

(The State Emblem of the Republic of Kazakhstan)

CONTRACT

**for the Exploration of Hydrocarbons
at the North Block**

**within the following blocks: XXI-21-F (partially);
XXI-22-D (partially), E (partially), F (partially); XXI-23-B, C, D, E, F (partially);
XXII-21-B (partially), C (partially), E (partially), F (partially); XXII-22-A (partially),
B (partially), C (partially), D (partially), E (partially), F (partially);
XXII-23-A (partially), B (partially), C (partially), D (partially), E (partially),
all located within the area of Aktyubinskaya Oblast of the Republic of Kazakhstan**

between

**THE MINISTRY FOR ENERGY AND MINERAL RESOURCES
OF THE REPUBLIC OF KAZAKHSTAN**

acting as the Competent Authority

on behalf of the Government of the Republic of Kazakhstan

(Competent Authority)

and

the Closed Joint Stock Company

Aral Petroleum Capital

(Contractor)

Astana, 2002

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ANNEXES:

1. Tender bid for obtaining the right to use subsurface for exploration of hydrocarbons.
2. Excerpt from Minutes No. 8 of the Meeting of the Commission on Conducting of Tenders on Investment Programmes for the Right to Use Subsurface on acknowledging CJSC Aral Petroleum Capital as the winner of the tender for the right to use subsurface for exploration of hydrocarbons, dated 15 October 2001.
3. Geological allotment for the exploration of hydrocarbons at Severny Block in Aktyubinskaya Oblast, with an index map.
4. Minimum work programme agreed with the Committee for Geology and Subsurface Protection of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (Minutes No. 13 of the Technical Meeting, dated 9 April 2002).
5. Agreement for Purchase of Information No. 858 executed with the Committee of Geology and Subsurface Protection of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan on 7 November 2002.

**CONTRACT
FOR EXPLORATION OF HYDROCARBONS
AT SEVERNYY BLOCK**

This Contract for the Exploration of Hydrocarbons at Severny Block within the following blocks: XXI-21-F (partially); XXI-22-D (partially), E (partially), F (partially); XXI-23-B, C, D, E, F (partially); XXII-21-B (partially), C (partially), E (partially), F (partially); XXII-22-A (partially), B (partially), C (partially), D (partially), E (partially), F (partially); XXII-23-A (partially), B (partially), C (partially), D (partially), E (partially), all located within the area of Aktyubinskaya Oblast of the Republic of Kazakhstan, was executed on 29 December 2002 by and between the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan acting as the Competent Authority duly authorised on behalf of the Government of the Republic of Kazakhstan (hereinafter, the “**Competent Authority**”) and the Closed Joint Stock Company Aral Petroleum Capital (hereinafter, the “**Contractor**”), pursuant to Minutes No. 8 of the Meeting of the Commission on Conducting of Tenders on Investment Programmes for the Right to Use Subsurface, dated 15 October 2001.

The Competent Authority and the Contractor are, from time to time, hereinafter referred to individually as the “**Party**” and collectively as the “**Parties**”.

RECITALS

Whereas:

- (A) In accordance with the Constitution of the Republic of Kazakhstan, the subsurface and other natural resources, including Hydrocarbons, are owned by the state.
- (B) In accordance with Edict No. 2828 of the President of the Republic of Kazakhstan “Concerning Subsurface and Subsurface Use”, dated 27 January 1996 (as amended on the Effective Date of the Contract), the powers to negotiate and execute contracts for exploration of mineral resources within the Republic of Kazakhstan have been delegated to the Competent Authority.
- (C) In accordance with the “Rules for Granting the Right to Use Subsurface in the Republic of Kazakhstan”, which were approved by Resolution No. 108 of the Republic of Kazakhstan dated 21 January 2000, the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan exercises the powers of the Competent Authority in relation to the execution and performance of contracts for exploration and production of Hydrocarbons;
- (D) The Republic of Kazakhstan desires to use the subsurface within the area specified herein in a rational and efficient manner.
- (E) The Contractor desires and is financially capable to explore Hydrocarbons, in a rational and efficient manner, within the area specified herein.
- (F) The Competent Authority and the Contractor have agreed that this Contract shall regulate their mutual rights and obligations when performing exploration of Hydrocarbons within the area specified herein.

The Competent Authority and the Contractor have agreed as follows:

ARTICLE 1. DEFINITIONS

Unless otherwise defined herein, the words and terms set out below shall have the following meanings (definitions and terms not referred to in this Article shall have the meaning corresponding to the definitions and terms contained in the Legislation on Subsurface Use):

- 1.1 **Recoverable Costs** means the costs incurred by the Contractor for Exploration of Hydrocarbons within the Contract Area and deductible from the aggregate annual income in accordance with the Tax Legislation.
- 1.2 **Geological Allotment** means the annex to this Contract, which is an integral part hereof, which defines, both graphically and descriptively, the Subsurface block, within which the Contractor shall have the right to conduct the operations related to Exploration and assessment of the commercial value of the Deposit.
- 1.3 **Contract Year** means the period of time equal to 12 (twelve) consecutive months by the Gregorian calendar commencing from the Effective Date of the Contract.
- 1.4 **State Agency** means the central executive body of the Republic of Kazakhstan or its territorial subdivision authorised to perform specific functions on behalf of the Republic.
- 1.5 **Effective Date of the Contract** means the date of the state registration of the Contract with the Competent Authority, with obligatory issuance of a certificate of registration of the Contract.
- 1.6 **Annual Work Programme and Budget** means the annual plan made by the Contractor and providing for the performance of the Subsurface Use Operations, including the plan of operations and financing in accordance with this Contract, by the years of its operation.
- 1.7 **Legislation on Subsurface Use** means Edict No. 2828 of the President of the Republic of Kazakhstan having the force of law “On Subsurface and Subsurface Use”, dated 27 January 1996 (as amended on the Effective Date of the Contract), Edict No. 2350 of the President of the Republic of Kazakhstan having the force of law “On Petroleum” dated 28 June 1995 (as amended on the Effective Date of the Contract) and other subordinate legislation based thereon.
- 1.8 **Legislation** means the Constitution of the Republic of Kazakhstan, international treaties and conventions, either ratified or adopted by the Republic, acts of the President of the Republic, the Parliament of the Republic, the Government and other state agencies of the Republic.
- 1.9 **Commercial Discovery** means the discovery of one or more Deposits within the Contract Area, which the Contractor considers to be economically feasible for production.
- 1.10 **Competent Authority** means the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan, to which the Government of the Republic has delegated the rights that are directly related with the execution and performance of this Contract.
- 1.11 **Contract** means this Contract between the Competent Authority and the Contractor for Exploration of Hydrocarbons at Severny Block, located within the area of Aktyubinskaya Oblast of the Republic, and also all annexes hereto.

- 1.12 **Contract Area** means the area defined in the Geological Allotment, within which the Contractor shall have the right to conduct the Exploration operations.
- 1.13 **Field (Deposit)** means one or more natural accumulations of Hydrocarbons in a geological reservoir of any type that may be discovered within the Contract Area.
- 1.14 **Taxes and Payments** means all taxes and other mandatory payments payable to the republican budget of the Republic of Kazakhstan and local budgets in accordance with the Tax Legislation.
- 1.15 **Tax Legislation** means Code No. 209-II of the Republic of Kazakhstan “Concerning Taxes and Other Obligatory Payments to the Budget”, dated 12 June 2001 (as amended and supplemented on the Effective Date of the Contract) and other regulatory legal acts governing the payment of Taxes and Payments in the Republic of Kazakhstan as of the date of the Contract.
- 1.16 **Subsurface** means the part of the earth's crust below the soil layer, or, in the event of its absence, below the land surface or the bottom of seas, lakes, rivers and other water bodies, stretching to the depths accessible for conducting Subsurface Use Operations, taking into account the achievements of science and technology.
- 1.17 **Subsurface Use Operations** means all operations relating to Exploration of Hydrocarbons conducted by the Contractor within the Contract Area in accordance with the Contract.
- 1.18 **Exploration Period** means the period of time equal to 3 (three) years and described in Clause 3.2 hereof.
- 1.19 **Contractor** means Aral Petroleum Capital Closed Joint Stock Company (certificate of the state registration No. 30224-1910-AO(ИУ), issued by the Almaty Department of Justice on 22 December 1999) which is a Party hereto.
- 1.20 **Preparatory Stage** means the period of time equal to 6 (six) months starting from the Effective Date of the Contract as specified in Clause 3.2.1 hereof.
- 1.21 **Good Practice of Field Development** means the practice usually applicable by subsurface users when exploring for Hydrocarbons worldwide and classified as rational, safe, effective and necessary when conducting subsurface use operations.
- 1.22 **Government** means the Government of the Republic of Kazakhstan.
- 1.23 **Natural Gas** means the Hydrocarbons, which are in a gaseous phase at normal atmospheric temperature and pressure, including wet gas, dry gas and associated gas remaining after extraction and separation of liquid Hydrocarbons from wet gas and non-hydrocarbon gas produced together with the liquid or gaseous Hydrocarbons.
- 1.24 **Exploration Programme** means the project documentation to be developed by the Contractor and containing necessary geological, technical and other data on the intended geological exploration operations, including the Test Production Programmes in relation to wells and fields as part of the Exploration Period.
- 1.25 **Test Production** means the operation of exploratory and operating wells with a view of correcting available and obtaining additional information on the geological and physical characteristics of setting of deposits, mode of occurrence of Hydrocarbons and efficiency of wells for designing the development of the Deposit.

- 1.26 **Test Production Programme** means the project document to be prepared by the Contractor in accordance with the requirements of the Legislation and containing all the necessary data on the performance of the Test Production.
- 1.27 **Exploration** means the operations carried out by the Contractor hereunder with a view to discovering traps of Hydrocarbons using geological, geophysical, geochemical and other methods, including drilling of exploratory wells and all operations being undertaken to determine commercial characteristics of the traps in which Hydrocarbons have been discovered including the drilling of appraisal wells and preparation of a feasibility study for the proposed operations, as well as general administrative activity.
- 1.28 **Nature Use Permit** means the document certifying the Contractor's right to pollute the environment as a result of conducting the Subsurface Use Operations, specifying the exact periods, amounts, norms and conditions of using the natural resources.
- 1.29 **Republic** means the Republic of Kazakhstan.
- 1.30 **Party or Parties** means the Competent Authority and Contractor where they are defined individually or collectively.
- 1.31 **Subcontractor** means any legal entity or individual that executed an agreement with the Contractor on the performance of any part of the Contractor's operations or obligations hereunder.
- 1.32 **Crude Oil** means any Hydrocarbons, irrespective of their unit weight, which are extracted from the Subsurface in a liquid state at normal atmospheric temperature and pressure, including liquid Hydrocarbons, known as distillate or condensate which are formed from natural gas through the process of natural condensation.
- 1.33 **Third Party** means any legal entity or individual other than the Republic and the Parties hereto.
- 1.34 **Hydrocarbons** means all natural organic substances, comprising carbon and hydrogen, including the Crude Oil and Natural Gas, that are laying in the Subsurface and are extractable as well as already extracted.
- 1.35 **Approved Reserves** means the estimated geological and extractable reserves of Hydrocarbons at the Deposit, as approved by the State Commission on Reserves of the Republic in the manner established by the Legislation.
- 1.36 **Appraisal Stage** means the period of time required by the Contractor to appraise the reserves of the Deposit, as described in Clause 3.3 hereof.

ARTICLE 2. PURPOSE OF THE CONTRACT

- 2.1 The purpose of this Contract is the regulation of legal relations between the Parties and also the responsible, efficient and economic performance by the Contractor of Exploration of Hydrocarbons within the Contract Area.

