

**ARAL SEA CONSORTIUM PROSPECTUS
AND
DRAFT AGREEMENT**

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EXECUTIVE SUMMARY

The draft Aral Sea consortium agreement and the intergovernmental agreement required under the subject contract have been developed by HBIX consultants and have undergone numerous discussions with representatives of KazakhstanCaspishelf (KCS) and foreign companies in Kazakhstan. The draft has been discussed with Uzbekistan's specialists by KCS representatives.

This report describes the purpose of the project and the main steps undertaken by the developers of the subject documents to achieve the targeted purposes. It also contains an outline of the political, socio-economical, legal and regulatory environment during the project implementation period. Accomplishments and conclusions are set forth in the closing sections of the report.

Drafted documents are attached to this report as appendices.

PURPOSE

The purpose of the project was to assist the Government of Kazakhstan in creating favorable conditions for attracting foreign investors in the development of oil and gas resources of the Aral Sea area. The investment climate in Kazakhstan is viewed by many foreign investors as promising. One of the areas where such investment is particularly favorable is the development of Kazakhstan's oil and gas resources which require foreign capital and technologies.

The importance of the Aral Sea project for Kazakhstan can not be overestimated. In proposing the Aral Sea Consortium, the Government of Kazakhstan's (GOK) motives are simple: continue the trend of encouraging foreign oil and gas companies with world class financial and technological resources to enter into a consortium or another type of agreement to explore large onshore and offshore areas of the sea. Kazakhstan also needs foreign investments to derive income for upgrade human health conditions which currently exist in the Aral Sea area and to determine if the environmental conditions can be improved. Due to a number of reasons, the population of the Aral Sea area has drastically decreased since 1960.

This task was complicated by the fact, that the territory of the Aral Sea is shared by both Kazakhstan and Uzbekistan with approximately half of the water area in each country. KazakhstanCaspishelf (KCS) and the GOK, realizing, that participation of Uzbekneftgas (the Uzbekistan state oil and gas company) as a full participant in the Aral Sea Consortium oil and gas exploration effort is desirable from many standpoints, resulted in a request for USAID/HBIX to assist in drafting an intergovernmental agreement aimed to create a foundation for the joint oil and gas activities in the region. One of the advantages of the joint exploration of the region relates to the Aral Sea environmental and socio-economic situations in that the total ecosystem and human health

aspects should be studied and evaluated as a unit

BACKGROUND

In mid-1996, HBIX was contracted to provide assistance to the GOK and KCS in the development of a prospectus and draft agreement for a proposed Aral Sea Consortium. This Consortium's purpose would be to conduct exploration research studies within the Kazakhstan portion of the Aral Sea basin.

By 1996, KCS and the GOK had already gained a wealth of experience in working with international foreign oil and gas companies through the Caspian Sea Consortium, which was created in late-1993 to perform a comprehensive exploration research study of the Kazakhstan portion of the Caspian Sea. The Caspian Sea Consortium experience was very valuable to KCS for both the technical and administrative aspects of the business and it allowed KCS to identify certain problems that are inherent to any first time venture and desire to minimize the recurrence of those difficulties in the organization and framework of the Aral Sea Consortium.

Description of activities

- A thorough study of the Caspian Sea Consortium documents was conducted. Its advantages and problems were revealed through numerous discussions with KCS and foreign participants in the Consortium. Meetings were held with KCS executives and representatives of the Caspian Consortium foreign participants to obtain a comprehensive picture of the things that worked as well as deficiencies.
- Comparative analysis between consortia and other types of ventures in the international practice was prepared and country-specific recommendations for Kazakhstan were presented as to how each type of organization agreement worked.
- The draft Prospectus of the Aral Sea Consortium was developed using the Caspian Sea Consortium Agreement as a model. It took into account the international experience and the lessons learned from the Caspian Sea activities and resulted in substantial revisions to some sections.
- Negotiations and discussion of the draft prospectus with KCS and the GOK allowed for further improvements, particularly, the opportunity to involve Uzbekistan into the Aral Sea project. KCS recognized the need to involve Uzbekistan and took the initiative to bring Uzbekneftegas into the discussions.
- A presentation of the Aral Sea Consortium project was made on October 24, 1997, at the IV International Geological Seminar On Geological Framework and Oil and Gas Bearing

Prospectivity of the Aral Sea A number of foreign oil and gas companies attended the seminar organized by KCS, which was pursuing this opportunity to attract the attention of foreign investors to the Aral Sea region HBIX consultants participated in the seminar and saw a presentation on the summary of work completed

- Simultaneously with finalizing the draft Intergovernmental Aral Sea Consortium Agreement the legal basis for the joint development of the Aral Sea region by Kazakhstan and Uzbekistan was proposed
- During the summer of 1997, several drafts were prepared on the Intergovernmental Aral Sea Consortium Agreement in consultations with KCS attorneys and took into consideration the political, historical, geographical, geological, economical and other conditions in the region The attempt was made to create an agreement, that would allow for the most open, transparent, and efficient terms of cooperation between the two countries for the mutual benefit in future incomes and prospects for upgrading the environmental situation of the Aral region
- At the end of July 1997, the draft agreement was officially submitted to Government of Uzbekistan by the GOK, which was followed by the discussion of the project at the governmental and company levels in August 1997
- Commissions for development of the intergovernmental agreement were formed from both sides and further improvement of the document was based on the comments made by Kazakhstani and Uzbekistani experts Six workgroups were developed to review different parts of proposed Consortium activities and administrative structure
- The final draft agreement was prepared on the basis of further discussions and negotiations and submitted to KCS in September 1997 Since that time both governments have negotiated the final provisions of the agreement, but have yet to sign and adopt it

CONSORTIUM AGREEMENTS IN KAZAKHSTAN, PROJECT JUSTIFICATION AND POTENTIAL

In Kazakhstan, the oil and gas belongs to the State, and the State oil or gas company becomes an automatic participant in the venture and is expected to substantial derive benefit from the extraction of oil and gas through Production sharing Agreements The GOK is eager to enter into partnerships, joint ventures, and consortia with foreign participants who have large financial backing and technical resources to help Kazakhstan develop its vast oil and gas potential, not just in the Caspian Sea area but throughout other potentially favorable areas, including the Aral Sea

Consortium as the Most Efficient Type of Agreement for the Aral Sea Project

The Caspian Sea Consortium is viewed by KCS and some of the foreign partners as a successful effort which actually finished its tasks ahead of the targeted date of completion. In the view of KCS if there were a group of joint ventures operating instead of the Consortium they could not have accomplished their tasks in a timely manner, because they would have to negotiate contract territories with several ministries of the GOK.

The GOK and KCS view the Aral Sea basin appears to be sufficiently large to warrant a consortium operation for purposes of completing the exploration research study within a specific time frame. The GOK has given priority to the revitalization of the Aral Sea area, hoping to reestablish a viable healthy population and develop a viable long-term infrastructure. A large injection of foreign capital and investment is necessary to make even incremental improvements. The GOK views the Aral Sea Consortium as the best vehicle to both explore the Aral Sea offshore and adjacent onshore area and provide incremental improvement to infrastructure.

A consortium may have the following long range benefits for foreign investors

- Participation in a consortium is almost a guarantee that foreign investors will be able to have one or more contract territories to further explore, develop and produce oil and gas in the basin and appears to be efficient mechanism to conduct offshore operations on huge undeveloped areas
- The consortium framework as proposed after review of the first draft by KCS would allow the opportunity for foreign participants to retain unity long after official consortium activities have terminated. KCS, in fact, has favored keeping the Consortium intact until the end of all Petroleum Operations
- The Intergovernmental Aral Sea Consortium Agreement commits KCS to assist the foreign participants through the regulatory process in getting all necessary approvals, permits, licenses, contracts, etc with both governments

Consortium Management and Organization

The Aral Sea Consortium would be an incorporated contractual organization similar to the Caspian Sea Consortium. It will be created pursuant to an agreement among two or more foreign oil and gas companies, KCS and Uzbekistan, if it chooses to participate.

As was the case with the Caspian Sea Consortium Agreement overall supervision and operational control of the consortium operations would be vested in a management committee comprised of one designated representative from each consortium participant

The operator, KCS, in the Caspian Sea Agreement and as proposed in this agreement represents the second organizational control of the consortium and manages the day-to-day activities

The third organizational level of the consortium is represented by its staff line management and employees KCS, as a consortium participant, in addition to being operator plays a specific role in and has a distinct advantage over foreign oil and gas companies in seeking licenses and contract territory approval, and therefore is committed to assisting foreign oil and gas companies through the existing bureaucratic process

In suggesting this organizational framework for the Aral Sea Consortium we have considered experiences acquired during the Caspian Consortium operation as well as the current regulatory environment in Kazakhstan, in order to identify the most efficient and operable organizational structure

Aral Sea Current Status and O&G Development Potential

The current condition of the Aral Sea is known to be a major environmental disaster in Central Asia. The surface area of the Aral Sea has shrunk from 70,000 square kilometers in 1960 to 40,000 square kilometers by 1989. The salinity of water has drastically increased. As a result, this area is suffering from serious ecological problems, a depressed economy, and a deteriorated socio-economic infrastructure. Human health conditions have seriously declined, because adequate medical services are no longer available.

The KCS had entered into a contract with USAID/HBIX to do an up-front ecological and environmental review of the Aral Sea basin. Unlike the environmental impact assessment required for such areas as the Caspian Sea and surrounding territories, where special protection areas had been established, the Aral Sea environmental review should yield a lesser number of critical assessment considerations. HBIX contracted with local environmental consultants to prepare a report.

KCS, on the basis of initial geological and regional seismic surveys, has made estimates of the amount of recoverable oil and gas from the Aral Sea area and these estimated reserves appear to be very promising as is seen from the following figures: over 255 million tons of oil and 217 billion cubic meters of gas under the Aral Sea and adjacent territories in total. These figures should appear to be even more attractive when foreign companies realize, that operating in the Aral Sea region, though required to assist and contribute in the rehabilitation program, will not face the same

numerous restrictions and requirements which were applied to the activities in the highly ecologically sensitive zones of the Caspian Sea. The Aral Sea Prospectus outlined the preliminary producing potential as provided by KCS data along with a description of efforts undertaken to improve and modernize the data base.

LEGAL AND REGULATORY ENVIRONMENT AND POTENTIAL INTER - COUNTRY AGREEMENTS

The regulatory environment in Kazakhstan is rapidly changing as the government is moving towards the adoption of new laws and regulations and revising the old ones to meet international standards and practices and to create favorable conditions for foreign investors. The reflection on these laws are incorporated into Consortium management and Production Sharing Agreement.

Applicable Laws and Regulations

The GOK has issued several laws and sets of regulations pertaining to oil and gas production since the advent of the Caspian Sea Consortium Agreement and is continuing this work, as demonstrated by the following examples:

- Law on Licencing, which been revised at least twice,
- Regulations for Offshore and Inland Water Oil Operations,
- Regulations on the Procedure for the Conclusion of Contracts to Conduct Subsoil Operations, and
- The Law on Protection of the Environment
- The Law on Specially Protected Natural Territories
- Procedures for Granting Permits for Construction and Operation of Artificial Islands, Levees, Facilities and Installations in Conducting Petroleum Operations

These are a few examples of newly adopted laws and rules, which currently regulate oil and gas activities, but there are still many gaps in the regulatory environment which need to be filled with updated requirements which are both viable and flexible. USAID/HBIX was also requested by KCS and the GOK to facilitate this process by drafting offshore rules and regulations based upon international practices and standards.

These newer regulatory measures will impose the provisions of the Aral Consortium Agreement.

Production Sharing Agreements

Production sharing agreements (PSA) were negotiated before the enactment of the 1995 Presidential Edict "Concerning Petroleum" and various the sets of regulations and decrees were drafted and approved in 1996. The PSA process is a more regulated process due to the development and adoption of draft PSA's by the GOK.

The Prospectus outlines the principles of a production sharing agreements for the Aral Sea Consortium and describes the process of negotiations for those types of contracts. HBIX was asked by KCS to develop issue paper for three PSA scenarios:

- (1) The Consortium stays intact until the end of the Exploration Research study similar to the Caspian Sea Consortium
- (2) The Consortium stays intact until the end of Petroleum Operations
- (3) The Consortium dissolves after the Exploration Research Study except that a transition phase would be provided

Potential Intergovernmental Agreement for the Aral Sea Project

Since nearly half of the Aral Sea area is located in Uzbekistan, the GOK, through KCS, has begun to negotiate an agreement with the neighboring country. If these negotiations are successful and the GOU Aral Sea territory is included under the Aral Sea Consortium Agreement, the Uzbekistan interests related to its role in the consortium will affect the final version of the Agreement. Preliminary estimates and possible versions of the Uzbekistan role were discussed by the drafters of the Prospectus during several meetings with KCS experts.

