

Registration No. 2459  
"27" august 2007

## CONTRACT

for oil and gas exploration within Zharkamys West-I blocks  
XXIII-18 (partially), 19 (partially); XXIV-18 (partially), 19 (partially); XXV-19  
(partially) in Aktubinsk Oblast of the Republic of Kazakhstan

between

the Ministry of Energy and Mineral Resources  
of the Republic of Kazakhstan  
(Competent Authority)

and

"Falcon Oil and Gas Ltd."  
(Contractor)

Astana, 2007

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**Exhibits:**

- # 1 - Geological allotment
- # 2 - Agreement # 1397 as of 10.02.2006 on Purchase of the information
- # 3 - Work Program

**Attached documents:**

- A notification letter of the Ministry of Energy and Mineral Resources about the tender award of "Falcon Oil & Gas Ltd."
- Tender proposal
- Minutes # 172/2006 of the meeting of the Technical Committee of the TM "Zapkaznedra"
- Expert conclusions of ministries and departments
- Minutes of the meeting of the Work Group

This Contract for oil and gas exploration within Zharkamys West - 1 blocks: XXIII-18 (partially), 19 (partially); XXIV-18 (partially), 19 (partially); XXV-19 (partially) in Aktubinsk Oblast of the Republic of Kazakhstan is made this 27 th day of august, 2007, between the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan, acting as the Competent Authority on behalf of the Government of the Republic of Kazakhstan (hereinafter referred to as "Competent Authority"), represented by Minister of Energy and Mineral Resources B. S. Izmukhambetov and "Falcon Oil and Gas Ltd." represented by B.U. Akchulakova acting as Director (hereinafter referred to as "Contractor"), in accordance with Minutes # 3 of the tender commission meeting for obtaining of rights for subsoil use as of December 1, 2005.

## PREAMBLE

Whereas:

1. In accordance with the Constitution of the Republic of Kazakhstan the Subsoil, including Hydrocarbon materials, is the property of the State;
2. In accordance with the Law of the Republic of Kazakhstan «Concerning Subsoil and Subsoil Use» including amendments and supplements, authorities for negotiations and signing contracts concerning Subsoil Use operations in the territory of the Republic of Kazakhstan are vested to the Competent Authority;
3. In accordance with decree # 108 of the Government of the Republic of Kazakhstan «Concerning approval of Rules for Granting Subsoil Use Rights in the Republic of Kazakhstan», dated January 21, 2000, the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan exercises powers of the Competent Authority in respect of signing and execution of contracts;
4. The Republic of Kazakhstan wishes to use Mineral Resources in a rational and efficient way including exploration for Hydrocarbon materials;
5. The Contractor wishes and has financial resources for rational and efficient oil and gas exploration in accordance with the Contract;
6. The Government of the Republic of Kazakhstan has vested the Competent Authority with the right of signing and executing of the Contract;
7. The Competent Authority and the Contractor have agreed that this Contract shall regulate their mutual rights and obligations during exploration for Hydrocarbon materials,

The Competent Authority and the Contractor hereby agree on the following:

## Section 1. DEFINITIONS

Terms and definitions not defined herein shall have the meaning conforming to terms and definitions, as found in Law of the Republic of Kazakhstan "Concerning Subsoil and Subsoil Use" as of Jan.27<sup>th</sup> 1996 # 2828 including amendments and supplements, Law of the Republic of Kazakhstan # 2350 «Concerning Oil» as of June 28<sup>th</sup> 1995, including amendments and supplements and other normative documents concerning subsoil use.

Other terms and definitions not defined herein shall have the meaning conforming to terms and definitions, as found in the current Legislation of the Republic of Kazakhstan.

1. **Affiliated parties** shall mean affiliate companies of the Contractor, and organizations having shares or interests in the Charter Capital of the organization, which is the Contractor, executing petroleum operations in the Republic of Kazakhstan;
2. **Safe Subsoil Use** shall mean ensuring of technical, ecological and sanitary-and-epidemiologic

security during Subsoil Use operations;

**3. Compensated expenses** – means certain (determined) according to conditions of the Contract and the legislation of the State of an expense for carrying out of investigation of oil and the gas, subject to a deduction according to the tax laws of the Republic of Kazakhstan.

**4. High technologies** shall mean universally recognized new achievements in techniques and engineering processes, realized in the form of product innovation and advanced production and highest possible environmentally appropriate technology, applied with the purpose of integration of products, manufactured in the territory of the Republic of Kazakhstan into the world market;

**5. Geological Allotment** shall mean an exhibit to this Contract for exploration, constituting its integral part and containing graphical and descriptive definitions of the subsoil plot where a Contractor may carry out exploration;

**6. Annual program of goods, work and services purchase** shall mean nomenclature and amounts of goods, work and services, including those of Kazakhstani origin, means and terms of their purchasing planned by the Contractor ;

**7. Annual Work Program** shall mean the Contractor's plan of activities for a calendar year including a scope and guidelines of exploration activities and financial expenditures;

**8.State (Republic)** shall mean the Republic of Kazakhstan;

**9.Production** shall mean any operations related to extraction of oil to the surface and shall include the following:

- construction and exploitation of subsurface and surface industrial equipment and facilities including the ones from the Contractor's pipeline for oil transportation from production places to trans-shipment to the main pipeline and/or other type of vehicles;
- oil extraction to the surface, management of the operations in production wells;
- oil refining and separation from mechanical substances and formation waters;
- extraction of associated components from oil and utilization of natural and associated gases;

**10.Investment Law** shall mean Law of the Republic of Kazakhstan #373-II "Concerning Investments", dated January 8, 2003, including amendments and supplements;

**11.Legislation** shall mean the Constitution of the Republic of Kazakhstan, International agreements and conventions, ratified or passed by the Republic of Kazakhstan, regulations of the President of the Republic of Kazakhstan, the Parliament of the Republic of Kazakhstan, the Government and other State authorities of the Republic of Kazakhstan;

**12.Subsoil Use Legislation** shall be Law of the Republic of Kazakhstan "Concerning Oil" as of 28.06.95 # 2350 with amendments and additions, Law of the Republic of Kazakhstan "Concerning subsoil and subsoil use" as of 27.01.96 # 2828 with amendments and additions and other normative and legislative documents concerning subsoil use.

**13.Historical costs** shall mean total past expenses of the State for geological surveys of the Contract territory, fields prospecting and exploration;

**14.Kazakhstani manufacturer** shall mean natural persons and legal entities of the Republic of Kazakhstan manufacturing goods, executing works and rendering services of Kazakhstani origin;

**15. Kazakhstani origin (goods, work and services of Kazakhstani origin)** shall mean direct

manufacture of goods, execution of works and rendering services in the territory of the Republic of Kazakhstan by physical persons and /or legal entities of the Republic of Kazakhstan;

**16. Kazakhstani content** shall mean percentage of the annual amounts of the following:

Kazakhstani employees hired during execution of the Contract with categorization of the staff and indication of the percentage of each category in relation to expatriates, whose number shall decrease year by year subject to realization of compulsory training programs and professional development of the Kazakhstani staff;

cost of goods, work and services of Kazakhstani origin, being purchased both directly and by means of subcontracts against total cost of goods, work and services of the Contractor;

**17. Calendar year** shall mean a period equal to twelve (12) consecutive months by Gregorian calendar, which begins from the date of signing of the Contract and ends after 365 days after this date;

**18. Calendar quarter** shall mean a period equal to three (3) consecutive months by Gregorian calendar, which begins on the 1<sup>st</sup> of January, on the 1<sup>st</sup> of April, on the 1<sup>st</sup> of July and on the 1<sup>st</sup> of October;

**19. Calendar Month** shall mean a period equal to one (1) month of a Calendar year by Gregorian calendar;

**20. Commercial Discovery** shall mean a discovery in the Contract territory of one or more fields, being economically feasible for extraction;

**21. Competent Authority** shall mean the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan acting on behalf of the Republic of Kazakhstan exercising the rights related to signing and execution of Contracts;

**22. Contract** shall mean this Contract including all annexes hereto between the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan and "Falcon Oil and Gas Ltd." for oil and gas exploration within Zharkamys West - I blocks XXIII-18 (partially), 19 (partially); XXIV-18 (partially), 19 (partially); XXV-19 (partially) in Aktubinsk Oblast;

**23. Contract Territory** shall mean a territory defined by the Geological Allotment where the Contractor may carry out subsoil use operations according to the Contract;

**24. Concentration of rights in the framework of the Contract** shall mean a size of the share of a consortium member in the Contract with the Republic of Kazakhstan, which enables this member to make an independent decision on the Subsoil user's activity in accordance with the Contract;

**25. Concentration of rights for Subsoil Use Operations** shall mean possession of such a share in the Contract for Subsoil Use Operations in the territory of the Republic of Kazakhstan by an individual or group of individuals of a single State, or such share of the Charter Capital of companies being Subsoil Users in the Republic of Kazakhstan, which may pose or posing a threat to economic interests of the Republic of Kazakhstan;

**26. Liquidation Fund** shall mean a fund formed by the Contractor for elimination of consequences of subsoil use operations in the Republic of Kazakhstan;