ARTICLE 3. TERM OF THE CONTRACT

- 3.1 The Contract shall come into effect upon its state registration with the Competent Authority, with obligatory issuance of a certificate of registration of the Contract and shall be effective until the end of the Exploration Period, taking into account all extensions made in the manner established by the current Legislation.
- 3.2 **Exploration Period.** The Exploration Period shall consist of 3 (three) years with a possible extension subject to the Contractor's fulfilment of the obligations determined by the Contract and the minimum work programme. The Exploration Period may be extended twice, each time up to two years. The Exploration Period shall include:
- 3.2.1 the **Preparatory Stage** which will last for 6 (six) months starting on the Effective Date of the Contract. During the Preparatory Stage, all the necessary pre-project operations and work to determine sources of financing will be performed;
- 3.2.2 the **Exploration Stage** which will last for 2.5 (two and a half) years, during which all the necessary operations related to exploration of Hydrocarbons within the Contract Area will be performed. The Contractor may in its own discretion complete the Exploration Stage ahead of the term subject to fulfilment of the Exploration operations, which it believes to be sufficient for approval of the reserves by the State Commission on Reserves;
- 3.3 **Appraisal Stage.** At any time before the expiry of the Exploration Period within the Contract Area, the Contractor may submit to the Competent Authority a written application for the introduction of the Appraisal Stage at the Deposit within the Contract Area. Such application shall include a proposed appraisal area within the Contract Area, schedule and amount of operations on the appraisal, and also a project financing plan. Simultaneously, the Contractor shall be obliged to submit a draft environment impact assessment (hereinafter "**EIA**"), the proposed appraisal operations, and an application for obtaining the Nature Use Permit, to the Ministry of Environmental Protection of the Republic for review and approval. Not later than 45 (forty five) days following the receipt by the Competent Authority of the application for the introduction of the Appraisal Stage, the Competent Authority and the Contractor, acting together in good faith and cooperation, and also taking into account the purposes of the Contract, as set out in Clause 2.1 hereof, shall come to an agreement on the duration of such Appraisal Stage. Any duration of the Appraisal Stage shall comprise reasonably required time for preparing a report on the appraisal of reserves in accordance with the terms hereof, and also, where necessary, time for performing the Test Production at the Hydrocarbon deposits.
- 3.3.1 Not later than the completion of the Exploration Period, the Contractor shall develop and produce to the State Commission on Reserves (the "**SCR**") of the Committee for Geology and Subsurface Protection of the Ministry of Energy and Mineral Resources of the Republic a reserves appraisal report in respect of Hydrocarbons at the Deposit. Such reserves appraisal report shall be prepared in accordance with the procedure set by the Legislation and shall include the appraisal of geological and recoverable reserves of Hydrocarbons. Once the SCR has reviewed such reserves appraisal report in the prescribed manner and approved the reserves of Hydrocarbons, such reserves of Hydrocarbons shall be deemed the "**Approved Reserves**".
- 3.3.2 The Appraisal Stage shall commence from the date on which the application for the introduction of the Appraisal Stage is submitted to the Competent

Authority and shall cease after the Date of approval of the reserves by the SCR.

- 3.4 **Conditions of Extending the Contract.** In the event that the Contractor decides to extend this Contract, it shall by an application to the Competent Authority not later than 12 (twelve) months before its expiry, request to extend the Contract. Such application shall contain the grounds for the extension, the period of the extension and the programme of operations and expenditures for the period of extension. The Competent Authority shall, not later than 3 (three) months following the receipt of such application for extension of the Contract, review it and issue a well-grounded decision.
- 3.5 Upon extension of the Contract, the conditions hereof may be modified by a written agreement of the Parties.
- 3.6 In the event of a Commercial Discovery within the Contract Area, the Contractor shall be exclusively entitled to: a) obtain the right to undertake production through direct negotiations with the Competent Authority, and, accordingly; b) enter into a production contract.
- 3.7 At any time during the term of the Contract, regardless of whether the statement on the Commercial Discovery within the Contract Area was made or not, the Contractor may propose to the Competent Authority to make amendments to the Contract in terms of adding operations on combined production (and the corresponding extension of the Contract term), setting out the grounds for this; and the Competent Authority shall, not later than 45 (forty five) business days following the receipt of such proposal, review it and issue a well-grounded decision.

ARTICLE 4. CONTRACT AREA

4.1 Contract Area

On the Effective Date of the Contract the Contract Area covers 2,348 (two thousand three hundred and forty eight) square kilometres as determined in the Geological Allotment.

4.2 Conditions and Procedure for Returning the Contract Area

- 4.2.1 The Contractor shall have the right, in the course of performing the operations hereunder, to return all or any part of the Contract Area at any time during the term of this Contract at its own discretion.
- 4.2.2 Upon the expiry of the Exploration Period, the Contractor shall return to the Republic all of the Contract Area, except for the blocks at which it plans to conduct the appraisal operations in accordance with Clause 3.3 hereof.
- 4.2.3 In the event that there is no Commercial Discovery within the Contract Area, the Contractor shall be obliged to return 100% (one hundred percent) of the Contract Area.
- 4.2.4 Any part or all of the Contract Area shall be returned in the same condition which existed prior to the beginning of Exploration work by the Contractor in compliance with the requirements of the Legislation.

- 4.2.5 Within 30 (thirty) days before the date of return of any part or all of the Contract Area, the Contractor shall be obliged to submit to the Competent Authority a report in the established form containing all information on the Subsurface Use Operations that it has completed at the block to be returned, and also a location survey with the positions of junction points of delimitation lines, and a description of the performed or intended rehabilitation arrangements. From the day that any part of the Contract Area is returned, the Contractor shall be relieved from all obligations relating to such areas being returned by the Contractor.
- 4.3 If it is discovered during the Subsurface Use Operations that geographical boundaries of the Deposit extend beyond the Contract Area, the matter of the expansion of the Contract Area shall be decided by amending the terms of the Contract without holding any additional tender, unless the interests of other subsurface users are affected.

ARTICLE 5. OWNERSHIP RIGHT TO PROPERTY AND INFORMATION

- 5.1 All tangible and intangible assets acquired and obtained by the Contractor for or during Exploration within the Contract Area shall be the Contractor's property.
- 5.2 The ownership right to the property referred to in Clause 5.1 of the Contract may be pledged or otherwise encumbered to any Third Parties to ensure financing of the Exploration operations at the Contractor's discretion in accordance with the Legislation.
- 5.3 Information on the geological structure of the subsurface within the Contract Area, the minerals contained therein, geological parameters of the Deposit, amount of reserves, conditions of development and also on any specific features of the subsurface within the Contract Area, set out in geological reports, maps and other materials shall be owned by the state if obtained through the budget allocations of the Republic, and shall be owned by the Contractor if obtained at the Contractor's own expense.
- 5.4 The state-owned information on the subsurface within the Contract Area shall be acquired by the Contractor from the authorised State Agency in the manner established by the Legislation.
- 5.5 Geological or other information on the subsurface that is obtained by the Contractor in the process of performing the Exploration operations within the Contract Area, shall be transferred annually to the relevant authorised State Agency in the manner established by the Legislation. The progress reports on the fulfilment of Annual Work Programmes and Budgets shall be delivered to the Competent Authority and to the relevant authorised State Agency in charge of subsurface protection and use.
- 5.6 The use of the state-owned geological information on the Subsurface for training, scientific, commercial or other purposes shall be determined in the manner established by the Legislation.
- 5.7 Upon termination of the Contract all geological information shall be transferred to the ownership of the Republic. The Contractor shall be obliged to transfer all documents and other geological data carriers, including initial geological information, to the relevant State Agency of the Republic free of charge.

ARTICLE 6. GENERAL RIGHTS AND OBLIGATIONS OF THE PARTIES

- 6.1 THE CONTRACTOR SHALL HAVE THE RIGHT TO:
- 6.1.1 Perform Exploration work within the Contract Area on an exclusive basis in accordance with the terms and conditions of the Contract.
 - 6.1.2 To construct in the Contract Area and if necessary on other land plots allocated to the Contractor according to the procedure established by the Legislation, production and social facilities required for the performance of Exploration.
 - 6.1.3 In agreement with the owners, use facilities, communications and pipelines of the general use within and outside the Contract Area.
 - 6.1.4 Retain Subcontractors for the performance of work related to Exploration work within the Contract Area.
 - 6.1.5 Dispose at its own discretion Hydrocarbons produced under the Contract subject to the provisions of Clause 6.2.23.
 - 6.1.6 Independently perform any actions related to subsurface use not prohibited by the Legislation within the limits established by the Contract Area in accordance with the Contract terms.
 - 6.1.7 Transfer all or part of its rights to Third Parties subject to the terms and conditions established by the Contract and Legislation.
 - 6.1.8 Terminate its activity in accordance with the terms and conditions defined by the Contract and Legislation.
 - 6.1.9 Independently dispose of its own property, including in the event of early termination of the Contract.
 - 6.1.10 Have free access to railways, motor, air and other transport routes, which are directly or indirectly owned and controlled by the Republic, on commercially reasonable conditions and at commercially reasonable rates and on conditions which are not less favourable than those granted to any other Third Parties performing subsurface use operations on the territory of the Republic of Kazakhstan.
 - 6.1.11 In accordance with the requirements of the Legislation create joint ventures with any legal and/or physical entities irrespective of their property form and state affiliation with or without formation of a legal entity in order to ensure financing of operations under the Contract.
- 6.2 THE CONTRACTOR SHALL BE OBLIGED TO:
- 6.2.1 Select the most effective methods and processes for Exploration based on Good Practice of Field Development.
 - 6.2.2 Use the Contract Area only for purposes provided by the Contract.
 - 6.2.3 Initiate the performance of its obligations under the Contract from the Effective Date of the Contract.

- 6.2.4 Perform Exploration work in the Contract Area in strict compliance with the terms and conditions of the Contract and the Legislation.
- 6.2.5 Observe the requirements of the project and technological documentation approved by the Central Committee for the Development of Oil and Gas Deposits (CCD) which ensures rational use and protection of the Subsurface, environmental protection, safety of the population and personnel.
- 6.2.6 Not prevent other persons from moving within the Contract Area, using facilities and communications of the general use or performing any work including exploration and production of other minerals in addition to Hydrocarbons unless it is connected with special safety conditions and such activity hampers the performance of Exploration.
- 6.2.7 use equipment, materials and finished goods produced in the Republic provided such goods meet the standards and other requirements.
- 6.2.8 retain Kazakhstani enterprises and organizations for the performance of work and services in the course of performance of Subsurface Use Operations, including the use of air, railway, water and other transport means provided such services meet the standards and other requirements, by conducting tenders in the territory of the Republic.
- 6.2.9 Give preference to Kazakhstani personnel in the course of performance of Subsurface Use Operations.
- 6.2.10 Submit to the Competent Authority full information about the progress of performance of Annual Work Programmes in accordance with the Legislation.
- 6.2.11 Freely provide the required documents, information and access to work sites to controlling State Agencies in the course of performance of their service functions and timely eliminate violations of the Legislation and the Contract discovered by such agencies.
- 6.2.12 Enter into agreements for servicing blow out safety with an enterprise licensed to perform accident recovery work.
- 6.2.13 Timely pay Taxes and payments in accordance with the Legislation and the Contract.
- 6.2.14 While performing its obligations under the Contract preserve objects of cultural and historical importance within the Contract Area.
- 6.2.15 Forecast long-term ecological consequences of its activity related to the performance of the Contract. The Contractor shall submit to the Competent Authority and State Agencies for environmental protection, at their written requests, forecasts of long-term ecological consequences and detailed reports on actions taken by the Contractor to minimize negative long-term ecological consequences of its activity under the Contract not later than in 2 years after the beginning of work under the Contract.
- 6.2.16 At the expiration of the Contract term, leave the Contract Area in the condition which existed prior to the beginning of work by the Contractor under the Contract and which meets the requirements of the Legislation.