KCS requested USAID/HBIX technical assistance in drafting the intergovernmental agreement, which would allow for joint operations in the Aral Sea area. Considerable work was performed and a final draft was prepared, which is detailed in the **Description of Activities** Section of this report.

MAJOR RESULTS

Overall, major results of this task included development of the draft Aral Sea Consortium Agreement and draft intergovernmental agreement between Kazakhstan and Uzbekistan. Importantly, this draft agreements facilitated the governmental initiatives related to the Aral Sea region rehabilitation program and provided it with the reasonable and justified model of cooperation with foreign investors to the mutual benefit of the parties. This task also provided the foundation for the negotiations between the GOK and GOU, which appear to be a magnificent result, if one takes into

account the roots of the ecological disaster and weak expectations to resolve this ecological problem in a traditional way by limitation of water consumption from the rivers feeding the Aral Sea. For many respects, the GOU's participation may be focal to the success on the Aral Sea agreement.

Additionally, during the work at the draft Consortium Agreement the Kazakhstani counterparts were provided with a very valuable information on international experience in joint development of oil and gas fields and organizational structure of different types of ventures.

On the basis of the developed documents the GOK and GOU negotiated the terms of the intergovernmental agreement and the role of Uzbekistan in the Aral Sea effort. Therefore the project has clearly helped the two countries to achieve better understanding of their views on future development of the Aral region.

LESSONS LEARNED AND NEXT STEPS

Conclusions which can be drawn from the experience of the USAID/HBIX representatives cooperation with local governmental officials and company executives during work at the subject project include the following:

- The government and companies are willing to work with USAID and are applying for technical assistance when they are able to identify the areas where international experience and expertise are required, though some of the issues arise during the course of work at the projects, and this requires from the USAID and foreign consultants certain degree of flexibility and ability to quickly respond to the changing situation.
- Local specialists designated to discuss and accept the results of the work, performed by USAID/HBIX, demonstrate sound knowledge of the subject, they are trained in the basics of the market economy and, international practice, and environmental concerns and are asking for similar cases and their comparative analysis. They are asking not only for the final products, but for justification of the models suggested to Kazakhstan.
- On the basis of the experience gained through implementation of this particular project we can say that more opportunities for training could be provided, though this training should not focus on academic course, it should be tailored to the needs of the local specialists, applied to the situation in Kazakhstan and, most important, be task-specific, since the need in training in some specific areas is normally revealed during work at specific projects and can hardly be predicted both by USAID contractors as well as by local participants.
- The Kazakhstani Government and State Oil Companies like KCS, become more sophisticated in their view of how to structure Agreements to the best economic advantage.

for their country USAID contractors have to be enough flexible in their own approaches to recommend small changes that add value The USA or Western World approach does not always slide easily into a system which has a different cultural, political and economic experience Both sides of the effort stay on a learning curve which sometimes meets and often does not Consultants have to maintain patience and be willing to look for alternative methods when problems occur

APPENDIX A

DRAFT CONSORTIUM AGREEMENT OVERVIEW

DRAFT

CONSORTIUM AGREEMENT

ARAL SEA

AND

ADJACENT TERRITORIES

DRAFT CONSORTIUM AGREEMENT

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APPENDIX A ELEMENTS OF PRODUCTION SHARING AGREEMENTS

DRAFT CONSORTIUM AGREEMENT

CONSORTIUM AGREEMENT dated as of (date) concluded in the City of Almaty in the Republic of Kazakhstan among the GOVERNMENT OF THE REPUBLIC OF KAZAKSTAN (as represented by the Ministry of Oil and Gas Industry) THE MINISTRY OF OIL AND GAS INDUSTRY, as the designated regulatory body, KAZAKSTANCASPISELF a State company organized and existing under the laws of the Republic of Kazakhstan (KCS) and acting in the capacity of "Aralshelf", and

(Investor Participants Listed)

(Each a "Party" and collectively the "Parties")

WITNESSETH

WHEREAS pursuant to Resolution ___ and the Force of the Law on Petroleum the Government of the Republic of Kazakhstan and the President have designated the Ministry of Oil and Gas Industry to be the responsible agency for the coordination of geological and geophysical research and surveys, for oil and gas exploration and production and for developing a Consortium effort for the Aral Sea and Adjacent Territory, and

WHEREAS the Government through the Ministry of Oil and Gas Industry has formed KCS and has assigned to KCS the right as sole organizer and coordinator of operations in the Offshore and Onshore areas of the Kazakhstan sector of the Aral Sea area, and

WHEREAS pursuant to the Charter of the State Company "Kazakstancaspishelf", as approved by the former Minister of Energy and Fuel Resources on April 2, 1993, KCS shall coordinate the geological and geophysical exploration for and production of oil and gas deposits in the Kazakhstan sector of the Aral Sea in a project known as "Aralshelf", and

WHEREAS the Government, as represented by the Ministry, and the Consortium Participants have duly entered into a Preliminary Consortium Agreement on (date) which granted the Investor Participants (as defined in the Preliminary Aral Consortium Agreement) an exclusive right to become a party to this final Agreement, and

WHEREAS pursuant to action taken by the Ministry of Oil and Gas Industry on (date) to approve the Preliminary Consortium Agreement and to authorize the Ministry to coordinate with other appropriate ministries having regulatory authority over several geological, geophysical and

environmental activities and with KCS to develop programs for these activities for the Aral Sea Exploration Area and

WHEREAS KCS intends on a long range basis to become a self-sufficient oil company and to maintain that status throughout the Aralshelf project and accordingly will lead with the cooperation and support of the Investing Participants and otherwise as provided herein the day-to-day operations of the Consortium as Operator and

WHEREAS KCS desires and the Investor Participants are willing to provide technical assistance and training to KCS employees so as to assist KCS as Operator as provided herein and

WHEREAS the Investor Participants are willing to fund Consortium operations on the terms and conditions provided in this Agreement, and

WHEREAS the Aral Sea Exploration Area has unique environmental and socio-economic problems resulting from past activities that have degraded water and environmental resources to the point where a sustainable quality of life and human health is unlikely unless improvements and human incentives can be introduced through the development of oil and gas resources Such environmental problems are of paramount concern to the Parties, and

WHEREAS the Parties (1) understand the importance of developing the Environmental Work Program and of conducting the Exploration Research Study and other Consortium operations in accordance therewith and (2) have concluded that the objectives of this Agreement are in the best interests of the Republic of Kazakhstan, and

WHEREAS the Parties are desirous of entering into this Agreement pursuant to which (1) the Consortium will conduct Consortium operations and (2) the Investor Participants are granted the exclusive right to select a number of E&P Blocks (as specified in Section 10.3) and to negotiate the terms and conditions for the exploration, development and production of each of such E&P Blocks in accordance with the terms and conditions set out herein

NOW, THEREFORE, in consideration of the premises and mutual agreements and covenants hereinafter set forth, the Parties hereby agree as follows

ARTICLE 1

Definitions

SECTION 1.1 Certain Terms Defined Capitalized terms used in this Agreement shall have the respective meanings as defined in the Schedule in Appendix ____ The Schedule may be amended to include additional terms upon approval of the Management Committee

ARTICLE 2

The Consortium

SECTION 2.1 Formation of the Consortium The Consortium is an unincorporated contractual organization created pursuant to this Agreement and in conformity with the laws, rules and regulations of the Republic of Kazakhstan. The Consortium is not a juridical entity and shall not be construed as such, it shall not constitute a separate entity for tax purposes.

SECTION 2.2 Purpose and Objective of the Consortium The Consortium's purpose and objective is the implementation of the Exploration Research Study in the delineated Exploration Area and the Environmental Work Program. In addition, as provided in this Agreement in the Work Program and in the Budget, the Consortium shall carry out

- the development and construction of such infrastructure in and with respect to the Aral Sea Exploration Area as is necessary and beneficial to achieve the purpose and objective of the Agreement and as the Parties may otherwise agree for social and long range development purposes, and
- the establishment and education of training programs for those employees of KCS and other applicable Kazakhstan entities not trained under previous Consortium programs and the equipping of KCS as is necessary to implement the Exploration Research Study

SECTION 2.3 Scope of this Agreement In addition to specifying the terms and conditions pursuant to which Consortium operations are organized, managed and implemented, this Agreement specifies the rights of the Investor Participants to select E&P Blocks and to negotiate the terms and conditions pursuant to which said Participants may explore, develop and produce hydrocarbons from such Blocks.

ARTICLE 3

Consortium Management

SECTION 3 1 Structure of Consortium Management The overall supervision and control of Consortium operations is hereby vested in a Management Committee (the "Management Committee") comprised of one representative designated by each Consortium Participant (each such representative a "Representative on the Management Committee") The Management Committee will have the powers and duties specified in Section 3 2(b) Responsibility for managing and conducting day-to-day Consortium operations is hereby vested in KCS which is hereby designated operator for Consortium operations (the "Operator") The Operator shall have the duties and powers specified in Section 4 2

SECTION 3 2 The Management Committee

(a) Establishment and Composition The names of the initial representatives on the Management Committee and each of their alternates are listed in Appendix ____ Each Consortium Participant shall have the right, from time to time and upon notice to the other Consortium Participants, to designate a different person to act as such Participant's representative or its alternate Each Consortium Participant agrees to authorize its Representative on the Management Committee and in his absence, his alternate, to represent and bind such Participant with respect to any matter which is within the powers of the Management Committee No Representative on the Management Committee (or alternate) shall be entitled to compensation from the Consortium or the Operator for performance of his duties as a member of the Management Committee Services to the Consortium or the Operator other than those provided as Management Committee Representative shall be compensated as provided in this Agreement The representative of KCS on the Management Committee shall serve as Chairman of the Management Committee

(b) Powers and Duties of the Management Committee Subject to the terms and conditions of this Agreement, the Management Committee will exercise overall supervision and control of Consortium operations Its powers and duties shall include the following

- (1) consideration and determination of all matters relating to general policies, procedures and methods of carrying out Consortium operations,
- (2) consideration, revision and approval or disapproval of all Annual Work Programs, Annual Budgets and Major Deviations therefrom as provided in Section 14 2,
- (3) approval of the Environmental Management System and deviations therefrom as provided in Section 15 3,
- (4) instructing the Operator with respect to third party claims and law suits as provided in Section 4 6,
- (5) approval of technical and managerial experts and the terms of their engagement as provided in Sections 6 2 and 6 3,

- (6) approval of contractors and suppliers and the terms of their contracts as provided in Section 7 1(b)
- (7) amendments to the Accounting Procedures as provided in Section 8 1
- (8) approval of an independent accounting firm and the terms of its engagement as provided in Section 8 2
- (9) removal of the Director General or the Deputy Director General in the event of Willful Misconduct by either or both as provided in Section 4 7
- (10) approval regarding the acquisition and disposition of any interest in real estate used in connection with Consortium operations and the terms thereof provided however that the Operator may undertake any two (2) such transactions during each year if the aggregate value of both such transactions is less than fifty thousand U S Dollars (U S \$50 000)
- (11) other than as expressly provided in this Agreement as an obligation of the Operator determination of whether and to what extent the Operator will represent the individual Consortium Participants in dealing with government authorities and third parties insofar as the same relate to Consortium operations,
- (12) approval of public announcements or statements regarding this Agreement or Consortium operations as provided in Section 23 3,
- (13) appointment, at the discretion of the Management Committee, of such advisory or other committees as the Management Committee determines are necessary or appropriate for the timely and efficient conduct of Consortium operations,
- (14) approval of changes to the structure of the Operator's administrative setup and the formation of other Departments and appointment of personnel as provided in Section 4 5(b), and
- (15) consideration of any other matter relating to Consortium operations which may be referred to the Management Committee by the Parties or any of them (other than any proposal to amend this Agreement) or which is otherwise designated under this Agreement for reference to the Management Committee and which matter is not specifically delegated to the Operator pursuant to this Agreement The Management Committee however shall not take any action that would be in conflict with the terms and provisions of this Agreement

(c) Meetings, Notice The Management Committee shall meet at least quarterly The Chairman of the Committee shall call quarterly meetings, and may call additional meetings at any time, by giving notice to the other Committee Representatives at least twenty-one (21) calendar days in advance of such meeting Any other Representative may request a meeting of the Management Committee by giving notice to the Chairman Upon receipt of such request, the Chairman shall call a meeting of the Management Committee for a date not less than twenty-one (21) calendar days or more than thirty (30) calendar days after receipt of such request The above stated periods may be waived with the written consent of a majority of the Representatives on the Management Committee The requesting Representative shall, in the notice to the Chairman, state the reason for requesting a special meeting and if such reason is a reopening of a matter already resolved by a voted decision of the Management Committee, unanimous concurrence by all Representatives shall be required to hold a special meeting

(d) Voting, Attendance at Meetings Each Representative on the Management Committee shall have one vote. Each alternate shall be entitled to attend all Management Committee meetings but shall have no vote except in the absence of the Representative for whom he is the alternate. In addition to the Representative and his alternate, each Consortium Participant may also, at its own cost, bring to the relevant portion of any Management Committee meeting such advisors and support staff as are deemed appropriate.

