof;

8.1.3.approving regulations on "Selection of a contractor", "Requirements for petroleum resource and reserve estimate report ", "Requirements on primary and result reports on petroleum and unconventional petroleum exploration and exploitation", "Requirements on operation program of a petroleum deposit" and on "Returning and commissioning a prospecting, exploration or exploitation area of petroleum oil or unconventional petroleum oil";

8.1.4.announcing an open tender for exploration areas;

8.1.5.issuing, extending, suspending, and terminating exploration and exploitation licenses;

8.1.6.submitting reserve estimate reports and operating projects to the Professional Council for Mineral Resources for discussion and assessment;

8.1.7.inspecting the implementation of the operations related to petroleum oil together with relevant government bodies;

8.1.8.jointly with the Ministry of the Environment/the Central State Administrative Body responsible for Environment, approving procedures for accepting the results of environmental restoration work affected by petroleum and unconventional petroleum prospecting, exploration, and extraction operations;

8.1.9.approving labor safety and health regulations to be enforced in petroleum and unconventional petroleum prospecting, exploration, and exploitation operations;

8.1.10.granting professional degrees in the petroleum and unconventional petroleum industry;

8.1.11. presenting to the Cabinet a proposal to build a transmission pipeline intended for selling the petroleum.

Article 9. Functions of the Petroleum Authority of Mongolia[2]

9.1.The state administrative body responsible for petroleum (state administrative body henceforth, "the Petroleum Authority") shall implement the following functions regards to petroleum oil affairs:

9.1.1.ensuring the implementation of petroleum legislation and of decisions of the Cabinet and Ministry of Mining;

9.1.2.receive application for an exploration area, select a contractor, enter into an production sharing agreement pursuant to Article 7.1.8 of this law;

[2]Literally, "state administrative body responsible for petroleum."

9.1.3.approve an annual plan and budget of prospecting, exploration and exploitation works for petroleum oil or unconventional petroleum oil, and oversee their implementation;

9.1.4.advising and giving direction on matters pertaining to the implementation of the rights and obligations of license holders;

9.1.5.monitor the changes in petroleum and unconventional petroleum reserves and have them registered with the consolidated fund of minerals reserves of Mongolia;

9.1.6.define and agree with a contractor on a size of the exploitation area and its border coordinates;

9.1.7.issuing a proposal and assessment as to whether or not to grant a petroleum or unconventional petroleum exploitation license;

9.1.8.examining and consolidating annual statements of the investment, costs, royalties, and petroleum extracted and sold by a contractor;

9.1.9.timely appropriate for the state budget the revenues of the Government earned from the sales of petroleum allotted to the Government, the payments, bonuses and service fees stated in Articles 30, 31 and 34 herein;

9.1.10.accepting and reviewing primary data, reports, and materials concerning petroleum and unconventional petroleum geology, geophysics, hydrogeology, geochemistry, drilling, exploration, and exploitation performed in an exploration or exploitation area;

9.1.11.discussing and accepting statements of the results of petroleum and unconventional petroleum prospecting, exploration, and exploitation work;

9.1.12.approving and enforcing the regulation on preparing a report of the results of petroleum prospecting, exploration, and exploitation work;

9.1.13.organizing the reversion of exploration and exploitation areas in whole or in parts;

9.1.14.issuing permits for storing petroleum in a space of a reservoir of petroleum in its natural state;

9.1.15. issuing a professional recommendation or opinion about transporting petroleum or unconventional petroleum;

9.1.16.ensuring the review and evaluation of designs for petroleum structures and pipelines by a professional organization;

9.1.17.revising the technical requirements for work to be performed by subcontractors;

9.1.18.in the event a petroleum deposit or oil accumulation extends across two or more exploration or exploitation areas, regulate the matter in accordance with Articles 25.5 and 25.6 of this law;

9.1.19.developing and having approved the standards, rules, regulations, and instructions for carrying out petroleum operations, monitoring the implementation thereof;

9.1.20.temporarily stopping the petroleum operations of a license holder in whole or in part on the grounds stipulated in the law upon reporting the decision in advance to the Ministry of Mining;

9.1.21.proposing amendments to production sharing contract to the Ministry of Mining;

9.1.22.if contractor didn't perform its obligation to explore natural gas during the exploration, announce an open tender for natural gas on the same area;

9.1.23. other functions specified in the law.

Article 10. The rights and obligations of local governing bodies

10.1. Local governing bodies shall exercise the following powers with regards to petroleum affairs:

10.1.1.organizing the implementation within their territories of Government decisions issued in connection with petroleum legislation and the implementation thereof.

10.2. The Citizen's Representative Hurals of a province or capital city shall exercise the following powers with regards to petroleum affairs:

10.2.1 discuss and issue an opinion as set forth in this law, regarding a notice from the Petroleum Authority about an upcoming announcement of a bid for petroleum oil exploration;

10.2.2 when issuing an opinion specified in clause 10.2.1 herein, refuse only on the grounds set forth in the law;

10.2.3 participate and collaborate in activities of a commission for accepting the results of demobilization and reclamation works.

10.3. A Governor of a soum or district shall exercise the following powers with regards to petroleum affairs:

10.3.1.ensuring that areas granted under a license on his/her subordinate territories are used for the stated purpose, monitoring the use of such lands, and in case of a violation halting such use and ensuring the remedy of the breach; and

10.3.2.protecting and rehabilitating the environment, protecting the health of the population, monitoring how license holders are fulfilling their legal obligations.

10.4. Local self-governing and local administrative bodies are prohibited from imposing the following requirements on license holders:

10.4.1.requiring any investment to be made that is not specified in this law, the exploration and exploitation contract, or cooperation agreement concluded with the Governor of a soum or district;

10.4.2.demanding or requesting any endowment, donation or assistance for purposes other than humanitarian; or

10.4.3. requiring any financial assistance for the purpose of financing political activities.

