



CONTRACT

for Gas Production in Kzyloy Field

**within License Blocks XXI-23-b (partially), c (partially),
e (partially), f (partially), XXIX-24-a (partially), d (partially)**

Shalkar District, Aktyubinsk Region

between

**Ministry of Energy and Mineral Resources, Republic of Kazakhstan
(hereinafter referred to as "Competent Authority")
and**

**Limited Liability Partnership "BN Munai"
(hereinafter referred to as "Contractor")**

Astana, 2005

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Present contract for gas production in Kzyloi field within license blocks XXI-23-b(partially), c (partially), e (partially), f partially), XXIX-24-a (partially), d (partially), Shalkar District, Aktyubinsk Region, between Ministry of Energy and Mineral Resources, Republic of Kazakhstan (Competent Authority), and Limited Liability Partnership "BN Munai" (Contractor) is concluded on "___" _____ 2005 based on the License for subsoil use in Kazakhstan # MG 980 (oil) dated 12 June 1997 and Resolution of the Government on transfer of rights for subsoil use dated 19 July 2001..

PREAMBLE

Taking into consideration that:

1. In accordance with the Constitution of the Republic of Kazakhstan subsoils and their mineral resources are owned by the state.
2. Republic of Kazakhstan intends to use natural resources efficiently, including gas production in Kzyloy, within license blocks XXI-23-b(partially), c (partially), e (partially), f partially), XXIX-24-a (partially), d (partially), Shalkar District, Aktyubinsk Region.
3. Contractor wishes and is able financially to produce gas within license blocks XXI-23-b(partially), c (partially), e (partially), f partially), XXIX-24-a (partially), d (partially), Shalkar District, Aktyubinsk Region as per the Contract.
4. The Government of the Republic of Kazakhstan has authorised the Competent Authority to conclude and perform the Contract.
5. The Competent Body and Contractor agreed that the Contract will regulate their mutual rights and liabilities of gas production in Kzyloy, within license blocks XXI-23-b(partially), c (partially), e (partially), f partially), XXIX-24-a (partially), d (partially), Shalkar District, Aktyubinsk Region. The Competent Authority and Contractor agree on the following:

1. DEFINITIONS

The definitions and terms that are not explained in the Section shall have the meaning corresponding to those contained in Law "On Subsoil and Subsoil Use" dated 27 January, 1996, (hereinafter referred to as the Law "On Subsoil"), "On Oil" and other legislative acts on special kinds of Mineral Resources and technogenic mineral formations.

1. **Safety Subsoil use** – provision with technical, ecological and sanitary-hygienic safety during subsoil use operations.
2. **Annual work programme** – plan of subsoil user's actions for calendar year, including volume and direction of mining work development on production and financial expenses.
3. **Mining Allotment** – document specifying graphically and descriptively the territorial boundaries of the area for production.
4. **Production** – works (operations) related to recovery of mineral resources from subsoils to the surface, including temporary storage of minerals.
5. **Kazakhstan producer** – physical person or legal entity of the Republic of Kazakhstan producing goods. Operating and rendering services of Kazakhstan origin.
6. **Kazakhstan origin (goods, operations and services of Kazakhstan origin)** – direct production (fulfillment) of the goods, operations and services on the territory of the Republic of Kazakhstan.
7. **Kazakhstan content** – percentage with ability to year redistribution of volumes:
 - Enabled during Kazakhstan specialists' contract fulfillment with dividing into categories specifying percentage on each category in comparison with foreign staff, quantity of which should be reduced by years as realization of obligatory programme for training and raising the level of Kazakhstan specialists' skill.
 - Volumes of goods, operations and services of Kazakhstan origin acquired both directly and by signing subcontractor's agreement.
8. **Laws on Subsoils** – Law of the Republic of Kazakhstan "On Subsoils and Subsoil Use", "On Oil" #2828 dated 27 January, 1996, all amendments and annexes to it and other legislative acts on special mineral resources.

9. **Competent Authority** – State authority determined by Government of the Republic of Kazakhstan acting on behalf of the Republic of Kazakhstan on rights exercising directly related to the conclusion and execution of the Contract.
10. **Contract** – the Contract on gas production in Kyzyluy field in Aktyubinsk region concluded between the Competent Authority and “BN Munai” LLP, drawn up in accordance with legislative acts of the Republic of Kazakhstan acted at the moment of signing .
11. **Contractual Territory** – territory specified in the mining allotment for the purpose of subsoil use as per the Contract terms.
12. **Liquidation fund** – fund formed by subsoil user for elimination of subsoil use operations’ consequences as per the Contract.
13. **Deposit** – deposit of gas in Kyzyluy field in Aktyubinsk region.
14. **Minerals** – part of subsoil containing minerals recovered to the surface.
15. **Tax Code** – the Code of the Republic of Kazakhstan “On Taxes and Other Obligatory Payments to Budget” dated 12 June 2001 No. 209-II changes and amendments to it on the date of the Contract.
16. **Tax legislation** – tax code and other legislation acts regulating discharge of tax and other obligatory payments to budget.
17. **Subsoils** – part of the crust below its veneer, in case it is missing - below the surface and reservoirs bottom to the depths accessible for subsoil use operations based on scientific and technological progress.
18. **Subsoil Use Operations** – works related to gas production in Kyzyluy field, Aktyubinsk region as per the Contract.
19. **Conservation of Subsoil** – system of arrangements provided by legislation of the Republic of Kazakhstan On Subsoil and Subsoil Use for prevention of subsoil pollution during subsoil use operations, for total and complex extraction of minerals during production, for reduction of harmful environment effect of subsoil use operations.
20. **Contractor** – Limited Liability Partnership “BN Munai”, that has concluded the Subsoil Use Contract with the Competent Authority.
21. **Mineral Wealth** – hydrocarbon (gas) in subsoil.
22. **Good Practice of Deposits Development** – generally accepted international practice used by Subsoil Users while production as rational, safe, necessary and economically efficient.
23. **Right of Subsoil Use** – right of Subsoil User to own and use subsoil within the contract bounds in accordance with the present Contract.
24. **Work Programme** – all types of plans prepared for subsoil use operations.
25. **Parties** – Competent Body and Contractor taken together.
26. **Subcontractor** – a legal entity or a physical person that has concluded an agreement with Contractor on any part of the Contractor’s liabilities under the Contract.
27. **Third Party** – any physical person or legal entity, except the Party under the Contract.
28. **Confirmed Reserves** – geological and recoverable mineral reserves assessed by the state expertise commission.
29. **Subsoil Area (Block)** – geometrized part of subsoil allotted within certain boundaries for subsoil use.