(e) Contents of Notice Each notice of a meeting of the Management Committee shall contain, (1) the date, time and location of the meeting and (2) an agenda of the matters to be considered at the meeting, accompanied, if possible, by all information reasonably necessary for the Representatives to make informed decisions with respect to the matters to be considered. A Representative on the Management Committee, by notice to the other Representatives given not less than seven (7) calendar days prior to the date set for the meeting, may add additional matters to the agenda for a meeting. The Management Committee may only consider, at a meeting, a matter not contained on the agenda for that meeting if the Representatives on the Management Committee (whether or not present at that meeting) unanimously agree that the matter be considered. A negative vote shall be accompanied by a statement as to why the matter should not be considered. If the sole negative vote is by KCS, the Representative of the Management Committee requesting the addition to the agenda shall have the automatic right to bring the matter onto the agenda at the next scheduled meeting of the Management Committee unless KCS provides written documentation that such matter is against the Laws of Kazakhstan.

(f) Location of Meetings All meetings of the Management Committee shall be held in Almaty, Republic of Kazakhstan, or other such location within or without the Republic of Kazakhstan as may be agreed to by the Chairman and a majority of the other Representatives on the Management Committee.

(g) Chairman's Role for Meetings In addition to presiding at each meeting of the Management Committee, the Chairman shall have the responsibility for (1) the timely preparation and distribution of the agenda, (2) the organization of the meeting and (3) supervision of the preparation of the minutes of each meeting and a written record of each vote taken at the meeting. The Chairman may appoint a secretary to carry out these functions.

(h) Voting Procedure A quorum of sixty (60) percent of the Representatives on the Management Committee shall be required for purposes of conducting a meeting of the Committee. Except as otherwise expressly provided in this Agreement, each decision of the Management Committee, on a proposal properly brought before it, shall be decided by the affirmative vote of at least seventy-five (75) percent of the Representatives of the Committee. Any Consortium Participant not represented at a meeting may vote on any matter on the agenda for such meeting by either (1) appointing a proxy in writing or (2) giving notice of such vote in writing to the Chairman prior to the submission of such matter for vote at the meeting. The Chairman shall be entitled to veto any decision of the Management Committee before or at the time the particular decision is taken if the

Management Committee decision or action would either

- (1) cause the Consortium and its Representatives to be out of compliance with any or all applicable laws, rules and regulations of the Republic of Kazakhstan (including those laws relating to the environment public health or safety) that were in force at the time the Consortium Agreement was finalized or
- (2) would harm the international relations of the Republic of Kazakhstan with any other sovereign nation The Chairman shall furnish each Representative on the Management Committee a written statement of why the veto authority was exercised in the best interests of the Consortium Any such statement shall be made a part of the minutes of the meeting set forth under part (j) of this section

(i) Record of Votes The Chairman of the Management Committee shall appoint a secretary who shall make a record of each proposal voted on and the results of all such votes Each Representative on the Management Committee shall sign and be provided a copy of such record at the end of each meeting Such record shall be considered the final record of the decisions of the Management Committee

(j) Minutes The secretary shall provide each Representative on the Management Committee with a copy of the minutes of each Committee meeting within twenty-one (21) calendar days after the end of the meeting Each Representative shall then have twenty -one (21) calendar days after receipt of such minutes to give notice to the secretary of any additions or corrections The secretary shall subsequently revise the minutes and provide each Representative with a copy of the revised version Each Representative shall have ten (10) calendar days after receipt of the revised minutes to notify the secretary of his Participant's approval of the minutes Failure to give notice of disapproval of the revised minutes within a ten (10) calendar day period shall be deemed approval of such revised minutes In any event, the record of votes prepared in accordance with Section 3 2(I) shall take precedence over the minutes described above in the event of conflict

(k) Voting by Written Consent In lieu of a meeting of the Management Committee, the Chairman, or any Representative, may submit through the Chairman any proposal for a decision of the Management Committee by giving each Representative a written description of the proposal Each Representative on the Management Committee shall communicate his vote on such proposal in writing to the Chairman and to the other Representatives within fifteen (15) calendar days of the receipt of the written proposal description The voting procedure shall be as specified in Section 3 2(h) Any Representative that fails to communicate his vote within the above specified time period shall be deemed to have voted for the proposal Within five (5) calendar days of the receipt date of the proposal, any Representative may request that the proposal be decided at a meeting of the Management Committee rather than by notice as provided above In such event, the Chairman shall call a meeting of the Management Committee in accordance with procedures described in Section 3 2 (c) and such proposal shall be decided by meeting If no request for a meeting is made by the end of five (5) calendar days, the Chairman shall notify the Representatives on the Management

Committee of the results of the vote including a tabulation of the votes of each Representative and a copy of any written supporting statements which accompanied a negative vote

(l) Telephone Conference Any Representative of the Management Committee may participate in any meeting of the Committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other Participation in a meeting pursuant to this Section shall constitute presence in person so long as all other provisions of the Section 3 2 apply to such meeting

(m) Effect of Vote All decisions taken by the Management Committee pursuant to Section 3 2 shall be conclusive and binding on the Consortium Participants

ARTICLE 4

Operator

SECTION 4 1 Appointment of Director General and Deputy Director General Powers and Duties

(a) Appointments In consultation with the representatives on the Management Committee, the Chairman of the Management Committee shall appoint a "Director General" who shall be the employee of KCS directly responsible for the day-to-day activities of KCS as Operator At the discretion of the Chairman of the Management Committee, said Chairman may act as Director General until such time as a permanent Director General is appointed as provided above, provided, however, that, in any case, the Chairman shall appoint a permanent Director General within six (6) months of the date of this Agreement The Management Committee shall appoint the nominee of the Investor Participants to serve as "Deputy Director General"

(b) Powers and Duties The Director General and Deputy Director General shall observe the terms and conditions of this Agreement and shall have the powers and duties set out in a separate schedule approved by the Management Committee The Management Committee may assign additional powers and duties from time to time and these shall be documented as amendments to the schedule The Director General and the Deputy Director General shall consult with each other and cooperate to jointly resolve issues referred to them They shall jointly sign contracts, checks, reports, statements and other documents on behalf of the Operator unless the Finance Procedure Manual approved by the Management Committee specifies that the Director General alone may sign certain contracts, checks, reports, statements or other documents on behalf of the Operator

SECTION 4 2 Powers and Duties of Operator Subject to the terms and conditions of this Agreement and the overall supervision and control of the Management Committee as provided in this Agreement, the Operator shall have the right and obligation to conduct Consortium Operations Except as provided in Section 4 7, such right and obligation shall not be assignable

without the prior consent of each Investor Participant. It is understood that in conducting Consortium Operations the Operator will be acting as an international organization under the laws, rules and regulations of the Republic of Kazakhstan. The Operator's powers and duties include the following:

(a) to perform Consortium Operations in accordance with the laws of the Republic of Kazakhstan and the rules and regulations promulgated thereunder, the provisions of this Agreement, the Work Program, the Budget, the Environmental Work Program (including the Environmental Management System) and the instructions of the Management Committee. The Operator may, however, deviate from the Work Program or the Budget in those cases where such deviation is termed a minor deviation as defined by written guidance developed by the Management Committee.

(b) to conduct all Consortium Operations in a diligent, safe and efficient manner in accordance with the laws, rules and regulations of the Republic of Kazakhstan and good and prudent practices generally followed by the international petroleum industry under similar circumstances.

(c) to acquire all permits, consents, licenses, approvals, surface or other rights that may be required under the laws, rules and regulations of the Republic of Kazakhstan for or in connection with the conduct of Consortium Operations. If the Republic of Uzbekistan becomes a Participant by agreement, the Operators shall facilitate the administrative needs of Uzbekistan on behalf of Investor Participants wherever possible,

(d) to permit the representatives of any of the Investor Participants to have at all times and at their own risk and expense reasonable access to the Exploration Area and other applicable locations in Kazakhstan with the right to observe all Consortium Operations.

(e) to promptly pay and discharge all liabilities and expenses incurred in connection with Consortium Operations performed pursuant to Section 4.2 from funds deposited into the Consortium account, provided, always, that sufficient funds have been received from the Investor Participants pursuant to Section 16.2(b) to allow it to do so,

(f) to plan for and obtain all requisite services and materials as and when necessary for the efficient and timely conduct of Consortium Operations in accordance with procedures set out in this Agreement, the approved Finance Procedure Manual or as otherwise approved by the Management Committee,

(g) to prepare and maintain proper books, records and inventories of Consortium Operations which shall be kept in compliance with approved Accounting Procedures and all applicable laws, rules and regulations,

(h) to keep the Consortium Participants promptly and fully informed of all matters having a significant effect on Consortium Operations, and

(1) to take all necessary and proper measures for the protection of life health the environment and property in the case of emergency The Operator shall immediately notify the Investor Participants of the details of any emergency and measures to be taken and the Investor Participants shall so far as is practicable and reasonable assist the Operator (all costs incurred by the Operator or the Investor Participants pursuant to such requests in connection with such emergency shall be Consortium costs) provided however that the Operator shall not take any action that would be in conflict with this Agreement

SECTION 4 3 Information to be supplied by Operator The Operator shall promptly provide the Investor Participants the following data and reports as they are produced and compiled from Consortium Operations and as required pursuant to the approved Finance Procedures Manual

- (a) all data pertaining to geological, geophysical and geodetic surveys and interpretations
- (b) environmental data and analyses,
- (c) reports regarding costs and expenses incurred for Consortium Operations
- (d) reports describing deviations from the Work Programs and the Budget and
- (e) other appropriate progress reports on Consortium Operations as are requested from time to time by the Investor Participants

SECTION 4 4 Organization, Management and Employees of Operator

(a) Organization and Management The organization of the Operator will initially be as follows

- (1) The Operator will have its principal executive office located in Almaty, Republic of Kazakstan, with support offices in Aralysk and other locations to be determined by the results of the Exploration Research Study,
- (2) The Operator's activities will be carried out by Departments as described in Section 4 5

(b) Employees of the Operator The Operator shall employ such personnel as are necessary to conduct Consortium Operations The Operator shall, in accordance with the Work Program, the Budget and the laws, rules and regulations of the Republic of Kazakstan, determine the number of such employees, their hours of work and their compensation In this determination, the Operator shall adopt economic criteria in accordance with international standards applicable to equivalent activities The Operator shall also retain foreign technical and managerial experts to assist in Consortium Operations In addition to Consortium Operations, employees of KCS may perform other operations unrelated to the purpose of the Aral Consortium The costs and expenses incurred by KCS which are attributable to Consortium Operations (including remuneration paid to employees of KCS engaged in Consortium Operations and an appropriate portion of KCS's overhead) shall be Consortium costs

(c) Preference for Hiring Citizens of the Republic of Kazakstan The Operator shall when employing personnel to conduct Consortium Operations give due consideration to employment of citizens of the Republic of Kazakstan where such persons are appropriately qualified for the position for which they are to be employed Those employees hired by the Operator whose areas of expertise are environmental science, safety, geology, geophysics or law shall have their qualifications reviewed by the Management Committee since they will be working directly with expatriated technical and legal personnel of the Investor Participants

SECTION 4.5 Departments and Support Offices

(a) Departments The Operator shall have the following Departments which shall conduct Consortium Operations and otherwise act pursuant to this Agreement

- (1) Environmental and Safety Department,
- (2) Public Relations Department,
- (3) Legal Department,
- (4) Finance and Accounting Department
- (5) Contract and Procurement Department,
- (6) Human Resources Department,
- (7) Geology and Geophysics Department, and
- (8) Logistics and Infrastructure Department