CHAPTER THREE
CONTRACTOR RIGHTS AND OBLIGATIONS, CONTRACTEVALUATION, TRANSFER, AND TERMINATION

Article 11. The rights and obligations of a contractor

11.1. A contractor shall have the following rights:

11.1.1. dispose of the petroleum allotted to it in accordance with the contract, except for those specified in clauses 7.1.5 and 7.1.6 of this law;

11.1.2. transfer its contractual rights and obligations to another party in accordance with this law;

11.1.3. when necessary, amend the annual plan and budget with approval of the Petroleum Authority;

11.1.4. if fully met its contractual obligations in accordance with clause 13.1 of this law, receive back the funds deposited in the escrow account;

11.1.5 in the event it has fully met its obligations to protect and restore the environment, return the exploration area in whole or in part;

11.1.6. the administrative costs of the contractor shall be up to five percent of the cost recoverable expenses for a respective year.

11.2. A contractor shall have the following obligations:

11.2.1. observe Mongolian legislation, rules, regulations, and standards, perform its contractual obligations;

11.2.2. carry out only those operations that are specified in the contract;

11.2.3. submit for approval to the Petroleum Authority and performing its annual budget and plan;

11.2.4. in the event the Government exercises its preemptive right specified in clause 7.1.6 of this law, supply its products at international market prices and conditions;

11.2.5. when selecting a subcontractor for goods and services give the first priority to a domestic entity registered and paying taxes in Mongolia;

11.2.6.handling all investment and sales revenue transactions through commercial banks registered in Mongolia and fully reflecting the same in transparent and open financial statements;

11.2.7.collaborate with the Petroleum Authority to create a public awareness about its operations and their results when introducing the latest technologies, hiring and training Mongolian specialists and professional staff;

11.2.8.set up equal salaries, wages and bonuses for domestic and foreign employees performing same duties and work, and protect their rights and interests;

11.2.9. deposit a cash amount equal to 3% of investment to the exploration work of the relevant year, or to 1% of its profit-bearing oil during an exploitation phase for that year respectively into an escrow account annually in a bank operating in Mongolia within 60 days from the approval of its plan and budget as a guarantee of contractor’s full performance of its obligation

for environmental rehabilitation and demobilization of exploration or exploitation buildings and facilitates;

11.2.10.provide expenses for complete the environmental rehabilitation and demobilization of exploration and exploitation buildings and facilitates ;

11.2.11. give to the government administrative body the information about types, quantity and unit prices of imported machinery, equipment, materials, raw materials, spare parts and petroleum oil products required for the petroleum oil exploration and exploitation operations as well as a design, drawings and technical documents of buildings and facilities to be constructed in the territory of Mongolia;

11.2.12. not to give primary or final statements or materials pertaining exploration or exploitation to a third party without permission of the Petroleum Authority;

11.2.13. produce an estimate of petroleum resource flows each year for review by the Petroleum Authority;

11.2.14. prepare accurately its financial statements, a report on expenditures which are cost-recoverable and calculation of petroleum oil for splitting according to the procedures specified in clause 7.1.4 of this law and submit them to Petroleum Authority;

11.2.15.if a historical and cultural item or antique artifact was found, stop the operations in the concerned area and immediately notify the relevant authority pertaining to the area and immediately inform any relevant institutions;

11.2.16. produce and hand over any information associated with its investment, ownership, and operations at request of the Cabinet;

11.2.17. make an agreement on voluntary provision of support to environmental protection and local development with a governor of soum or duureg where the exploitation license area is located;

11.2.18. have a full time staff in charge for regularly informing the Petroleum Agency on environment, restoration, and dismantling the exploration and exploitation structures and facilities;

11.2.19. the contractor's exploitation programs plan must contain detailed information on types of roads to connect the deposit products to local, state or international roads, and on funding for the environmental restoration and dismantling the exploration and exploitation structures and facilities;

11.2.20. inform the Ministry of Mining about any technical accidents, stoppage, financial difficulties or losses persisting long time, halt of operations due to force majeure circumstances, a court decision or by the state inspector, or stop of exploration or exploitation operations, development or exports;

11.3. If a contractor is not able to perform its obligations specified in clause 11.2.5 of this law because of shortage of sub-contracting Mongolian companies or them not meeting the requirements for the specified work and such contractor has presented a proof of such inability, it may be freed in whole or in part from this obligation by decision of the Petroleum Authority may release the contractor from this obligation wholly or partially.

11.4. An operator company shall undertake the obligations specified in clauses 11.2.1-11.2.8, 11.2.12-1.2.20, in addition to the rights and obligations specified in the Company Law.

11.5. A subcontractor shall undertake the obligations specified in clauses 11.2.1, 11.2.7, 11.2.10–11.2.12, and 11.2.15 in addition to the rights and obligations specified in the Company Law.

Article 12.Termination of the contract

12.1. A production sharing contract may be terminated by a Cabinet decision on following grounds:

12.1.1. serious damage has been caused to the healthof the population, environment, livestock, or wild animals, or the obligation to protect and restore the environment has been repeatedly ignored;

12.1.2. relevant agencies determined after entering into the contract that the contractor's documents submitted during the application or the contract negotiation process were illegal;

12.1.3. the competent government agency determined that false data, information, or reports on petroleum operations submitted by the contractor have caused a significant damage to the country;

12.1.4.the contractor has transferred its rights and obligations to carry out exploration or exploitation operations to others illegally, or when the contractor has transferred its rights and obligations to carry out exploration or exploitation operationsspecified in clause 34.7 and 34.8 of this law, the payment for such transferring has not been made within the period provided in clause 14.6 of this law;

12.1.5. the contractor never performed its obligation, breached its contractual obligations seriously or repeatedly;

12.1.6. the contractor has falsely reported the amount of the payment specified in clause 14.7 of this law.

12.2..Contractor may propose to the Petroleum Authority to terminate the agreement in case the contractor considers its petroleum or unconventional petroleum exploitation to be economically not profitable, or if the event of emergency or force majeure circumstance that the contractor incurred continue for one or more years.