2. AIM OF CONTRACT

- 2.1. The Contract is aimed at determining and formulating in legal terms the relationship between the Competent Authority and Contractor on the basis of the legislation in force on the Contract Effective Date.

3. CONTRACT EFFECTIVE PERIOD

- 3.1. The Contract becomes effective from the date of its state registration by the Competent Authority (plenipotentiary state authority) with obligatory issue of Certificate of Contract registration.
- 3.2. The Contract shall be valid till the last date of the License validity - 12.06.2007.
- 3.3. The extension of the Contract term is possible after extension of the License term by agreement of the Parties according to the state legislation.
- 3.4. In case of the Contract term extension, the Contract conditions are to be changed by a written agreement of the Parties in the form of Additional Agreement to the Contract which should take

into account omitted economic interests of the government as a result of delay of Contract conclusion.

4. CONTRACTUAL TERRITORY

- 4.1. Contractor shall carry out gas production in Kyzyluy, Aktyubinsk Region, within the Contractual Territory according to the terms of License and Contract.
- 4.2. If during gas production in Kyzyluy filed, Atobe Oblast it is uncovered that the geographical boundaries of the deposits go beyond the Contractual territory specified in Mining Allotment, the question of its extension shall be resolved through the amendment of the Contract without competition, as per legislation.
- 4.3. Contractual territory is returned as far as production goes, as per Work Programme.

5. PROPERTY RIGHT FOR ASSETS AND INFORMATION

- 5.1. All tangible and non-tangible assets acquired by the Contractor for gas production in Kyzyluy, Aktyubinsk region, is Contractor's property.
- 5.2. The property right for the assets specified in Item 5.1. of the Contract may be mortgaged or otherwise burdened in favour of the Third Party in order to provide financing for hydrocarbon exploration in accordance with the State legislation.
- 5.3. The data on the subsoil geological structure, mineral resources contained in them, geological parameters of the deposits, volume of reserves, conditions of the development and other characteristics of Subsoil, contained in geological reports, maps and other materials belongs to the State if based on budget allocations, and it is owned by Contractor, if received for the account of Contractor's internal funds.
- 5.4. The Contractor can purchase the state-owned information on Subsoil of the Contractual Territory from the Plenipotentiary Body on Geology and Subsoil Use in the order determined by the State legislation.
- 5.5. Geological and other information on Subsoil received by Contractor in the process of gas production in Kyzyluy, Aktyubinsk Region, is to be transferred mandatory and free for storing, systematizing and summarizing to the Plenipotentiary Body on Geology and Subsoil Use.
- 5.6. The use for training, scientific, commercial and other purposes of the geological data on Subsoil obtained for the Contractor's account and transferred by him as per Item 5.5. of the Contract will be determined on the basis of a separate agreement between Contractor and the Plenipotentiary Body on Geology and Subsoil Use.
- 5.7. After the termination of the Contract all geological information passes to the ownership of the State. The Contractor has to transfer all documents and other material carriers of geological information including the initial data free of charge to the Plenipotentiary Body on Geology and Subsoil Use.

6. RIGHT OF GOVERNMENT TO PURCHASE AND REQUISITION OF MINERAL RESOURCES

- 6.1. In case of war, natural calamities and other cases envisaged in the laws on emergency situations, the Government has the right to requisition a part or a whole quantity of Mineral Resources possessed by the Contractor. The requisition can be effected in the amounts necessary for the State needs during the period of the emergency situation.
- 6.2. The State guarantees the compensation for the requisitioned Mineral Resources in kind or through the payment of their value at world market prices in effect on the requisition date (for foreign contractors in freely convertible currency and in national currency for national contractors).
- 6.3. The State has the priority right for the purchase of gas from the Contractor at prices not exceeding world market prices. Volume, price and purchase terms are to be determined by separate agreement of the Parties.

7. GENERAL RIGHTS AND LIABILITIES OF PARTIES

- 7.1. **Contractor has the right to:**
 - 7.1.1. Produce gas on the Contractual Territory on the exclusive basis.