**27. Field** shall mean one or several natural accumulations of hydrocarbons in a geological reservoir of any type;

28. **Subsoil user** shall mean a physical person or a legal entity having the right for subsoil use operations according to the Law "Concerning subsoil and subsoil use";
29. **Oil** shall mean crude oil, gas condensate and natural gas, as well as hydrocarbons, received after crude oil and natural gas refining, and processing of shale oil or resinous sands;
30. **Tax laws** - means the Code of the republic of Kazakhstan «About taxes and other obligatory payments in the budget» from June 12, 2001 # 209-II, with the subsequent changes and additions (further- the Tax Code) and other normative legal certificates (acts), which acceptance is stipulated by the Tax Code;
31. **Subsoil** shall mean a portion of the earth crust below topsoil, and in case of absence of topsoil - below earth surface and bottoms of seas, lakes, rivers and other water bodies, extending to the depths accessible by Petroleum Operations and taking into account scientific and technological progress;
32. **Subsoil Use Operations** shall mean work associated with exploration;
33. **Conservation of mineral resources** shall mean a system of measures stipulated by the legislation of the Republic of Kazakhstan on subsoil and subsoil use and for prevention of subsoil pollution during subsoil use operations and reduction of their deleterious effects on the environment;
34. **Contractor** shall mean "Falcon Oil & Gas Ltd.";
35. **Prospect surveys** shall mean a stage of exploration works aimed at detection and delineation of promising units and evaluation of probable reserves, their interim geological and economical evaluation and justification of further geological exploration;
36. **Prospecting and evaluation work** shall mean a stage of exploration work aimed at determination of total reserves of a discovered unit, evaluation of its commercial significance and feasibility study of exploitation practicability;
37. **A Mineral** shall mean hydrocarbon materials in the subsoil;
38. **Good practices of field development** shall mean worldwide practices usually employed during subsoil use operations as rational, safe, necessary and economically efficient ones;
39. **Subsoil Use Right** shall mean the right for possession and use of the Subsoil within the Contract Territory rendered to the Subsoil User in accordance with the Law "Concerning Subsoil and Subsoil Use";
40. **Test Production of the field** shall mean work on specification of available information and obtaining additional data on geological and geophysical characteristics of formations, mode of occurrence of hydrocarbons, well productivity, testing of new or previously known oil and gas extraction technologies;
41. **Natural gas** shall mean hydrocarbons which are in gaseous state at normal atmospheric temperature and pressure including fat gas, net gas, associated gas, which is left after extraction or separation of liquid hydrocarbons from fat gas and non-hydrocarbon gas produced together with liquid or gaseous hydrocarbons;

42. **Work** shall mean paid activities, such as production (manufacture) of goods, installation of equipment, construction of buildings and other facilities necessary for both direct use during subsoil operations and for activities defined as auxiliary ones by the Contract;
43. **Work Program** shall mean a set of plans of the Contractor for the entire term of the Contract including actions taken to fulfill the tender proposals;
44. **Exploration** shall mean any operations related to prospecting and exploration for oil and gas, and include the following:
- geological and geophysical surveys;
  - formation drilling;
  - drilling of prospecting holes and exploration wells, as well as test production of the exploration field;
45. **Efficient and integrated use of minerals** shall mean economically effective use of all types of subsoil reserves, based on use of advanced technologies and good practices of field development;
46. **Sanitary-epidemic well-being of the population** shall mean a state of population health when no environmental factors have adverse health effect and favorable life conditions are provided;
47. **Goods of Kazakhstani origin** shall mean goods, having certificates of origin confirming their manufacture in the territory of the Republic of Kazakhstan;
48. **Goods** shall mean equipment, finished products and other materials and technical valuables acquired both for direct use during subsoil use operations, and for activities defined by the Contract as auxiliary ones;
49. **Utilization of natural and associated gases** shall mean provision of field gathering of natural and associated gases aimed at their use for technological purposes and/or their end product preparation;
50. **Authorized Body for Subsoil Research and Use** shall mean a state authority controlling geological research, rational and integrated subsoil use;
51. **Authorized Body for Environmental Protection** shall mean the central executive authority of the Republic of Kazakhstan and its territorial authorities performing realization of the State policy for environmental protection;
52. **Services** shall mean performance of paid activities necessary for both direct use during the subsoil use operations, and for activities defined by the Contract as auxiliary ones, not aimed at production (manufacture) of goods or some other material objects;
53. **Approved reserves** shall mean estimated geological and recoverable reserves of Hydrocarbons in the field approved by the State Committee for Mineral reserves of the Republic in the order established by the Legislation;
54. **Subsoil plot** shall mean a geometrized portion of subsoil within contour boundaries allocated for subsoil use;

**55. Environmental safety** shall mean a condition of protection of vitally important interests and rights of individuals, community and the State from threats arising in the result of human intervention and other environmental impacts.

## **Section 2. CONTRACT GOAL**

2.1. The goal of this Contract is to define contractual relations between the Competent Authority and the Contractor and legal registration of them as per the State Legislation in force as of the effective date of the Contract.

## **Section 3. TERM OF THE CONTRACT**

3.1. The Contract shall come into force on the moment of its state registration by the Competent Authority and obligatory issuing of the Contract Registration Act.

3.2. The period of the Contract shall be 4 years and shall be valid till "27" august 2011.

3.3. The Contract term may be extended upon agreement of the Sides as per the legislation of the State.

3.4. When extending the Contract period, the Contract terms must be changed upon a written consent of the Parties.

## **Section 4. CONTRACT TERRITORY**

4.1. The Contractor shall perform Exploration for oil and gas within the Contract Territory with the total Geological allotment area of two thousand six hundred and ten (2610) sq.km in accordance with the terms of the Contract.

4.2. If in the course of Exploration for oil and gas it becomes apparent that geographical boundaries of the Field go beyond the Contract Territory specified by the Geological allotment, the issue of its expansion shall be solved by the Competent Authority without involving a tendering process if it does not infringe other Subsoil users' interests.

4.3. The Contractor at its own discretion shall have the right to return unpromising Contract areas to the State during Exploration work at any moment of the Contract by the following schedule:

by the end of the third year of the Contract - 15 %

by the end of the fourth year of the Contract - 15 %

by the end of the Exploration period, including all extensions periods, to return all the remaining territory except for the area of a commercial discovery.

## **Section 5. TITLE OF PROPERTY AND INFORMATION**

5.1. All tangible and intangible assets purchased by the Contractor for Exploration for oil and gas shall be the Contractor's property.

5.2. Title of property defined in clause 5.1 herein may be pledged or encumbered in any other way to the benefit of a Third party at the Contractor's discretion, in order to secure financing of exploration for oil and gas in accordance with the legislation of the State.

5.3. Information on geology of the Subsoil and Mineral resources contained there, geological characteristics of Fields, sizes of reserves, development conditions and other features of the Subsoil, which are found in geological reports, maps and other data shall remain the State property in case it has been obtained through budget assignments, or the Contractor's property if obtained through the Contractor's own funds.

5.4. Information on the Subsoil within the Contract Territory owned by the State shall be purchased by the Contractor from an Authorized body for Subsoil Research and Use in the manner prescribed



by the legislation.

5.5. Geological and other information on Subsoil acquired by the Contractor in the course of Exploration for oil and gas must be submitted as per established standards without fail, free of charge for storage, classification and summarizing to an Authorized body for Subsoil Research and Use.

5.6. Use of geological information on Subsoil acquired through the funds of Contractor and submitted in accordance with clause 5.5 hereof for educational, scientific, commercial or other purposes shall be determined on the basis of a separate agreement between the Contractor and the Authorized body for Subsoil Research and Use of the Republic of Kazakhstan.

5.7. Upon the Contract termination all geological information shall become the State property. The Contractor must submit all documents and other physical media containing geological information, including source information, free of charge to the Authorized body for Subsoil Research and Use of the Republic of Kazakhstan.

## **Section 6. STATE RIGHT FOR ACQUISITION AND REQUISITION OF HYDROCARBON MATERIALS**

6.1. In case of war, natural disasters and in other cases, prescribed by emergency laws of the State, the Government shall have the right for requisition of a part or all Minerals belonging to the Contractor. The requisition shall be done in amounts as required for the State needs during the whole term of an emergency situation.

6.2. The State shall guarantee compensation for requisitioned Minerals in physical or monetary terms at world market prices as of the date of requisitioning in the national currency of the State.

6.3. The Parties have agreed that the State shall have preferential right to purchase hydrocarbon materials from the Contractor including for the purpose of execution of Government programs. The purchase shall be possible both for the State and for its specially authorized bodies and organizations. The purchase shall be made at prices no higher than world market prices. Hydrocarbon materials shall be priced in US dollars per one (1) ton, but if in the World Market of Oil other currency instead of US\$ prevails as a monetary unit for Hydrocarbon materials financial operations, the Parties must use such a currency.

Amounts, prices and terms of purchase shall be defined by another agreement of the Parties.