- 6.2.17 Return the territories of the Contract Area in accordance with Clause 4.2 of the Contract in compliance with the requirements of the legislation on Subsurface and environmental protection.
- 6.2.18 Upon transfer of the Contract Area, comply with the corresponding requirements of the legislation on mining and sanitary supervision, protection of subsurface and natural environment.
- 6.2.19 Restore, at its own expense, land plots and other natural objects which were adversely affected by the Contractor during its activity under this Contract to the condition in which such objects existed prior to the commencement of work by the Contractor under this Contract and which is suitable for further use in accordance with the Legislation.
- 6.2.20 Fully compensate for damage proved and substantiated in accordance with the Legislation which was caused to the environment, personnel, other enterprises or population.
- 6.2.21 Accept to the balance sheet all drilled and decommissioned wells which are located in the Contract Area and monitor such wells.
- 6.2.22 In the course of performance of Subsurface Use Operations in the Contract Area ensure utilisation of produced Natural Gas in accordance with the requirements of environmental protection Legislation.
- 6.2.23 Upon conclusion of corresponding contracts, annually and on the conditions which are adequate to the conditions of other subsurface users, send to Kazakhstani refineries 100% (one hundred percent) of Hydrocarbons produced during Test Production.
- 6.2.24 In accordance with specific terms of a tender bid during the Exploration period the Contractor shall allocate 10% of the share to the Republic from the production of Hydrocarbons which are not included into Recoverable Costs if the Contractor's financing amounts to 100%.
- 6.2.25 Payments to the social funds.

During the Exploration Period the Contractor shall allocate 10% of the investment amount to the Exploration Period, including:

- payments to Aktyubinsk Oblast of the Republic in the total amount of one million two hundred thousand (\$1,200,000) US Dollars, constituting 5%;
- payments to the fund of the City of Astana in the total amount of one million two hundred thousand (\$1,200,000) US Dollars, constituting 5%.

6.3 COMPETENT AUTHORITY SHALL HAVE THE RIGHT TO:

- 6.3.1 Represent the Republic during negotiations with the Contractor on the terms and conditions of this Contract.
- 6.3.2 Demand regular reporting from the Contractor pertaining to the performance of the Contract terms. Request other information pertaining to the performance of the Contract terms.

- 6.3.3 Inspect the performance of Exploration by the Contractor, including the Contractor's documentation pertaining to its activity related to the performance of the Contract.
- 6.3.4 Have access to any work in the Contract Area related to Exploration.
- 6.4 THE COMPETENT AUTHORITY SHALL BE OBLIGED TO:
 - 6.4.1 Ensure the performance of the Contract terms and the termination of this Contract according to the procedure and on grounds provided by the Legislation.
 - 6.4.2 Assist the Contractor in obtaining the land plot on the right of land use for the performance of work under this Contract.
 - 6.4.3 Assist the Contractor in its work with other State Agencies of the Republic.

ARTICLE 7. WORK PROGRAMME

7.1 The Contractor shall perform work under the Contract in accordance with Annual Work Programmes and Budgets and plans of operations agreed in the established procedure, not contrary to the Contract terms. During the planned year the Contractor shall be obliged to submit to the State Agencies the Annual Work Programme and Budget of the planned year for approval. The authorised State Agencies shall approve them in the established procedure provided they correspond to the Minimum Work Program set out below, this Contract, Good Practice of Field Development and the Legislation of the Republic. The Contractor shall carry out Exploration of Hydrocarbons and Plan of Test Production of the deposit in accordance with the plans of operations agreed with the territorial department "ZapKazNedra" and Aktyubinsk Oblast Inspectorate for Prevention and Liquidation of Emergency Situations, if required by the Legislation.

7.2 Minimum Work Programme

The Contractor shall at its sole risk fulfil the requirements of the Minimum Work Programme set out below.

7.2.1 The minimum work amount under the Contract in money terms shall be twenty million eight hundred thousand (US \$20,800,000) US dollars which shall be allocated as follows:

Nos.	Name of Work	Measurement Unit	Total	Contract Years		
				first	second	third
1	2	3	4	5	6	7
1.	Processing and reinterpretation of geological data of past years	thousand \$	75	75		
		line kilometres	1000	1000	-	-
2.	Drafting of project	thousand \$	100	100	-	-

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	documentation	units	4	4	-	-
3.	2D and 3D CDP seismic survey	thousand \$	2230	120	1000	1110
		line kilometres	700	-	400	300
4.	Drilling of exploration wells	thousand \$	15,800	-	4,000	11,800
		wells	4	-	1	3
5.	Well reactivation and well survey	thousand \$	150	-	150	
		wells	1	-	1	
6.	Well testing	thousand \$	150	-	50	100
		wells	3	-	1	2
7.	Production structure	thousand \$	317	-	117	200
Total during in the Exploration Period		thousand \$	18,822	295	5,317	13,210
8.	Social sphere costs	thousand \$	2,400	100	800	1,500
9.	Indirect costs	thousand \$	370	100	120	150
TOTAL		thousand \$	20,800	500	6,300	14,000

7.3 Carrying over of work and reallocation of funds

7.3.1 All work and costs made and incurred by the Contractor in excess of the requirements of the minimum work programme during any Contract Year shall be carried over and included in the obligations of the Contractor under the minimum work programme of the following year. The Competent Authority may relieve the Contractor of the performance of any part of the minimum work programme if the Contractor proves that its performance does not seem to be reasonable by virtue of specific circumstances independent of the Contractor.

7.3.2 The Parties agree that the Contractor shall not be obliged to expend the full amount of that part of the Annual Work Programme and Budget that does not cover the money obligations under the minimum work programme, this being an important part of the rights and obligations of the Contractor to achieve the objectives of this Contract most economically.

7.4 Costs related to education and training of Kazakhstan personnel.

7.4.1 The Contractor shall be obliged to make annual allocations for education and training of Kazakhstan specialists retained to work under this Contract in the amount of no less than one per cent (1%) of the total amount of investment. Reports on the utilization of such funds on education shall be made by the Contractor annually and shall be submitted to the Competent Authority. Such

reports shall contain the list of persons to be trained and the list of organisations to which these persons are sent.

- 7.4.2 If actual expenses on training of Kazakhstan personnel in the reporting period exceed the amount calculated in accordance with Clause 7.4.1 of the Contract, the Contractor shall be entitled to carry over and set off the excessively spent amount in the following reporting period.
- 7.4.3 If the amount of funds for the training of Kazakhstan personnel exceeds the actual need, the Contractor shall use the remaining amount for financing the priority tasks of the secondary education system in accordance with the Agreement on Co-operation between the Ministry of Education and Science of the Republic of Kazakhstan and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan. Information regarding the remaining part of the funds provided for training in the past Contract Year shall be submitted by the Contractor to the Competent Authority after the approval of the Annual Work Programme and Budget for the next Contract Year.
- 7.4.4 The Contractor shall annually envision the allocation of part of the funds set out in Clause 7.4.3 hereof for the secondary education needs.
- 7.5 Programmes mentioned in Clause 6.2.25 of this Contract shall be financed from the Contractor's obligations under the work programme, and costs actually incurred for such programmes shall be Recoverable Costs within the amounts specified in Clause 6.2.25 of this Contract.
- 7.6 Annual Work Programmes and Budgets.
- 7.6.1 Annually, from the beginning of the Exploration Period, the Contractor shall submit to the appropriate authorised State Agency for subsurface protection and use the Annual Work Programme and Budget for the following Contract year with the description of all planned work related to Exploration in the Contract Area in the relevant Contract Year. The authorised State Agency for subsurface protection and use shall consider and approve such Annual Work Programme and Budget within forty five (45) days from the moment of its receipt provided that it corresponds to the Contract, the Minimum Work Programme specified in Clause 7.2.1 of the Contract, Good Practice of Field Development and the Legislation.
- 7.6.2 The Contractor shall be obligated at its sole risk to perform the requirements and provisions of the approved Annual Work Programmes and Budgets throughout the entire Contract term.
- 7.7 **Exploration Programme**
- 7.7.1 Test Production and pilot commercial development during the Exploration Period shall be carried out on the basis of the plan of the performance of Exploration (Exploration Programme). The Exploration Programme shall be prepared in accordance with the Legislation and Good Practice of Field Exploration and Development.
- 7.7.2 Upon approval of the Exploration Programme and obtaining of the Nature Use Permit, the Contractor shall implement the Exploration Period *[sic.]*. The

Contractor shall be obliged to finance and carry out only such Exploration work that was approved by the Exploration Programme.

- 7.7.3 Within the Exploration Programme the Contractor shall prepare, agree and have the Test Production Programme approved by the Central Commission For Development of Oil and Gas Fields ("CCD") of the Ministry of Energy and Mineral Resources of the Republic.
- 7.7.4 When necessary, the Contractor may apply to the Competent Authority for assistance in amending the Exploration Programme. All amendments to the Exploration Programme shall be made in accordance with the procedure provided by the Legislation.

ARTICLE 8. COMMERCIAL DISCOVERY

8.1 Introduction of the Appraisal Stage

If the Contractor decides that the Field is of sufficient interest for carrying out appraisal work, it shall submit to the Competent Authority an application for introduction of an Appraisal Stage, which shall include an appraisal work programme and budget. The appraisal work programme and budget shall specify appraisal work, including, when necessary, Test Production of Hydrocarbon deposits and schedule of such appraisal work. Such Appraisal Stage shall be agreed with the Competent Authority within forty five (45) days from the submission of such application according to Clause 3.3 of this Contract. The appraisal programme and budget at the Appraisal Stage shall be based on the principle of continuity of appraisal work.

8.2 Carrying Out of Appraisal Work

Having received approval of the beginning of the Appraisal Stage, envisioned in Clause 8.1 of this Contract, the Contractor shall proceed with appraisal work in accordance with the approved schedule. Upon completion of the appraisal work the Contractor shall provide to the Competent Authority and to the State Commission on Reserves (GKZ) a full report on appraisal of the Field reserves.

8.3 Contractor's Declaration of Commercial Discovery.

- 8.3.1 At any time throughout the whole Exploration Period the Contractor may declare a Commercial Discovery in the Contract Area by notice to the Competent Authority.

ARTICLE 9. RECORDING AND REPORTING

- 9.1 The Contractor undertakes to maintain and keep records relating to the work under this Contract during the established term in accordance with the requirements of the Legislation.
- 9.2 The Contractor shall, on the annual basis, submit to the State Agencies a report on its activities for the previous year in accordance with the norms and requirements of the Legislation.
- 9.3 The Contractor shall submit reports on its activities to the State Agencies within the terms and in the procedure established by the Legislation.

- 9.4 The Competent Authority shall be entitled to audit the activities of the Contractor and may be present through its representatives when the Contractor carries out the work under this Contract.

ARTICLE 10. MEASUREMENT OF HYDROCARBONS

- 10.1 Measurement and weighing of Hydrocarbons extracted from the Subsurface in the Contract Area during the Test Production of Hydrocarbon deposits and testing of wells shall be carried out in accordance with the procedures and practice applicable in the Republic and Good Practice of Field Exploration and Development.
- 10.2 The Contractor shall carry out annual tests of the equipment and instruments used for Hydrocarbons measurement and weighing with participation of representatives of the authorised State Agency.
- 10.3 If any defects of the equipment and instruments are discovered during the test or inspection and it is impossible to establish the time when such defect occurred, the duration of the defect shall be determined as a half of the period from the previous measuring to the date when the defect was established.
- 10.4 If the Contractor deems that any changes are required to the applicable procedures or any measuring instruments should be replaced, the Contractor must inform the State Body no later than thirty (30) days prior to such change or replacement so that its representatives could be present during the performance of such change or replacement.

ARTICLE 11. PERFORMANCE OF SUBCONTRACT WORKS

- 11.1 When entering into any subcontracts, the Contractor shall give preference to the services, goods, materials and equipment produced in the territory of the Republic and supplied by the Kazakhstan companies if their services are competitive in terms of timing of supply, prices and quality.
- 11.2 The Contractor must perform a competitive selection of Subcontractors through tender announcements in the mass media of the Republic in accordance with the Legislation.
- 11.3 The Contractor shall be responsible for the performance of subcontracts concluded with Kazakhstan Subcontractors in accordance with the Legislation.

ARTICLE 12. FINANCING

- 12.1 The Contractor shall be exclusively liable for full financing of its activities under the Contract in accordance with the approved Exploration Programme, Annual Work Programmes and Budgets and other project documentation as should be prepared and approved in accordance with the Legislation requirements.
- 12.2 The Contractor may freely obtain loans in any currency in and outside the Republic in order to finance its activities to the extent it does not contradict the Legislation.