- 7.1.2. Act independently and lawfully within the framework of subsoil use on the Contractual Territory as per the terms stated in the Contract.
 - 7.1.3. Use the results of his activities, including gas, at his own discretion.
 - 7.1.4. Build on the Contractual territory, and in case of necessity on other land areas assigned to the Contractor according to the established procedure, industrial and social facilities necessary for gas production.
 - 7.1.5. Use general objects and communications on the agreement with the owners both on the Contractual territory and beyond it.
 - 7.1.6. Hold negotiations, first and foremost, on the extension of the Contract term as per the procedure set forth in Item 3.3. of the Contract.
 - 7.1.7. Invite Subcontractors for separate kinds of work related to gas production.
 - 7.1.8. Assign all or a part of his rights to third parties observing conditions of the Contract and State legislation.
 - 7.1.9. Terminate his activities on conditions determined by the Contract and State legislation.
 - 7.1.10. In case of the Contract termination the Contractor has the right to dispose of the assets in his possession, if not envisioned otherwise in the Contract.
 - 7.1.11. Contractor's rights can be amended based on the Parties' agreement, if that does not contradict State legislation.
- 7.2. **Contractor is liable to:**
- 7.2.1. Commence implementing the Work Programme confirmed by the Parties within 60 days from the moment of the Contract signing.
 - 7.2.2. Choose the most efficient methods and technologies during gas production based on the standards accepted in the world practice.
 - 7.2.3. Use the Contractual territory only for the purposes envisaged in the Contract.
 - 7.2.4. Carry out gas production in strict conformity with the State legislation and Work Programme.
 - 7.2.5. Not hamper other persons to freely move within the Contractual territory, use general facilities and communications, carry out any types of works, including Exploration and Production of other natural resources except gas, if it is not connected with special safety conditions, and if such activities do not interfere with gas production.
 - 7.2.6. Observe technological plans and projects of gas production ensuring the safety of the personnel and population through the established procedure.
 - 7.2.7. Necessarily use equipment, materials and final products produced in the State, if they fit standards and other requirements for bids in Kazakhstan in the order set forth by the Government of the Republic of Kazakhstan.
 - 7.2.8. Necessarily involve national enterprises and organisations for work and services during gas production, including the use of air, railway, water and other types of transport, if their services fit standards and other requirements for bids in Kazakhstan in the order set forth by the Government.
 - 7.2.9. Give preference to the Kazakhstan specialists and create jobs during gas production.
 - 7.2.10. Submit the Work Programme and full information on the process of its implementation to the Competent Authority..
 - 7.2.11. Contractor allocates not less than 1% of the total amount of Exploration Expenses for professional training of the Kazakhstan personnel participating in the work under the Contract. If the funds allocated for training exceed the real need of resources for training the balance of the amount is used to finance priority tasks of secondary education as per Agreement on interaction between Ministry of education and Ministry for Energy and Mineral Resources, Republic of Kazakhstan. Information on the balance of the amount is submitted to the Competent Authorities after approving Yearly Work Programme and the budget for the following year of the Contract.
 - 7.2.12. Present without hindrance necessary documents, information and access to work sites to the State controlling bodies when they perform official functions, timely eliminate violations discovered by them.
 - 7.2.13. Transfer the information on gas production to Third Parties, if necessary, only on a written agreement of the other Party.
 - 7.2.14. Pay taxes and other obligatory payments to the budget, including penalties for environmental pollution, on a timely basis.
 - 7.2.15. Preserve objects of cultural and historical importance situated on the Contractual Territory during the activities.

- 7.2.16. Forecast long-term ecological effects of the activities related to the performance of the Contract. Not later than 2 years after beginning of Contract activities Contractor should submit to the Competent Authority and State bodies in charge of the environmental protection, on the basis of their written request, forecast of long-term ecological effects and detailed reports on acts undertaken by Contractor to minimize such negative effects related to the performance of the Contract. Contractor at his own expense should undertake such actions to minimize negative long-term ecological effects according to reasonable request of the Competent Authority and State bodies in charge of the environmental protection.
- 7.2.17. Leave the Contractual Territory in the state conforming to the requirements of the mining and sanitary surveillance, subsoil and environmental protection.
- 7.2.18. Restore the land areas and other natural objects damaged by the Contractor's activities under the Contract to the state fit for further use in compliance with the requirements of the State legislation.
- 7.2.19. Include before drilled wells and wells located on the Contractual Territory in Contractor's balance for monitoring.
- 7.2.20. Conclude an agreement on flush safety with enterprise which has license of the Republic of Kazakhstan.
- 7.2.21. Take part in social and economical development of the Region at the rate of \$30 000 (thirty thousand) annually, according to the agreement with Akimat of Aktyubinsk Region.

7.3. Liabilities of Competent Authority

- 7.3.1. Ensure execution and termination of the Contract according to the procedure and on the grounds envisaged by the State legislation.

7.4. Rights of Competent Authority

- 7.4.1. Represent the State during negotiations with Contractor related to the terms of the Contract.
- 7.4.2. Demand regular reporting from the Contractor on the performance of the Contractual terms. Request for other information related to the Contract.
- 7.4.3. Inspect Contractor's gas production, including Contractor's documentation related to the contractual activities.
- 7.4.4. Have access to any works on the Contractual Territory with regard to gas production.

8. WORK PROGRAMME

- 8.1. Contractor shall carry out gas production in accordance with the Work Programme approved by the Competent Authority.
- 8.2. The Work Programme is prepared on the basis of feasibility analysis, state estimation of field reserves and other materials and positive practice of field development.
- 8.3. Contractor can propose the changes and/or amendments to be introduced in the confirmed Work Programme. Changes, additions and amendments to the Work Programme are to be introduced in a written form in case of mutual agreement of the Parties.
- 8.4. Contractor's liabilities by years:
 - 2005: \$1 440 000, including preparation and signing of technical drafts, contract, start of field construction, construction of gas pipeline of 35km long.
 - 2006: \$360 000, including workover of earlier drilled 5 wells.
 - 2007: \$160 000, including historical cost payment and start of production activities.

9. PRODUCTION PERIOD

- 9.1. Contractor has exclusive right for production on the Contractual Territory over the validity period of the License.
- 9.2. Contractor starts Production according to the Work Programme after Competent State Authorities of RK approve project documentation on the field construction and development.
- 9.3. Contractor has to organize production in compliance with legislation of the Republic of Kazakhstan and with order and terms appointed by the Contract. During gas production

Contractor must follow requirements set forth by state authorities in compliance with their competence according to the State legislation.

- 9.4. Contractor operates as per approved production project.
- 9.5. Contractor has to be guided by positive practice of field development in preparing production projects and in production itself.

10. ACCOUNTING AND REPORTING

- 10.1. Contractor undertakes to keep records and retain the accounting documents pertinent to gas production under the Contract during the established period in compliance with the State laws.
- 10.2. Contractor submits a detailed yearly report on his activities to the Competent Authority before 25th April of the next year attaching forms # 2 LKU (report on accomplishment on license and contract terms).
- 10.3. Contractor submits reports on his activities to the state authorities according to established procedure and in time set forth in the State legislation.
- 10.4. The Competent Body has the right to check the observance of the Contractual terms by Contractor and send representatives to attend Contractor's gas production.

11. HYDROCARBON MEASUREMENT

- 11.1. Contractor according to the methods and practice used in the State makes the measurement of gas produced from the Contractual Territory.
- 11.2. Contractor tests the equipment and appliances used for gas measurement periodically in the presence of the Competent Authority specialist in metrology and standards.
- 11.3. If during a test or inspection the fault of the equipment or the appliances have been discovered and the exact deficiency period cannot be determined, then this period shall be accepted as half of the period from the previous measurement to the date when the fault has been discovered.
- 11.4. If Contractor considers it necessary to introduce changes in applied methods or replace measurement appliances, he has to give to the Competent Authority in metrology and standards at least a 30 days notice about it to allow his representatives to attend the procedure.