(b) Changes to Structure Any changes to the Operator's organizational structure as well as the creation of other departments that the Operator may deem necessary or appropriate to conduct Consortium Operations shall be subject to approval of the Management Committee The Operator shall, within the approved budget for Administration, and as approved by the Management Committee, be entitled to make changes to any Department's organization and to its manpower planning (excluding the expatriate staff), as it deems necessary or appropriate for the proper conduct of Consortium operations

(c) Functions of Departments and Support Office The Departments and Support Offices, under the joint supervision of the Director General and the Deputy Director General, shall assume operational responsibility for Consortium operations in accordance with a written schedule approved by the Management Committee The primary responsibilities are as follows

(1) Environmental and Safety Department To ensure the implementation of environmental and safety policies and standards for Consortium operations in compliance with the highest reasonable international standards for developing procedures and plans designed to prevent further degradation of the Aral Sea and surrounding territory while installing the necessary protocols to improve the quality of water and environmental resources to the area,

(2) Public Relations Department To ensure, as directed and when required, public

relations activities and media communications on behalf of the Consortium To promote advertise and explain Consortium operations and the interests of the Republic of Kazakstan related to Consortium operations To interpret rules and regulations applicable to Consortium activities

(3) Legal Department To provide legal advice and assistance to the Management Committee and the Operator on applicable laws and regulations of the Republic of Kazakstan To work in conjunction with the relevant representatives of Government to develop draft legislation and regulations for oil field activities including offshore operations and environmental protection standards for oil field related activities,

(4) Human Resource Department To supervise and control personnel recruitment management and training in accordance with legislation of the Republic of Kazakstan regulations and Consortium policies and procedures, and to ensure the efficient and effective utilization of personnel resources,

(5) Finance and Accounting Department To supervise and control the financial and accounting activities of Consortium operations, ensuring compliance with appropriate laws and regulations To handle the day-to-day finance accounting and tax activities of Consortium operations To implement the financial and accounting control and management systems set out in the accounting and finance procedures manuals adopted by the Management Committee

(6) Contract and Procurement Department In consultation with other departments to supervise and control all procurement activities to ensure the availability of goods and services in compliance with approved procedures To develop standard forms for contracts and bid procedures for Consortium operations including the negotiation of contracts and the contractual management of the bid process,

(7) Geological and Geophysical Department To plan coordinate supervise and control the geodetic, geological and geophysical activities (data acquisition processing, interpretation and storage) for the Consortium, including

- (a) participating in the selection of contractors to perform seismic data acquisition and processing activities in accordance with the approved Work Program and monitoring the quality of performance of the contractors, and
- (b) implementing the Exploration Research program in accordance with the Work Program

(8) Logistics and Infrastructure Department To supervise and control the logistics and infrastructure necessary and appropriate for the conduct of Consortium operations, as well as other infrastructure projects (other than social infrastructure projects referred to in Section 24 4) as approved by the Management Committee

(9) Support Offices To ensure the effective logistic support to Consortium

activities to be carried out in the Exploration Area To cooperate in the development of good relations with local authorities agencies and entities and develop procedures for maintaining those relations

SECTION 4 6 Settlement of Claims and Lawsuits

(a) The Operator shall promptly notify the other Parties of all third party claims and law suits which arise out of Consortium operations or relate in any way to Consortium activities Except as provided in Section 4 6(b) and subject to the rights of the Parties pursuant to Section 4 6(c), the Operator shall represent the Parties and, in close cooperation with the legal counsel for each of the Investor Participants, investigate, initiate, pursue, defend, oppose and resolve all third party claims and law suits which arise out of Consortium operations in accordance with the approved finance procedures or instructions of the Management Committee

(b) Each Party (other than the Operator) shall promptly notify the other Parties of any claim or law suit made against such Party by a third party arising out of or relating in any way to Consortium operations Insofar as such claim or law suit arises out of or relates to Consortium operations, such Party shall investigate, defend, oppose and resolve the matter in accordance with the instructions of the Management Committee No Party shall initiate or pursue any claim or law suit against a third party to the extent such claim or law suit arises out of or relates to Consortium operations other than in accordance with the instructions of the Management Committee

(c) All costs and expenses (including legal costs and expenses) and damages as are payable in connection with any claim or law suit referred to in Section 4 6(a) or (b) shall be Consortium costs

(d) Notwithstanding Sections 4 6(a) or (b), each party shall have the right to participate in, and be represented by its own counsel (i e , counsel separate from any counsel retained by the Operator to represent the Investor Participants as a group) in connection with any matter referred to in the above sections at its sole cost and expense No Party, however may settle its portion of any claim or law suit without first satisfying the Management Committee that it can do so without prejudicing the interests of Consortium operations or the interests of the other Parties

SECTION 4 7 Replacement of Director General, Deputy Director General or Operator

(a) Director General and Deputy Director General If, in the opinion of any Consortium Participant, either the Director General or the Deputy Director General has engaged in Willful Misconduct in the performance of his duties under this Agreement or in connection with the performance of Consortium operations, such Consortium Participant or investor shall have the right, through its representative on the Management Committee, to request a review of such person's conduct by the Management Committee Upon any such request, the Chairman of the Management Committee shall call a meeting of the Committee for the purpose of reviewing such person's

conduct. If the Management Committee determines that such person's conduct constituted Willful Misconduct, the Chairman shall appoint a new Director General as provided in Section 4.1(a). In the case of removal of the Deputy Director General, the Management Committee shall appoint a new Deputy Director General as provided in Section 4.1(a). In the event the allegation of Willful Misconduct is directed toward the Chairman of the Management Committee who is serving a dual role as Director General as provided in Section 4.1, the Deputy Director General shall assume the role of Acting Chairman with the concurrence of the Minister of Oil and Gas Industry (MOGI) and the Investor Participants. In such case, the KCS shall appoint a temporary representative to carry out their Consortium responsibilities, however, such representative shall not serve as Chairman during the Management Committee process of determining whether the temporarily removed Chairman-Director General has carried out activities or taken actions which would constitute Willful Misconduct. If such Willful Misconduct is determined to have occurred, the KCS shall appoint a new representative to the Management Committee who shall then serve as Chairman. The KCS shall be allowed to appoint the person who served as 'temporary representative' during the Willful Misconduct proceedings as Chairman once a determination has been made and removal of the Chairman - Director General has taken place. The new Chairman shall appoint a new Director General with Sixty (60) days of his appointment.

(b) Operator. In the event an Investor Participant believes the Operator has engaged in Willful Misconduct in the performance of its obligations under this Agreement or in connection with the performance of Consortium operations, the Consortium Participants shall meet to discuss the Operator's conduct. If the Consortium Participants cannot reach a resolution of the issues raised by the Operator's conduct such that the Operator can continue to act in a viable capacity under this Agreement, the Investor Participants shall have the right to request that the MOGI appoint another state organization of the Republic of Kazakhstan to temporarily assume the role of Operator under this Agreement. The MOGI shall agree to so appoint another state organization provided that the Operator has engaged in Willful Misconduct under this Agreement or in connection with the performance of Consortium operations.

ARTICLE 5

Aralshelf

SECTION 5.1 Roles of Aralshelf. It is recognized that in the performance of its functions under this Agreement, Kazakstancaspishelf is acting in the following distinct capacities under the Consortium project name of "Aralshelf",

- (a) as Operator,
- (b) as a Consortium Participant (referred to herein when so acting as "KCS as a Consortium Participant"),

- (c) as the representative of the Ministry of Oil and Gas Industry (referred to herein when so acting as "KCS as the Ministry's Representative ") and
- (d) on its own behalf as a state oil company (referred to herein when so acting as "KCS")

ARTICLE 6

Technical and Managerial Experts

SECTION 6 1 Cooperation of Appointees The Director General and the Departments shall work in close cooperation with such technical and managerial experts as are engaged in accordance with the provisions of Sections 6 2 and 6 3 Technical and managerial experts shall include representatives of the Consortium Participants as provided in Section 6 2 and to the extent necessary and appropriate, outside consultants as provided in Section 6 3

SECTION 6 2 Assignment of Personnel of Investor Participants to Operator

(a) Appointment of Assignees With respect to each of the expatriate positions described in the attached roster, the Investor Participants shall propose candidates from among their personnel to be assigned to the Operator for purposes of assisting as technical and managerial experts during performance of Consortium operations The Director General shall select from such candidates those persons who will be assigned to the Operator The Operator shall accept the appointees as the desired choice of the respective Representatives on the Management Committee In the event the KCS or one of the Investor Participants objects to an Assignee of a particular Investor Participant, the opposing Party shall forward the name of the Assignee in question to the Chairman of the Management Committee for approval or rejection of the Assignee by majority vote of the Management Committee

(b) Terms and Conditions of Assignees The terms and conditions of personnel assignments shall be in accordance with this Section 6 2 The specific terms and conditions of each assignment shall be set out in an assignment agreement approved by all of the Representatives on the Management Committee The specific terms and conditions shall include, without limitation,

- (1) a detailed description of the functions to be carried out by the Assignee,
- (2) the duration of the assignment, and
- (3) the remuneration to be paid to the Assignee

(c) Duty of Assignees It shall be the duty of the Assignees

- (1) to perform the duties and assume the responsibilities attendant upon their nominated posts as may be properly required by the Operator and
- (2) generally to provide faithful support for the efficient conduct of Consortium operations in accordance with good petroleum industry practice

(d) Remuneration Assignees shall be remunerated as nearly as practicable in accordance with the normal personnel policies and procedures of the Investor Participant providing the Assignee. The remuneration package provided to the Assignees shall include but not be limited to, the salaries, benefits, vacations, home leave, accommodations and educational assistance ordinarily provided by such Assignee's employer to employees serving outside their country of domicile in circumstances similar to the Assignees. Prior to any assignment the Investor Participant providing the Assignee shall advise the Operator and the Management Committee as to its applicable personnel policies and procedures. The Management Committee will take such policies into account in finalizing the terms and conditions of the assignment.

(e) Payroll Costs During the period of Assignment, each Assignee shall in all respects, be considered the employee of the Investor Participant providing the Assignee. Each providing Participant shall be responsible for the payment of all payroll costs associated with its Assignee, including, without limitation, the payment of remuneration, benefits, statutory burdens and Assignee's contribution to pension funds. The Operator shall reimburse each Investor Participant providing Assignees for all such payroll costs with the understanding that such reimbursement will include a reasonable charge for administrative, handling and other costs incurred by the Investor Participants. Costs thus reimbursed will be subject to audit by the Operator pursuant to Section 8.3(b). The Management Committee may establish guidelines on the reasonable scope of reimbursable costs to the Investors Participants relative to Assignees.

(f) Consortium Costs All costs incurred by the Operator in providing assistance and facilities to the Assignees as provided in the Assignment Agreements and in reimbursing the Investor Participants' payroll costs pursuant to Section 6.2(e) shall be Consortium costs.

(g) Replacement of Assignees Whenever any Assignee has been or is proposed to be withdrawn from assignment for any reason, the Investor Participant shall propose suitable candidates for replacement to the Director General. The Director General shall appoint a replacement Assignee from the list of candidates. Should the Operator or other Investor Participant disagree with the Assignee's selection by the Director General, the nomination shall be forwarded to the Management Committee in accordance with procedures set forth in Section 6.2(a).