- 12.3 The Contractor may freely create joint ventures with or without formation of a legal entity with any Kazakhstan and/or foreign legal entities or individuals in order to ensure financing for its activities under the Contract.
- 12.4 For the purpose of performing the Contract the Contractor may have bank accounts both in tenge and foreign currency with the banks in and outside the Republic to receive the funds which represent proceeds and revenues in accordance with the Legislation.
- 12.5 All types of settlements in accordance with the Contract shall be made in the procedure established by the Legislation.
- 12.6 The Contractor and Subcontractors shall carry out currency transactions in accordance with the Legislation.

ARTICLE 13. ACCOUNTING

- 13.1 The Contractor undertakes to maintain complete and accurate accounting of all income and expenses relating to the performance of the Contract in accordance with accounting standards and procedure established by the Legislation.
- 13.2 All accounting books and records of the Contractor must be properly maintained and be available for audits by the Competent Authority, tax and other State Agencies in accordance with their competence as determined by the Legislation.

ARTICLE 14. INSURANCE

- 14.1 Within one hundred eighty (180) days after the end of the Preparatory Stage, the Contractor shall develop and submit for the approval of the Competent Authority its programmes for insurance of risks, property and other facilities related to the Hydrocarbon Exploration in the Contract Area which programme shall be prepared in accordance with the Legislation.
- 14.2 Insurance shall be envisaged for property and liability risks related to:
- 14.2.1 transportation and warehousing of goods delivered to the Exploration work site;
 - 14.2.2 the property of the Contractor used during the conduct of the Exploration including the leased property or used under leasing;
 - 14.2.3 pollution of the environment including land and expenses for liquidation of consequences of the damage caused to the environment including costs for reclamation and restoration of land within the Contract Area;
 - 14.2.4 general civil liability to Third Parties including damage caused to health and life of the personnel and population.
- 14.3 The Contractor must insure its employees in accordance with the labour protection legislation including the employees insurance against industrial accidents and occupational diseases including expenses for medical treatment of employees suffering from consequences of industrial accidents and occupational diseases.

- 14.4 The Contractor shall select insurance companies at its discretion in accordance with the Legislation.

ARTICLE 15. LIQUIDATION AND LIQUIDATION FUND

- 15.1 No later than three hundred and sixty (360) days prior to the expiration of the Contract term, the Contractor shall submit to the approval of the Competent Authority a programme of liquidation of the consequences of its activities under the Contract including the liquidation costs estimation.
- 15.2 Liquidation and conservation of the activities shall be carried out in accordance with the procedure and requirements established by the Legislation. Conservation, abandonment of oil, gas and other wells shall be carried out in accordance with the requirements of the Regulations on the Procedure for Conservation of Wells in Oil and Gas Deposits, Underground Gas Storage Facilities and Thermal Water Deposits and Regulations on the Procedure for Abandonment of Oil, Gas and Other Wells and Writing-off the Costs for Their Construction.
- 15.3 The Liquidation Programme must provide for removal and liquidation of facilities and equipment used in the course of the activities of the Contractor in the Contract Area.
- 15.4 In order to ensure full funding of the programme for liquidation of the Exploration consequences in the Contract Area, the Contractor shall create a liquidation fund in the amount of one percent (1%) of the total amount of capital expenditures for Exploration. The liquidation funds shall be transferred to a special deposit account with a bank(s) of the second tier registered in the Republic and can further be used by the Contractor to perform works on liquidation of consequences of Exploration in the Contract Area. All allocations of the Contractor to the liquidation fund shall be recoverable costs and shall be deductible for the purpose of income tax in the same year when they were made. The liquidation fund shall be managed by the Contractor upon agreement with the Competent Authority in accordance with the Legislation.
- 15.5 Allocations to the Liquidation Fund shall be made by the Contractor on an annual basis and shall be included in the Exploration costs if they were incurred during the Exploration Period.
- 15.6 If the actual costs for liquidation exceed the amount of the Liquidation Fund, the Contractor shall provide additional funds to carry out the liquidation.
- 15.7 If the actual costs for liquidation are less than the amount of the Liquidation Fund, the balance shall be transferred to the Contractor and shall be included in the taxable income.
- 15.8 If the Republic elects to continue Exploration in the Contract Area relinquished by the Contractor after the expiration of the Contract term at its own risk, the Contractor shall have no obligation to carry out the liquidation programme and shall transfer to the Republic all rights to all assets actually accumulated in the Liquidation Fund.

ARTICLE 16. TAXES AND PAYMENTS

- 16.1 The Contractor shall be obliged to pay taxes and payments in respect of the activity carried out hereunder in accordance with the legislation of the Republic of

Kazakhstan, including the Tax Code (the Code of the Republic of Kazakhstan On Taxes and Other Mandatory Payments to the Budget dated 12 June 2001, being in force on the Effective Date of the Contract), unless other rules are established by a Treaty of which the Republic of Kazakhstan is a participant.

With the view to calculating taxes and payments in respect of the activity carried out hereunder the Contractor shall be considered as a single taxpayer.

16.2 The Contractor shall pay the following taxes and payments:

16.2.1 Corporate Income Tax

The Contractor shall pay the corporate income tax in accordance with Section 4 of the Tax Code.

16.2.1.1 The Contractor shall calculate the corporate income tax at the rates specified in Article 135 of the Tax Code.

16.2.1.2 The Contractor shall pay the corporate income tax by making advance payments calculated in accordance with Article 126 of the Tax Code.

16.2.1.3 The Contractor shall pay the corporate income tax within the time limits and in the manner established by Article 127 of the Tax Code.

16.2.1.4 The Contractor shall be obliged to submit a tax declaration on the corporate income tax to a tax authority at the place of its tax registration within the time limits established by Article 137 of the Tax Code.

16.2.1.5 The Contractor shall deduct and transfer withholding taxes, including taxes on dividend and interest under credits in accordance with Articles 131-134 of the Tax Code and terms of the Conventions on Avoidance of Double Taxation effective on the date when the relevant payment obligation arose.

16.2.1.6 The Contractor shall be responsible for full and timely transfer to the budget of the amounts of corporate income tax levied on the legal entities and individual income tax levied on individuals at the source of payment in accordance with the Tax Code provisions effective on the date when such payment obligations occurred.

16.2.1.7 In accordance with Article 101 of the Tax Code, any expenses incurred by a subsurface user for geological study, exploration and preparation for production of minerals carried out during appraisal and field facilities construction, general administrative expenses, amounts of paid signature bonus and commercial discovery bonus shall form a separate group and shall be deducted from the aggregate annual income as depreciation deductions from commencement of production of minerals according to the rates determined at the Contractor's discretion, which, however, shall not exceed a ceiling depreciation rate of 25 (twenty five) percent.

16.2.1.8 Such expenses shall be subject to adjustment reduction by the amount of income gained by the Contractor from the activity performed under this Contract in the period of conducting the geological study and preparation for production of natural resources, except for:

- the income gained from the sale of minerals;
- the income, by the amount of which the aggregate annual income is to be adjusted in accordance with Article 91 of the Tax Code.

16.2.2 Value Added Tax

The Contractor shall pay the value added tax in accordance with section 8 of the Tax Code.

16.2.2.1 The Contractor shall calculate and pay the value added tax at the rate of 16% in accordance with Article 245 of the Tax Code.

16.2.2.1.1 The tax period for the value added tax shall be a calendar month, in accordance with Article 246 of the Tax Code.

16.2.2.1.2 If a monthly average amount of the value added tax payable to the budget for a previous quarter is less than 1,000 (one thousand) monthly calculation indices, the tax period shall be a quarter.

16.2.2.2 The Contractor shall be obliged to submit a value added tax declaration for each tax period to the tax authority at the place of its tax registration within the time limits established by Article 247 of the Tax Code.

16.2.2.3 The Contractor shall be obliged to pay the value added tax for each tax period not later than the date of the declaration submission in accordance with Article 248 of the Tax Code.

16.2.3 Excise Taxes

The Contractor shall pay excise taxes in accordance with Section 9 of the Tax Code.

16.2.3.1 In accordance with Article 258 of the Tax Code of the Republic of Kazakhstan and Resolution of the Government of the Republic of Kazakhstan No. 137 On Excise Taxes Rates... dated 28 January 2000, the Contractor shall pay the excise tax on crude oil produced in the Republic of Kazakhstan at a zero rate.

16.2.3.2 Excise-taxed commodities shall be only the commodities listed in Article 257 of the Tax Code.

16.2.3.3 The tax period for the payment of excise taxes shall be a calendar month in accordance with Article 274 of the Tax Code.

16.2.3.4 The Contractor shall, upon the end of each tax period, submit to the tax authority at the place of its registration an excise tax

declaration not later than the 13th day of the month following the tax period, pursuant to Article 275 of the Tax Code.

16.2.4 **Special Payments of Subsurface Users**

The Contractor shall pay special taxes of subsurface users in accordance with Section 10 of the Tax Code.

16.2.4.1 **Signature Bonus**

16.2.4.1.1 The Contractor shall pay the signature bonus in the amount of 5,000,000 (five million) US dollars within thirty calendar days from the Effective Date of the Contract.

16.2.4.1.2 The declaration on the signature bonus shall be submitted by the Contractor to the territorial tax authority at the place of its registration before the 15 (fifteenth) day of the month following the month, in which the payment obligation arose.

16.2.4.2 **Commercial Discovery Bonus**

16.2.4.2.1 The commercial discovery bonus shall be paid in the amount of 0.1% (zero point one percent) of the value of the approved extractable reserves of the relevant commercial discovery. The value of extractable reserves shall be determined on the basis of exchange market price of such minerals, prevailing on the date of payment.

Due Date

The due date for the payment of commercial discovery bonus shall be not later than 30 (thirty) calendar days from the date of approval of the reserves by the SCR.

Tax Declaration

The commercial discovery bonus declaration shall be submitted by the Contractor to a territorial tax authority at the place of its registration not later than the 10th day of April of the year following the year, in which the payment obligation arose.

16.2.4.3 **Royalty**

The royalty will be established in the Hydrocarbon Production Contract.

If any hydrocarbons are produced during a period of pilot production, the Contactor shall pay royalty at the rate of 3% (three percent).

The Hydrocarbons royalty shall be assessed on the value of the amount of produced Hydrocarbons calculated on the basis of an average sales price of Hydrocarbons for the reporting period exclusive of indirect taxes and reduced by the amount of the actual costs of transportation to the point of sale.

When there is no sale of minerals during the tax period, the royalty shall be calculated in accordance with the provisions of Article 303 of the Tax Code.

The royalty shall be paid not later than the 15 (fifteenth) day of the month following the tax period pursuant to Article 301 of the Tax Code.

16.2.4.3.1 Royalty declaration shall be submitted by the Contractor to the tax authority at the place of its registration not later than the 10 (tenth) day of the month following the tax period, pursuant to Article 304 of the Tax Code.

16.2.4.3.2 In case of producing commonly occurring minerals and groundwater, the Contractor shall pay royalty at the rates and in the procedure established by Article 300 of the Tax Code.

16.2.4.3.3 The amount and procedure for payment of historical costs will be determined in a hydrocarbon production or exploration and production contract in accordance with the legislation of the Republic of Kazakhstan effective on the date of entering into such hydrocarbon production or exploration and production contract.

16.2.4.4 Excess Profit Tax

16.2.4.4.1 The Contractor shall calculate the excess profit tax on the basis of the achieved level of internal rate of return at the end of a tax period at the following rates:

Internal Rate of Return (IRR), %	Rate of Excess Profit Tax (%) to the net income for the reporting year
Less than, or equal to, 20	0
More than 20, but less than, or equal to 22 (inclusive)	4
More than 22, but less than, or equal to 24 (inclusive)	8
More than 24, but less than, or equal 26 (inclusive)	12
More than 26, but less than, or equal to 28	18
More than 28, but less than, or equal to, 30	24
More than 30	30

16.2.4.4.2 The object of the excess profit tax shall be the amount of net income of the Contractor determined in accordance with the provisions of the Tax Code with regard to the activity performed under the Contract during the tax period for which the Contractor gained the internal rate of return of more than 20 (twenty) percent.

16.2.4.4.3 The Contractor shall submit the declaration on the excess profit tax to the tax authority at the place of its registration on not later

than the 10 (tenth) of April of the year following the calendar year, pursuant to Article 311 of the Tax Code.