## **Section 7. GENERAL RIGHTS AND OBLIGATIONS OF THE PARTIES**

**7.1. The Contractor shall be entitled to:**

7.1.1. Carry out exclusive exploration for oil and gas in the Contract Territory.

7.1.2. Construct production and social sphere facilities required for normal operation processes in the Contract Territory and in case of necessity in other territories allocated for use by the Contractor in accordance with the applicable procedure, and to share common purpose objects and communications both within the Contract territory and outside it, on the basis of agreements with respective owners. The Contractor shall have the right for the access to all gas and oil pipelines and other transportation systems necessary for transportation of hydrocarbon materials on the territory of the Republic of Kazakhstan on non-discriminatory basis.

7.1.3. Hire subcontractors to perform certain oil and gas Exploration activities, mainly from among organizations of the Republic of Kazakhstan..

7.1.4. Negotiate extension of the Contract term in top priority order as per item 3.3.

7.1.5. Independently perform any legal Subsoil use operations within the boundaries of the designated Contract Territory in accordance with the terms indicated in the Contract.

7.1.6. Terminate its activities subject to conditions stipulated by the Contract and the State legislation.

7.1.7. In case of the Contract termination, the Contractor may independently dispose of the property

in its possession, except for equipment and instruments of processing cycles which may result in negative technologic and ecological consequences, or upon an agreement between the Parties.

7.1.8. Transport or move hydrocarbons at its own discretion by any mode of transport not restricted by the Legislation of the Republic of Kazakhstan.

7.1.9. Have free access to railways, highways, air and other communication lines, directly and indirectly possessed and controlled by the Republic, under reasonable commercial terms and at reasonable commercial prices, on conditions no less favorable than for other third parties carrying out Subsoil Use Operations in the territory of the Republic of Kazakhstan.

7.1.10. Have preferential right in the process of Exploration or on completion of it for executing a Contract for production of Hydrocarbons in accordance with the legislation.

## 7.2. The Contractor shall have to:

7.2.1. Start implementing Work Program agreed by the Authorized body for the Subsoil research and use within 60 days upon registration of the Contract.

7.2.2. Choose the most efficient methods and technologies during the Exploration of hydrocarbon materials based on worldwide accepted standards.

7.2.3. Use the Contract Territory only for the purposes stipulated by the Contract.

7.2.4. Conduct Subsoil Use operations within the Contract area in strict accordance with the State legislation and the Work Programme, observing the requirements of environmental and subsoil protection.

7.2.5. Not to prevent other entities from: free travel within the Contract Territory, share common purpose objects and communications or conducting any kinds of work, including Exploration and production of other Mineral resources but oil and gas, unless it is related to special safety conditions and these activities do not hinder Exploration for oil and gas.

7.2.6. Follow process flowsheets and plans of exploration for oil and gas approved in accordance with the procedures, established by the legislation of the Republic of Kazakhstan, ensuring personnel and population safety, efficient and integrated use of the subsoil and environment protection.

7.2.7. Mandatory use of equipment, materials and finished goods manufactured in the Republic of Kazakhstan in the amount of no less than 50% of the total cost of goods, necessary for implementing the works under the Contract, on the basis of tenders held in the Republic of Kazakhstan in the order, established by the Government of the Republic of Kazakhstan, if they meet the requirements of the legislation of the Republic of Kazakhstan concerning technical regulations, if they are certified and allowed for the industrial use in the way established by the legislation of the Republic of Kazakhstan.

7.2.8. Mandatory involvement of Kazakhstani companies and enterprises for implementing works and rendering services during Petroleum operations in the amount of no less than 70 % of the total cost of works and services necessary for the fulfillment of the works under the Contract, including use of air, railroad, water and other transportation services, if they meet standards and other requirements involving tender procedures in the Republic of Kazakhstan, according to the procedures defined by the Government of the Republic of Kazakhstan.

In case a service is not available in the Republic of Kazakhstan the Contractor may use services of foreign companies upon a permission of an authorized governmental body.

7.2.9. During Exploration of Hydrocarbons it is obligatory to use Kazakhstani staff. To provide Kazakhstani staff as follows.

Staff breakdown (percentage) versus total number of employment

Exploration period	Top managers	Line managers	Specialists	Skilled workers
First two years of Exploration				
Kazakhstani	50	70	90	100
Expatriates	50	30	10	0

Third and fourth years of Exploration				
Kazakhstani	60	80	100	100
Expatriates	40	20	0	0

Addition: percentage breakdown during the first two years of the Contract term:  
 Citizens of Kazakhstan involved in the project - 80%, expatriates -20%;  
 Third and fourth years: Kazakhstani specialists -85%, expatriates -15%.

- 7.2.10. Submit the Work program approved by an Authorized body for Subsoil Research and Use and a complete progress report on the Work program to the Competent Authority.
- 7.2.10.1. Submit geological and geophysical reports on the results of activities in the Contract territory to the an Authorized body for Subsoil Research and Use.
- 7.2.11. Allocate no less than 1% of the total investment funds for professional training of Kazakhstani personnel involved in the Contract works during the term of the Contract. And if total amount of money allocated for Kazakhstani staff training exceeds the actual demand of employees training, the Contractor shall use the remaining amount to finance top priority projects of secondary education projects in accordance with the Cooperation Agreement 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 on the remaining education funds shall be submitted to the Competent Authority after the Annual Work Program and the budget for the next year of the Contract term have been approved.
- 7.2.12. Provide State control agencies with required documents, information and access to operation places when such agencies are in the course of implementing their official responsibilities, and timely eliminate all discovered violations.
- 7.2.13. Disclose information regarding exploration for Hydrocarbon materials to Third parties, if needed, only upon mutual agreement of the Sides if otherwise is not stipulated by the Contract.
- 7.2.14. Timely pay taxes and other mandatory payments as well as penalties for unpractical use of Subsoil and for contamination of the environment including violation of the liabilities for Kazakhstani content in accordance with the legislation of the State and this Contract.
- 7.2.15. In the course of his activities preserve objects of cultural and historical significance found in the Contract territory.
- 7.2.16. Forecast long-term environmental impact of the Contract fulfillment activities. The Contractor shall submit a forecast of long-term environmental impact along with detailed reports on measures undertaken to minimize long-term negative environmental consequences of his Contract fulfillment activities to the Competent Authority and state environmental authorities upon their written requests no later than in 2 years after the beginning of operations hereunder. The Contractor at his own expense shall take such measures to minimize long-term negative environmental consequences, as the Competent Authority and state environmental authorities may reasonably require.
- 7.2.17. Leave the Contract territory in a state conforming to mining and sanitation control and environmental protection requirements.
- 7.2.18. Restore land plots and other objects of nature, which were affected by the Contractor's activities hereunder to the state useable in the future in accordance with State legislative requirements.
- 7.2.19. To accept all the previously drilled oil and gas wells onto his balance and keep monitoring of them.
- 7.2.20. Sign a contract for blow-up safety maintenance with an emergency company having an appropriate license of the Republic of Kazakhstan.
- 7.2.21. All the oil produced within Exploration period during test production should be delivered to Kazakhstani oil refineries.

- 7.2.22. Ensure full utilization of associated gas in accordance with the legislation requirements.
- 7.2.23. The Contractor shall use Natural gas, produced during test production, for internal needs, such as electricity generation at gas-turbine power stations, for oil heating in grouped gauging facilities, oil preparation facilities and boiler houses.
- 7.2.24. The Contractor shall participate in realization of regional social programs investing three (3) million USD by equal parts for each year during the whole Exploration period upon an agreement with the oblast Akimat (governor's office).
- 7.2.25. Transfer the sum equal to 1 000 000 (one million) USD to the Fund of Astana city in the second year of the Contract term.
- 7.2.26. The Contractor shall use only advanced ecologically safe high technologies during realization of the Project. In case of necessity and economic efficiency of projects the pipeline infrastructure shall be used jointly with other petroleum companies.
- 7.2.27. Submit to the central executive body of the Republic of Kazakhstan for emergency situations and local executive authorities declarations on industrial objects safety in the order and the due form, approved by the Government of the Republic of Kazakhstan.
- 7.2.28. To follow the terms of the Memorandum on mutual understanding in relation to realization of the Initiative of openness of activities of producing industries in the Republic of Kazakhstan.
- 7.2.29. In the process of subsoil use operations to ensure safety to lives and health of people and safety to the environment.
- 7.2.30. Annually, no later than thirty calendar days after approval of the annual program of works, to submit to an authorized state body, which is in charge of regulating trade and industrial policy, an annual program of purchasing goods, work and services for the next year in accordance with the form approved by an authorized state body, which is in charge of regulating trade and industrial policy.
- 7.2.31. Each quarter, no later than 15 days after the reporting period, to submit to an authorized state body, which is in charge of regulating trade and industrial policy, a report for the purchased goods, work and services in accordance with the form approved by the an authorized state body, which is in charge of regulating trade and industrial policy.
- 7.2.32. To ensure reporting confirmed by auditing reports in accordance with the requirements of Initiative of openness of activities of producing industries in the manner approved by the Government of the Republic of Kazakhstan.
- 7.2.33. To ensure equal conditions and equal payment for Kazakhstani personnel as regards to the involved expatriates, including personnel of subcontractors.
- 7.2.34. Allocate 1 to 1,5% of investments for the development of industrial infrastructure of the contract territory.