SECTION 6.3 Engagement of Outside Consultants as Technical and Managerial Experts To the extent the Operator determines that, in addition to the technical and managerial experts assigned by the Investor Participants as provided in Section 6.2, the efficient and timely

completion of Consortium operations requires the engagement of outside consultants as technical and managerial experts the Operator shall appoint such outside consultants as are necessary with the prior approval of all of the Representatives on the Management Committee All such experts approved by the Management Committee shall be engaged by the Operator pursuant to service agreements approved by the Committee All costs and expenses incurred by the Operator under such agreements for services shall be Consortium costs Such costs may be subject to audit by the Investor Participants under procedures set forth in Section 8 3(a)

ARTICLE 7

Contractors and Suppliers

(a) Engagement of Contractors and Suppliers The Operator may from time to time engage such contractors and suppliers as are necessary and appropriate to provide services and materials for carrying out Consortium operations Such contractors and suppliers may include one or more of the Investor Participants

(b) Approval of Contractors The Operator shall have discretion in engaging contractors and suppliers as provided in the Finance Procedures Manual approved by the Management Committee All other arrangements with contractors and suppliers shall be subject to approval by the Management Committee in accordance with Section 3 2(h), provided, however, that the selection of geophysical and environmental contractors, and the terms and conditions of all contracts with such contractors, shall be subject to approval by at least eighty (80) percent of the Representatives on the Management Committee A negative vote shall be accompanied by a written reason for the non-concurrence

(c) Tender Process It is the objective of the Consortium Participants that Consortium operations be undertaken in a truly competitive manner Subject to Section 7(d), the Operator will not engage contractors or suppliers except by issuing tenders for contracts, materials and services to internationally reputable companies in accordance with the Tenderboard Procedure set out in the Finance Procedure Manual Quality of service and product, commitment to training and equipping citizens and entities of the Republic of Kazakhstan and to transferring technology and expertise and cost shall be given significant weight in the tender process

(d) Preference for Republic of Kazakhstan Contractors and Suppliers In obtaining and procuring services and materials for Consortium operations, the Operator shall give due consideration to obtaining and procuring such services and materials from contractors and suppliers established or with current operations in Kazakhstan and who primarily employ citizens of the Republic of Kazakhstan Such contractors and suppliers must be properly qualified and shall demonstrate proof that they have sufficient experience to supply such services and materials in a timely manner and with efficiency Such contractors and suppliers shall qualify if they can further

demonstrate that such services and materials are of a quality similar to or better than and on terms which are substantially competitive with those offered by contractors and suppliers not established or with current operations in Kazakhstan or who do not primarily employ Kazakhstan citizens

(e) Investor Participants Responsibility and Guarantees The Investor Participants shall be responsible for all costs and expenses incurred by the Operator under all contracts entered into by the Operator pursuant to this Section and all such costs shall be considered as Consortium Costs. The Investor Parties acknowledge that contractors and suppliers may be unwilling to accept the credit of the Operator in entering into contracts for services and materials necessary to conduct Consortium operations. In the event that such circumstances arise the Investor Participants will provide such contractors and suppliers with such guarantees of the amounts payable under such contracts as are necessary to cause such contractors and suppliers to enter into such contracts and provide the necessary services and materials. The terms of such guarantees shall be reasonably satisfactory to the Investor Participants.

ARTICLE 8

Accounting and Financial Control Procedures, Currency Matters

SECTION 8.1 Accounting Procedures The Operator shall prepare and maintain at its principal executive office accounts and financial records of Consortium operations prepared in accordance with generally accepted accounting principles used by the international petroleum industry consistent with the laws, rules and regulations of the Republic of Kazakhstan all as specified in the Accounting Procedures. The Accounting Procedures may be amended by the Management Committee by the affirmative vote of all Representatives on the Management Committee. If eighty (80) percent or more of the Representatives on the Management Committee vote for the amended changes, non concurring members shall provide a written explanation of their objections to the Chairman. All accounts and financial records, and all accounting and financial reports prepared therefrom, shall be maintained on a currency basis agreed to by the Representatives.

SECTION 8.2 Independent Accounting Firm For the purpose of ensuring adherence to the Accounting Procedures and the Budget and addressing the responsibility of the President and senior accountant of KCS under Section 7.2 of KCS's Charter in relation to Consortium operations, the Operator will engage (name of firm) as a consultant. The Investor Participants acknowledge such engagement and consent to its terms. All costs and expenses incurred by the Operator in engaging such accounting firm for the purposes described above shall be Consortium costs.

SECTION 8.3 Audits

(a) By Investor Participants Investor Participants collectively shall have the right on twenty (20) calendar days' notice to the Operator and at their own expense to audit the books and financial records of Consortium operations maintained by the Operator. Each such audit shall be conducted either by employees of the Investor Participants or an internationally recognized auditing firm designated by such Participants. In either case, the auditors may be non-residents of the Republic of Kazakhstan. The Investor Participants shall make every reasonable effort to ensure that all audits are conducted in a manner which will result in a minimum of inconvenience to the Operator. The Investor Participants may not request an audit more often than once every six (6) months and shall not request an audit within six (6) months of the date of completion of the most recent audit. Upon request by the Investor Participants for an audit, the Operator and Participants shall agree upon a mutually convenient time for the audit, and the Participants shall among themselves agree upon the scope and method of the audit so that the results shall be binding upon all Investor Participants. The Operator agrees to make available at such time all books, records and other information necessary to conduct the audit and to provide the auditors with access to all locations necessary to conduct the audit. Unless pre-arranged between the Operator and Participants, all audit activities will be conducted, at least initially, at the Operator's offices in Almaty, Republic of Kazakhstan.

(b) By Operator The Operator shall have the right, on twenty (20) calendar days' notice to an Investor Participant, to audit the books and financial records maintained by such Investor Participant in connection with the provision by such Participant of goods and services in connection with Consortium operations unless such goods and services are provided pursuant to a fixed price contract. Each such audit shall be conducted by an internationally recognized auditing firm designated by the Operator. The auditors may be non-residents of the Republic of Kazakhstan. The Operator shall make every reasonable effort to ensure that all audits are conducted in a manner which will result in a minimum of inconvenience to the Investor Participant. The Operator may not request an audit more often than once every six (6) months and may not request an audit within six (6) months of the date of completion of the most recent audit. Upon request by the Operator for an audit, the Operator and the Investor Participant shall agree upon a mutually convenient time and place for the audit. The Investor Participant shall agree to make available at such time and place (office) all books, records and other information necessary to conduct the audit and to provide the auditors with access to all locations necessary to conduct the audit. In the event the Operator desires to request and audit from more than one Investor Participant, such audits shall be coordinated as much as feasible and shall be conducted by the same internationally recognized auditing firm. All costs and expenses incurred by the Operator in conducting such an audit shall be borne by the Operator unless prior agreement is obtained from the Management Committee to deem such costs as attributable to the Consortium. If the audit reveals irregularities that reflect unfavorably on the Investor Participant(s), all costs and expenses shall be paid to the Operator by those individual Participants.

SECTION 8 4 Currency Matters

(a) The Government of Kazakstan agrees that the Operator on behalf of the Consortium may operate, to the extent that the Operator and the Management Committee determine is practical on a U S Dollar basis (maintaining accounts and financial records in U S Dollars) and the Operator shall be allowed to maintain and make payments out of accounts external to the Republic of Kazakstan for the purposes of conducting Consortium operations. Neither the Operator nor any of the Investor Participants will be required to convert currency into Tenge or other local currency except as they deem necessary for Consortium operations and to the extent that they do so they will not be prohibited from obtaining the normal lawful free market rates of exchange for commercial transactions.

(b) The Government agrees that the Operator, on behalf of the Consortium may receive foreign currency from, and pay foreign currency to, any Person whether a citizen or non-citizen of the Republic of Kazakstan and whether a resident or non-resident in Kazakstan for goods and services provided to the Operator by such Person in connection with Consortium operations and to employees for their wages and salaries.

ARTICLE 9

Insurance

SECTION 9 1 Insurance (a) The Operator shall obtain and maintain with respect to Consortium Operations such forms of insurance as are required by applicable laws, rules and regulations and such additional insurance, denominated in such currencies, as the Management Committee may from time to time require.

(b) The Operator shall obtain and maintain the types of insurance required under Section 9 1 (a) in the minimum amounts required under applicable laws, rules and regulations, provided, however, that in the absence of requirements as to minimum amount, the Operator shall obtain and maintain amounts as are consistent with good and prudent industry practice.

(c) The costs of all insurance obtained and maintained by the Operator pursuant to the above sections shall be Consortium costs.

(d) In respect to all insurance obtained by the Operator pursuant to Article 9, the Operator shall

- (1) with regard to additional insurance effected pursuant to Section 9 1(a), offer participation to Investing Participants' existing international insurance programs and/or to their captive insurance companies based on premium terms and insuring conditions established in the

international insurance market. Should any investor participant elect to utilize either or both its international insurance programs or captive insurance companies, the Operator shall be entitled to request such information (which shall not be unreasonably withheld) as it may reasonably require concerning the financial security thereof.

- (2) promptly notify the investor Participants when such insurance is obtained and supply each of them with copies of the relevant policies when same are issued.
- (3) arrange for other Parties to be named as co-insureds on the relevant policies with waivers of subrogation in favor of all Parties, and
- (4) duly file all claims and take all necessary and proper steps to collect any proceeds derived from insurance and credit such proceeds to the Consortium Account.

(e) All contracts with contractors performing work in Consortium Operations shall require contractors to (1) obtain and maintain insurance in the types and amounts required by applicable laws, rules and regulations or in accordance with any decision of the Management Committee, (2) name the Parties as additional insureds and loss payees as their interests may appear on contractors' insurance policies, and (3) obtain from their insurers waivers of all rights or recourse against the Operator and the other Parties.

ARTICLE 10

Rights of Investor Participants to E&P Blocks

SECTION 10.1 Determination of E&P Blocks (a) The Operator shall in consultation with the Investor Participants develop a map of exploration and production blocks (each an "E&P Block" and collectively the "E&P Blocks") within the Exploration Area in accordance with this Section.

(b) A map of E&P Blocks shall be drawn according to geographical coordinates using internationally recognized geodetic reference points. Said map shall cover the most prospective sectors of the Exploration Area, based on the results of the seismic data acquired through the Exploration Research Study, together with any additional sector that any Investor Participant requests to be included in such map.

(c) The map of E&P Blocks shall consist of a grid for the entire area of the Aral Sea and adjacent territory which was covered through the Exploration Research Study. Each grid shall consist of rectangular blocks of uniform size and shape. The grid shall be developed for that Aral Sea and adjacent territory lying within the boundaries of the Republic of Kazakhstan unless an intergovernmental agreement is signed with the neighboring Republic of Uzbekistan for their

inclusion in the Consortium prior to the signing of all Parties to this Agreement. The grids used in the map of E&P Blocks shall be placed so that the most prospective structure within the Exploration Area, as determined by the Investor Participants, is covered by the lowest number of E&P Blocks provided, however that it is understood that each block on the map of E&P Blocks will be oriented to the other blocks such that each side of each block will be coincident with the corresponding side of the neighboring block (except where the side of the block abuts the border of the Exploration Area or the boundary of the Republic of Uzbekistan)

(d) On or at any time after the date of completion of Phase I of the Exploration Research Study (as defined in Section 10.2) the Investor Participants may request the Operator in writing to commence the development of the map of E&P Blocks. When such request is made, the Operator shall commence the development of the map on the date of receipt of the request. Provided that no Investor Participant has selected any E&P Block on the basis of the map so developed, the Investor Participants may at any time request the Operator, in writing, to commence the development of a subsequent map of E&P Blocks. In that event, the Operator shall commence the development of a subsequent map on the date of that request, and the Investor Participants may select their E&P Blocks pursuant to Section 10.3 on the basis of that map.

(e) If the Investor Participants have not requested the Operator to commence with development of a map of E&P Blocks in accordance with Section 10.1(d), then the Operator shall commence the development of such a map on the date of completion of the Exploration Research Study (as defined in Section 10.2).

(f) The Operator shall complete each map of E&P Blocks and submit it to the Investor Participants no later than ninety (90) days after the date on which such map is due to be commenced in accordance with Section 10.1(d) or (e). Failure to complete and submit each such map shall constitute Willful Misconduct by the Operator.

SECTION 10.2 Completion of the Exploration Research Study (a) "Completion of the Exploration Research Study" shall mean completion of the 8x8 seismic profile grid for most of the area and the 4x4 grid for the central part of the Aral Sea and other areas where more detailed studies were deemed advantageous to the project and were set forth in the Work Program.

(b) "Completion of the Research Study" shall mean the earliest of (1) the date on which all seismic lines and test holes to be acquired under the Work Program have been processed to a standard level and a series of structural maps have been produced which provide an interpretation based on all acquired data, (2) the date on which the aggregate amounts of Consortium costs incurred for the Exploration Research Study equals the allocated ceiling in U.S. Dollars, or (3) the date on which the aggregate amount of Consortium costs incurred equals the allocated amount in U.S. Dollars or other agreed to currency units.

SECTION 10.3 Selection of E&P Blocks (a) Each Investor Participant shall have the exclusive and unrestricted right (but not the obligation) to select up to two (2) E&P Blocks from any part of the Exploration Area, in accordance with the provisions of this Section. Each E&P Block so selected by an Investor Participant or Participants shall be awarded to such Participant(s) by the Ministry of Oil and Gas Industry or KCS or other competent designated authority on the terms of the production sharing agreement negotiated in accordance with the provisions of Article 11.