12. PERFORMING SUBCONTRACTUAL WORK

- 12.1. Contractor submits to the Competent Authority, as a part of the Work Programme, a plan of subcontractual works, a list of subcontracts for delivery of materials, equipment and services to be concluded in the following calendar year, estimation of subcontracts cost, and a list of potential Kazakhstan and foreign subcontractors.
- 12.2. As a rule, Contractor invites Subcontractors on a competitive basis.
- 12.3. Contractor is responsible for the performance of subcontractual works in accordance with the State legislation.

13. FINANCING

- 13.1. Contractor undertake to fully finance his activities under the Contract as per the Work Programme agreed by the Parties.
- 13.2. Contractor can freely obtain credits in any currency here and abroad in order to finance his activities, if it does not contradict to the State legislation.
- 13.3. Contractor can have accounts both in national and foreign currencies in national and foreign banks in order to perform the Contract and obtain financing as receipts and income under the Contract.
- 13.4. All settlements under the Contract are to be made according the procedure determined by the State legislation.
- 13.5. Contractor and Subcontractors carry out operations with currency as per the State legislation on currency regulation.

14. ACCOUNTING

- 14.1. Contractor undertakes to maintain accounting of all receipts and expenses related to the Contract execution in compliance with the accounting procedures determined by the State legislation.
- 14.2. All Contractor's ledgers and accounting documents are available for inspection by the Competent Authority and state organizations in compliance with their competence determined by the State legislation.

15. TAXES AND OTHER OBLIGATORY PAYMENTS

- 15.1. During Contract execution Contractor undertakes to pay all taxes and other obligatory payments acting at the moment of occurrence of such obligations under rates, in terms, in sizes and the order according to the tax laws of the Republic of Kazakhstan.
- 15.2. **The subscription bonus** is paid by the Contractor in the following order:
The Contractor pays a subscription bonus at a rate of 8 000 (eight thousand) US dollars not later than 30 (thirty) calendar days from the date of signing the present Contract.
The declaration on a subscription bonus is represented by the Contractor to tax body in a place of registration up to 15 (fifteenth) dates following after month in which appeared such payment obligation.
- 15.3. **Custom duties.**
Contractor meets custom duties payment engagement according to tariff legislation in force on the date when there appeared such payment obligation.
- 15.4. **Transfer pricing.**
According to the tax laws Tax bodies have the right to control Contractor's correct of application of the prices under transactions by way and cases stipulated by the legislation of the Republic of Kazakhstan regulating State control at application of the transfer prices and at establishment of the fact of a deviation of the price of the transaction from a market price; correct objects of the taxation and tax obligations according to the legislation of the Republic of Kazakhstan.
- 15.5. **Tax reporting**
Tax reporting of the Contractor represents the documentation containing the information on calculation of tax obligations of the legal entity except for the tax reporting on subsoil user's payments presented by the Contractor separately.
- 15.6. **Tax border**
The Contractor is obliged to conduct the separate account for calculation of tax obligations on the activity which is carried out within the limits of the Contract, and calculation of tax obligations on the activity which is beyond the given Contract.
- 15.7. **Access to Data.**
 - 15.7.1. Contractor accepts that the national tax authorities must have access to the data related to any Contractor's bank accounts, including those opened in foreign banks beyond Kazakhstan.
 - 15.7.2. Contractor has to submit to representatives of State organs authorized to arrange inspection all necessary information related to Contractor's activities under the present Contract electronically or in any other way.

15.8. PROVISION OF PENSIONS

Contractor charges and transfers to the Pension Fund obligatory pension payments of his employees according to the pension provision legislation acting at the moment of appearing of such obligations.

15.9. COMPENSATION OF HISTORICAL COSTS

Contractor is obliged to pay historical costs to the budget according to clauses of Agreement on Purchase of Geological Data №779 dated 02 May 2002.

As per Agreement on Purchase of Geological Data № 779 dated 02 May 2002 (hereinafter - Agreement) between Committee on Geology and Subsoil Protection attached to the Ministry of Energy and Mineral Resources, Republic of Kazakhstan, and BN Munai LLP **historical costs** amount to USD 1,216,890 (one million two hundred sixteen thousand eight hundred ninety).

For the right to use geological data Contractor pays 0.5% of amount of historical costs which is reaches USD 6 084 (six hundred eighty four) as per Item 1.2. of the present Contract;

Contractor pays the balance of historical costs in the amount of USD 1 210 806 (one million two hundred ten thousand eight hundred six) by equal parts on a quarterly basis at the rate of USD 43 244 (forty three thousand two hundred forty four) starting from the third year till full pay off.

Contractor is held liable for violation of calculation order and date of payment of historical costs, tax, and other obligatory payments to the budget as per the Tax Code.

16. INSURANCE

- 16.1. During 90 days since the Contract Effective Date Contractor elaborates and submits to the Competent Authority for approval the programme of risk, property and liability insurance related to gas production.
- 16.2. The property and liability risks connected with the following are subject to insurance:
 - transportation and warehousing of cargo delivered to the gas production sites, the Contractor's property utilized in the process of gas production, including leased property;
 - contamination of the environment, including land, and expenses of the environmental damage liquidation, including land melioration and recovery;
 - general civil and legal responsibility before Third Parties.
- 16.3. Contractor has to insure his personnel, including hurt of health, life of staff and local people as per legislation on protection of labour, including insurance against production accidents, occupational diseases and related injuries and risks including treatment.
- 16.4. At his own discretion, Contractor chooses insurance companies as per the State legislation.