12.3. The Petroleum Authority shall review the request specified in clause 12.2 of this law within 30 days of receipt, make an assessment and submit its opinion to the Ministry of Mining.

12.4. The Ministry of Mining shall review the assessment specified in clause 12.1 of this law within 30 days of receipt and submit a respective proposal to the Cabinet.

12.5. In the event an exploration or exploitation license has been terminated on grounds provided in clause 12.1 of this law, the exploration or exploitation operation costs incurred shall not be reimbursed and the money deposited in the escrow account as specified in clause 11.2.9 of this law shall be used for complete environmental rehabilitation and, if required, for demobilization of buildings and facilities used for exploration and exploitation operations, and a remaining balance of the cash shall be returned to the contractor.

Article 13.Evaluating the performance of the contract

13.1. Upon expiry of a contract, or else in the event an exploration or exploitation license has been terminated on the grounds specified in Article 12 of this law, the Petroleum Authority shall evaluate the performance of the contract on the following criteria:

13.1.1. whether or not the contractor met its contractual obligations;

13.1.2. whether or not the contractor fully completed environmental restoration;

13.1.3. whether or not the contractor paid the taxes, fees, and royalties due in accordance with legislation;

13.1.4. whether or not the contractor resolved the matter of the ownership of assets;

13.1.5. whether or not the contractor resolved the matter of dismantling buildings and structures used for exploration or exploitation; and

13.1.6. fulfillment of the obligations specified in clause 11.2.10 of this law.

13.2. The Petroleum Authority shall include representatives from respective state bodies when evaluating the fulfillment of the contract.

13.3. The rights specified in clause 11.1.4 shall be established upon evaluation that the fulfillment of the contract was satisfactory.

Article 14. Transfer of a contractor's rights and obligations to others

14.1. A contractor shall have no right to transfer whole or one third or more percentage of its rights and obligations under a production sharing agreement to others without permission from the Cabinet.

14.2. A contractor shall submit its request to transfer one third or more percentage of its rights and obligations to the Petroleum Authority.

14.3. The Petroleum Authority shall review the request specified in clause 14.1 of this law within 30 days of receipt and prepare its proposal and submit to the Ministry of Mining.

14.4. The Ministry of Mining shall review the proposal specified in clause14.2 of this law within 30 days of receipt and submit its proposal to the Cabinet for its decision.

14.5. In the event the Cabinet approves the transfer of rights and obligations under a production sharing agreement, the contactor, the Petroleum Authority, and the third party to whom the contractual rights and obligations are being transferred, shall make a trilateral agreement.

14.6. The contractor shall pay the fees specified in clause 34.7 and 34.8 of this law within 90 days of the issuance of a Cabinet decision approving the transfer of a third or more percentage of the rights and obligations.

14.7. The contractor and the third party receiving the contractual rights and obligations shall honestly report the amount of payments paid for transferring those rights and obligations.

14.8. When issuing the proposal specified in clause 14.2 of this law, the Petroleum Authority shall take into account a reference of the Ministry of the Environment and the respective local administrative body as to whether or not it the contractor fully met its obligation to protect and restore the environment during the period that exploration was carried out.

CHAPTER FOUR
PROSPECTING

Article 15.Petroleum and unconventional petroleum oil prospecting

15.1. A legal entity shall carry out petroleum or unconventional petroleum oil prospecting upon making a contract with the Petroleum Authority.

15.2. Petroleum or unconventional petroleum oil prospecting can be carried out in the areas of the state and local special needs status, except for the areas under the status of "strictly protected by the State".

15.3. A size of a petroleum and unconventional petroleum oil prospecting area to be granted to one legal entity shall be defined by the Petroleum Agency depending on the geological formation of the basins.

15.4. Drilling can be carried out during oil shale prospecting.

Article 16. Applying to prospect for petroleum or unconventional petroleum

16.1. A legal entity shall submit its application to prospect for petroleum and unconventional petroleum to the Petroleum Authority.

16.2. The following items shall be specified in the application specified in clause 16.1 of this law:

16.2.1. the location and size of the prospecting area;

16.2.2. the general work project for the period of prospecting;

16.2.3. technical capability, human resource capacity;

16.2.4. financial resources and their sources for financing the planned work; and

16.2.5. the prospecting work plan and budget to be performed during the respective year.

16.3. The Petroleum Authority shall review a prospecting application for a period of 30 days and issue its decision.

16.4. In the event two or more legal entities have filed a prospecting application for a given area, the Petroleum Authority shall perform a comparative assessment and issue its decision.

16.5. The Petroleum Authority shall take the following into account when concluding a prospecting contract:

16.5.1. whether or not the applicant has [the requisite] technical, professional, and financial capability and the technology;

16.5.2. whether or not the methods and methodology of the prospecting work meet international standards; and

16.5.3.the environmental protection and restoration program.

16.6. A contract to prospect for petroleum or unconventional petroleum oil shall be concluded for a period of up to three years pursuant to the decisions specified in clauses 16.3-16.4 of this law.

16.7. Rights and responsibilities under a prospecting contract may not be transferred to others.

Article 17. The results of prospecting work, product sharing contract

17.1. A party performing petroleum orunconventional petroleumprospecting shall give the primary materials and reports and information on the results of its prospecting work to the Petroleum Authority for assessment.

17.2. A body which concluded prospecting shall present its request to enter into an "production sharing agreement" pertaining to the petroleum or unconventional petroleum area prospected within 60 days from the date the Petroleum Authority issued its assessment of contractor's report on prospecting work results.