(b) At any time after the receipt of the map or maps of the E&P Blocks in accordance with Section 10.1, each Investor Participant may give the Operator written notice selecting one or two of the E&P Blocks identified on the map. Each Investor Participant may give one or two such notices, provided that, (1) the total number of E&P Blocks selected by such Investor Participant may not exceed two (2), and (2) no such selection may be made later than a date specified as six (6) months after the date of the Completion of the Exploration Research Study. In the event completion of Phase I of the Exploration Research Study has not occurred by a date specified and agreed to during the period of Agreement negotiation (and whether or not the Investor Participants have by that date received the map or maps of E&P Blocks in accordance with Section 10.1) each Investor Participant shall have the right to select blocks pursuant to this Article. Any selection made after such date may be amended at any time prior to the earlier of six (6) months after completion of the Exploration Research Study and the execution of a production sharing agreement by the Investor Participants selecting such blocks.

(c) The Investor Participants (excluding KCS) are encouraged to develop an internal procedure for selecting E&P Blocks to avoid the selection of the same block by more than one Participant. In the event two (2) or more Investor Participants (not acting together) select the same E&P Block, such Participants, together with KCS, shall meet to discuss the resolution of the conflict. Failing agreement by such Investor Participants and KCS to resolve such conflict, the MOGI shall have the right to run a closed tender among such Participants with respect to such E&P Blocks. The Investor Participant prevailing in such tender will be deemed to have selected such E&P Block in accordance with Section 10.3(a) and (b). The parties acknowledge by this Agreement that it is their intention to avoid the tender process through negotiation whenever possible.

(d) In exercising its rights described in Section 10.3(a) and (b) to select two (2) E&P Blocks, each Investor Participant shall have the option of joining with one (1) or more other Participants in selecting a number of E&P Blocks (not to exceed two (2) per Participant) which such Participants wish to explore and develop, and produce from jointly.

(e) Each Investor Participant will have the right to be the Operator with respect to the E&P Blocks selected by it. In the event that two (2) or more Investor Participants select one (1) or more E&P Blocks jointly, the Participants shall have the right to decide among themselves which of them will operate that E&P Block.

(f) After the first to occur of (1) the final date for selection of E&P Blocks by the Investor Participants as specified in Section 10 3(b) or (c) or (2) the date on which Investor Participants have selected the maximum number of E&P Blocks to which they are entitled KCS shall have the right to select two (2) E&P Blocks KCS may not select an E&P block that has been selected by an Investor Participant in accordance with Section 10 3 KCS shall have sole discretion with respect to all other E&P blocks

ARTICLE 11

Exploration and Production Terms, Conditions and Production Sharing Agreements

(a) As soon as practicable after the effective date of this Agreement the Investor Participants and the MOGI, KCS, or other appointed competent authority shall commence the negotiation of the terms of the production sharing agreements which will apply to the E&P Blocks selected by the Participants as described in Section 10 2 The production sharing agreements with The Republic of Kazakhstan will be based on the currently used General Principles for E&P Block Negotiations and will include all the matters set out in those General Principles together with such other matters as the parties to such negotiations may agree This will include with respect to taxation the tax principles and protocol applicable to production sharing agreements which are agreed to in or pursuant to current tax laws and framework for the Republic of Kazakhstan An outline of the terms and conditions which might be used as a basis of framing production sharing agreements is attached in Appendix B of the Agreement Each party to such negotiations shall be obligated to negotiate reasonably and in good faith with a view to reaching an agreement which is consistent with international standards and experience and provides for an economic arrangement which is acceptable to all parties The production sharing agreements so negotiated shall be executed as soon as practicable after the selection of E&P Blocks by the Investor Participants

(b) The terms of the production sharing agreements referred to in Section 11(a), and in particular, the figures for cost recovery and profit for oil or gas, shall be such that each Investor Participant would, based on the assumptions agreed pursuant to a pre-negotiated formula, earn a minimum Internal Rate of Return of ____ percent (__%) on its investment in its E&P Blocks if future exploratory drilling results in a commercial discovery of oil or gas In any event, the figure for cost recovery and profit of oil and/or gas, which will be allocated to each Investor Participant to reimburse its exploration, development and production costs, will be at least ____ percent Since the economic factors for the profitable production of gas differ from oil as do the processing and marketing scenarios, separate production sharing agreements for gas exploration and production may be considered by the MOGI and KCS, and the Investor Participants Appendix B assumes that production sharing formulae for oil and gas follow different principles

(c) The parties to such negotiations shall use all reasonable endeavors to conclude the negotiations of the terms and conditions of the production sharing agreements in accordance with Section 11 (a) but prior to (date to be negotiated) If the parties to such negotiation are unable to conclude the terms of the production sharing agreements by (date to be negotiated) then a mediator shall be appointed to assist in the resolution of all the outstanding issues in the negotiations for the period through the earlier of completion of the Exploration Research Study or the failure of the mediation (as hereafter described) The mediator shall be selected by mutual agreement of the parties to such negotiations from among consultants and economists of international standing with experience in developing international production sharing agreements Following consultations with the parties to such negotiations the mediator will issue such written recommendations as is deemed appropriate to resolve the outstanding issues and the parties to such negotiations shall give every consideration to such recommendations If any such party declines to accept the mediator's written recommendations and any issue remains outstanding for a reasonable period after issuance of the mediator's recommendations, then the mediation shall be deemed to have failed Prior to selection of E&P Blocks by the Investor Participants pursuant to Section 10 2 the fees and expenses of the mediator shall be paid by the Investor Participants Thereafter, such fees and expenses shall be shared on a 50-50 basis between the Investor Participants and the KCS The parties to such negotiation shall continue in good faith until the end of the two (2) year period referred to in Section 11(d) to try to reach agreement on the terms of the production sharing agreement notwithstanding the failure of the mediation

(d) In the event the failure to agree on production sharing is among Investor Participants and not an issue that involves the MOGI or KCS, such Participants are encouraged to resolve differences prior to negotiation with the entities of the Republic of Kazakhstan in a manner similar to the recommendation made for E&P Block selection in Section 10 3(d) In the event of the failure of the mediation as set out in Section 11(c), the Government and the MOGI undertake that for a period of two (2) years after completion of the Exploration Research Study, no other person or entity will be offered or granted rights to explore, develop or produce from those E&P Blocks selected by the Investor Participants

(e) After a further period of two (2) years following the end of the two (2) year period referred to in Section 11(d), the MOGI, KCS, or other appointed competent body may offer or grant to any third party rights to explore, develop and produce from the E&P Blocks selected by the Investor Participants The MOGI shall forthwith so notify the relevant Investor Participant(s) of such action In that event, the Investor Participant(s) shall have the option to acquire those E&P Blocks on the same terms as those offered to the third party, subject, however, to an adjustment to take account of the Preliminary Fee paid under the Preliminary Consortium Agreement and the Consortium Fee and the Consortium Costs paid by the Investor Participant(s) That adjustment shall take the form of a corresponding reduction in the signature bonus which would have been payable by that third party, or failing that by some other appropriate means so that the Investor Participant(s) is in the same position, taking into account the costs and fees paid by it, as that third party would have been in In the event the relevant Investor Participant elects not to exercise such option, the

third party may acquire such rights, provided however that third party shall be required by KCS or the appointed competent body as a condition to the effectiveness of its acquisition of such rights to repay the Investor Participant the pro rata share of the Preliminary Fee Consortium Fee and Consortium Costs attributable to such E&P Block or Blocks

(f) Nothing in this Section shall be deemed to be or construed to be a guarantee an agreement to guarantee or an agreement that the exploration development and production phase of any E&P Block will operate throughout the entire term of the production sharing agreement Neither does it guarantee the actual rate of return realized by an Investor Participant on its investment in an E&P Block

ARTICLE 12

KCS, THE MINISTRY and the GOVERNMENT

SECTION 12.1 KCS Participation in the Consortium KCS shall be a Consortium Participant and shall have all rights of membership as provided in this Agreement As provided in Article 3, KCS shall be represented on the Management Committee by one Representative who shall act as Chairman and who may, until a successor is appointed in accordance with Sections 4.1 and 4.7(a), act as Director General

SECTION 12.2 KCS Personnel As provided in this Agreement, KCS personnel will be represented in all aspects of Consortium Operations, including the gathering, processing and interpretation of data KCS will act as the MOGIs representative on all operational matters concerning the conduct of Consortium Operations and will work in close cooperation with the Ministry and with other government ministries agencies and local authorities which may have an interest in Consortium Operations

SECTION 12.3 Undertakings by the Government The Government undertakes the following

(a) to procure the timely granting of all permits, licenses, authorizations and approvals required from any Ministry, State Committee or other governmental entity or local governing body in the Republic of Kazakhstan which are necessary to give effect to this Agreement The activities to be carried out hereunder and the rights granted to Investor Participants shall apply at all times provided the Investor Participants (1) meet uniformly applied requirements for the granting of such permits, licenses, authorizations or approvals, (2) observe the laws, regulations and rules of the Republic of Kazakhstan and (3) fulfill their obligations under this Agreement

(b) to not take or permit any administrative action which would render this Agreement or any obligation of any Party hereunder either illegal or impossible to perform, or which would otherwise prevent the terms of this Agreement from being given full effect,

(c) to maintain in full force and effect the rights delegated to the MOGI or other ministries having authority over E&P activities through law or regulation or to local government entities,

(d) to ensure that as long as the Investor Participants have the right to select E&P Blocks pursuant to Section 10.2, not to permit any Person (other than as is specifically contemplated by this Agreement) to conduct any seismic exploration, drilling, development or production operations in the Exploration Area, and

(e) to procure such measures as are required to give legal force and effect to tax principles which are agreed in or pursuant to existing laws on taxation as they apply to this Agreement and any production sharing agreement entered into pursuant to Section 11

SECTION 12.4 Undertakings from the Ministry of Oil and Gas Industry The MOGI undertakes

(a) to procure the timely processing and granting of all permits, licenses, authorizations and approvals required from any Ministry, State Committee or other governmental or local body in the Republic of Kazakhstan, which are necessary to give effect to this Agreement. The activities to be carried out hereunder and the rights granted to the Investor Participants shall apply at all times provided the Investor Participants, (1) meet uniformly applied requirements for the granting of such permits, licenses, authorizations or approvals, (2) observe the laws, rules and regulations of the Republic of Kazakhstan, and (3) fulfill their obligations under this Agreement,

(b) to pursue diligently the resolution of any matters or issues that result from the administrative deliberation or interpretation of newly promulgated regulations or laws, where such laws or regulations conflict with the provisions of this Agreement. When such matters or issues arise from activities beyond the jurisdiction of the MOGI, the MOGI will coordinate with the Governmental agency, KCS, and relevant local authorities to expeditiously resolve such matters,

(c) to provide the Consortium Participants with such other assistance as they may reasonably request and as may be given within the Ministry's jurisdiction in order to give and maintain effect to this Agreement, the activities to be carried out hereunder and the rights granted to the Investor Participants hereunder, and

(d) to provide any assistance necessary to facilitate coordination of permits, authorizations, licenses and approvals for Investor Participants in the event Kazakhstan comes to an agreement with the Republic of Uzbekistan regarding E&P activities or Environmental Work Programs within the Aral Sea and adjacent territory

SECTION 12.5 Undertakings from KCS KCS undertakes

(a) to perform promptly and diligently all of its obligations under this Agreement and any other agreements entered into with any Investor Participants in connection with the Aralshelf Consortium Operations,

(b) to pursue diligently all governmental and local authority approvals and authorizations necessary to give effect to this Agreement and the rights granted to the Investor Participants hereunder,

(c) to pursue diligently the resolution of any matters or issues that arise to the extent that such matters are within the jurisdiction of KCS, and to the extent not within its jurisdiction to coordinate with the Government, the MOGI, and relevant authorities the resolution of such matters or issues,

(d) to obtain visas for and provide access to all locations in the Republic of Kazakhstan relevant to Consortium Operations to all Investor Participant personnel as are necessary to enable such personnel to fulfill their respective roles in implementing Consortium Operations

(e) to facilitate access to regional and local organizations, authorities and institutes in the Republic of Kazakhstan,

(f) to assist with housing, office space, transportation facilities and other logistical aspects of conducting Consortium Operations,

(g) to assist with the acquisition of and/or the allocation of the right to use land buildings and facilities needed to conduct Consortium Operations and to store goods, equipment material and spare parts,

(h) to assist in obtaining all agreements, work permits, land permits and licenses for equipment and materials. Corollary to this undertaking is the effort to facilitate the setting of reasonable tariff rates and duties on such materials and equipment to be used either directly or indirectly in conducting Consortium Operations,

(i) to otherwise coordinate with all appropriate Government ministries, agencies and local authorities when and where necessary in order to facilitate the efficient and timely completion of the Exploration phase of the work program so that the actual production of discovered hydrocarbons can commence in a timely manner and