17. LIQUIDATION AND LIQUIDATION FUND

- 17.1. Not later than 2 years after the Contract Effective date Contractor submits to the Competent Authority for confirmation a programme on the liquidation of the consequences of his activities under the Contract, including the liquidation cost estimation.
- 17.2. The liquidation programme must include the removal or liquidation of constructions and equipment used in Contractor's activities on the Contractual Territory. Liquidation, conservation of oil, gas and other wells should be carried out in accordance with the requirements of " Stature of well conservation at oil and gas fields, gas storage facilities and at termal water field ", " Stature of order of oil, gas and other wells liquidation and writing off of their construction ".
- 17.3. Contractor establishes the liquidation fund sufficient for liquidation works as per the liquidation programme amounting to 1% of operational costs.
- 17.4. 1% deductions to the liquidation fund are made by Contractor annually to a special deposit account in any bank on the territory of Kazakhstan and included in gas production costs. Contractor uses the fund with the permission of the Competent Authority coordinated with the authority on subsoil use and protection and General Executive Body in charge of environment protection.
- 17.5. If actual cost of the liquidation exceeds the amount of the liquidation fund, Contractor ensures additional financing for the liquidation.
- 17.6. If actual cost of the liquidation is less than the amount of the liquidation fund, the surplus is transferred to Contractor and included in the taxed income.
- 17.7. If the State decides to continue the operation of all or a part of facilities transferred to the state ownership by Contractor after the Contract termination, then Contractor would not be liable for the liquidation programme, and would transfer all rights for the assets accumulated in the liquidation fund to the State.

18. SUBSOIL AND ENVIRONMENTAL PROTECTION

- 18.1. In the process of the Contract execution Contractor must observe the national legislation pertinent to subsoil and environmental protection, sanitary-and-epidemiologic well being and take all necessary measures in order to:
 - protect life and health of the population;
 - ensure efficient and complex use of mineral resources;
 - preserve natural landscapes and recultivate damaged lands and other geomorphological structures;
 - preserve the state of the subsoil upper layer to prevent earthquakes, landslides, rise of ground waters, ground sagging.
- 18.2. During hydrocarbon exploration Contractor should give priority to the following:

1) Ecological requirements:

- to preserve the natural environment;
- to prevent turning lands into deserts due to technogenic reasons;
- to prevent water and wind erosion of lands;
- to isolate lost circulation and fresh water horizons to exclude their contamination;
- to prevent subsoil waters depletion and contamination;
- other requirements as per the legislation on subsoil use and environmental protection;
- to carry out industrial impact monitoring according to program coordinated with State bodies in charge of environmental protection.

2) Subsoil protection requirements:

- to ensure full leading geological subsoil studies in order to have a reliable estimate of the dimension and structure of hydrocarbon reserves, deposits, and subsoil areas granted for use including those granted for purposes not related to production;
- to ensure efficient and complex use of Subsoil resources on all stages of gas production;
- to ensure fullness in gas recovery;
- reliable accounting of recovered and remaining reserves of main and associated minerals and components, processed minerals and production wastes in field development;
- use of subsoil as per legislative requirements related to subsoil protection against hazardous technogenic processes in production, construction and operation of underground facilities irrelevant to production;
- to protect subsoils from water encroachment, fire, blasts, collapses and other factors deteriorating their quality or complicating field operation and development;
- to protect subsoil from contamination during production;
- to observe the procedure of suspension and termination of gas production, envisaged by Section 27 of the Contract, and facility abandonment as per Section 17 of the Contract;
- to ensure the observance of sanitary-and-epidemiologic and ecological requirements in stocking and placing industrial and household wastes in order to prevent their accumulation on drainage basins and near ground water deposits.

3) Sanitary-and-epidemiologic requirements:

- organize sanitary-protective belt (SPB);
- within the bounds of sanitary pollution belt keep concentration of surface hazardous substances not exceeding maximum concentration limit for population taking into account the background pollution;
- arrange laboratory control of air condition at working area and hazardous negative physical industrial factor at workplace;
- ensure construction of SPB;
- ensure improvement of SPB;
- all equipment, pipelines, chemicals etc. should be from those permitted for use by authorities of sanitary-epidemiological surveillance;
- ensure sanitary and hygienic measures aimed at preserving sanitary and hygienic conditions, prevention of industrial diseases and traumatism;
- creation of conditions favourable for improving the workers' health.

Contractor ensures full and reliable geological, hydrogeological, ecological, sanitary-and-epidemiologic, engineering-geological and technological studies of gas production object.

18.3. During Contract execution Contractor should consider that the necessary ecological basis for carrying out of operations on subsoil use is the positive conclusion of the State ecological examination for carrying out of these operations and given out on its basis the sanction to wildlife management by the agencies in charge of environment protection.

18.3.1. The contractor is obliged to provide granting for the state ecological examination of all design documentation containing an estimation of influence of planned activity on an environment and section "Environment protection" arranging actions for the period of realization and termination of operations on subsoil use or preservation of deposit development.

18.4. Contractor must keep monitoring of Subsoil and environment in order to study the impact resulted from the activities under the Contract and take timely preventive measures in case of a negative effect. Data of industrial monitoring and reporting on environment influence should be transferred to special representatives in charge of environment protection.

18.5. The Contractor must eliminate the damage to the environment if any, perform restoration works and fully compensate an inflicted damage to nature.

- 18.6. State control of observance of nature and environmental legislation is executed by authorised state services.
- 18.7. Contractor performs works preservation of natural environment on the Contractual Territory.
- 18.8. After termination of the Contract or in case of return of Contractual Territory stage by stage, Contractor returns it in a state fit for further direct use in accordance with the State legislation.
- 18.9. Any damage (deterioration) of the environmental conditions and the Contractual Territory during the work under the Contract is recovered on the Contractor's account to the state fit for further direct use.
- 18.10. In case of excess pollutant emissions and emergency conditions Contractor should urgently inform Central agency in charge of environment protection and territorial bodies of State epidemiologic inspection.