16.2.4.5 **Internal rate of return** shall be calculated in accordance with the provisions of Article 307 of the Tax Code.

16.2.5 **Social Tax**

The Contractor shall pay the social tax in accordance with Section 11 of the Tax Code.

16.2.5.1 The object of taxation shall be the expenses of the Contractor as an employer, which expenses shall be determined in accordance with Article 313 of the Tax Code.

16.2.5.2 The Contractor shall calculate the social tax at the rate of 21 (twenty-one) percent, and at the rate of 11 (eleven) percent in respect of foreign specialists in administrative and management and engineering staff pursuant to Article 317 of the Tax Code.

16.2.5.3 The procedure for calculation and payment of the social tax shall be in accordance with the provisions of Articles 318, 319 and 321 of the Tax Code.

16.2.5.4 The declaration on the social tax shall be submitted by the Contractor to the tax authorities each quarter not later than the 15 (fifteenth) day of a month following the reporting quarter pursuant to Article 322 of the Tax Code.

16.2.6 **Land Tax**

The Contractor shall perform tax obligations on the land tax in accordance with Section 12 of the Tax Code.

16.2.6.1 The Contractor shall calculate the land tax at the rates set by Chapter 54 of the Tax Code.

16.2.6.2 The Contractor shall pay the land tax in the manner and in the time limits set by Chapter 55 of the Tax Code.

16.2.6.3 The declaration on the land tax shall be submitted by the Contractor to the tax authority at the location of an object of taxation not later than the 31 (thirty first) of March of the year following the calendar year, pursuant to Article 344 of the Tax Code.

16.2.7 **Vehicle Tax**

The Contractor shall pay the vehicle tax in accordance with Section 13 of the Tax Code.

16.2.7.1 The Contractor shall calculate the vehicle tax at the rates set by Article 347 of the Tax Code.

16.2.7.2 The Contractor shall pay the vehicle tax in the manner and in the time limits set by Article 348 of the Tax Code.

16.2.7.3 The declaration on the vehicle tax shall be submitted by the Contractor to the tax authority not later than the 31 (thirty first) of March of the year following the calendar year, pursuant to Article 350 of the Tax Code.

16.2.8 Tax on Property of Legal Entities

The Contractor shall pay the tax on property of legal entities in accordance with Section 14 of the Tax Code.

16.2.8.1 The Contractor shall calculate the tax on property at the rate of 1 (one) percent of an average annual value of the objects of taxation pursuant to Article 355 of the Tax Code.

16.2.8.2 The Contractor shall pay the tax on property in the manner and in the time limits set by Article 356 of the Tax Code.

16.2.8.3 The Contractor shall submit to the Tax Authorities at the place of location of the objects of taxation, a calculation of the amounts of current payments not later than the 20 (twentieth) of February of the year following the calendar year, and shall submit the declaration not later than the 31 (thirty first) of March of the year following the calendar year, pursuant to Articles 359 and 360 of the Tax Code.

16.2.9 Fee for the State Registration of Legal Entities

The Contractor shall pay the fee for the state registration of legal entities in accordance with the legislation effective on the date when the obligations to make such payment arose.

16.2.10 Fee for the State Registration of Rights to and Transactions with Immovable Property

The Contractor shall pay the fee for the state registration of rights to and transactions with immovable property in accordance with the legislation effective on the date when the obligation to make such payment arose.

16.2.11 Fee for the State Registration of Electronic and High-Frequency Devices

The Contractor shall pay the fee for the state registration of electronic and high-frequency devices in accordance with the legislation effective on the date when the obligations to make such payment arose.

16.2.12 Fee for the State Registration of Automotive Vehicles and Trailers

The Contractor shall pay the fee for the state registration of automotive vehicles and trailers in accordance with the legislation effective on the date when the obligations to make such payment arose.

16.2.13 Fee for the State Registration of Sea, River and Small Crafts

The Contractor shall pay the fee for the state registration of sea, river and small crafts in accordance with the legislation effective on the date when the obligations to make such payment arose.

16.2.14 Fee for the State Registration of Civil Aircrafts

The Contractor shall pay the fee for the state registration of civil aircrafts in the manner, in the time limits and in the amounts approved by the legislation effective on the date when the obligations to make such payment arose.

16.2.15 Fee for the Traffic of Motor Vehicles within the Republic of Kazakhstan

The Contractor shall pay the fee for the traffic of motor vehicles within the Republic of Kazakhstan in accordance with the legislation effective on the date when the obligations to make such payment arose.

16.2.16 Auction Fee

The Contractor shall pay the auction fee in accordance with the legislation effective on the date when the obligations to make such payment arose.

16.2.17 Stamp Duty

The Contractor shall pay the stamp duty in accordance with the legislation effective on the date when the obligations to make such payment arose.

16.2.18 Licence Fee for the Right to Engage in Certain Activities

The Contractor shall pay the licence fee for the right to engage in certain activities in accordance with the legislation effective on the date when the obligations to make such payment arose.

16.2.19 Fee for the Use of Land Plots

The Contractor shall pay the fee for the use of land plots in accordance with the provisions set by Chapter 81 of the Tax Code.

16.2.20 Fee for the Use of Surface Water Sources

The Contractor shall pay the fee for the use of surface water sources in accordance with the Tax Legislation effective on the date when the obligations to make such payment arose.

16.2.21 Fee for Pollution of the Environment. Penalties for Violation of Environmental Legislation

16.2.21.1 The Contractor shall perform the tax obligations arising from payments for pollution of the environment in accordance with the legislation effective on the date when the obligations to make such payment arose.

16.2.21.2 The Contractor shall pay the penalties for the violation of environmental legislation in accordance with the legislation effective on the date of such violation.

16.2.22 Fee for the Use of Animal Life

The Contractor shall perform the tax obligations on the payment for the use of animal life in accordance with the legislation effective on the date when the obligations to make such payment arose.

16.2.23 Fee for the Use of Forests

The Contractor shall perform the tax obligations related to the payment for the use of forests in accordance with the legislation effective on the date when the obligations to make such payment arose.

16.2.24 Fee for the Use of Special Conservation Areas

The Contractor shall perform the tax obligations on the payment for the use of special conservation areas in accordance with the legislation effective on the date when the obligations to make such payment arose.

16.2.25 Fee for the Use of Radio-Frequency Spectrum

The Contractor shall perform the tax obligations on the payment for the use of radio-frequency spectrum in accordance with the legislation effective on the date when the obligations to make such payment arose.

16.2.26 Fee for the Use of Navigable Waterways

The Contractor shall perform the tax obligations on the payment for the use of navigable waterways in accordance with the legislation effective on the date when the obligations to make such payment arose.

16.2.27 Fee for the Outdoor (Visual) Advertising

The Contractor shall perform the tax obligations on the payment for the outdoor (visual) advertising in accordance with the legislation effective on the date when the obligations to make such payment arose.

16.2.28 State Duty

The Contractor shall perform the tax obligations on the state duty in accordance with the legislation effective on the date when the obligations to make such payment arose.

16.2.29 Customs Payments

The Contractor shall perform the obligations on customs payments in accordance with the Law of the Republic of Kazakhstan “On Customs in the Republic of Kazakhstan” dated 20 July 1995, and also in accordance with Chapter 91 of the Tax Code, effective on the date of receipt of a customs declaration and other documents by the customs authorities of the Republic of Kazakhstan.

16.2.30 Mandatory Pension Contributions

The Contractor shall withhold and transfer to the cumulative pension funds the mandatory pension contributions of its employees in accordance with the legislation on pension provision effective on the date when the obligations arose.

16.3 Taxation of Personnel

The Personnel of the Contractor shall pay taxes and other mandatory payments in accordance with the Tax Legislation effective on the date when the payment obligations arose.

16.4 Taxation of Subcontractors

16.4.1 The taxation of subcontractors and their Personnel, providing services (works) to the Contractor shall be made in accordance with the Tax Legislation effective on the date when the obligations to pay taxes and payments arose.

16.4.2 The Contractor shall not be liable for the tax obligations of its subcontractors except for the obligations of the Contractor to withhold tax at the source of payment.

16.5 Transfer Pricing

16.5.1 The tax service authorities shall control correctness of application of prices to the transactions in the manner and in the cases provided for by a legislative act of the Republic of Kazakhstan governing the matters of the state control when applying transfer prices.

16.5.2 When it is found that a price of the transaction deviates from the market price, the tax authorities shall adjust the objects of taxation and the tax obligations in accordance with the legislation of the Republic of Kazakhstan.

16.6 General Tax Liability

Taxes and payments payable under the terms of the Contract shall not exempt the Contractor from the liabilities to pay taxes and other mandatory payments as established by the legislative acts on the date when the tax obligations for activity not envisaged by the terms of the Contract arose.

16.7 Ring Fencing

16.7.1 A subsurface user shall be obliged to keep separate records for the calculation of tax obligations under the tax regime envisaged by the Contract and calculation of the tax obligations on the activity beyond the scope of this Contract.

16.7.2 The activity under the Contract shall be a complex of works (operations) related to extraction of minerals from the subsurface to the surface, including temporary storage of minerals.

16.8 Payment and Crediting of Taxes and Payments

16.8.1 The tax obligation on the payment of taxes and other mandatory payments to the budget shall be performed in tenge, except when the legislative acts of the Republic of Kazakhstan and provisions of contracts on subsurface use stipulate payment in-kind or payment in foreign currency.

16.8.2 Any taxes and payments shall be made in the manner, within the time limits and in the amounts set by the legislation.

16.8.3 Taxes and payments shall be credited, in the manner established by the legislation, to the accounts specified by the authorities of tax or financial services of the Republic.

16.8.4 In case of the abolition of taxes, payments, charges or duties established by the Contract, as a consequence of amendments to the Legislation, the Contractor shall be obliged to transfer such amounts pursuant to the budgetary classification to the code (account) of royalty, unless provided otherwise.

16.9 Deadlines for Submission of Declarations

16.9.1 Upon the receipt of a written application from the Contractor before the deadline for the submission of tax declaration the authorised state agency shall be entitled to extend the deadline for submission of the tax declaration for a period of not more than 3 (three) months.

16.9.2 The extension of the deadlines for submission the tax declaration shall not change the deadline for tax payment.

16.10 Penalty Sanctions

16.10.1 Penalties for a violation of the Tax Legislation shall apply in accordance with the legislation effective on the date of such violation.

16.10.2 A fine for an untimely transfer of taxes and payments to the budget shall apply in the amount established by the Tax Legislation effective on the date of payment of such sums.

16.10.3 Penalty sanctions on the payments of non-tax nature shall apply in the amounts contemplated by the legislation effective on the date of the violation.

16.11 Stability of Tax Regime

16.11.1 The tax regime established by the Contract shall remain in effect without change until the expiration of the Contract, except for cases when changes an/or amendments are introduced to the tax regime of the Contract by a written agreement of the Parties to the Contract and do not cause changes in the balance of the initial economic interests of the Republic and the Contractor hereunder. In this regard, the balance of the initial economic interests of the Parties shall be fixed as of the date of entering into the Contract.

16.12 Access to Information

16.12.1 The Contractor acknowledges that the tax authorities of the Republic of Kazakhstan shall have access, in accordance with applicable legislation, to information related to any bank accounts of the Contractor, including those opened in foreign banks outside the Republic.

16.12.2 The Contractor shall be obliged to provide the officers of the tax and financial services of the Republic of Kazakhstan, when they are performing audits within their competence, with all requested and required information related to the activity performed under the Contract.

- 16.12.3 The Contractor shall be obliged to provide all necessary information, whether in electronic form or otherwise, on the principal economic, accounting and tax data for the purposes of a database compilation within the framework of monitoring carried on by the Ministry for Internal Revenue and the Ministry of Finance of the Republic of Kazakhstan.
- 16.13 In accordance with Agreement for the Purchase of Information No. 858 dated 7 November 2002, the Contractor shall, as a payment of historical costs for the geological works in the Contract Area, pay the amount equal to 176,451 (one hundred and seventy six thousand four hundred and fifty one) US dollars within the following time limits:
- 16.13.1 The first tranche of 30% amounting to 52,935 (fifty two thousand nine hundred and thirty five) US dollars shall be paid before 10 December 2002.
- 16.13.2 The second tranche of 35% amounting to 61,758 (sixty one thousand seven hundred and fifty eight) US dollars shall be paid before 10 February 2003.
- 16.13.3 The third tranche of 35% amounting to 61,758 (sixty one thousand seven hundred and fifty eight) US dollars shall be paid before 15 March 2003.
- 16.14 The other conditions of payment of historical costs will be agreed in the Production contract.