**7.3. The Competent Authority shall have the right to:**

- 7.3.1. Represent the State in negotiating the terms of the Contract with the Contractor.
- 7.3.2. Require periodic and sampling reports on the Contract performance. To require any other information related to the terms of the Contract.
- 7.3.3. The Competent Authority shall have the right to inspect oil and gas Exploration activities of the Contractor including documentation, related to the activities under the Contract.
- 7.3.4. Access to any operations in the Contract Territory, related to exploration of oil and gas.
- 7.3.5. The Competent Authority shall have the right, taking into account requirements and limitations stipulated by the legislation of the Republic of Kazakhstan, to inspect Exploration activities of the Contractor including documentation, related to the activities under the Contract.

**7.4. The Competent Authority shall have to :**

- 7.4.1. Ensure Contract execution and termination according to the procedures and on grounds stipulated by the State legislation.

## Section 8. WORK PROGRAM

8.1. The Contractor shall conduct Exploration for oil and gas in accordance with the Work program approved by the Authorized body for Subsoil Research and Use. During the planned year the Contractor shall submit for approval Annual Work program and budget for the planned year to the Authorized body for Subsoil Research and Use or its territorial division. The Authorized body for Subsoil Research and Use shall approve them in accordance with established procedures subject to their conformity with the Work program, this Contract, Good practices of field exploration and development and the legislation of the State.

8.2. The Work Program shall be based on feasibility studies and justifications, subsoil portions (blocks) and other data taking into consideration good practices of field development.

8.3. The Contractor may propose amendments and/or supplements to the approved Work Program. Amendments and supplements to the Work Program shall be made in writing upon mutual consent of the Parties.

8.4. Scope and cost of works according to the Work Program in the Contract Territory. In accordance with the terms of this Contract, the amount of investments for geological exploration during the exploration period shall be fifty three million five hundred thousand (53 mln. 500 thousand) USD arranged in the following way:

Year of the Contract	Exploration work	Volume, running km	Cost, thousand USD
First year	Purchasing of geological and geophysical information		20
	Reinterpretation of seismic data	100 running km	25
	Design works: ecological audit, environment impact assessment, Exploration project, Drilling project, etc.		90
	Payment of subscription bonus		8 000
	Payment of Historical Costs		31
	Office expenses, contingences, indirect costs		334
	<i>Total expenses for GEW (geological exploration works)</i>		<i>8 500</i>
	Training of Kazakhstani specialists		85
	Social transfers to Aktubinsk Oblast, other payments		750
	<b>Total within 1-st year:</b>		
Second Year	Geological & geophysical justification: well surveys, geological and seismic data interpretation		150
	Design works: environment impact assessment (EIA), Drilling project, etc.		100
	2D seismic operations	500 running km	3 550

	Reinterpretation of seismic data	400 running km	200
	Drilling of test holes		4 500
	Office expenses, contingences, indirect costs		1 500
	<i>Total expenses for GEW (geological exploration works)</i>		<i>10 000</i>
	Training of Kazakhstani specialists		100
	Transfers to the infrastructure development of Astana city		1 000
	Social transfers to Aktubinsk Oblast		750
	<b>Total within 2-nd year:</b>		<b>11 850</b>
<b>Third Year</b>	Drilling of 2 test holes 2 500 m deep		5550
	3D seismic operations	50 sq.km	1 000
	Seismic data processing	50 sq. km	600
	Design works including: Project of Test Production of the field, Project of construction of surface field facilities		250
	Expenses for the field development		2 600
	Drilling of appraisal wells		4 000
	Office expenses, contingences, indirect cost		1 000
	<i>Total expenses for GEW (geological exploration works)</i>		<i>15 000</i>
	Training of Kazakhstani specialists		150
	Social transfers to Aktubinsk Oblast, other payments		750
	<b>Total within 3-rd year:</b>		<b>15,900</b>
<b>Fourth Year</b>	Drilling of wells 2500 m deep	<u>3</u> 7500m	10 500
	Development of the field production infrastructure		1950
	Approval of reserves by the State Reserves Committee of the Republic of Kazakhstan		100
	Test Production of the field		400
	Expenses for the field development		4 850
	Office expenses, contingences, indirect costs		1 500
	<i>Total expenses for GEW (geological exploration works)</i>		<i>20 000</i>
	Training of Kazakhstani specialists		200
	Social transfers to Aktubinsk Oblast		750
		<b>Total within 4-th year:</b>	

<b>In all for the GEW</b>	<b>53,500</b>
<b>Total expenses</b>	<b>58,035</b>

8.4.1. All operations performed by the Contractor and costs related thereto in excess of the requirements of the Work program during any year within the Contract term shall be carried forward to the Contractor's obligations under the Work Program of the next year.

8.4.2. In accordance with the tender proposal the Contractor shall accumulate funds for development of operational and social infrastructure of the contract territory in the amount of three (3) million USD.

8.4.3. Indirect costs, anticipated in the Contract and incurred by the Contractor during execution of works in the Contract territory, administrative expenses, particularly managerial staff salary, offices construction and maintenance, entertainment expenses, payments for consulting, audit and other expenses, planned in the total amount of expenses for the whole period of Exploration, should not exceed the amounts, approved by the Work program.

## Section 9. EXPLORATION PERIOD

9.1. According to the Contract the Exploration period shall consist of four (4) consecutive years, and may be extended twice each time for no longer than two years upon mutual consent of the Parties and in accordance with subsoil use legislation. In such cases the Parties shall first define the portion of the Contract Territory to be kept by the Contractor for further exploration and make respective amendments to the Work Program.

9.2. The Contractor must start Exploration activities within 60 days after the Contract has come into force.

9.3. During the Exploration the Contractor shall undertake, as per the provisions of the Contract and the Work program, to return the Contract territory except areas where a commercial discovery has been made.

9.4. According to the provisions of the Contract the contractor shall determine subsoil plots to be returned and shall inform the Competent body about it no later than 30 days before the date of return.

9.5. The sites to be returned should meet all requirements of the legislation of the State related to protection of the environment. The contractor shall restore at its own expense territories that are to be returned and other natural objects affected in the course of exploration operations to conditions, suitable for direct purposes use.

9.6 The Contract shall be terminated upon the expiration of the exploration period in the contract territory, if no Commercial Discovery has been made, or no decision has been made to enter the Production period. Should the Contractor refuse to continue works hereunder, it then shall forfeit all rights for Contract territory and may not claim any future reimbursement of his costs, incurred under this Contract.

## Section 10. COMMERCIAL DISCOVERY

10.1. If the Contractor makes a decision that the field is of a sufficient interest for evaluation tests, he shall promptly inform about it the Competent Authority and within 180 days shall submit to the State Mineral Reserves Committee (GKZ) a complete report with calculation of reserves and their evaluation.

10.2. The State Committee for mineral reserves of the Republic of Kazakhstan shall facilitate State expert evaluation of the field reserves in the order established by the Subsoil use legislation.

10.3. A Commercial Discovery shall grant an exclusive right to the Contractor to pass to the

Production stage by means of signing an appropriate contract on the basis of direct negotiations with the Competent Authority.

10.4. In case of a Commercial Discovery the Contractor shall have the right for full or partial reimbursement of costs, incurred in the course of the Commercial Discovery.

10.5. If during the Exploration there was no commercial discovery the Contractor shall have no right for reimbursement of his costs incurred by him during the Exploration period.

**Section 11. RECORD KEEPING AND REPORTING**

11.1. The Contractor shall keep records and store record documentation related to exploration for oil and gas hereunder during the stipulated period in accordance with the State legislation.

11.2. The Competent Authority or its authorized representatives shall have free access to all original documents concerning the Contractor's activities under the Contract, including reports on geological, geophysical and engineering-geological works, well construction, test production of the Field, financial and business accounting and reports, etc.

11.3. The Contractor shall submit quarterly to the Competent Authority complete reports on its activities before the 25<sup>th</sup> day of a month after the end of a quarter including reports of Form # 2 LKU ( a report on fulfillment of license -contractual terms).

11.4. The Contractor shall submit reports on his activities to State authorities within terms and manners established by the State Legislation.

11.5. The Competent Authority shall have the right to inspect the Contractor's fulfillment of the Contractual terms, may attend oil and gas Exploration operations via its representatives.

**Section 12. OIL MEASURING**

12.1. The Contractor shall measure and weigh oil and gas, produced in the Contract Territory in accordance with methods and practices applied in the State.

12.2. The Contractor shall conduct annual tests of equipment and instrumentation used for oil and gas measuring and weighting attended by representatives of an Authorized body for metrology and standardization.

12.3. If it is found during a test or examination that equipment or instrumentation has defects, then if it is not possible to determine how long the defects have existed, such period shall be determined as half of the time from the previous measurement until the date when the defects were found.

12.4. If the Contractor deems necessary to introduce modifications to the applied methods or replace installed instrumentation, he shall notify the Competent Authority no later than 30 days in advance, in order to give its representatives an opportunity to attend at such modifications or replacement.