19. POPULATION AND PERSONNEL SAFETY

- 19.1. During gas production under the Contract Contractor must ensure observance of the operation safety rules and regulations as per the State legislation, as well as take measures of warning and liquidation of accidents and professional diseases.
- 19.2. Gas production is prohibited if it is hazardous for human health and life.
- 19.3. Specially authorised state body controls observance of the rules and regulations for technical safety and industrial sanitary during gas production.
- 19.4. The main safety requirements of gas production include the following:
 - access to the works for people with special training and qualification, the mining works management should have relative education and certificate of health according to acting order of the Agency of the Republic of Kazakhstan in charge of health protection;
 - provision of the persons participating in gas production with work outfit and means of individual and collective protection;
 - provision of the workers totally with sanitary accommodation space, high quality drinking water and food;
 - use of machinery, equipment and materials corresponding to the safety requirements and sanitary standards;
 - keeping records, due storing and utilising explosives and explosion appliances, their correct and safe use;
 - a complex of geological, mining and other surveys necessary to ensure a technological work cycle and forecasting of dangerous situations;
 - approval of development draft with territorial form of state control on safety work completion;
 - radiation protection;
 - timely filling in technical documents and plans with the data on accidents liquidation, verifying the boundaries of safe operation zones;
 - keeping of projects and technological specifications of field development and construction.
- 19.5. Contractor's management has to urgently suspend works, provide transportation of the people to a safe place and inform the Competent and local executive authorities in case of hazardous situation for the workers or the population.
- 19.6. Contractor compensates for the damage to health of people caused at work as per the State legislation.
- 19.7. Contractor has to develop program of actions on accident precaution and other dangerous situations during hydrocarbon operations and approve them in the Agency for Emergency Situations of the Republic of Kazakhstan.
- 19.8. State control over observance of the legislation of the Republic of Kazakhstan on maintenance of sanitary and epidemiological well-being of the population is arranged by bodies of the state sanitary-and-epidemiological supervision of the Republic of Kazakhstan.

20. CONTRACTOR'S RESPONSIBILITY FOR VIOLATION OF CONTRACT TERMS

- 20.1. Contractor's deals are considered illegal on reasons envisioned by the State legislation.
- 20.2. Contractor is fully responsible for the impact of actions specified in Items 20.1. of the Contract before Competent Authority and Third Parties.

- 20.3. Persons guilty of such deals and other violations of the State legislation bear disciplinary, material, administrative and criminal responsibility within the relevant laws.

21. FORCE MAJEURE

- 21.1. Neither Party is responsible for non- or undue performance of any contractual liabilities, if such non- or undue performance is caused by the force majeure circumstances.
- 21.2. The force majeure circumstances include extraordinary and unforeseen circumstances in a given situation, such as: military conflicts, natural disasters and calamities (fires, etc.). The above list is not considered complete.
- 21.3. In case of force majeure circumstances the suffering Party promptly informs the other Party about it handing in or posting a written notice indicating the force majeure commencement date and description.
- 21.4. In case of force majeure circumstances the Parties promptly hold a meeting to find a solution of the situation and use all means to reduce the effect of such circumstances to the minimum.
- 21.5. In case of full or partial suspension of Contractual works due to force-majeure circumstances, the work period is extended by the period of force majeure and renewed since its termination date.

22. CONFIDENTIALITY

- 22.1. Information received or obtained by any Party in the process of the Contract execution is confidential. The Parties can use confidential information for preparation of necessary reports envisaged by the State legislation to interested in it State bodies.
- 22.1. The Parties have no right to disclose the confidential information to Third parties without the other Party's consent, except if:
- such information is used in the course of a court proceeding;
 - information is handed over to Third parties rendering services to the Contractor, subject to the condition that such Third person shall undertake to consider this information as confidential and use it only for the purposes specified by the Parties during the period specified by the Parties;
 - the information is submitted to the bank or another financial organisation from where Contractor receives its financial resources, subject to the condition that such bank or another financial organisation undertakes to consider this information as confidential and use it only for specified purposes.
- 22.2. According to the State legislation the Parties determine the term of confidentiality for all documents, information and reports related to gas production on the Contractual Territory.

23. TRANSFER OF RIGHTS AND LIABILITIES

- 23.1. Transfer of rights and liabilities under the Contract to a Third Party (except mortgaging) shall be allowed only with a written permission of the Competent Authority. The Competent Authority cannot deny Contractor's option to transfer subsoil rights to its affiliated company if Contractor gives guarantees of full execution of liabilities under the Contract jointly and severally with the affiliated legal entity.
- 23.2. Expenses connected with the transfer of rights and liabilities under the Contract are born by Contractor, they are not compensated by the State.
- 23.3. As long as Contractor has any share in the Contract, he and the Third Party, to whom Contractor has transferred rights and liabilities, shall bear joint responsibility under the Contract.

24. APPLICABLE LAW

- 24.1. The applicable law for the Contract and other agreements signed on the basis of the Contract is the State legislation if not envisioned otherwise in international agreements in which Kazakhstan is a party.
- 24.2. Contractor undertakes to observe international obligations of the State in the sphere of environmental protection on the Contractual Territory and adjacent territories.

25. SETTLEMENT OF DISPUTES

- 25.1. The Parties take all measures to resolve all disputes and contradictions relating to the Contract through negotiations.
- 25.2. If during thirty days the dispute cannot be resolved through negotiations, then the Parties appeal to the State court authorised to resolve such dispute in compliance with the laws.

26. GUARANTEE OF CONTRACT STABILITY

- 26.1. The provisions of the Contract remain the same during the whole term of the Contract validity.
- 26.2. Changes or amendments to the laws deteriorating Contractor's status passed after the Contract had been concluded are not applicable to the Contract.
- 26.3. In case of the changes and amendments in the legislation leading to impossibility of further work under the Contract, the Parties introduce respective changes to restore initial balance of the Parties' interests in a written agreement. Changes in parity of initial economic interest of the Parties is determined by the authorized entity and/or Contractor.