ARTICLE 17. SUBSURFACE AND ENVIRONMENTAL PROTECTION

- 17.1 When performing the Contract, the Contractor, within the Contract Area, shall be obliged to comply with the Legislation relating to the protection of subsurface and environment, and the Legislation relating to the sanitary and epidemiological well-being of the population, and shall take all necessary measures with a view to:
- 17.1.1 protecting life and health of the population;
- 17.1.2 ensuring the rational and comprehensive use of the Subsurface;
- 17.1.3 conserving natural landscapes, biological diversity of natural environment, recultivation of disturbed soils, and other geomorphological structures in the Contract Area;
- 17.1.4 preserving of the energetic properties of the energy state of the upper layers of Subsurface with the purpose of preventing earthquakes, landslides, underfloodings, soil subsidences.
- 17.2 **Ecological Requirements.** All operations related to performance of the Contract shall be carried out in accordance with the projects having a positive opinion of the state ecologic experts, if the Legislation requires so and in compliance with the following requirements:
- 17.2.1 conservation of the environment;
- 17.2.2 prevention of technogenic desertification of lands;
- 17.2.3 prevention of water and wind erosion of soil;

- 17.2.4 isolation of absorbing and freshwater horizons in order to prevent contamination;
 - 17.2.5 prevention of groundwater depletion and contamination;
 - 17.2.6 control of influence of the subsurface use activity on the environment;
 - 17.2.7 the Contractor shall be obliged to eliminate the disturbance of the state of environment resulting from its activity carried out in the Contract Area, and shall conduct the reclamation operations and compensate in full the damage caused to the nature;
 - 17.2.8 industrial monitoring of the environment under the programmes agreed by the State Agency in the sphere of environmental protection;
 - 17.2.9 provision of compliance with the sanitary and hygienic and ecological requirements when warehousing and placing industrial and domestic wastes in order to prevent its gathering in watershed areas and in places of groundwater bedding.
- 17.3 Subsurface Protection Requirements:**
- 17.3.1 ensuring the rational and comprehensive use of the Subsurface resources throughout the entire term of the Contract;
 - 17.3.2 ensuring the full extraction of Hydrocarbons;
 - 17.3.3 using Subsurface in accordance with the requirements of the Legislation on environmental protection preventing the Subsurface from the development of dangerous technogenic processes when conducting the Exploration operations;
 - 17.3.4 protecting the Subsurface from watering, fires, explosions, sliding of superincumbent rock, and also other natural factors;
 - 17.3.5 preventing the Subsurface from pollution when performing the Exploration operations.
- 17.4 Sanitary and Hygienic Requirements:**
- 17.4.1 arrangement of a sanitary protection zone;
 - 17.4.2 use of equipment, pipelines, chemical and other substances permitted by the sanitary and epidemiological supervision bodies;
 - 17.4.3 provision of sanitary improvement;
 - 17.4.4 carrying out of sanitary and hygienic measures aimed at maintaining the sanitary and hygienic condition, prevention of occupational diseases and injuries;
 - 17.4.5 creation of the conditions favourable for strengthening the employees' health;
 - 17.4.6 ensuring the monitoring of the surface and ground water, atmospheric air and soil.

- 17.5 The Contractor shall ensure that the geological, ecological, sanitary and hygienic and technological studies of the Contract Area are full and accurate, in accordance with the Development Plan approved by an authorised State Agency.
- 17.6 Before proceeding with the business activity under this Contract, the Contractor shall obtain the Nature Use Permit that may be issued only on the basis of a positive opinion of the state ecological sanitary and epidemiological expertise examination and environmental impact assessment (EIA) in relation to the operations hereunder;
- 17.6.1 The Contractor shall be obliged to ensure submission for the state ecological expertise examination of all pre-project and project documentation containing the environmental impact assessment in relation to the planned activity and the “environment protection” section containing the measures for the period of the Subsurface Use Operations or the conservation of the Field development, as required by the Legislation.
- 17.7 The Contractor must perform the monitoring of the Subsurface and environment with the purpose of investigating the influence thereon as a result of its activity under this Contract and taking actions to eliminate the negative influence in a timely manner. The industrial monitoring data and the environmental impact reports shall be passed on to the specially authorised bodies in the sphere of environmental protection.
- 17.8 The State control over the compliance with the Legislation on protection of Subsurface and environment shall be carried on by the authorised State Agencies.
- 17.9 The Contractor shall perform operations for the preservation of environment in the Contract Area.
- 17.10 Any deterioration (worsenings) in the state of environment and health, as well as in the state of the Contract Area during the term of the Contract shall be rectified on the account of the Contractor to the state suitable for their further use according to the direct designation.
- 17.11 It is the Parties’ intention that the Contractor shall in its activity take into account environmental and safety matters, and that the Contractor in doing so shall take all necessary reasonable efforts to prevent pollution and damage to the atmosphere, water bodies, groundwater, soil, flora and fauna and the health of people, in accordance with the Good Practice of Field Development.
- 17.12 Whenever necessary, the Contractor shall inform the public on the state of environment in connection with the Contract performance activity.
- 17.13 In the event of any emission (discharge) of pollutants to the environment in excess of the permissible levels, and in the case of accidents and emergency situations, the Contractor shall be obliged to immediately report this to a central executive authority in the sphere of environmental protection.

ARTICLE 18. SAFETY OF POPULATION AND PERSONNEL

- 18.1 When the Contractor performs the Exploration operations under the Contract, the work safety rules and norms, provided by the Legislation, shall be complied with, and the measures on prevention and elimination of accidents and professional diseases shall be taken.

- 18.2 Exploration shall be prohibited if it presents a serious hazard to the life and health of people.
- 18.3 State control over the compliance with the Legislation on the sanitary and epidemiological well-being of the population shall be performed by the State Agencies of sanitary and epidemiological supervision of the Republic.
- 18.4 State control over compliance with the rules and norms of safety and industrial sanitation when conducting Exploration shall be performed by specially authorised State Agencies for supervision and control.
- 18.5 The principal requirements for ensuring safe conduct of Exploration shall be the following:
- 18.5.1 Admitting to operation the persons, who have special training and qualifications, and to management of mining operations - persons, who have appropriate education and have passed a preliminary medical examination in accordance with current (or effective) orders of the Ministry of Public Health of the Republic of Kazakhstan;
 - 18.5.2 Providing the persons engaged in the Exploration operations with special clothes and individual and collective protective equipment;
 - 18.5.3 Using the machinery, equipment and materials that meet safety requirements and sanitary standards;
 - 18.5.4 accounting for, proper storage and utilization of explosive substances and explosives, as well as accurate and safe use thereof;
 - 18.5.5 Conducting of a complex of geological, sanitary and epidemiological, mining surveys and other observations that are required to ensure the technological cycle of operations and to predict emergency situations;
 - 18.5.6 Timely update of technical documentation and emergency response plans with information specifying the boundaries of safe operation zones;
 - 18.5.7 Complying with the Development Plan;
 - 18.5.8 Ensuring the compliance with industrial sanitary and hygienic requirements in accordance with the Legislation;
 - 18.5.9 Creating the necessary conditions which meet sanitary and hygienic standards, rules of labour, sanitation and housekeeping support, including the employees living conditions, catering arrangements and medical and sanitary service;
 - 18.5.10 Creating conditions favourable for the employees' health care, food supply, water supply, and rest;
 - 18.5.11 Taking measures to maintain good sanitary and hygienic conditions, preventing occupational diseases and injuries;
 - 18.5.12 Conducting the production operations under the Contract in accordance with the programmes having positive opinions of the state sanitary, epidemiological and technical supervision authorities of the Agency of the

Republic of Kazakhstan for Emergency Situation as required by the Legislation;

- 18.5.13 Ensuring radiation safety;
- 18.5.14 Exercising control over labour conditions of its employees in accordance with the requirements of the Legislation.
- 18.6 In the event that a threat emerges to life and health of employees and/or the public within the Contract Area as a result of the Contractor's operations hereunder, the Officials of the Contractor shall be obliged to immediately suspend the operations, ensure that people are transferred to a safe place and inform thereof the authorities of the state sanitary and epidemiological service and local executive authorities.
- 18.7 In the event that an employee of the Contractor is injured or otherwise damages his/her health when performing his/her employment (service) duties hereunder through the Contractor's fault, as a result of such injury or damage the employee becomes totally or partially disabled, the Contractor shall be obliged to compensate him/her for the damage in the manner and on the conditions provided for by the Legislation, if no insurance compensation is provided.
- 18.8 The Contractor shall be obliged to develop the programmes for prevention of accidents and other hazardous situations when conducting the Subsurface Use Operations and shall have them approved by the authorised State Agency as required by the Legislation.

ARTICLE 19. LIABILITY OF THE CONTRACTOR FOR BREACH OF THE CONTRACT TERMS

- 19.1 Transactions executed by the Contractor may be invalidated on the grounds and in the manner provided for by the current Legislation.
- 19.2 The Contractor shall be fully liable to the Competent Authority and the Third Parties for the consequences of actions specified in Clause 19.1 hereof.
- 19.3 The persons guilty in the execution of the said transactions and other violations of the Legislation of the Republic shall bear disciplinary, material, administrative and criminal liability provided by law.

ARTICLE 20. FORCE MAJEURE

- 20.1 Neither Party will be liable for the non-performance or improper performance of any obligations under the Contract if such non-performance or improper performance is caused by the circumstances that are beyond the Parties' control (force majeure).
- 20.2 The circumstances that are beyond the Parties' control shall include any circumstances that are extreme or unforeseeable under the current conditions such as military conflicts, economic embargos, natural disasters, natural calamities (fires, major accidents, disruption of communications, etc.). The list of items specified is not intended to be exhaustive.
- 20.3 In the event of circumstances that are beyond the Parties' control, the affected Party shall notify the other Party to that effect by delivering or sending by post a written

notice specifying the Date of Commencement and description of the force majeure events.

- 20.4 Upon the occurrence of force majeure events, the Parties shall, upon the receipt of the notice specified in Clause 20.3 of the Contract, promptly hold a meeting to seek the resolution for the existing situation and use all measures to minimise the consequences of such events.
- 20.5 In the event the operations under the Contract are fully or partially suspended, as a result of the force majeure events, the period of these operations shall be extended for the duration of the force majeure events and the operations shall resume upon the termination of the force majeure.

ARTICLE 21. CONFIDENTIALITY

- 21.1 The information obtained or acquired by any Party during the performance of the Contract shall be confidential, if this is provided by a written agreement between the Parties, or if the documentation is expressly marked as “confidential” by a note on the document. The Parties may use confidential information for preparation of the necessary reports provided by the Legislation.
- 21.2 The Parties shall have no right to transfer confidential information to Third Parties without the consent of the other Party except when:
- 21.2.1 Such information is used in the course of court proceedings;
- 21.2.2 Such information is submitted to Third Parties that render services to the Contractor, provided that such Third Party undertakes to treat this information as confidential and use it only for the purposes established and within the time periods established by the Parties;
- 21.2.3 Such information is submitted to a bank or other financial institution from which the Contractor obtains financing, provided that such bank or other financial institution undertakes to treat such information as confidential and use it only for the specified purposes.
- 21.3 The Parties will additionally establish the confidentiality periods for documents, information and reports related to the conduct of the Exploration operations within the Contract Area.

ARTICLE 22. TRANSFER OF RIGHTS AND OBLIGATIONS

- 22.1 The transfer of rights and obligations under the Contract to a Third Party, except for pledging the subsurface use right, shall be allowed only with a written permission of the Competent Authority. The Competent Authority shall not be entitled to withhold its permission for the transfer of the subsurface use right by the Contractor to its subsidiary in any case when the Contractor provides to the Competent Authority a guarantee of the full performance of obligations hereunder jointly with the subsidiary legal entity.
- 22.2 The expenses related to the transfer of rights and obligations under the Contract shall be borne by the Contractor.