**Section 13. SUBCONTRACTED OPERATIONS**

13.1. The Contractor shall provide an Authorized body for State regulation of trade and industrial policy, on the basis of the Work program, with a plan of purchasing goods, works and services, a list of main contracts for delivery of materials, equipment and services supply to be signed next calendar year indicating estimated costs of Subcontracts as well as a list of potential Kazakhstani and foreign subcontractors.

13.2. Subcontractors as usual are involved by the Contractor on a competitive basis as per the legislation of the Republic of Kazakhstan.

13.3. Contractor shall be liable for performance of subcontracts in accordance with the State legislation.



## **Section 14. FINANCING**

14.1. The Contractor shall undertake to fully finance his activities under the Contract in accordance with the Work program approved by the Parties. The Contractor shall use leveraged and equity financing, the latter meaning use of the company's funds, obtained in the result of commercial activities of the Contractor.

14.2. The Contractor shall be free to obtain loans in any currency in and outside the State for financing his activities, if it does not conflict with the State legislation.

14.3. The Contractor may maintain bank accounts both in domestic and foreign currency in banks within and outside the State for the purpose of Contract performance and receiving funds which shall deem receipts and proceeds under the Contract.

14.4. All settlements under the Contract shall be made in the order stipulated by the State legislation.

14.5. The Contractor and Subcontractors shall carry out their currency transactions in accordance with the State legislation on currency regulation.

## **Section 15. TAXES AND OTHER MANDATORY PAYMENTS**

15.1. Taxation of the Subsoil Use Contract shall comply with the first tax regime model, according to which the Contractor shall undertake to pay taxes and other mandatory payments to the budget as per the current legislation at the time when these liabilities arise.

### **15.1.1. Subscription bonus.**

The Contractor shall pay the Subscription bonus in the amount of US \$ 8 000 000 (eight million) US dollars no later than in 30 (Thirty) calendar days after the effective Date of the Contract.

### **15.2. Customs payments.**

The Contractor shall pay all customs payments in compliance with the Customs legislation of the Republic of Kazakhstan in force as of the day of the customs declaration acceptance.

### **15.3. Transfer pricing.**

Should the price used in the course of a transaction execution vary from the market price, the state bodies which control use of transfer prices, shall have the right to adjust units to be taxed in compliance with the legislation on state control of transfer prices use.

### **15.4. Provision of pensions, social deductions.**

The Contractor shall withhold and transfer mandatory pension fees of its employees to accumulative pension funds in compliance with the provisions of pension legislation, and shall undertake liabilities for full calculation and timely social transfers to the State social insurance funds in compliance with the mandatory social insurance law in force as of the date when such liabilities arise.

### **15.5. Punitive sanctions**

15.5.1. Punitive sanctions for violation of Tax legislation shall be applied in accordance with the legislation in force as of the date of commitment of such violation.

15.5.2. Fines for payments other than taxed shall be applied at rates stipulated by the law in force as of the date of commitment of such violation.

## **Section 15-I. PAST COSTS REIMBURSEMENT.**

15-I.1. The Contractor shall pay past costs to the budget in accordance with the provisions of the Agreement on geological information purchase dated February 10, 2006 #1397 between the Committee of Geology and subsoil use of the Ministry of energy and mineral resources of the RK and "Falcon Oil & Gas Ltd." (hereinafter "Agreement").

15-I.1.1. Value of past costs of the Contract territory amounts to two million sixty two thousand six hundred and forty- four ( 2 062 644) US dollars.

15-I.1.2. The Contractor shall undertake to pay within thirty days after signing the Agreement thirty thousand nine hundred and forty ( 30 940) US dollars for the right to use geological information.

15-I.1.3. The remaining sum of the historical costs in the amount of US\$ two million thirty one thousand seven hundred and four (2 031 704) shall be reimbursed to the budget as per a Contract for Production.

#### **Section 16. BUSINESS ACCOUNTING**

16.1. The Contractor shall undertake to maintain full and accurate accounting of all income and expenses with regard to his activities hereunder, in accordance with the order of accounting, stipulated by the current State legislation.

16.2. All Contractor's accounting books and records shall be available for inspection by the Competent Authority and State agencies in accordance with their competence as defined in the current State legislation.

#### **Section 17. INSURANCE**

17.1. Within one hundred eighty (180) days following the Effective Date, the Contractor shall develop and present for approval of the Competent authority a program for insurance of business risks, property and liability, related to Exploration for oil and gas in the Contract Territory.

17.2. Insurance shall be provided for property and liability risks, related to:

17.2.1. Transportation and storage of goods delivered to the site of exploration works;

17.2.2. Contractor's property used in the process of Exploration, including rented or leased property;

17.2.3. Environmental and land pollution and costs for liquidating consequences of damage, caused to the environment, including land improvement and reclamation.

17.2.4. General civil liability to third parties including damage caused to health and life of the personnel and population.

17.3. The Contractor shall have to insure its employees against work accidents and occupational diseases, including coverage of costs related to treatment of employees of consequences of work accidents and occupational diseases.

17.4. The Contractor at his own discretion shall choose insurance companies in accordance with the State legislation.

#### **Section 18. LIQUIDATION AND LIQUIDATION FUND**

18.1. No later than two (2) years after the Contract commencement the Contractor shall present the Competent authority for approval a program for liquidation of consequences of the activities under the Contract, including estimation of liquidation costs.

18.2. The liquidation plan should include removal or liquidation of facilities and equipment used in the Contractor's activities in the Contract territory.

18.3. For full financial security for implementation of liquidation program the Contractor shall establish a liquidation fund of 1% (one percent) of investment amount, which shall be entered in a special deposit account.

18.4. Payments to the liquidation fund in the amount of 1 % of the investments shall be made by the Contractor once a year to the special deposit account in any bank in the territory of the Republic of Kazakhstan and shall be included in the Exploration expenditures.

Management of the liquidation fund shall be made by the Contractor upon a permit of the Competent Authority and approval of an Authorized Agency for subsoil research and use.

18.5. If actual liquidation costs exceed the amount of the Liquidation fund, the Contractor shall provide additional financing for liquidation purposes.

18.6. If actual liquidation costs are less than the amount of the Liquidation fund, the surplus shall be transferred to the Contractor and be taxed as income.

18.7. If the State takes a decision on continuation of operating all or some of the facilities handed over by the Contractor after expiration of the Contract at its own responsibility, then the Contractor shall be free of any responsibilities for implementing liquidation program and vest upon the State all rights for all accumulated assets in the Liquidation fund.

## **Section 19. PROTECTION OF SUBSOIL AND ENVIRONMENT**

19.1. In the course of the Contract performance the Contractor shall comply with the State legislation related to protection of the Subsoil and environment and take all necessary measures with the purpose of:

- Protection of people's lives and health;
- Provision with rational and integral utilization of Mineral resources;
- Preservation of natural landscapes and reclamation of mined-land and other geomorphologic structures;
- Preservation of properties of energetic condition of upper sections of the Subsoil for the purpose of prevention of earthquakes, landslides, underflooding and soil subsidence.

19.2. During Exploration for oil and gas the Contractor shall observe the following in preferential order:

### **19.2.1. Ecological requirements:**

- environment preservation, prevention of man-caused desertification of lands, prevention of water and wind soil erosion, isolation of freshwater and lost circulation horizons to avoid their pollution, prevention of desiccation and pollution of underground waters and other requirements according to the legislation related to the subsoil use and environment;
- Keeping of industrial monitoring of environment in accordance with programs agreed with an authorized agency in charge of protection of environment;
- Provision of ecological requirements during warehousing and storage of industrial and domestic wastes for prevention of accumulation thereof in water collection areas and underground water areas;

### **19.2.2. Subsoil protection requirements:**

- provision of completeness of oil and gas extraction;
- a reliable record keeping of recoverable and left in the Subsoil general and commonly occurring Mineral resources and associated components, products of reprocessing of raw materials and industrial wastes during exploration of Fields;
- utilization of the Subsoil in accordance with requirements of State environment protection legislation, which preserves the Subsoil from development of dangerous man-caused processes during oil and gas extraction; prevention of the Subsoil contamination during Exploration;
- ensuring completeness of outstripping geological study of Subsoil for a reliable estimation of structures and sizes of hydrocarbon reserves in the Contract Territory;
- observance of changes and the order of ceasing Hydrocarbons Exploration provided for in Section 28 of the Contract and the order of liquidation of the deposit objects development, stipulated in Section 18 herein.

19.3. The Contractor shall ensure completeness and reliability of geological, hydro - geological, ecological, sanitary-epidemiologic, engineering- geological and technological study of oil and gas exploration units.

19.4. During its activities hereunder the Contractor shall take into consideration that positive conclusions of the state ecological, sanitary-epidemiological expertise on such operations shall be justifications for Subsoil Use Operations, as well as permissions, issued on this basis, for Subsoil

Use Operations, given by executive bodies that are in charge of environmental protection and people's health.

19.4.1. The Subsoil User shall submit to the state ecological, sanitary-epidemiological commission of experts all preliminary design and project documentation containing the "Environmental Impact Assessment" and "Environmental Protection" sections setting out the measures planned for the period of implementation and termination of Subsoil Use Operations or suspension of the Field development.