27. TERMS OF CONTRACT TERMINATION AND SUSPENSION

- 27.1. The Competent Authority in an obligatory order suspends the Contract validity, if there is direct threat to the lives of people working or living in the area effected by the works related to the Contract.
- 27.2. The Competent Authority has the right to suspend the Contract validity in case of:
- Contractor's activities that are not envisaged by the Contract or Work Programme;
 - violation by the Contractor of the State laws during his activities regarding subsoil and environmental protection and work safety;
 - Contractor's violation during his activities of the order of tax and other obligatory dues payment under the Contract;
 - Transfer of full or partial rights under the Contract to a Third Party violating Section 23 of the Contract;
 - Contractor's interruption of work under the Work Programme for more than 90 days except force-majeure cases;
 - Violation of confidentiality terms under the Contract.
- 27.3. In case of Contract suspension the Competent Authority in written notifies the Contractor on the reasons of such suspension and set reasonable term for their elimination.
- 27.4. After the Contractor informs of the elimination of factors causing the Contract suspension, the Contract is renewed.
- 27.5. Contract is terminated prematurely only in the following cases:
- if Contractor refuses to eliminate or does not eliminate within the term set by Competent Authority the factors which have caused the decision on termination of the Contract for production;
 - if Contractor does not start subsoil use within the timeframe indicated in the Contract;
 - In case of impossibility to remove the factors that caused suspension of subsoil use operations associated with the people's health and life hazard;
 - In case of Contractor's considerable violation of commitments under the Contract or Work Programme;
 - In case of Contractor's bankruptcy as per effective RK legislation, excluding cases of mortgage on the subsoil rights in compliance with the effective laws;
 - if the Contract is considered invalid according the legislation on subsoils;
- 27.6. The Contract is terminated in compliance with Item 27.4. of the Contract in 60 days after the Contractor has received a written notification of the Competent Body on a premature termination of the Contract.
- 27.7. The Parties shall not be released from current obligations that remained unfulfilled by the moment Contractor receives the notification about the Contract termination.

28. LANGUAGE OF CONTRACT

- 28.1. The text of the Contract is made in the Kazakh and Russian languages, and all copies have equal value.
- 28.2. In case of contradictions in different versions the document in the Russian language has the prevailing effect.
- 28.3. The Parties agree that the Kazakh and Russian languages are used as languages of communication. Since the Contract Effective Date technical information and information pertaining to gas production is prepared in Kazakh and Russian.
- 28.4. Documentation and information related to administrative activities shall be prepared in Kazakh and Russian.

29. ADDITIONAL TERMS

- 29.1. All notices and documents required in connection with the Contract performance are considered as submitted and delivered in due order to each of the Parties under the Contract, only when received.
- 29.2. Notices or documents shall be handed in personally or posted, by registered post, fax, telex or telegraph to the following addresses:

Competent Authority:

Ministry for Energy
and Mineral Resources of the RoK
22 Kabanbai Batyr Str.,
Astana, 473000
Fax: (3172) 786865
Tel.: (3172) 786803

Contractor:

Limited Liability Partnership BN-Munai
65, Tulebaev Str., Apartment 43,
Almaty, 480091
Fax: (3272) 50 70 34
Tel: (3272) 50 70 33

- 29.3. If the Parties' addresses change, each Party must give a written notice about it to the other Party.
- 29.4. All annexes to the Contract are considered as its inseparable part. In case of contradictions between the provisions of the supplements and the Contract, the Contract has the prevailing significance.
- 29.5. The Parties in a written form agree amendments or additions to the Contracts that do not contradict the Contract terms. Such an agreement is an inseparable part of the Contract.

The Contract was concluded on 5 (fifth) of May, 2005, in Astana, Republic of Kazakhstan by the authorized representatives of the Parties.

Stamp of the Ministry of Energy and
Mineral Resources

Stamp of "BN Munai" LLP

Signature " Izmuhambetov B.S. "

Signature " David Robson "

First Vice Minister

Director

Izmuhambetov B.S.

David Robson

Annex 1 to Contract N 1734 concluded on 05.05.2005

**Resolution of the Government, Republic of Kazakhstan,
on transfer of rights for subsoil use of 19 July 2001**

[Annex omitted.]

**The document attached to this Annex 1 consists of a resolution of the
of the Government of the Republic of Kazakhstan dated July 19, 2001
transferring the rights for subsoil use from the company Kazakhgas to BN-Munai LLP**

Annex 2 to Contract N 1734 concluded on 05.05.2005

**License for subsoil use in Kazakhstan # MG 980 (oil)
issued to Kazakhgas dated June 12, 1997**

[Annex omitted.]

**The document attached to this Annex 2 consists of a license for subsoil use
in Kazakhstan # MG 980 (oil) issued to Kazakhgas dated June 12, 1997**

Annex 3 to Contract N 1734 concluded on 05.05.2005

Mining Allotment

[Annex omitted.]

**The document attached to this Annex 3 consists of a Mining Allotment issued to
Kazakhgas dated June 12, 1997 and a Mining Allotment issued to
BN-Munai LLP dated June 2002**

Annex 4 to Contract N 1734 concluded on 05.05.2005

Agreement on Purchase of Information

[Annex omitted.]

**The document attached to this Annex 4 consists of an Agreement on Purchase of Geological
Data No. 779 dated May 2, 2002 between the
Committee of Geology and Subsoil Conservation and BN-Munai LLP regarding
the payment of historical costs in order to receive geological information**

Annex 5 to Contract N 1734 concluded on 05.05.2005

Work Programme

[Annex omitted.]

The document attached to this Annex 5 consists of a Work Programme approved by the Ministry of Energy and Mineral Resources, Republic of Kazakhstan to carry out gas production operations for the period of 2004-2007 and the Financial-Economic model for the planned Kyzylai gas field development

Annex 6 to Contract N 1734 concluded on 05.05.2005

Concordance and Experts

[Annex omitted.]

The document attached to this Annex 6 contains letters of state authorities, expert opinions and approvals necessary to grant subsoil use rights to BN-Munai LLP in connection with the Kyzylai Gas Production Contract

Annex 7 to Contract N 1734 concluded on 05.05.2005

Minute of Working Group

[Annex omitted.]

**The document attached to this Annex 7 contains the minutes of the Working Group of the
Ministry of Energy and Mineral Resources, Republic of Kazakhstan
wherein they discuss and approve the terms of the Kyzylai Gas Production Contract**

**State Registration No 2480
dated November 08, 2007**

**Addendum No 1 to the Contract
No 1734 dated May 05, 2005
for gas production on Kyzylol field
within blocks XXIX-23-B (partially), C (partially), E (partially), F (partially), XXIX-24-A (partially), D
(partially)
in Aktobe Region
between
Ministry of Energy and Mineral Resources of Republic of Kazakhstan
(Authorized Body)
and
Limited Liability Partnership "BN Munai"
(Contractor)
in compliance with the License (series MG) No 980 dated June 12, 1997**

The present Addendum No 1 to the Contract No 1734 dated 05.05.2005 for gas production on Kyzylloi field within blocks XXIX-23-B (partially), C (partially), E (partially), F (partially), XXIX-24-A (partially), D (partially) in Aktubinsk oblast is made on November 08, 2007 between the Ministry of Energy and Mineral Resources (hereinafter referred to as the Authorized Body) and Limited Liability Partnership "BN Munai" (hereinafter referred to as the Contractor) in compliance with the License (series MG) No 980 dated 12.06.1997.