17.3.The body party that performed prospecting shall prepare a draft production sharing agreement containing the conditions b and submit it to the Petroleum Authority:

17.3.1. the percentage of profit oil allotted to the Government;
17.3.2. the percentage of royalties;
17.3.3. the limit of the percentage of cost oil;
17.3.4. the amount of exploration investment;
17.3.5. the amount of funds spent on environmental restoration;
17.3.6. the amount of the premium for instruction/training;
17.3.7. the amount of a bonus for signing the contract;
17.3.8. the amount of abonus for beginning extraction;
17.3.9. the amount of abonus for increasing the extraction;
17.3.10.the amount of abonus for local development;
17.3.11. operational support of the representative office;
17.3.12. other profitable conditions proposed to the Government.

17.4. Up on receiving the draft specified in 17.3 of this law, the Petroleum Authority shall hold negotiations with the party specified in clauses 17.3, 21.2, and 26.3 of this law regarding the draft contract in 60 days of receipt of the draft, and shall submit the finally agreed draft to the Ministry of Mining.

17.5. The Ministry of Mining shall review the draft contract specified in clause 17.4 of this law, and if it considers the draft contract appropriate to conclude, it shall deliver its proposal to this effect to the Cabinet, and the Cabinet shall issue a decision as to whether or not to conclude a contract, within 60 days of receipt of the proposal.

17.6. If the Cabinet has granted the authority to conclude a contract, the Petroleum Authority shall conclude a contract within 30 days and shall notify the respective local administrative body about this contract.

17.7. If the parties to reach an agreement in the course of negotiations according to clause 17.4, the petroleum prospecting area shall be announced an exploration area pursuant to clause 19.1 of this law.

17.8. In the event that petroleum and unconventional petroleum exploration and exploitation are carried out in the same area, there may be one contractor who shall obtain a license for each mineral and make a contract pertaining to each mineral.

CHAPTER FIVE
EXPLORATION

Article 18. Granting and extending the term of an exploration license

18.1. A contractor specified in clause 17.6 of this law shall submit its application for an exploration license to the Ministry of Mining.

18.2. The following documents shall be appended to the application for an exploration license:

18.2.1. a copy of the production sharing agreement ;

18.2.2. an environmental impact assessment;

18.2.3. a draft of the work project and plan to be performed during the respective year; and

18.2.4. proof of deposit of the funds specified in clause 11.2.9 of this law.

18.3. The Ministry of Mining shall review the documents specified in clauses 18.1 and 18.2 of this law and issue or extend the term of an exploration license to a body mentioned below for a period of exploration:

18.3.1.an production sharing agreement concluded outright based on the results of prospecting work; or

18.3.2.upon holding an open tender pursuant to Article 19 of this law, a contract concluded pursuant to Article 21 of the this law.

18.4. A term for petroleum exploration shall be up to 8 years, and Petroleum Agency may extend twice this period by up to 2 years.

18.5. A term for unconventional petroleum exploration shall be up to 10 years, and Petroleum Agency may extend this period once by up to 5 years.

18.6. An exploration term shall be counted beginning from a day a production sharing agreement was made.

18.7. A term of an exploration work plan and budget shall be continue for and calculated in calendar years.

18.8. The Petroleum Authority shall approve the exploration work plan within 120 days of concluding the production sharing agreement, and starting from the next year - within the first quarter of a successive year.

18.9. The Ministry of Mining may extend the term of an exploration license specified in clause 18.3 of this law for a period of up to 2 years twice, and in this event the contractor shall provide the following documents for submission to the Ministry of Mining through the Petroleum Authority:

18.8.1. a report on work performed during the term of the exploration license;

18.8.2. a report on environmental protection and restoration; and

18.8.3. a draft of the work plan and budget to be performed during the period of the extension.

18.10. The Ministry of Mining shall examine the documents specified in clause 18.9 of this law, and if it deems the grounds for extension of the term are present, it shall extend the term as provided in this law.

18.11. The Ministry of Mining shall notify the respective local administrative body that an exploration license has been issued or extended.

18.12. In case the minimum exploration work obligations were not performed two or more times, the exploration term shall not be extended.

Article 19. Announcing an exploration area

19.1. The Petroleum Authority shall announce an open tender on the following exploration areas:

19.1.1.on which the exploration has been performed with the government funding or the areas specified by Petroleum Authority;

19.1.2.for which the party that performed prospecting has refused to conclude a production sharing agreement;

19.1.3.for which a party that previously received an exploration license refused to perform exploration and returned the area, or for which its license was revoked by a competent body due to repeated violations;

19.1.4.the exploration license has got expired and the area was returned;

19.1.5.one revoked under the provisions of clause 9.1.23, 11.1.5, 17.7or 12 of this law;

19.1.6.as otherwise provided in the law.

19.2. The Petroleum Authority shall announce notification that an exploration area has been declared for open tender on its webpage and through the daily press and mass media no fewer than three times.

19.3. A size of a petroleum or unconventional petroleum exploration area shall be defined by Petroleum Authority depending on the geological formation.

Article 20. Accepting exploration area bids

20.1. The period for accepting bids to participate in an open tender specified in Article 19 of this law shall be up to 60 days, and the Petroleum Authority shall arrange and announce the end of the period to accept exploration area bids within five days of acceptance of a first bid for the exploration area.

20.2. Bids shall be submitted to the Petroleum Authority sealed, and the following documents shall be appended thereto:

20.2.1. documents evidencing a bidder’s legal status;

20.2.2. a prospectus for the bidder and its investment;

20.2.3. the full name, position, address, phone number, fax number, and email address of a person representing the bidder, evidence proving that the right of representation has been granted to that person;

20.2.4. documents evidencing the bidder’s technical, equipment, and professional capabilities;

20.2.5. a guarantee of the funds to be spent on exploration work;

20.2.6. a work plan and budget to be performed during the exploration term;

20.2.7. proof that the service fee for the exploration area bid specified in clause 34.5 of this law has been paid;

20.2.8. if a bidder is a consortium, the obligations of each party in exploration and exploitation operations and the percentage and amount of their participation.

20.3. The bidder shall be notified in writing within five business days as to whether or not its bid has been accepted.

20.4. The Ministry of Mining or the Petroleum Authority shall not disclose information on the bidders to a third party until such time as a contract has been concluded.