19.5. The Contractor shall monitor the Subsoil and environment with the purpose of studying the impact of its activities hereunder and taking measures for prompt elimination of any adverse impact. The data of industrial monitoring and environmental impact assessment reporting shall be submitted to regional agencies for environmental protection.

19.5.1. The Contractor shall establish operational laboratory control of work conditions and influence of industrial facilities on the environment and health of the population.

19.6. The Contractor shall remediate the disturbance of the status of the environment, implement recovery works and compensate in full the damage caused to the environment. In case of emissions of polluting substances to the environment above the allowable levels, emergency and extraordinary situations, as a result of the Contractor's activities, the Contractor shall promptly inform of such circumstances authorized bodies for environment protection and state authorities of sanitary-epidemiologic supervision and take measures for eliminating the consequences and reimbursement of damage.

19.7. Environment protection authorized state agencies shall keep control of compliance with the legislation related to protection of the Subsoil and the environment and sanitary-epidemiologic welfare of the population.

19.8. The Contractor shall perform the work on ensuring protection of the environment in the Contract Territory.

19.9. Upon termination of the Contract or in case of a stage-by-stage return of the Contract Territory, the Contractor shall transfer the Contract Area in the state suitable for its further direct use in accordance with the legislation of the State.

19.10. Any violations (deteriorations) of the environmental conditions and the Contract Territory itself, occurred during the Contract term, shall be restored at Contractor's own expense to conditions suitable for its further use;

19.11. In the event of discovering rare geological formations and archeological items, the Contractor shall suspend its operations in the place of the discovery and notify the Competent Authority and supply with information.

19.12. The Contractor shall be obliged to keep monitoring of the wells drilled earlier on the Contract Territory.

## **Section 20. POPULATION AND PERSONNEL SAFETY**

20.1. During Exploration for oil and gas in accordance with the Contract the Contractor shall ensure compliance with the sanitary standards, work safety rules stipulated by the legislation of the State, and also arrangements for prevention and remediation of emergencies and occupational diseases shall be ensured.

20.1.1. The Contractor shall provide employees with necessary work conditions and sanitation and housekeeping support in compliance with sanitary-epidemiological standards, including living conditions (in the event of work on a rotational basis) and catering at the facilities.

20.1.2. The Contractor shall control work conditions in accordance with the current legislation.

20.1.3. In accordance with the current legislation the Contractor shall establish periodical medical examinations of specialists who work in hazardous conditions.

20.1.4. The Contractor shall establish a sanitary protection zone (SPZ) according to the sanitary qualification and calculations of atmospheric dispersion of harmful substances.

20.1.5. The Contractor shall provide accomplishment of the sanitary protection zone.

20.1.6. The Contractor shall ensure surface contamination levels within the boundary of the sanitary protection zone to be not exceeding maximum permissible rates (PDK) for populated areas taking into consideration background pollution.

20.2. Exploration for oil and gas shall be prohibited if it poses hazard to people's lives and health.

20.3. Special Authorized State bodies shall keep control of technical safety and industrial sanitation standards observance during exploration of hydrocarbons.

20.4. The main requirements for safe oil and gas exploration are:

20.4.1. Admission to operations of personnel who has received appropriate education and passed special training and qualification examination on the knowledge of technical exploitation of equipment and the rules of industrial safety in the oil industry, preliminary medical examinations in accordance with the decree of the Ministry of Health protection of the RK;

20.4.2. Provision of people engaged in exploration works for oil and gas with special clothing and personal and collective protective tools;

20.4.3. Use of machinery, equipment and materials which meet safety requirements and sanitary standards;

20.4.4. Implementation of sanitary-epidemiological arrangements aimed at maintenance of proper sanitary-epidemiological conditions of the facilities, prevention of industrial diseases and injuries;

20.4.5. The State sanitary-epidemiological surveillance agencies shall control observance of the Legislation with regard to provision of sanitary-epidemiological well-being of population;

20.4.6. Record-keeping, proper storage and consumption of explosives as well as their proper and safe use;

20.4.7. State control of observance of the Legislation on subsoil and environment protection shall be performed by an Authorized body for environment protection.

20.4.8. Conducting a variety of geological and mine surveying and other observations required for technological cycles of operations and prediction of dangerous situations; hazardous zones shall be timely mapped on layouts;

The Subsoil Users shall use rescue services in accordance with the regulation issued by the Government of the Republic of Kazakhstan;

20.4.9. Timely update technical documentation and emergency liquidation plans, defining the limits of safe operation areas more precisely;

20.4.10. Observance of projects and technological schemes of Fields Development and Facilities construction approved by an Authorized body for industrial safety and emergency situations;

20.4.11. Measures on gas utilization shall be obligatory;

20.4.12. Establishment of laboratory control over air condition in work areas and hazardous adverse technological workplaces (noise, vibration, etc.);

20.4.13. Establishment of preliminary and periodical medical examinations of personnel who work in hazardous and adverse work conditions;

20.4.14. Provision of radiation safety;

20.4.15. Workers shall be provided with pure drinking water in normative amounts as well as hot meals;

20.4.16. Workers shall be provided with necessary sanitary facilities;

20.4.17. The development project shall be approved by a State Regional Authority of sanitary-epidemiological surveillance before the beginning of commercial operations on the field development.

20.5. In case of direct hazard to life and health of employees and/or population, the Contractor's officials shall immediately suspend the operations and ensure transportation of people to a safe place and inform about the situation the Competent Authority, Regional Authorities of state sanitary-epidemiological inspection agencies of the State and local executive agencies.

20.6. The Contractor shall indemnify the damage caused to health of a citizen, in the course of his fulfillment of the Contract and labor liabilities, in accordance with the legislation of the Republic of Kazakhstan.

## **Section 21. THE CONTRACTOR'S LIABILITY FOR VIOLATION OF THE PROVISIONS HEREOF**

21.1. Transactions made by the Contractor with violations of the terms of the Contract may be deemed invalid on the grounds provided by the Legislation of the State.

21.2. The Contractor shall bear full responsibility to the Competent Authority and Third parties for consequences of activities, stipulated in clause 21.1. of this Contract.

21.3 Persons, guilty in consummation of such transactions and also other violations of the State Legislation, shall bear disciplinary, material, administrative and criminal liability as established by the Law.

## **Section 22. FORCE-MAJEURE**

22.1. Neither of the Parties shall bear responsibility for non-fulfillment or improper fulfillment of obligations under the Contract, if such non-fulfillment or improper fulfillment were caused by force majeure circumstances.

22.2 The force majeure events shall include emergency or unexpected in these conditions circumstances, such as war conflicts, natural calamities, disasters (fires).

22.3. In case of force-majeure circumstances the Party, affected by them, shall promptly inform the other Party either by handing in or by mail a written notification specifying the start of the force majeure circumstance and its description.

22.4. In case of force-majeure the Parties shall immediately have a meeting for seeking an impartial solution to the situation and use all available means to minimize consequences of such circumstances.

22.5. Upon full or partial suspension of works hereunder, caused by force-majeure circumstances, duration of these works shall be extended to the period of duration of force-majeure and/or shall resume from the moment of cessation of force-majeure circumstances.

## **Section 23. CONFIDENTIALITY**

23.1. Information received or acquired by any of the Parties in the course of Contract fulfillment shall remain confidential. The Parties can use confidential information to compose required reports as specified in the State legislation.

23.2. The Parties shall not have a right to transfer confidential information to Third parties without a prior written consent of the other Party with the exception of the following cases:

23.2.1. If such information is used in the course of legal or arbitration proceeding;

23.2.2. When such information is provided to Third parties, which render services to the Contractor, on the condition that such Third party shall be liable to treat such information as confidential, and to use it only for the purposes established by the Parties and for the term determined by the Parties;

23.2.3. When information is submitted to a bank or any other financial organization, from which the Contractor receives funding, provided that such bank or other financial institution, undertakes to treat such information as confidential and to use it only for specified purposes.

23.3. The Parties shall define the term of confidentiality for all documents, information and reports concerning Exploration in the Contract Territory in accordance with the State legislation.

## **Section 24. ASSIGNMENT OF RIGHTS AND OBLIGATIONS**

24.1. Partial or full assignment of the Subsoil Use right by the Subsoil User to other person either for a fee or free of charge along with alienation of a share (share holding) in the legal entity which is a subsoil user, including assignment as an installment to the charter capital of a legal entity to be established, assigning of rights of Subsoil Use as a part of a property complex to be sold (alienation of a share (share holding of a legal entity, which is a subsoil user) in the course of bankruptcy proceedings of a subsoil user either in the course of privatization of Subsoil Users which are – state enterprises along with pledge of Subsoil Use right shall be made upon permit of the Competent Authority.

24.2. Expenses related to the assignment of rights and obligations under the Contract shall be borne by the Contractor and shall not be reimbursed by the State.

24.3. As long as the Contractor retains any participation in the Contract, he and the Party to which the Contractor will assign his rights and obligations hereunder shall bear joint liability under the Contract.