Preamble

Whereas "BN Munai" LLP intends to complete the gas pipeline construction on the territory of Kyzylloi field and increase the volume of gas capacity, the Contractor has made a request addressed to the Authorized Body for prolongation of the License's and Contract's validity period for additional 7 (seven) years till 13.06.2014.; the Authorized Body's Expert Commission engaged in considering subsoil user's requests related to changes to the terms and conditions of Licenses and Contracts (extract from Minutes No 2 dated January 28, 2005), has made the decision to prolong the production period on the territory of Kyzylloi field in Aktubinsk oblast for additional seven years till 13.06.2014.

The Authorized Body and the Contractor have agreed to make the following additions and changes to the Contract:

Paragraph 3.2 of Section 3 "Validity period of the Contract" shall be made in the following wording: "The Contract validity period shall be prolonged for additional seven years and shall expire on June 13, 2014".

Paragraph 3.3. of Section 3 "Validity period of the Contract" shall be made in the following wording: "The Contract validity period shall be prolonged upon the Parties' mutual consent according to the current legislation of the State".

Sub-paragraph 7.2.7 of paragraph 7.2. of Section 7 shall be made in the following wording: "It shall be obligatory to use equipment, materials and integrated/finished products manufactured in the Republic of Kazakhstan, provided that they comply with the requirement of the Republic of Kazakhstan legislation on Technique Regulation, in the volume not less than 30% of the total cost of goods/products necessary for performance of works under the Contract (on a tender basis) within the territory of the Republic of Kazakhstan according to the order specified by the Government of the Republic of Kazakhstan".

Sub-paragraph 7.2.8 of paragraph 7.2 of Section 7 shall be made in the following wording: "It is obligatory to attract kazakhstani organizations for performance of works and services during subsoil use operations, including usage of air, railway, water and other types of transport, provided that such services correspond to the standards, price and quality parameters specified for analogues works and services rendered by non-residents of the Republic of Kazakhstan, in the volume not less than 90% of the total cost of works and services necessary for performance of works under the Contract (on a tender basis) within the territory of the Republic of Kazakhstan according to the order specified by the Government of the Republic of Kazakhstan.

Sub-paragraph 7.2.9 of paragraph 7.2. of Section 7 shall be made in the following wording: "During gas production period to create jobs and employ kazakhstani personnel in the following proportions:

- Senior managers – not less than 90%
- Managers – not less than 90%
- Technical personnel – not less than 90%
- Trained/skilled workers – not less than 95%.

Paragraph 7.2 shall additionally include sub-paragraph 7.2.22 of the following wording: "To provide kazakhstani personnel with such work conditions and remuneration as provided for to the expatriated employees being employed, including personnel engaged in subcontract works".

Paragraph 7.2 shall additionally include sub-paragraph 7.2.23 of the following wording: "To enter and comply with the terms and conditions with Memorandum of Understanding in relation to extractive industries transparency initiative in the Republic of Kazakhstan".

Paragraph 8.4. shall additionally include sub-paragraph 8.4.1. of the following wording: "The investment amount for a prolonged period shall be 2 687 000 US dollars. The Working program shall include the following types of works by years:

No	Description of works	Unit	Scope of works	Cost of works	Total cost	1 st year		2 nd year		3 rd year		4 th year		5 th year		6 th year		7 th year	
						Scope	Cost	Scope	Cost	Scope	Cost	Scope	Cost	Scope	Cost	Scope	Cost	Scope	Cost
1	Well-workover operation	th.\$	7 well	100	700	1	100	1	100	1	100	1	100	1	100	1	100	1	100
2	Drilling of production wells	th.\$	1 well	450	450	1	450		0		0		0		0		0		0
3	Improvement and expansion of gas gathering and handling system	th.\$		500	500		0		500		0		0		0		0		0
4	Past costs according to Contract No 1734	th.\$		173	1037		173		173		173		173		173		172		
5	Total	th.\$			2687		723		773		273		273		273		272		100
6	Gas capacity	mln.m ³	7 well				197,5		271,1		253,8		225,6		199,8		176,1		164,6

Appendix No 5a – "Working Program for gas production on Kyzylol field within blocks XXIX-23-B (partially), C (partially), E (partially), F (partially), XXIX-24-A (partially), D (partially) in Aktubinsk oblast for a seven-year period till 13.06.2014" shall be the integral part of this Addendum.

This Addendum No 1 shall be the integral part of the Contract No 1734 dated 05.05.2005 and signed on November 08, 2007 in Astana city, Republic of Kazakhstan by the authorized representatives of the Parties under the Contract.

Authorized Body

Contractor

" Batalov Askar Bulatovich "

" George Mirtskhulava "

Batalov Askar Bulatovich

George Mirtskhulava

**Executive Secretary
Ministry of Energy and
Mineral Resources of RK**

**Director
"BN Munai" LLP**

Appendix No 5-a
“APPROVED”
by George Mirtskhulava,
Director of “BN- Munai” LLP
June 05, 2007

WORKING PROGRAM
for gas production on Kyzylol field
within blocks
XXIX-23-B (partially), C (partially),
E (partially), F (partially), XXIX-24-A (partially), D (partially)
in Akubinsk oblast
for a seven-year period till 13.06.2014.

Almaty, April 2007

**Explanatory Notes to the Working Program
for gas production on Kyzylol field for a seven-year period till 13.06.2014**

* Details of Working Program redacted

Deputy Engineering Director

O. N. Yurikov

“APPROVED”
by G. Mirtskhulava,
Director of “BN-Munai” LLP
June 05, 2007

Working Program for production of gas on Kyzylol field for a seven-year period till 13.06.2014
Contract No1734 dated 05.05. 2005, License MG No 980 dated June 12, 1997

* Data for Working Program redacted

G. Wail,
Deputy Director, technical matters
April 17, 2007