Article 21.Issuing the results of a tender

21.1. Petroleum Authority shall evaluate bids in accordance with the regulation on "selecting a contractor under the tender process" and define the bidder that submitted the most profitable proposal from the main conditions specified in clause 17.3 of this law, and the tender participants shall be notified of this effect.

21.2.Petroleum Authority shall agree with a tender winner specified in clause 21.1 of this law a draft of a production sharing agreement , and enter into this agreement as set forth in clause 17.6 of this law if a decision specified in clause 17.5 is made.

Article 22.Evaluation; extraction tests

22.1. If petroleum is discovered from an exploration well during exploration work, the contractor shall officially notify the Petroleum Authority to this effect within 15 days and register the well.

22.2. The contractor shall, within 90 days of registration of the well, perform experimental analysis on that well to determine whether or not it is a discovery well and register it with the Petroleum Authority, and have the evaluation and project approved by Petroleum Authority within 90 days of registration of a discovery well.

22.3. The contractor shall implement the evaluation project and establish whether or not it is a profitable discovery, and shall submit a work report, which shall include a reserve evaluation, to Petroleum Authority within 90 days of completion of the evaluation work.

22.4. An extraction testing period of a well shall not exceed 180 days.

22.5. Crude oil extracted through extraction testing may be sold or exported, and the amounts of applicable royalty and of the profit oil shall be regulated by a production sharing agreement.

22.6. After the expiry of the period for extraction testing, extraction from a given well shall be stopped until exploitation begins.

Article 23. Resource evaluations, reserve estimates

23.1. When issuing the results of exploration work, a contractor shall produce a resource evaluation and reserve estimate and report on the same in accordance with the procedures specified in clause 8.1.3 of this law.

23.2. A contractor shall submit the reserve estimate to the Petroleum Authority 90 days before the expiry of the exploration period for review, hold discussion of it by the Mineral

Resources Council of the Ministry of Mining, and seek issuance of a decision by the Ministry of Mining as to whether or not to accept the reserves.

23.3. The Ministry of Mining shall approve a plan of operations for a petroleum deposit on the basis of the assessment of the Mineral Resources Council.

23.4. The contractor shall be liable for the costs incurred in connection with having an assessment made by a professional independent body or expert on the reserve estimate, economic evaluation, or petroleum deposit exploitation project at request of the contractor or Petroleum Authority.

CHAPTER SIX
EXPLOITATION

Article 24.Granting and extending the term of an exploitation license

24.1. Within 30 days of the Ministry of Mining issuing a decision accepting the reserves, a contractor shall apply for an exploitation license.

24.2. A contractor shall obtain an exploitation license before start of exploitation and the exploitation period shall start on a day of issue of the license.

24.3.The Ministry of Mining shall issue an exploitation license in accordance to the relevant laws.

24.4. A contractor shall submit the following documents to Ministry of Mining when applying for an exploration license:

24.4.1. a decision of Ministry of Mining registering the petroleum reserve;
24.4.2. a draft of the work plan and budget for the respective year;
24.4.3. a deposit mining operations plan;
24.2.4.the detailed environmental impact assessment current for the exploitation period;
24.4.5. an image on which the coordinates of the corner points of the exploitation area are marked in degrees and seconds on a topographical map of a design proposed by the competent state agency;
24.4.6. a proof of deposit of the funds specified in clause 11.2.9 of this law.

24.5.A contractor shall submit the following documents to the Ministry of Mining through Petroleum Agency when extending the terms of an exploration license:

24.5.1. a request to extend the term of the exploitation license, the grounds for such extension;
24.5.2.a report on work performed during the term of the exploitation license;
24.5.3. a report on environmental protection and restoration;
24.5.4. a draft of the work plan and budget to be performed during the respective year.

24.6.The boundaries of the exploitation area shall be measured pursuant to clause 24.4.5 of this law and the work of placing boundary markers shall be performed by the respective professional body within 90 days of the issuance of the exploitation license.

24.7. The Ministry of Mining shall notify a respective local administrative body that an exploitation license has been issued or extended.

Article 25.Petroleum exploitation

25.1. If within 90 days after end of exploration period the contractor did not submit application for engaging in exploitation, the production sharing contract shall be terminated and the area shall be announced as an open area pursuant to articles 20 and 26 of this law

25.2.The term of petroleum exploitation shall be up to 25 years, and in the event a contractor applied for an extension of the exploitation term, the Petroleum Agency may extend it two times by up to 5 years.

25.3.The term of unconventional petroleum exploitation shall be up to 30 years, and in the event a contractor applied for an extension of the exploitation term, the Petroleum Agency may extend it once by up to 5 years.

25.4. When carrying out construction during the development stage, a contractor shall obtain the appropriate licenses and permits from relevant ministries and agencies.

25.5. In the event that a reservoir having an oil deposit or petroleum occurrence is located so as to extend across two or more exploration or exploitation areas, the contractors shall conclude a joint exploitation agreement and draft a consolidated exploitation plan and budget for approval by the Petroleum Authority.

25.6.In the event a contractor refused to implement the provisions of clause 25.5 of this law, the Petroleum Authority shall resolve the matter of further exploitation of this reservoir on the basis of relevant laws, regulations and scientific methods.

25.7. A contractor shall submit the first year's exploitation plan and budget to Petroleum Authority for approval by within 60 days of the issue of an exploitation license.

25.8. Beginning from the second year of exploitation, a contractor shall submit a draft of exploitation plan and budget for a given year to the Petroleum Authority 90 days before end of a preceding calendar year.

25.9. A contractor shall carry out exploitation operations from certified reserves but this shall not apply to extraction testing.