24.4. The State has a preferential right before the other side of the Contract or sharers of the legal entity having subsoil use rights and other persons for obtaining the alienable right (or its part) for subsoil use and/or a share (share holding) in the legal entity having the subsoil use right, as well as in a legal entity, which has a possibility directly and/or indirectly determine resolutions and/or influence the decisions taken by subsoil users, if the legal entity's main activity is related to subsoil use in the Republic of Kazakhstan under terms which are not worse than those offered by other purchasers.

24.5. The right for subsoil use may not be assigned to anybody within two years from the effective date of the Contract, except for the cases of assignment when a legal entity is wound up, in case of charging the right for subsoil use, pledged, as well as assignment of the right for subsoil use in the manner of inheritance, or reorganization of a legal entity.

#### **Section 25. APPLICABLE LAW**

25.1. This Contract and other agreements executed on the basis hereof shall be governed by the law of the State unless otherwise stipulated by international agreements to which the State is a party.

25.2. The Contractor shall have to observe the Existing Legislation of the State;

25.3. The Contractor shall undertake to fulfill international obligations assumed by the State in the sphere of environmental protection within the Contract Territory and the adjacent areas.

#### **Section 26. PROCEDURE FOR DISPUTES SETTLEMENT**

26.1. All disputes and disagreements, as well as other issues shall be settled by way of negotiations.

26.2. If within 90 days from the moment of its origin a dispute cannot be settled by means of negotiations, then the Parties hereby agree to submit the dispute to the arbitration courts of the State, authorized to consider such disputes in accordance with the legislation.

#### **Section 27. GUARANTEES OF CONTRACT STABILITY**

27.1. Contract provisions shall remain unchanged during the full term of the Contract.

27.2. Protection of the rights of the Contractor is guaranteed by the Legislation of the Republic of Kazakhstan. Changes and amendments to the national and local legislation that make the Contractor's position worse shall not be applied to the Contract executed prior to such amendments.

27.3. The Law of the Republic of Kazakhstan "Concerning investments" № 373-II dated January 08, 2003, shall guarantee protection of interests of the Contractor.

27.4. If amendments and supplements are introduced to the Legislation which make it impossible or limit to perform further activities under the Contract, appropriate amendments may be introduced to the Contract by a written agreement of the Parties to restore the Parties' interests.

27.5. The guarantees, stipulated in this Section, shall not be applied to amendments in Legislation of the Republic of Kazakhstan related to defense capacity, national security, environmental security and health protection services and taxation.

## **Section 28. CONDITIONS FOR CONTRACT AMENDMENTS AND TERMINATION**

28.1. The Competent Authority shall have the right to terminate unilaterally the Contract in the following cases:

- when the Contractor refuses to eliminate the reasons which caused the decision to suspend Exploration, either the reasons for that are not eliminated within the given period sufficient for their elimination;
- when the Contractor violates the Contract obligations;
- in case of non-fulfillment of requirements of a notification concerning violation of the Contract obligations within the term prescribed by the Competent Authority;
- if it is impossible to eliminate the reasons which caused the suspension of the operations for subsoil use;
- in case of a serious violation by the Contractor his liabilities, prescribed either by the Contract, or the Work program;
- in case of the Contractor' bankruptcy in accordance with the current legislation of the Republic of Kazakhstan, except for a case when subsoil use right is subject to pledge as per the Law "Concerning Subsoil and Subsoil Use" ;
- in case of non-fulfillment of item 3 of Article 71 of the Law "Concerning Subsoil and Subsoil Use" in reference to the preferential right of the State.

28.2. The Competent Authority shall have the right, before taking an appropriate decision about the termination of Contract, to demand an immediate termination of operations for subsoil use by means of sending a notification to the Contractor and the Contractor must without delay fulfill such a demand.

28.3. The Parties may stop actions or change the Contract terms only on the basis and in the manner specified by legislative acts of the Republic of Kazakhstan and the Contract.

28.4. The Parties shall not be released of fulfillment of the current liabilities, which have not been implemented by the moment of termination of the Contract or change of its terms.

28.5. Termination of the Contract shall not release the Contractor from the fulfillment of his liabilities to restore the contract territory to the state, safe for health and lives of the population and the environment in accordance with the liquidation plan, approved in the manner established by the legislation of the Republic of Kazakhstan.

## **Section 29. LANGUAGE OF THE CONTRACT**

29.1. The text of this Contract is made in three counterparts in the official, Russian and English languages and all counterparts are identical and have equal legal effect.

29.2. In the event of any discrepancy or conflict between the language versions, the Russian version shall prevail.

29.3. The Parties hereby agree that the official and the Russian languages shall be used for communication purposes. Starting from the Effective Date technical documents and all data concerning exploration shall be prepared in the official and the Russian Languages.

29.4. Documents and information relating to administrative activities shall be prepared in the official and the Russian languages.

## **Section 30. ADDITIONAL PROVISIONS**



30.1. All notifications and other documents required in connection with the Contract implementation shall be deemed duly delivered or handed in to each of the Contractual Parties only upon receipt.

30.2. Notifications and documents shall be handed in personally or sent by mail, registered airmail, fax, telex or by wire to the following addresses:

**Competent Authority's address:**

Astana, 010000  
22, Kabanbay Batyr Str.  
Tel.: +7 (3172) 97-68-01  
Fax: + 7 (3172) 97-68-65

**Ministry of Energy and Mineral Resources  
of the Republic of Kazakhstan**

Minister

B. Izmukhambetov

**Contractor's address:**

Almaty, 050091  
86, Gogol Str.,  
office # 609  
Tel./fax: +7 (327) 250- 99- 98

**"Falcon Oil and Gas Ltd."**

Alternate Director

B. Akchulakova

30.3. In case of changes of the addresses as listed in the present Contract each Party shall notify the other Party in writing.

30.4. All annexes to the Contract shall be deemed its integral parts. Upon discrepancy between annexes and the Contract provisions, the Contract shall prevail.

30.5 Amendments and additions to the Contract, which do not contradict with the Contract terms and conditions, shall be executed as written agreements between the Parties. Such an agreement shall be deemed an integral part of the Contract.

30.6 This Contract is made in three counterparts all having equal legal effect.

30.7 This Contract is executed on "27 august", 2007 in the city of Astana of the Republic of Kazakhstan by the authorized representatives of the Parties.

**Competent Authority:**

signature \_\_\_\_\_

**B. Izmukhambetov**

Minister of Energy and  
Mineral Resources of the  
Republic of Kazakhstan



**Contractor:**

signature \_\_\_\_\_

**B. Akchulakova**

Acting as Director of "Falcon Oil & Gas Ltd."



*[Handwritten signatures and initials at the bottom of the page]*

**TRANSLATION CERTIFICATE**

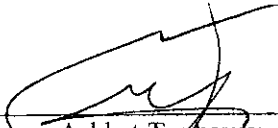
Reference is made to an English Language translation of Addendum No. 1, dated March 4, 2009, to the exploration contract, dated August 27, 2007, between the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan and Falcon Oil and Gas Ltd. LLP (the “**Addendum**”), a copy of which is attached hereto at Schedule “A”.

The undersigned, Askhat Tynbayev, hereby certifies that the English language translation referenced above is, in all material respects, a complete and accurate translation of the original Russian language version of the Addendum.

Holders of securities of the Corporation may request a copy of the original Russian language version of the Addendum. To request a copy of the Addendum, please contact:

Sandy Quilty  
Chief Financial Officer  
Tel: +1 (403) 201-9694

DATED as of the 23<sup>rd</sup> day of February, 2011.

  
Name: Askhat Tynbayev

**SCHEDULE "A"**

**ADDENDUM № 1**

**To Contract №2459 dated 27.08.2007 for Oil and Gas Exploration within  
Zharykamys West-1 Blocks XXIII-18 (partially), 19 (partially); XXIV-18  
(partially), 19 (partially); XXV-19 (partially) in the Aktubinsk Oblast of the Republic  
of Kazakhstan**

**between**

**THE MINISTRY OF ENERGY AND MINERAL RESOURCES**

(Competent Authority)

**and**

**Falcon Oil and Gas Ltd.**

(Contractor)

**Astana, 2009**

This Addendum # 1 to Contract № 2459 dated 27.08.2007 for Oil and Gas Exploration within Zharykamys West-1 Blocks XXIII-18 (partially), 19 (partially); XXIV-18 (partially), 19 (partially); XXV-19 (partially) in the Aktubinsk Oblast of the Republic of Kazakhstan was made between the Ministry of Energy and Mineral Resources (Competent Authority) and **Falcon Oil and Gas LTD** (Contractor) on March 4, 2009.