(j) to provide the Investor Participants with such other assistance as they may reasonably request and as may be within the KCS's jurisdiction in order to give effect to this Agreement, the activities to be carried out hereunder and the rights granted to the Investor Participants hereunder

(k) to provide coordination of inspections by other Government ministries (other than MOGI) who have regulatory responsibilities for oil and gas in such a manner that is efficient economical and non-duplicative

ARTICLE 13

Investor Participant

SECTION 13 1 Covenants Each Investor Participant agrees to (a) subject always to Section 14 4 fund its participating share of all Consortium costs as provided in Section 16 2

(b) otherwise promptly and diligently perform all of its obligations under this Agreement and any other agreements entered into between such Investor Participants and the Operator in connection with Consortium operations

(c) assist the Operator in obtaining visas for foreign visits by all Operator Ministry Government, and other personnel as are necessary to enable such personnel to fulfill their respective roles in implementing Consortium operations

(d) provide access to all locations under the control of such Investor Participants and relevant to Consortium Operations to all Operator, Ministry Government, and other personnel as are necessary to enable such personnel to fulfill their respective roles in implementing Consortium operations

(e) provide such assistance and cooperation as is reasonably requested by the Operator from time to time in connection with obtaining agreements work permits land permits and licenses for equipment and materials and otherwise coordinating with appropriate Government ministries agencies, and local authorities, and

(f) diligently pursue all authorizations, approvals and other actions as may be required to enable such Investor Participant to perform its obligation under this Agreement

ARTICLE 14

Work Program and Budget

SECTION 14 1 Initial Work Program and Budget Attached to this Agreement as Appendices ___ and ___ are the Initial Work Program and the Proposed Initial Budget for Aral Sea Consortium Operations as will be amended from time to time by Annual Work Programs and Annual Budgets approved pursuant to Section 14 2 These are referred to in this Agreement, respectively, as the "Work Program" and the "Budget" The Initial Work Program and Initial Budget represent the scope of the Work Program which the Government of Kazakhstan and KCS believe necessary to

carry out the objectives of the Consortium and the costs thereof

SECTION 14.2 Annual Work Programs and Budgets (a) Preparation of Annual Work Programs and Budgets Within ninety (90) calendar days of the execution of this Agreement in the case of the proposed annual work program and the proposed annual budget for calendar year 199__ and no later than ninety (90) calendar days prior to the end of each calendar year thereafter the Operator shall deliver to the other Consortium Participants a proposed annual work program detailing Consortium Operations to be conducted during the following calendar year and a proposed annual budget detailing the estimated costs. Each proposed annual work program and budget shall be prepared by the Operator based on the existing program and budget and shall include, at a minimum, the following:

- (1) a detailed description of the work to be performed during the following calendar year proposals as to contractors and suppliers necessary for the implementation of such work and a detailed critical time path for performing such work; and
- (2) a detailed estimate of the costs and expenses to be incurred in performing the proposed annual work program, including bids received from contractors and suppliers and a detailed time schedule for the incurrence of such costs and expenses.

(b) Approval of Annual Work Programs and Budgets Within (30) calendar days of delivery of the proposed annual work program and proposed annual budget the Management Committee shall meet to consider and endeavor to agree on both proposals prepared by the Operator. The approval of the proposed annual work program and budget shall be the responsibility of the Management Committee as provided in Section 3.2(h), provided, however, that if (1) The proposed annual work program is inconsistent with the set of tasks included in the Initial Work Program, (2) the proposed annual budget exceeds the budget for that year as set forth in the Initial Budget, or (3) the total amount budgeted for any one element of the proposed annual work program exceeds the amount budgeted for such element for that year in the Initial Budget, approval of the entire package of annual work program and budget including the total amount budgeted for the one element shall require unanimous approval of the Management Committee. Except in relation to minor deviations as provided in the approved Finance Procedure Manual the Operator shall not incur any expenditures other than in accordance with an Annual Work Program and Budget.

(c) Review of Annual Work Programs and Budgets The Operator shall conduct quarterly reviews of the Annual Work Program and Annual Budget. To the extent that minor deviations to the annual work program or budget are necessary and appropriate the Operator shall approve such minor deviations and instruct the appropriate Department to implement the deviation activity. To the extent that major deviations to the annual work program and/or budget are necessary and appropriate, the Operator shall propose such major deviations to the Management Committee for consideration. Within (30) calendar days of receipt of the major deviation explanation, the Management Committee shall meet to consider and endeavor to reach agreement on the proposed deviations. The procedural requirements for approval of proposed annual work programs and

budgets as set out in Section 14 2(b) shall apply to the approval of proposed major deviations by the Management Committee

SECTION 14 3 Completion of the Exploration Research Study In the event the total amount of the portion of the Initial Budget allocated to the Exploration Research Study is projected to be expended prior to completion of the work program for such Study (as set out in the initial work program), the Parties shall meet within thirty (30) calendar days of the discovery of a potential cost overrun to discuss and determine whether a reallocation of funding with categories of the Initial Budget is necessary and appropriate to complete the Exploration Research Study KCS shall be obligated to agree to such reallocation unless it can present compelling written reasons that such reallocation would detract from compliance with laws and regulations or would otherwise jeopardize the future development of the oil and gas resources in the Aral Sea area

SECTION 14 4 Expenditure of Total Budget Notwithstanding any other provision of this Agreement, the maximum aggregate expenditure on Consortium Operations inclusive of any taxes that may be payable, shall be (_____) in U S Dollars If Consortium costs reach this amount in aggregate, Consortium Operations shall cease and shall be deemed to have been completed

SECTION 14 5 Savings on Total Budget If Consortium costs incurred in completing Consortium Operations are less than the total allocation in Section 14 4 the Investor Participants shall be required to pay KCS a negotiated percentage of the difference of those two amounts

ARTICLE 15

Environmental Protection

SECTION 15 1 Environmental Work Program In order to assist the Government of Kazakstan in preventing further degradation of the natural environment, including flora fauna and water resources needed to sustain a health based quality of life for residents in the Aral Sea Area and to set in place some of the infrastructural changes required to create a gradual improvement of environmental conditions through the financial gain from the development of oil and gas reserves by Consortium Participants, the Operator shall implement an environmental work program for the Exploration Area The Environmental Work Program will be a subset of the Initial Work Program and shall include the following elements

(a) The preparation of an environmental assessment to determine the current status of the flora, fauna and marine life population in the Aral Sea and surrounding land area to be included in the Exploration Research Study Such assessment shall be used to determine if the Exploration Research Study will create any potential environmental problems which should be

addressed by the Operator in developing requirements for the Consortium Participants to follow during Exploration and subsequent production related activities. The Operator shall submit such study to the Ministry of Ecology and Bioresources (or such other Government agency or authority as is established by laws or Presidential designation as responsible for evaluating environmental impacts) for state ecological review.

(b) The development of an Environmental Management System which shall include details regarding the special ecological, environmental or water resource conditions to be addressed either concurrently with the Exploration Research Study or by agreement of Investor Participants and KCS shortly hereafter as part of oil and gas exploration and production activities. The Environmental Management System shall describe the activities to be carried out as a part of the Aral Sea Area environmental upgrading program. That part of the Aral Sea Territory (both onshore and offshore) which lies within the territory of the Republic of Uzbekistan shall be included in the Environmental Assessment, except that the Investor Participants shall not be responsible for addressing environmental conditions in Uzbekistan unless so specified in the Consortium Agreement.

(c) Environmental training programs are to be introduced to provide Aral Sea Area site specific training for KCS, the National Academy of Sciences of the Republic of Kazakhstan, the Ministry of Ecology and Bioresources' staff and the MOGI. All such training programs shall be open for participation by those holding leadership roles in the Oblast(s) which exercise local administrative control over a portion of the Aral Sea Exploration Research Study Area and

(d) The sponsorship of an environmental awareness seminar specific to the Aral Sea Area problems during the time when the Exploration Research Study is under way.

SECTION 15.2 Coordination. The Parties recognize that (a) the Environmental Management System must be developed in such a way that Consortium Operations will be conducted in a manner consistent with the highest reasonable international standards of environmental protection necessary to reasonably restore some of the environmental quality needs for the Aral Sea area, and (b) the development of the Environmental Management System will require the active involvement of members of the National Academy of Sciences of the Republic of Kazakhstan, of the Ministry of Ecology and Bioresources and of other relevant Government ministries as well as interested regional institutes and other experts. The views and advice of these organizations and such experts shall be sought and taken into consideration throughout the process contemplated by this Article 15.

SECTION 15.3 Approval of Environmental Management System. The Operator shall propose the Environmental Management System to the Management Committee for approval as provided in Section 3.2(b). Once approved by the Management Committee, deviations from the Environmental Management System may be approved by the Management Committee as provided in Section 3.2(b) provided such deviations are consistent with the program goals for reasonably

addressing environmental quality issues in the Aral Sea area and have been approved by the appropriate authorities of the Republic of Kazakhstan

SECTION 15.4 Conduct of Consortium Operations As provided in this Agreement all Consortium Operations will be conducted in strict compliance with the environmental protection principles and procedures of the Environmental Management System approved by the Management Committee and such deviations from the Environmental Management System as are approved by the Management Committee and the appropriate authorities of The Republic of Kazakhstan. The Environmental Management System shall include appropriate provisions and procedures for assuring compliance with the environmental protection principles and procedures contained therein.

ARTICLE 16

Financing

SECTION 16.1 Consortium Participant Costs,

(a) Investor Participant Fees As soon as the conditions of the Agreement have been fulfilled in accordance with the provisions of Section 19.1(b) and each has been so notified by KCS pursuant to Section 18.2, each Investor Participant will pay, to such account, bank and beneficiary as the MOGI shall specify, a consortium fee of (_____) in U.S. Dollars. This shall be the Consortium Fee. For the avoidance of doubt, under no circumstances shall any Investor Participant be obligated to pay the Consortium Fees as provided in this Section 16.1(a) if all of the conditions of effectiveness contained in Section 19.1 (other than the condition contained in Section 19.1(b)) have not, in fact, been satisfied.

(b) Consortium Fee Not Refundable The Consortium Fee is being paid as consideration for the special rights granted to the Investor Participants pursuant to this Agreement and to compensate KCS for the expenditure (including costs and expenses associated with the operation of KCS) which it will incur in connection with its participation in the Consortium. Once paid, the Consortium Fee paid by each Investor Participant will not be refunded to any such Participant unless the KCS, as Operator, is deemed guilty of Willful Misconduct under Section 4.7(b) and the MOGI fails in its undertaking to appoint another duly qualified entity of the Republic of Kazakhstan to assume the role of Operator or fails to allow the Investor Participants to continue the Exploration Research Study in some other joint venture or partnership arrangement under an Agreement with mutually acceptable conditions and terms.