25.10. A contractor shall introduce advanced technology and techniques to exploit a petroleum deposit reserve.

Article 26. Conducting an open tender for an exploitation area

26.1. In the following events an open tender shall be announced for an exploitation area:

26.1.1. an exploration license holder refused an exploitation license after receipt of a decision of the Ministry of Mining regarding reserve acceptance;

26.1.2.exploration has been performed and a reserve established with the State financing;

26.1.3.a previous exploitation license holder refused to carry out exploitation and returned the field;

26.1.4. through legal violations of the previous exploitation license holder its exploitation license was revoked and the field returned;

26.1.5.the term of an exploitation license has expired and the field returned;

26.1.6.a court decision has been issued revoking the exploitation license.

26.2. An open tender shall be held for an area specified in clause 26.1 of this law in accordance with the procedures specified in clause 8.1.3 of the Law and the contractor determined.

26.3.The draft of an production sharing agreement shall be agreed upon with the winner of the tender specified in clause 26.2 of this law, and submitted to the Ministry of Mining.

26.4. A nproduction sharing agreement shall be concluded pursuant to clauses 17.5 and 17.6 of this law with a legal entity specified in clause 26.2 of this law and an exploitation license issued.

Article 27.Amount and value of petroleum

27.1. Delivery points for extracted petroleum shall be established by mutual agreement of the Petroleum Authority and the contractor.

27.2. If the parties are unable to come to an agreement on the location of a delivery point within 30 days, the delivery point shall be established by the Petroleum Authority.

27.3. Measurements shall be made at a delivery point by an independent professional body.

27.4. The Petroleum Authority may set up a measure control point.

27.5. The Petroleum Authority and the contractor shall set a price of the extracted petroleum on the basis of the price of petroleum of the same character as sold on the world market.

27.6. Extraction test petroleum or petroleum extracted during the extraction stage shall be measured by metering equipment approved by a competent body licensed by the Agency for Standardization and Metrology at a petroleum delivery point and measure control point.

27.7. If metering equipment broke or measured with errors, the error period shall be accounted from a day in the middle of a period from the date this equipment was last inspected to the date the erroneous measurement was discovered.

27.8. An independent professional organization shall work for the purpose of ensuring and monitoring the integrity and regular operations of the metering equipment, and the contractor shall be liable for all associated expenses and fees.

Article 28. Petroleum storage

28.1. Extracted petroleum may be stored in the following manner:

28.1.1. using an installed petroleum storage structure;

28.1.2. upon obtaining a permission from the Petroleum Agency in case of petroleum is to be stored using a space of a petroleum reservoir exiting in its natural form in the license area.

28.2. When draining or returning petroleum in the space specified in clause 28.1.2 of this law, the petroleum shall be measured pursuant to this law and other relevant rules and regulations.

Article 29.Petroleum transportation

29.1. Extracted petroleum shall be transported by railroad, special purpose vehicle, or transmission pipeline.

29.2. In the event a contractor transports petroleum by special-purpose vehicle, it shall comply with the road types and standards approved by the relevant state authority.

29.3. Within the exploitation area a contractor may install a transmission pipeline for production, and such pipeline shall be the property of the contractor during the term of the contract, and upon expiry of the contract a decision shall be made pursuant to clause 39.1 of this law.

29.4. If a contractor wishes to build a pipeline for the purpose of selling petroleum, it shall present its request to the Ministry of Mining.

29.5. The Ministry of Mining shall submit its proposal to the Cabinet for issuance of an appropriate decision within 6 months of receipt of the application specified in clause 29.4 of this law.

CHAPTER SEVEN
FEES, COSTS, COST RECOVERY, PRODUCT SHARING

Article 30.License fees and their allocation

30.1. A contractor shall pay the license fee every year during petroleum exploration and exploitation.

30.2. The annual license fee during the term of petroleum exploration shall be an amount in tugrugs equal to three American dollars per square kilometer of the contracted area.

30.3. In the event the term of an exploration license is extended, the annual license fee shall be an amount in tugrugs equal to eight American dollars per square kilometer.

30.4. The annual license fee during the term of petroleum exploitation shall be an amount in tugrugs equal to 100 American dollars per square kilometer.

30.5. In the event the term of an exploitation license is extended, the annual license fee shall be an amount in tugrugs equal to 200 American dollars per square kilometer.

30.6. Ten percent of the license fee shall be allocated to the soum or district containing the licensed field, 20 percent to the province or capital city, and 70 percent to the State budget, respectively.

30.7. License fees shall be paid within 30 days of beginning of a respective year.

30.8. If the license fee has not been paid within the period provided in clause 30.7 of this law, a fine equal to one-third of the amount specified in clauses 30.2–30.5 of this law shall be added for each day of delay.

Article 31. Royalties and their allocation

31.1. The amount of petroleum and natural gas royalties shall be 5–15 percent of the crude oil or natural gas extracted.

31.2.The amount of unconventional petroleum royalties shall be 5–10 percent.

31.3. Thirty percent of the royalties shall be allocated to the consolidated local development fund and 70 percent to the State budget.

Article 32.Measuring the cost recovery expenses and cost oil

32.1. Contractor shall bear responsibility itself for all costs necessary for carrying out petroleum operations.

32.2. Cost recovery expenses shall be verified by the state audit office and shall be recovered by the cost oil in the amount specified in a production sharing contract.

32.3. The amount of cost oil shall be up to 40% of the oil remaining after deducting the oil for which the royalty shall be paid, from the total oil extracted in a given year. For the unconventional petroleum the amount of cost oil shall be determined by the relevant regulation specified in this law.

32.4. Once the term of exploitation ends, the contractor shall not be granted the portion of cost recoverable expenses that remains unrecovered.

32.5. Costs of test extraction during the exploration shall be part of exploration costs.

32.6. The fees specified in clauses 30.2–30.5, 30.8, 31.1-31.2, and 34 of this law shall not be regarded the cost recovery expenses.

32.7. In case the cost recovery expenses reported by contractor could not be verified by financial documents, such costs and expenses shall not be deemed cost recovery expense.

32.8. Government shall not pay any interest on the contractor's accumulated expense for cost recovery.

Article 33. Product sharing

33.1. The Government shall share the profit oil with the contractor as agreed in the production sharing contract.

33.2. The amount of profit oil allocated to the Government shall determined and specified in the contract in relation to daily extraction volume.