### **Preamble**

Whereas the Republic of Kazakhstan adopted a new Code on Taxes and Other Mandatory Payments to the Budget as of December 10, 2008, cancelling stable tax regime conditions for the Contract,

The Competent Authority and the Contractor have agreed to amend the Contract as follows:

- 1) To amend and restate Clause 30 of Section I of the Contract as follows: “**Tax legislation** shall mean the Code of the Republic of Kazakhstan on Taxes and Other Mandatory Payments to the Budget as of December 10, 2008”.
- 2) To amend and restate Section 15 of the Contract as follows:

#### **“SECTION 15. TAXATION**

- 15.1. The Contractor shall pay taxes and other mandatory payments to the budget as per the Tax legislation of the Republic of Kazakhstan effective at the time when such payment liabilities arise.
- 15.2. Subscription bonus.  
The Contractor shall pay the Subscription bonus in the amount of US\$8,000,000 (eight million US dollars) no later than 30 (Thirty) calendar days after the Effective Date of the Contract.
- 15.3. Customs payments.  
The Contractor shall pay all customs payments in compliance with the Customs legislation of the Republic of Kazakhstan in force as of the day of the customs declaration acceptance.
- 15.4. Transfer pricing.  
Should the price used in the course of a transaction execution vary from the market price, the state bodies which control application of transfer prices shall have the right to adjust units to be taxed in compliance with the legislation on state control of transfer prices application.
- 15.5. Provision of pensions, social deductions.  
The Contractor shall withhold and transfer mandatory pension fees of its employees to accumulative pension funds in compliance with the provisions of pension legislation, and shall be responsible for full calculation and timely payment of social deductions to the State social insurance fund in compliance with the mandatory social insurance law in force as of the date when such liabilities arise.
- 15.6. Punitive sanctions
  - 15.6.1. Punitive sanctions for violation of the Tax legislation shall be applied in

accordance with the legislation in force as of the date of commitment of such violation.

15.6.2. Fines for payments other than tax payments shall be applied at rates stipulated by the laws in force as of the date of commitment of such violation.”

- 3) The afore-mentioned tax regime comes into force effective January 1, 2009.
- 4) The remaining provisions of the Contract, including exhibits and addendums thereto not covered by this Addendum shall remain unchanged and lawfully valid to the full extent.
- 5) This Addendum №1 is an integral part of Contract № 2459 dated 27.08.2007 and comes into force on January 1, 2009.
- 6) This Addendum № 1 was signed in Astana by the authorized representatives of the Parties on March 4, 2009.

**COMPETENT AUTHORITY**

**Executive secretary  
of the Ministry of energy  
and mineral resources  
of the Republic of Kazakhstan  
Batalov A.B.**

**[signed]**

**[seal]**

**CONTRACTOR**

**Falcon Oil and Gas LTD**

**General Director  
Abishev A.G.**

**[signed]**

**[seal]**

Registered № 3434 date " 6 " november 2009

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**ADDENDUM № 2**

**To Contract №2459 as of 27.08.2007 for Oil and Gas Exploration within  
West Zharykamys -1 Blocks, Blocks XXIII-18 (partially), 19 (partially); XXIV-18  
(partially), 19 (partially); XXV-19 (partially)  
Situating in the Aktobe Oblast of the Republic of Kazakhstan**

**between**

**THE MINISTRY OF ENERGY AND MINERAL RESOURCES  
(Competent Agency)**

**and**

**"Falcon Oil and Gas LTD" Limited Liability Partnership  
(Contractor)**

**Astana, 2009.**

This Addendum №2 to Contract №2459 as of 27.08.2007 for Oil and Gas Exploration within West Zharykamys -1 Blocks, Blocks XXIII-18 (partially), 19 (partially); XXIV-18 (partially), 19 (partially); XXV-19 (partially) in the Aktobe Oblast of the Republic of Kazakhstan was concluded between the Ministry of Energy and Mineral Resources (Competent Agency) and "Falcon Oil and Gas LTD" Limited Liability Partnership (Contractor) on "6" november 2009.

### Preamble

Whereas

the Contractor applied to the Competent Agency with the request on amending the Work Program as it pertains to the transfer of financial obligations and physical volumes under Contract № 2459 as of 27.08.2007 without changing the total amount of the financial obligations under the Contract,

the Competent Agency passed the following resolution:

To allow amending the Work Program as it pertains to the transfer of financial obligations and physical volumes in year 2009 – to change from 11.850 million US dollars to 5.850 million US dollars; in year 2010 – leave 15.9 million US dollars without change; in year 2011 – to change 18.950 million US dollars to 26.950 million US dollars, and amending Contract №2459 as of 27.08.20 appropriately by July 9, 2009 (as per Protocol № 8 of April 9, 2009).

### Both the Competent Agency and Contractor agreed as follows:

1. To word Paragraph 1 in Section 30 "Definitions" of the Contract in the following way: "30. Tax Legislation means the Code of the Republic of Kazakhstan on Taxes and Other Mandatory Deductions to the Budget (Tax Code) as of December 10, 2008, as well as regulations the adoption of which is covered by the Tax Code.
2. To change the table in Paragraph 7.2.9 Section 7 "General Rights and Obligations of the Parties" of the Contract in the following way: in Column "Top Managers" Line 6 "Kazakhstani Staff" – replace number "60" with "70" and in Line 7 "Foreign Staff" – replace number "40" with "30".
3. To word Paragraph 8.4 Section 8 "Work Program" in the following way: "8.4. Work Scope and Cost under the Work Program for the Contract Territory. According to the terms of this Contract, the volume of investments into geological exploration during exploration period shall equal 53 (fifty three) million 500 (five hundred) thousand US dollars, to be spread in the following way:

Year of the Contract	Exploration Work	Volume, running km	Costs, thousand USD
<b>First year</b>	Purchasing of geological and geophysical information		20
	Reinterpretation of seismic data	100 running km	25



	Project development works: Ecological Audit Project, Environment Impact Assessment Project, Exploration Project, Drilling Project, etc.		90
	Payment of subscription bonus		8000
	Compensation of Historical Costs		31
	Office expenses, contingences, indirect costs		334
	<i>Total expenses for GEW (geological exploration works)</i>		8500
	Training of Kazakhstani specialists		85
	Social transfers to Aktyubinsk Oblast		750
	<b>Total in Year 1:</b>		<b>9335</b>
Second Year	Geological & geophysical justification: interpretation of geological and seismic data and well logging data		150
	Project development works: Ecological Audit Project, Drilling Project, etc.		100
	2D seismic exploration	350 running km	2050
	Reinterpretation of seismic data	400 running km	160
	Testing of exploration well		500
	Office expenses, contingences, indirect costs		1100
	<i>Total expenses for GEW (geological exploration works)</i>		4060
	Training of Kazakhstani specialists		40
	Deductions for the development of Astana city		1000
	Social transfers to Aktyubinsk Oblast		750
	<b>Total in Year 2:</b>		<b>5850</b>
Third Year	Drilling of 2 exploratory wells 2500 m deep		5550
	3D seismic exploration	50 sq.km	1000
	Seismic data processing	50 sq. km	600
	Project development works including Field Pilot Operation Project, Field Surface Facilities Construction Project.		250
	Expenses for Field development		2600
	Drilling of appraisal wells		4000
	Office expenses, contingences, indirect costs		1000
	<i>Total expenses for GEW (geological exploration works)</i>		15 000
	Training of Kazakhstani specialists		150
	Social transfers to Aktyubinsk Oblast		750
	<b>Total in Year 3:</b>		<b>15 900</b>
Fourth Year	Drilling of wells 2500 m deep		15140
	Development of Field production infrastructure		1950
	Approval of reserves by the State Reserves Committee of the Republic of Kazakhstan		600
	Field pilot operation		1 400
	Expenses for Field development		4 850
	Office expenses, contingences, indirect costs		2 000
	<i>Total expenses for GEW (geological exploration works)</i>		25 940
	Training of Kazakhstani specialists		260
	Social transfers to Aktyubinsk Oblast		750
		<b>Total in Year 4:</b>	
	<b>Total in all for geological exploration</b>		<b>53 500</b>
	<b>Costs, in all</b>		<b>58 035</b>

4. Table 1 of the Work Program for the Contract Territory of West Zharykamys-1 within Blocks XXIII-18 (partially), 19 (partially); XXIV-18 (partially), 19 (partially); XXV-19 (partially) in the Aktobe Oblast of the Republic of Kazakhstan which is an Appendix to the Contract shall be replaced with Table 1 given in Appendix №1 appended to this Addendum №2 of the Contract.

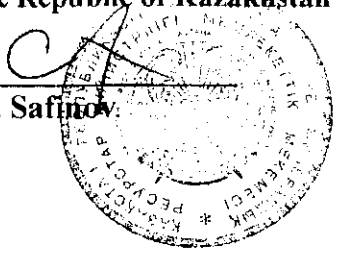
5. This Addendum № 2 is an integral part of Contract № 2459 as of 27.08.2007 and comes into force as soon as the Competent Agency registers it.

6. This Addendum № 2 to the Contract was prepared in 3 (three) counterparts in the State Language, in the Russian and English languages and concluded on "6" november 2009 in Astana, the Republic of Kazakhstan, by the authorized representatives of the Competent Agency and Contractor.

**The Signatures of the Parties:**

**Executive Secretary  
Ministry of Energy and Mineral Resources  
of the Republic of Kazakhstan**

K.B. Safirov



**"Falcon Oil and Gas LTD" LLP  
General Director**

*[Handwritten signature]*

A.G. Abishev

*[Handwritten signature]*