- 22.3 Unless and until the Contractor maintains any participation in the Contract, the Contractor and the Third Party, to which the Contractor transferred rights and obligations, shall be jointly liable hereunder.

ARTICLE 23. APPLICABLE LAW

- 23.1 The legislation of the Republic shall be applicable to the Contract and other agreements signed on the basis of the Contract, unless otherwise established by the ratified international treaties, to which the Republic is a party.
- 23.2 The Contractor shall be obliged to comply with the current Legislation.
- 23.3 The Contractor undertakes to comply with the Republic's international obligations in the area of environmental protection within the Contract Area and the blocks adjacent thereto.

ARTICLE 24. DISPUTE RESOLUTION PROCEDURE

- 24.1 The Parties shall take all steps to resolve all the disputes and disagreements arising from the Contract by means of negotiations.
- 24.2 If any dispute cannot be resolved by means of negotiations within 30 (thirty) days from the date of its occurrence, the Parties shall refer the dispute for its resolution by:
- 24.2.1 judicial bodies of the Republic authorised to consider such disputes in accordance with the Legislation;
- 24.2.2 international judicial bodies in accordance with the Legislation.

ARTICLE 25. GUARANTEES OF THE CONTRACT'S STABILITY

- 25.1 Any amendments to the Legislation adversely affecting the position of the Contractor, and adopted after the Effective Date of the Contract, shall not be applicable to the Contract.
- 25.2 In the event of any amendments to the Legislation specified in Clause 25.1 of this Contract, the Parties will be governed by Clause 16.11 of this Contract.
- 25.3 If any amendments introduced to the Legislation make further activities under the Contract impossible or restrict the same, the appropriate amendments will be introduced to the Contract by a written agreement between the Parties to restore the initial balance of the Parties' interests.

ARTICLE 26. CONDITIONS OF TERMINATION OF THE CONTRACT AND EARLY TERMINATION OF THE CONTRACT

- 26.1 The Competent Authority shall obligatorily suspend the Contract in the cases when there is a threat to health and life of people working or living within the area affected by the operations associated with the Contract.
- 26.2 The Competent Authority shall be entitled to suspend the Contract in the cases when:

- 26.2.1 the Contractor carries out activities, which are not envisaged by the Development Plan and the Contract, or carries out the same in violation of the terms and conditions of the Contract;
- 26.2.2 the Contractor violates, in the course of its activities, the Legislation with regard to the Subsurface and environmental protection and safe conduct of operations;
- 26.2.3 the Contractor transfers, fully or partially, the rights under the Contract to a Third Party in violation of Article 22 of the Contract;
- 26.2.4 the Contractor suspends production within the framework of the Work Programme for the period exceeding 180 (one hundred and eighty) days, except for the cases related to the circumstances that are beyond the Parties' control (force majeure);
- 26.2.5 the Contractor violates the terms and conditions of the Parties' agreement concerning the confidentiality of information under this Contract.
- 26.3 In the event that the Contractor systematically violates or commits a gross violation of the Legislation with regard to the safe conduct of operations, the Agency of the Republic of Kazakhstan on Emergency Situations may submit to the Competent Authority a proposal to suspend the Contract.
- 26.4 In the case of suspension of the Contract, the Competent Authority shall notify the Contractor in writing of the reasons of such suspension and shall establish a reasonable period for their elimination.
- 26.5 The suspension of the Contract shall not entail suspension of Exploration of the Hydrocarbons.
- 26.6 Upon elimination of the reasons for suspension of the Contract, the Contract shall immediately resume.
- 26.7 The Contract shall be early terminated only in the following cases, i.e.:
 - 26.7.1 When the Contractor refuses to eliminate the reasons, which have caused the decision to suspend the Contract, or when the Contractor fails to eliminate these reasons within a reasonable period of time;
 - 26.7.2 If the Contractor does not commence the Subsurface Use Operations within the time limits established by the Contract;
 - 26.7.3 When it is impossible to eliminate the reasons, which have caused the suspension of the Subsurface Use Operations, and which pose a threat to people's health and life;
 - 26.7.4 When the Contractor is declared bankrupt in accordance with the Legislation;
 - 26.7.5 When the Contract is recognised invalid in accordance with the Legislation;
 - 26.7.6 When the Contractor unilaterally refuses to perform the Contract;
 - 26.7.7 When the Contractor commits a gross violation of the works stipulated in the Contract or work programme.

- 26.8 The Contract shall be terminated for the reasons specified in Section 26.7 of the Contract within 90 (ninety) days after the Contractor receives from the Competent Authority a written notice on early termination of the Contract.
- 26.9 The Parties shall not be released from the performance of their current obligations, which have remained unfulfilled by the date of delivery to the Contractor of the early termination notice.

ARTICLE 27. LANGUAGE OF THE CONTRACT

- 27.1 This Contract is made in the state language and in the Russian language, each in three counterparts, and all counterparts shall be identical.
- 27.2 In the event of any discrepancies or disputes between the versions, the Russian version shall prevail.
- 27.3 The Parties agree that the state language and the Russian language will be used as the languages of communication, starting from the Effective Date of the Contract. Technical documentation and the information related to Exploration shall be made in the state language and/or Russian language.

ARTICLE 28. ADDITIONAL PROVISIONS

- 28.1 The Parties note that the Geological Allotment was issued to the Contractor in accordance with the agreement reached on 24 September 2002 in Astana (Minutes of the meeting related to the geological and mining allotments in respect of the Severny Block). The issues concerning the territory A, B, C will be considered by the Parties after the boundaries of the Kenkiyak deposit (subsalt) are precisely defined.
- 28.2 All notices and documents, which are required in connection with the performance of this Contract, shall be deemed duly submitted and delivered by each Party under the Contract only upon their receipt.
- 28.3 The notice and documents shall be delivered in person or sent by mail, registered air mail, fax, telex or telegraph to the following addresses:

Address of the Competent Authority	Address of the Contractor
Ministry for Energy and Mineral Resources of the Republic of Kazakhstan	Aral Petroleum Capital CJSC
37, Mir Str., Astana, 473000	94, Shevchenko Str., Almaty,
ATT: First Vice Minister	ATT: President
Telephone: (8-317-2) 10-24-10	Telephone: (8-3272) 63-05-35
Fax: (8-317-2) 31 83 44	Fax: (--3272) 50-77-46

- 28.4 If the addresses under this Contract are changed, each Party must give a written notice to the other Party.
- 28.5 All annexes to the Contract shall be deemed its integral parts. In the event of any discrepancies between the provisions of the annexes and the Contract, the Contract shall prevail.

- 28.6 Any amendments to the Contract shall be executed by an agreement in writing between the Parties. Such agreement shall be an integral part of the Contract after its state registration.

IN WITNESS WHEREOF, THE DULY AUTHORISED REPRESENTATIVES OF THE PARTIES EXECUTED THIS CONTRACT ON 29 December 2002 IN ASTANA, REPUBLIC OF KAZAKHSTAN.

COMPETENT AUTHORITY	CONTRACTOR
Ministry for Energy and Mineral Resources of the Republic of Kazakhstan <i>(seal)</i> _____ N.S. Ashimov (First Vice Minister)	Aral Petroleum Capital CJSC <i>(seal)</i> <i>(signature)</i> _____ Yu.I. Serebryakov (President)

(signature)
(signature)

(signature)

ADDENDUM № 1

to Contract № 1081

for Exploration of Hydrocarbons at Northern Block

**within the blocks XXI-21-F (partial); XXI-22-D (partial), E (partial),
F (partial); XXI-23-B, C, D, E, F (partial); XXII-21-B (partial), C (partial), E
(partial), F (partial); XXII-22-A (partial), B (partial), C (partial), D (partial), E
(partial), F (partial); XXII-23-A (partial), B (partial), C (partial), D (partial), E
(partial)**

between

**KAZAKHSTAN MINISTRY OF ENERGY AND MINERAL RESOURCES,
Acting as Competent Body for and on behalf of
the Government of the Republic of Kazakhstan
(Competent Body),**

and

**Closed Joint Stock Company
«Aral Petroleum Capital»
(Contractor)**

This ADDENDUM №1 to Contract for Exploration of Hydrocarbons at Northern Block within the blocks XXI-21-F(partial), XXI-22-D(partial), E(partial), F; XXI-23-B, C, D, E, F (partial); XXII-21-D(partial), C(partial), E (partial), F(partial); XXII-22-A(partial), B(partial), C(partial), D(partial), E(partial), F(partial); XXII-23-A(partial), B(partial), C(partial), D(partial), E(partial), located on the territory of Aktobe oblast of the Republic of Kazakhstan is signed « 18 » February 2005 between Kazakhstan Ministry of Energy and Mineral Resources (Competent Body) and «Aral Petroleum Capital» LLP (hereinafter "Contractor"), jointly referred to as Parties.

PREAMBLE

Due to the fact that:

- Contractor applied to Competent Body with a request to introduce changes in the Working Programme, to transfer the spudding of two wells from 2005 to 2006, and also to reorganize the CJSC into an LLP.
- Contractor requested Competent Body to extend the exploration terms.
- The expert commission, under Competent Body, in charge of considering applications of subsoil users to amend License conditions, decided to agree to the extension of the hydrocarbons' exploration phase on the Northern Block in Aktobe oblast for two years until 19.12.07 (extract from the Minutes № 24 of December 30 2004).
- An amendment was introduced in the Kazakhstan Tax Code #209-II on 12.06.01, including changes and additions.

Competent Body and Contractor agreed as follows:

1. On the title-page and throughout the text to replace the words «Closed Joint Stock Company» with «Limited Liability Partnership» and decline them in their respective cases.

2. SECTION 1 DEFINITIONS

To present Paragraph 1.19. as follows:

« 1.19. Contractor means Limited Liability Partnership «Aral Petroleum Capital» (certificate of state registration № 65245-1910-TOO (HY) issued by the Department of Justice of Almaty city on 25.08.2004, which is a Party to this Contract.

3. SECTION 3. CONTRACT VALIDITY PERIOD

In Paragraph 3.2 to replace the words «3 years» with «5 years» and the word «minimal programme of work» with «Working programme».

In Paragraph 3.2.2. to replace the words «2,5 years» with «4,5 years»

In Paragraph 3.4. to replace the words «for 12 (twelve) months» with the words «three months».

4. SECTION 6. GENERAL RIGHTS AND RESPONSIBILITIES OF THE PARTIES

In Paragraph 6.2.9. to introduce sub-Paragraph:

« 6.2.9.1. to provide financing for training and retraining of Kazakhstan contracted specialists in compliance with the Contract»

In Paragraph 6.2.21. after the word «balance» to add «and record»

To add Paragraph 6.2.26: “To provide the Competent Body with an annual programme of purchasing goods, works and services”

5. SECTION 7. WORKING PROGRAMME

In Paragraph 7.1. to replace «Minimal programme of works » with «Working programme».

In Paragraph 7.2. to replace the words «minimal programme of works» with «Working programme».

Paragraph 7.2: to supplement sub-Paragraph 7.2.2 and state as follows:

«7.2.2. During the Exploration phase the work size under the Contract in monetary terms is 20 150 000 (twenty million one hundred fifty thousand) USD, which are distributed as follows:

№	Activity Name	Unit	Total	Contract Period of Validity	
				2006	2007
1	2	3	4	5	6
1	Reprocessing and reinterpretation of vintage geological data	th. \$	100	50	50
		Running km	100	50	50
2	Project documentation	Th. \$	150	90	60
		items	5	3	2
3	2D and 3D Seismic Shooting	Th. \$			
		Sq. km			
4	Drilling of Test Wells	Th. \$	19 800	11 800	8 000
		Wells	5	3	2
		Running m	8 500	5 000	3 500
6	Pilot Operations of Wells	Number	3	2	1
		Th.\$	75	50	25
	TOTAL, Exploration phase	Th.\$	20 125	11 990	8 135
7	Indirect Expenses	Th. \$	25	10	15
	TOTAL	Th. \$	20 150	12 000	8 150

Paragraph 7.3. Sub-Paragraph 7.3.1., 7.3.2. to replace the word “minimal programme of works” to “working programme”.