Article 34.Other royalties, bonuses, and service fees

34.1. Bonuses for signing the contract, beginning the extraction, increasing extraction, and training shall be included in the contract at the rate proposed by the bidder as set forth in clause 17.3 of this law.

34.2. A contractor shall pay the fees except for the training and local development bonuses and representative office operational support into the state budget.

34.3. The training bonus and representative office operational support shall be transferred to the Petroleum Authority.

34.4. The local development bonus shall be transferred to the local development fund.

34.5. The service fee for an exploration area bid shall be an amount in tugrugs equal to 20,000 American dollars.

34.6. A contractor shall pay an amount in tugrugs equal to 100,000 American dollars to the state budget when increasing the size of an exploration area, and 250,000 American dollars when increasing the size of an exploitation area, respectively.

34.7. A contractor shall pay an amount in tugrugs equal to 20,000 American dollars to the state budget when transferring its contractual rights and obligations before a discovery has been

established on the exploration area, and 50,000 American dollars after a discovery has been established.

34.8. If the rights and obligations have been transferred during the exploitation period, an amount in tugrugs equal to 100,000 American dollars shall be paid to the state budget.

CHAPTER EIGHT
REPORTS, STATEMENTS, MONITORING

Article 35.Information materials and reports of results

35.1. A contractor shall hand over to Petroleum Authority reports and primary information and data materials on the results of its exploration or exploitation work within 90 days after the end of the respective calendar year.

35.2. Upon permission from Petroleum Authority, a contractor may send rock samples, petroleum, gas, and primary information materials abroad for studying, refining, reporting, laboratory tests, and analysis.

35.3. A contractor shall hand over reports and results of the analysis of petroleum, gas, liquids and rock samples and primary data of the study to Petroleum Authority within 90 days after the end of a respective calendar year's work.

Article 36. Issuing a financial statement

36.1. A contractor shall submit information on the amount of investment, incurred costs, paid royalties, the amount of extracted and sold petroleum, taxes paid into the State and local budgets, and the amount of the fees, bonuses, and service fees specified in Article 34 of this law to the respective state agencies and the Petroleum Authority by the first quarter of the succeeding year, and shall notify the public thereof through the mass media.

36.2. A contractor shall fully include in its accounting books and report on all petroleum operations being performed on a licensed area pursuant to the Accounting Law.

Article 37. Financial inspection and certification

37.1. The Petroleum Agency office shall, together with other relevant bodies, inspect the works performed by the contractor in accordance with the approved plans and budget, its primary accounting register documents and the investment and financial statements every year.

37.2. The total amount of a contractor's investment and cost recovered or cost recoverable expenses, as well as a calculation and allocation of petroleum export and sales revenue, shall be examined and certified by the inspection specified in clause 37.1 of this law.

37.3. The state audit office shall hold a tender for a professional, independent, and neutral auditor to perform the financial inspection work specified in clause 37.1 of this law.

37.4. A contractor shall have the obligation to produce all information, data, statements, and materials necessary to the inspection without hindrance.

CHAPTER NINE
MISCELLANEOUS

Article 38. Emergencies and force majeure events

38.1. In case the state of emergency was declared in whole territory or in some regions of Mongolia, the government may mobilize, with grant of compensation, to use the petroleum or unconventional petroleum allotted to a contractor, building and facilities, equipment and machinery in whole or in part.

38.2. In case the state of war or the conditions of war occur in Mongolia, a contractor may be required to increase its extraction up to a maximum level allowed by the equipment, technologies and production safety conditions of that time.

38.3. In case operations of a contractor are delayed for a period of more than one year due to a force majeure circumstance, the Petroleum Agency body may add this period of delay to a term of exploration or exploitation.

Article 39. Transferring ownership titles

39.1. The matter of ownership of contractor's technology, equipment, machinery, goods, and immovable property that were imported into Mongolia for the purpose of use in petroleum or unconventional petroleum exploration or exploitation shall be decided pursuant to the contract.

39.2. In the event the Government refuses to accept transfer of the assets specified in clause 39.1 of this law after expiry of a production sharing agreement, the contractor shall demobilize and dismantle them at own expense.

Article 40. Compensating property damage

40.1. A contractor shall fully reimburse the damage caused to wells, winter, autumn or spring herding homesteads, private or public buildings, other constructions, facilities, historical and cultural artifacts during its exploration and exploitation operations, to their respective owners or possessors.

40.2. If the buildings, structures, and property specified in clause 40.1 of this law are to be moved, the contractor shall be fully liable for the costs associated therewith.

40.3. If a contractor refuses to meet the obligations specified in clause 40.1 of this law, sanctions shall be imposed on it pursuant to the Civil Code.[3]

Article 41. Insurance

41.1. A contractor or its subcontractor may have its petroleum operations, property, and interests insured by an authorized Mongolian insurance company in accordance with the law of Mongolia.

41.2. In the event that an authorized Mongolian insurance company refuses insurance as specified in clause 41.1 of this law, insurance may be obtained from an insurance company of a foreign country.

Article 42.Occurrence of other minerals, overlapping of areas

42.1. In the event natural gas is found during petroleum exploration work, the contractor shall notify Petroleum Authority within three business days and may conclude an separate production sharing agreement for natural gas.

[3]Civil Code — published in *State Gazette* No. 7 (2002).

42.2. If a contractor discovers another mineral besides petroleum or unconventional petroleum during the term of exploration or exploitation, the Petroleum Authority shall be notified within 15 business days, and the matter of exploring and exploiting such mineral shall be regulated by the relevant laws.

42.3. If exploration or exploitation operations for petroleum oil, unconventional petroleum oil and other minerals are overlapping, the license holders shall establish mutual agreements and operate without causing interference and obstacles to each other.

42.4. If it is not possible to operate under the provisions of clause 42.3 of this law, this matter shall be decided pursuant to clause 7.1.10 of this law.

42.5. If a decision with regards to the circumstance specified in clause 42.4 of this law resulted in a complete halt of operations of one party, all exploration and exploitation expenses of this license holder shall be paid off fully by the party which received a license.

Article 43. Dispute resolution

43.1. If it is not possible for the Petroleum Agency and the contractor to amicably resolve property or other disputes arising during petroleum operations, they may file a suit in court.

Article 44. Sanctions for violation

44.1. The state inspector shall impose the following sanctions on a body guilty in violating the petroleum oil legislation unless this violation falls under a criminal offense:

44.1.1. for prospecting without аи agreement with Petroleum Agency, the illegally collected survey documents and other related materials shall be confiscated and an individual shall be fined by amount equal to 5 amounts of the minimum salary and a legal person - by an amount equal to 25-50 amounts of the minimum monthly salary;

44.1.2. for conducting exploration or extraction of petroleum oil without a license, the income earned illegally and petroleum oil extracted illegally shall be confiscated and a guilty body shall be fined by an amount equal to 25-100 amounts of the minimum monthly salary;

44.1.3. for conducting exploration or extraction of petroleum oil in the area where such activity is prohibited or restricted, the income earned illegally and oil extracted illegally shall be confiscated and a guilty body shall be fined by an amount equal to 25-100 amounts of the minimum monthly salary;

44.1.4. for refusing to provide any investment or property ownership information at request of the Government, the contractor shall be fined by amount equal to 25-50 amounts of the minimum monthly salary.

44.1.5. for violating its obligation to submit copies of prospecting, exploration and production reports and related documents to the state administrative organization, these report and documents shall be obtained and an individual shall be fined by an amount equal to 3-5 amounts of the minimum salary and a legal person - by an amount equal to 10-15 amounts of the minimum monthly salary;

44.1.6. for carrying out extraction exceeding the term of an extraction testing period, the

income earned shall be confiscated and the license holder shall be fined by an amount equal to 100-150 amounts of the minimum monthly salary;

44.1.7. for not submitting reports, information and plans within a term specified in this law or the agreement, or presenting false reports, information or plans, a fine equal to 150-200 amounts of the minimum monthly salary shall be imposed;

44.1.8. for concealing the amount of extracted petroleum, or concluding a fake agreement for such concealing purpose, selling at an unreasonably low price, intentionally reducing the sales revenues, or attempting to reduce for the same reason, the price and amount of the petroleum oil extracted and sold shall be calculated and the difference shall be paid to the state budget and a fine equal to 50% of the income gained within the respective period shall be imposed on the license holder;

44.1.9. an extraction license holder who did not fulfill its obligation to supply raw material to domestic refinery or intentionally evaded to supply, shall be fined with 400-450 amounts of the minimum monthly salary;

44.1.10 a license holder who did not fulfill its obligation stated in clauses 11.2.5-11.2.8 and 11.2.12 of this law, shall be fined by 250 - 300 amounts of the minimum monthly salary;

44.1.11. for destroying or loosing exploration work samples, rock samples and primary data materials, the missed samples must be recollected and duly presented, and the fine equal to 50 - 100 amounts of the minimum monthly salary shall be imposed;

44.1.12. a license holder who disclosed the primary data materials, results reports, and other materials related to exploration to a third party without permission of Petroleum Authority, shall be fined by 5 - 10 amounts of the minimum monthly salary;

44.1.13 an individual who caused an obstacle to a license holder in exercising its rights under the law and regulations, shall be fined with 5-10 amounts of the minimum monthly salary and a legal person - with 25-50 amounts of the minimum monthly salary;

44.1.14. for not placing border markers or not moving the markers in accordance with the procedures set forth in this law, the license holder shall be fined 50-100 amounts of the minimum monthly salary;

44.1.15. for using poisonous chemical substances or their mixtures without due permission, or using prohibited chemicals, or not following the prescribed procedure, regulations or technology when using such chemicals, the license holder shall compensate costs for curing the damage caused and be fined with 250-300 amounts of the minimum monthly salary;

44.1.16. a contractor failing to have its work plan and budget approved within the period stated in clauses 18.7, 25.7, and 25.8 of this law, shall be fined 100-150 amounts of the minimum monthly salary;

44.1.17. for not reaching the minimum exploration work a legal body shall be fined by 200-300 amounts of the minimum monthly salary;

44.1.18. a contractor who violated the clause 11.2.9-11.2.11, 11.2.13, 11.2.15, 11.2.17, 11.2.18, and 11.2.20 of this law, shall be fined by 100-200 amounts of the minimum monthly salary;

44.2 If a license holder has committed the same violation stated in this law repeatedly, or repeated a violation after having imposed an administrative penalty 2 times, the license shall be revoked, and no exploration or extraction license shall be granted to a legal body, formed by the license holder or its executive officers, directors of the board, or any equivalent legal body with same founders or shareholders, for 5 years since such revocation.

44.3 If a criminal penalty was imposed by a court decision on a license holder, the license shall be revoked, and costs for curing the damage shall be compensated, and no exploration or extraction license shall be granted to a legal body formed by the license holder or its executive officers, directors of the board, or any equivalent legal body with same founders or shareholders, for 5 years since such revocation.

Article 45. Entry into force

45.1. For the contracts concluded before this law comes into force or concluded in accordance with the Law on Petroleum approved on 18 January, 1991, fees, costs, cost recovery, and product sharing stated in clauses 17.3.1, 17.3.6–17.3.11, 30.2, 30.4, 32.2, 32.3, 33.1 and 33.2, of this law, shall be applicable in amounts and percentages stated in those contracts, and for the contracts which do not specify royalties payable as per clause 17.3.2 in this law, the royalty amount shall be set upon negotiation between Petroleum Agency and contractor.

CHAIRMAN OF THE STATE GREAT HURAL OF MONGOLIA Z.ENKHBOLD