Paragraph 7.6. Sub-Paragraph 7.6.1. to replace the word “minimal programme of works” to “working programme”.

6. SECTION 8. COMMERCIAL DISCOVERY

To supplement with sub-Paragraph 8.3.2 of the following content:

« 8.3.2. Contractor is exclusively entitled to obtain rights for production during the commercial discovery, based on direct negotiations.

7. SECTION 16. TAXES AND PAYMENTS

To present Paragraph 16.2.2.1. as follows:

«Contractor calculates and pays VAT at 15% rate in accordance with Article 245 of Kazakhstan Code of 12.06.2001 N 209-II (Tax Code) (with amendments introduced by Kazakhstan Laws of 21.03.02 N 310-II; of 21.03.02 N 312-II; of 23.11.02 N 358-II; of 08.01.03 N 375-II; of 13.03.03 N 394-II; of 16.05.03 N 416-II; of 04.07.03 N 475-II; of 10.07.03 N 483-II; of 29.11.03 N 500-II; of 29.12.03; N 512-II; of 18.03.04 N 537-II; of 05.07.04 N 568-II; of 22.10.04 N 601-II, of 13.12.04 N 11-III; of 20.12.04 N 13-III)»

In Paragraph 16.2.4.3. to replace the text: «In the event of production of hydrocarbons during the experimental-industrial phase, Contractor pays Royalty at a rate of 3% (three percent)»

For the following text: «In the event of production of hydrocarbons during the experimental-industrial phase, Contractor pays Royalty at the rate in accordance with Article 297 of Kazakhstan Code of 12.06.2001 N 209-II (Tax Code) (with amendments introduced by Kazakhstan Laws of 21.03.02 N 310-II; of 21.03.02 N 312-II; of 23.11.02 N 358-II; of 08.01.03 N 375-II; of 13.03.03 N 394-II; of 16.05.03 N 416-II; of 04.07.03 N 475-II; of 10.07.03 N 483-II; of 29.11.03 N 500-II; of 29.12.03; N 512-II; of 18.03.04 N 537-II; of 05.07.04 N 568-II ; of 22.10.04 N 601-II, of 13.12.04 N 11-III; of 20.12.04 N 13-III)»

To present Paragraph 16.2.5.2. as follows:

«Contractor pays Social Tax in accordance with the rates based on Article 317 of Kazakhstan Code of 12.06.2001 N 209-II (Tax Code) (with amendments introduced by Kazakhstan Laws of 21.03.02 N 310-II; of 21.03.02 N 312-II; of 23.11.02 N 358-II; of 08.01.03 N 375-II; of 13.03.03 N 394-II; of 16.05.03 N 416-II; of 04.07.03 N 475-II; of 10.07.03 N 483-II; of 29.11.03 N 500-II; of 29.12.03; N 512-II; of 18.03.04 N 537-II; of 05.07.04 N 568-II; of 22.10.04 N 601-II, of 13.12.04 N 11-III; of 20.12.04 N 13-III)»

To present Paragraph 16.13. as follows:

«16.13. In compliance with the ADDENDUM to Agreement on Acquisition of Information №858 of 07.11.2002, Contractor, within the historical payments for geological works on the Contracted area, will cover the amount of 132,011 USD».

8. SECTION 17. PROTECTION OF SUBSOILS AND ENVIRONMENT

To add Paragraph 17.1.5. :

« 17.1.5. Ensure preservation of natural conditions of aquifers»

To add Paragraphs 17.2.10.-17.2.11.:

« 17.2.10. to prevent discharge of pollutants into atmosphere »

« 17.2.11. to eliminate incidences of damage to environment caused by the liquidation (conservation) of the field, approved by the order established in the Kazakhstan legislation»

Paragraph 17.3.3. : to state as follows:

« 17.3.3.: to prevent accumulation of industrial wastes and garbage in water collection basins and in aquifers, used for drinking or industrial water supply»

9. SECTION 22. RIGHTS AND OBLIGATIONS TRANSFER

Paragraph 22.1: to exclude the words «apart from the transfer of rights for subsoil use as security».

10. SECTION 28. SUPPLEMENTARY PROVISIONS

Paragraph 28.3: To state the table as follows:

Address of Competent Body:	Address of Contractor:
Ministry of Energy and Mineral Resources of the Republic of Kazakhstan	«Aral Petroleum Capital» LLP
473000, Astana, 22 Kabanbay batyr	Almaty, 94 Shevchneko St.
TO: First Vice-Minister	TO: General Director
Tel.: (8-317-2) 97-68-03	Tel.: (8-3272) 54-31-27
Fax: (8-317-2) 97-69-43	Fax: (8-3272) 53-40-36

Annex № 1 – approved Working programme of «Aral Petroleum Capital» LLP is an integral part of Addendum №1 to Contract №1081 of 29.12.02.

This Addendum #1 is an integral part of Contract and compiled in 3 copies in Kazakh, Russian and English, all legally binding.

TO APPROVE THE ABOVE-MENTIONED, THE DULY APPOINTED REPRESENTATIVES OF THE PARTIES SIGNED ADDENDUM № 1 «18» February 2005 IN ASTANA CITY, REPUBLIC OF KAZAKHSTAN.

COMPETENT BODY	CONTRACTOR
Ministry of Energy and Mineral Resources of the Republic of Kazakhstan	«Aral Petroleum Capital» LLP
(signed) _____ B. Izmukhambetov (First Vice-Minister)	(signed) _____ C. Summers (General Director)

ADDENDUM № 2

to Contract № 1081

for Exploration of Hydrocarbons at Northern Block

**within the blocks XXI-21-F (partly); XXI-22-D (partly), E(partly),
F (partly); XXI-23-B, C, D, E, F (partly); XXII-21-B (partly), C (partly), E (partly),
F (partly); XXII-22-A (partly), B (partly), C (partly), D (partly), E (partly), F
(partly); XXII-23-A (partly), B (partly), C (partly), D (partly), E (partly)**

between

MINISTRY OF ENERGY AND MINERAL RESOURCES OF THE REPUBLIC

OF KAZAKHSTAN

(Competent Body),

and

Closed Joint Stock Company

«Aral Petroleum Capital»

(Contractor)

Astana

2005

This ADDENDUM №2 to Contract for Exploration of Hydrocarbons at Northern Block within the blocks XXI-21-F(partly), XXI-22-D(partly), E(partly), F; XXI-23-B, C, D, E, F (partly); XXII-21-D(partly), C(partly), E (partly), F(partly); XXII-22-A(partly), B(partly), C(partly), D(partly), E(partly), F(partly); XXII-23-A(partly), B(partly), C(partly), D(partly), E(partly), located at the territory of Aktobe oblast of the Republic of Kazakhstan is concluded « 5 » December 2005 between Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (Competent Body) and «Aral Petroleum Capital» LLP (hereinafter "Contractor"), jointly referred to as Parties.

PREAMBLE

Taking into consideration the fact that:

- Analysis of gravimetric materials has shown that some salt domes exceed partly the contract territory. The Contractor made to the Competent Body with the request of contract territory expansion.;
- Expert Committee of the Competent Body considering subsoil user's applications concerning amendments of License and Contract terms has decided to agree with expansion of geological allotment for hydrocarbon exploration on the Contract area "Northern" located in Aktyubinsk oblast within coordinates indicated in the letter from the Committee on Geology and Subsoil Use dated 22.02.05, No. 16-05-463 (extract from the Minutes No. 4 of February 24, 2005.)

Competent Body and Contractor agreed as follows:

1. Chapter 4 "Contract territory"

1. Replace words "2 348 (two thousand three hundred forty eight)" in item 4.1 with "3 458 (three thousand four hundred fifty eight)".

2. Chapter 7 "Working Program"

To add the first mention of the Section 7 "Working Program" after words "Exploration" with words "in accordance with territory expansion".

Clause 7.2 shall be added with sub-clause 7.2.3 and have the following wording:

"7.2.3 According to the Contract, the Scope of Works during the exploration period from 2006 till 2007 taking into account the expansion in money terms amounts to \$20,150,000 (twenty million one hundred fifty thousand) US Dollars – Addendum No. 1 dated 18.02.2005) with contract territory expansion makes 20,620.000 (twenty million six hundred and twenty thousand) US Dollars, which comprising the following:

No.	Description of Works	Unit	Total	Contract Period	
				2006	2007
1	2	3	4	5	6
1	Processing and interpretation of geological data for previous years	Thousand USD	450	250	200
		km	250	150	100
2	Preparation of project documentation	Thousand USD	270	90	180
		unit	7	3	4
3	2D and 3D Seismic Survey	Thousand USD			
		sq. km			
4	Drilling of exploration holes	Thousand USD	19,800	11,800	8,000
		hole	3	2	1
		m	8,500	5,000	3,500
6	Well testing	Quantity	3	2	1
		Thousand USD	75	50	25
	TOTAL for exploration period	Thousand USD	20,595	12,190	8,405
7	Indirect costs	Thousand USD	25	10	15
	TOTAL	Thousand USD	20,720	12,290	8,420

3. Chapter 16 “Taxes and Charges”

Clause 16.13 of the Project to be excluded

Clause 16.13 of Contract:

The first identification after “07.11.2002” to add with words “cost of historical expenses for geological exploration works on the area “Northern”, incurred at the expense of state budget of the Republic of Kazakhstan makes 35,290.170 (thirty five million two hundred ninety thousand and one hundred seventy) US Dollars” after words “pays” to add with words “for Information 0,5% of historical expenses amount”.

To add Clause 16.13 with sub-clauses:

16.13.4 According to the Addendum from March 5, 2003 to the Agreement about Purchase of Information No. 858 dated November 7, 2002 in connection with decrease of geological allotment the cost of the recounted historical expenses makes 26,402.300 (twenty six million four hundred two thousand and three hundred) US Dollars.

16.13.5. According to the Addendum No. 2 of May 16, 2005 to the Agreement about Purchase of Information No. 858 dated November 7, 2002 and in connection with increase of geological allotment the cost of the historical expenses on increased contract territory makes 5,171.710 (five million one hundred seventy one thousand and seven hundred ten) US Dollars.

16.13.6. Contractor is obliged to pay for Information 0,5% from historical expenses amount of 25,859 (twenty five thousand and eight hundred fifty nine) US Dollars within 30 days from the moment of signing of Addendum No. 2 to the Agreement about Purchase of Information No. 858 dated November 7, 2002.

16.13.7. In case of creation of joint ventures with foreign share the cost of Information will be increased to 5% of the historical expenses amount.

16.13.8. In case of non-fulfillment of the stipulated terms of payment during given period the Buyer will pay a penalty 10 % (ten percent) per year from unpaid amount for delay in payment. Hereby the Committee of Geology and Subsoil Use is released from responsibility to provide the further information up to debt repayment.

Contractor is liable for violation of calculation order and terms of payment to budget of the historical expenses amount, established by legislation of States for violation of calculation order and tax payments and other compulsory payments to budget.

Addendum 2-1 “Geological allotment” is a constituent part of the present Agreement.

The present Addendum No. 2 is an integral part of the Contract and is executed in three (3) copies in Kazakh, Russian and English, three originals per each Party, which has an equal legal force.

TO PROVE THE ABOVE-MENTIONED, THE DULY APPOINTED REPRESENTATIVES OF THE PARTIES SIGNED **ADDENDUM № 2 TO CONTRACT «_5_»** December 2005 IN ASTANA CITY, REPUBLIC OF KAZAKHSTAN.

COMPETENT BODY	CONTRACTOR
<p data-bbox="240 439 884 510">Ministry of Energy and Mineral Resources of the Republic of Kazakhstan</p> <p data-bbox="240 555 895 627">(signed) _____ B. Izmukhambetov (First Vice-Minister)</p>	<p data-bbox="991 439 1453 472">«Aral Petroleum Capital» LLP</p> <p data-bbox="938 555 1513 627">(signed) _____ C. Summers (General Director)</p>