(c) Certain Fees and Costs Not Recoverable The Preliminary Fee (as defined in the Preliminary Consortium Agreement) and the Consortium Fee paid by each Investor Participant and the costs and expenses incurred by each such Participant in connection with the development and negotiation of the Preliminary Consortium Agreement and with this Agreement, will not be

recoverable as a cost item or otherwise by such Investor Participant in connection with the exploration and development of or production from such Investors Participant s E&P Blocks or otherwise

SECTION 16.2 Consortium Costs

(a) Costs and Expenses of Consortium In conducting Consortium operations the Operator shall incur costs and expenses, (1) as and when provided for in the Budget (2) in connection with any Major or Minor deviations to the Work Program as approved by the Management Committee, (3) as otherwise specifically approved by the Management Committee (4) as otherwise provided for in this Agreement, and (5) for the payment of taxes in respect to the foregoing as provided in Article 17 This includes all costs and expenses incurred in accordance with activities covered under this Agreement and those incurred by the Investor Participants in connection with emergencies as contemplated in Section 4.2(I), delineation of the Aral Sea/land boundary pursuant to Section 19.5 and in indemnifying the Operator pursuant to Section 25.1 These are collectively referred to as Consortium Costs All Consortium Costs will be paid by the Investor Participant as provided in Section 16.2(b) The Consortium Fee and the Preliminary Fee (defined in the Preliminary Consortium Agreement) are not Consortium Costs

(b) Cash Calls by Operator On a monthly basis in advance or in the case of an emergency, the Operator shall, in accordance with the Accounting Procedures and the Finance Procedures Manual, notify the Investor Participants of the total amount of Consortium costs to be incurred by the Operator during the next succeeding month or in connection with such emergency (each such notice, a "Cash Call") Each Cash Call shall include a detailed list of the Consortium costs to be incurred during the next succeeding month or in connection with such emergency (including any balancing adjustments referred to below) and the basis for each Consortium cost Within fifteen (15) calendar days (or in the case of an emergency, within the number of days provided in the Accounting Procedures) of the date of each Cash Call, each Investor Participant shall pay its participating share of the total amount of the Consortium costs specified in the Cash Call in U S Dollars On or before the twenty-fifth (25th) calendar day of each month, the Operator shall provide each of the Investor Participants with a detailed accounting of expenditures as provided in the Accounting Procedures and Finance Procedure manual In the event of a deviation between the funds so deposited and actual expenditures during the month, appropriate balancing adjustments (up or down) will be made in the Cash Calls for future months

(c) Consortium Account The Operator shall maintain a U S Dollar account in accordance with the Accounting Procedures for purposes of receiving payments by the Investor Participants pursuant to Section 16.2(b) and of making payments of Consortium Costs ("The Consortium Account")

(d) Local Currency Accounts The Operator will maintain local currency accounts to the extent necessary for Consortium operations in accordance with the Accounting Procedures and

the Finance Procedures Manual

(e) Recoverable Costs and Expenses The Consortium costs paid by each Investor Participant will be recoverable by the Participant in connection with the exploration and development of, and production from, such Investor Participant's E&P Blocks on terms and conditions to be agreed during the negotiations referred to in Section 10 3 provided that (1) the MOGI KCS and such Investor Participant reach agreement on the exploration development and production terms for each such Participant s E&P Blocks and (2) such Investor Participant achieves a "commercial discovery" (as defined in the agreement referred to in clause (1) of this Section) in one or more of its E&P Blocks For purposes of evidencing the Consortium costs that are to be recoverable by the Investor Participants as provided above, KCS will provide the Participants with periodic written statements prepared in accordance with the Accounting Procedures certifying the costs and expenses incurred by the KCS in conducting Consortium operations and paid by the Investor Participants pursuant to Section 16 2

(f) Termination of Funding Obligation Upon completion of Consortium operations, or deemed completion of Consortium operations as provided in Section 14 3 but without prejudice to the Investors Participants' obligations under Section 25 1, the funding obligation of the Investor Participants under this Section 16 2 shall cease The investor Participants shall not be responsible for any costs, expenses or liabilities incurred thereafter whether, (1) by KCS (2) in the implementation of the Environmental Management System, (3) in the continuing operation of the infrastructure projects carried out as a part of Consortium operations, or (4) otherwise howsoever

ARTICLE 17

Taxation

SECTION 17 1 Agreed Tax Principles Set forth in the attached schedule are tax principles which the Parties to this have agreed shall apply, to the extent set forth therein, to this Agreement and any production sharing agreement entered into pursuant to Section 11

SECTION 17 2 Definition References to tax or duty in this Agreement shall mean any and all taxes, duties, fees, levies, charges or similar such payments in the nature of taxes imposed now or hereafter by the Republic of Kazakstan under the Law on Taxation of 1996 Any revenue raised by any subdivision thereof or organs of state power or administration thereof, whether central, regional, local or municipal, including any general state taxes, local taxes and fees of general application and local taxes and fees established by local authorities shall be deemed to be taxes under the above definition

ARTICLE 18

Representations and Warranties

SECTION 18.1 Representations and Warranties of the MOGI and KCS The MOGI and KCS represent and warrant, as of the effective date of this Agreement to the Investor Participants as follows

(a) KCS is exclusively empowered under the laws of Kazakhstan to develop and conduct the study contemplated hereby to acquire seismic and other data relevant for the efficient, timely and profitable development of Kazakhstan's hydrocarbon deposits in the Aralshelf Exploration Area.

(b) Except as contemplated by this Agreement and attached negotiated disclosure schedules, no person or entity other than KCS, the MOGI, and the Government has any rights, claims or options with respect to conducting seismic surveys in the Exploration Area or to the exploration, development or production of hydrocarbons in the Exploration Area or which would otherwise conflict with the terms of this Agreement.

(c) The execution, delivery and performance of this Agreement are within the MOGI's and KCS's power, having been duly authorized by all necessary action and do not

- (1) violate any law, rule, regulation, article, writ, judgment, injunction, decree, determination or award,
- (2) contravene the MOGI's regulations or KCS's organizational documents, or
- (3) conflict with or result in the breach of any agreement, contract or other instrument binding on or affecting the MOGI, KCS or affecting the Exploration Area.

(d) Except as set forth in the negotiated schedule developed under Section 18.1(b) above and attached hereto, no authorization or approval or other action by, or notice to or filing with, any government authority or regulatory body or any third party is required for the due execution, delivery and performance by the MOGI or KCS of this Agreement.

(e) There is no action, suit, investigation, litigation or proceeding affecting the MOGI, KCS, or the Exploration Area pending, or to the knowledge of the MOGI or KCS threatened, before any court, governmental agency of the Republic of Kazakhstan, or arbitrator as to which there is a reasonable possibility of an adverse determination and which purports to affect the legality, validity or enforceability of this Agreement as it relates to the performance by such parties of its obligations hereunder or consummation of the transactions contemplated hereby.

SECTION 18.2 Representation and Warranties of the Foreign Participants Each of the Investor Participants represents and warrants, as of the effective date of this Agreement, to each of the other Investor Participants and to the MOGI and KCS as follows:

(a) The execution, delivery and performance of this Agreement by such Investor Participants are within their corporate power, have been duly authorized by all necessary corporate action and do not, (1) contravene such Investor Participants organizational documents (2) violate any rule, regulation, article, writ, injunction, decree, determination or award or (3) conflict with or result in the breach of, any agreement, contract or other instrument binding on or affecting such Participant

(b) No authorization or approval or other action by or notice to or filing with any governmental authority, regulatory body or third party is required for the due execution and delivery by said Investor Participants of this Agreement

(c) No authorization, approval or other action by or notice to or filing with any governmental authority, regulatory body or any third party is required for the due performance of such Investor Participants of this Agreement other than as may be required under the laws of the Republic of Kazakhstan and regulations promulgated thereunder, the requirement for which would not unduly interfere with the Investor Participants' performance under this Agreement

(d) There is no action, suit, investigation, litigation or other legal proceeding affecting such Investor Participant pending, or to their knowledge, threatened before any court, governmental agency, or arbitrator as to which there is a reasonable possibility of an adverse determination and which purports to affect the legality, validity or enforceability of this Agreement as it relates to the Participant or its performance of obligations set forth hereunder

(e) Such Investor Participant or qualified affiliate acting on behalf of or in concert with the Participant adheres to the same obligations as the Participant and has sufficient financial means to perform all of its obligations under this Agreement

SECTION 18.3 Survival of Representations and Warranties The representations and warranties made by the MOGI and KCS pursuant to Section 18.1 and by the Investor Participants in Section 18.2 shall survive the execution and effectiveness of this Agreement and its termination

ARTICLE 19

Conditions and Effectiveness, Special Situations

SECTION 19.1 Conditions The effectiveness of this Agreement (other than the provisions of Sections 16.1, 19.1, 19.2, 19.3 and Article 21, which Sections and Articles shall be effective as of the date of execution of this Agreement by the Parties referred to in Section 19.1(a)) shall be subject to satisfying the following conditions of effectiveness prior to (date)

- (a) The due execution of this Agreement by each of the Investor Participants the MOGI on its own behalf and on behalf of the Government of Kazakhstan and KCS
- (b) The payment of the Consortium Fee by each Investor Participant
- (c) Delivery to KCS, upon request of such assurances as KCS may require with regard to the ability of each Investor Participant to satisfy its obligations under its Agreement
- (d) The MOGI or other designated competent authority of the Government of Kazakhstan shall have issued such resolutions or decrees as are necessary to ratify and confirm the terms and conditions of this Agreement and the respective rights and obligations of the Parties
- (e) The issuance by the President of the Republic of Kazakhstan or official designee and delivery to the Investor Participants, of a Presidential decree as attached in Appendix _____
- (f) The written approval of the Parties of the various schedules developed through negotiation of this Agreement including the Finance Procedure Manual the Presidential Decree Accounting Procedures, the delineation of the Exploration Area and the Consortium organizational structure and training program Upon approval each such document shall become an integral part of this Agreement Additional matters may be addressed through schedule changes or negotiated procedures and added to the Appendix of this Agreement by unanimous approval of the Management Committee and with the concurrence of the MOGI
- (g) The written confirmation by the Parties of the conformity of the English Russian and Kazak (if required) versions of this Agreement (including the agreement on any necessary translation changes), and
- (h) The receipt of each of the Investor Participants of Board of Directors' approval or other such corporate authority as is necessary for such Investor Participant to enter into this Agreement (it being recognized that such Board or authority shall act at its sole discretion)

SECTION 19.2 Effectiveness Upon satisfaction of the conditions to effectiveness contained in Section 19.1 (other than (b)), KCS shall notify the Investor Participants that the conditions have been satisfied and of the date on which the last of such conditions was satisfied Following such notification, KCS shall notify each Participant that this Agreement shall be deemed to be effective as of the date of such notice

SECTION 19.3 Best Efforts by Parties The Parties shall use their best efforts to secure the effectiveness of this Agreement prior to (date) Parties are authorized to establish any working groups or committees necessary to fulfill and delineate the obligations of the respective Parties If all of the conditions to effectiveness contained in Section 18.1 are not satisfied on or prior

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to the date set out in Section 18.1 this Agreement shall become null and void and of no further force and effect

SECTION 19.4 Territorial Boundaries in the Aral Sea

(a) The Parties recognize that negotiations between the Republics of Kazakhstan and Uzbekistan have been taking place and may result in the inclusion of the latter in some Consortium role either as a direct Participant or an indirect benefactor. In either case, a correct determination of the subsurface mineral rights for each Republic is necessary and in view of the continuous lowering of the Aral Sea surface area, the actual offshore boundary between the Republics of Kazakhstan and Uzbekistan may be a subject of dispute if not properly surveyed. The Parties shall also recognize that such Aral Sea surface area will continue to change even after the KCS and Investors Participants have entered into a Consortium Agreement and the Exploration Research Study commences.

(b) The Government of Kazakhstan represents to the Investor Participants that the portion of the Aral Sea area covered by this Agreement is solely in the sovereign territory of the Republic of Kazakhstan and should any boundary disputes arise, in the absence of successful negotiation with the Republic of Uzbekistan, all exploration or production activities carried out by Consortium Participants shall be shielded from litigation over such boundary disputes by the Government of Kazakhstan.

(c) The Government of Kazakhstan will negotiate the national boundary with the Republic of Uzbekistan with a view of preserving the Republic of Kazakhstan's sovereignty over any disputed area. Such negotiations will not conflict with the rights granted to the Investor Participants under this Agreement or the activities contemplated by this Agreement, provided however, that the Government of Kazakhstan's undertaking in this Section 19.4 shall not prohibit it from agreeing to a national boundary with Uzbekistan or nor shall it prohibit any other agreement as to the use of any resolved undisputed area that conflicts with the rights granted to the Investor Participants under this Agreement or with the contemplated activities if, in the Government's view, the sovereign interests of the Republic of Kazakhstan require it.

(d) In the event the Government agrees to an Aral Sea boundary or to an agreement regarding the use of any resolved areal adjustment which makes the realization by the Investor Participants of the benefits of this Agreement impracticable or impossible, all expenditures for Consortium operations on such area shall cease and the Parties will meet to discuss necessary and appropriate amendments to this Agreement to resolve the matter. In the event the Parties (acting in good faith) do not unanimously agree to such amendments within ninety (90) calendar days of such meeting, the Government will reimburse the affected Investor Participants on an areal-based prorated basis. If such agreement by the Government arises after the selection of one or more E&P Blocks by the Investor Participants pursuant to Section 10.3 and such agreement affects any of the Blocks so selected, then the affected Investor Participants, as an alternative to prorated reimbursement of Consortium costs, shall have the option to select a substitute E&P Block provided that the Block

selected pursuant to this section shall have not been previously selected by another Person

(e) In the event the Government becomes obligated to reimburse the Investor Participants pursuant to Section 19 4(d) the Government will pay to each affected Investor Participant its pro rata share (based on its Participating share) of the portion of total Consortium costs required to be reimbursed under Section 19 4(d) within six (6) months of the date on which the event giving rise to the reimbursement occurred. Such reimbursement shall be made at the option of the Government, either, (1) by a freely transferable cash payment in U S Dollars or (2) by delivery to a point of export of an equivalent amount of oil or gas valued by reference to internationally recognized market prices for the delivered type and quality of oil or gas

(f) Under the circumstances described in Section 19 4(d) this Agreement (other than the obligations of the Government under this Section 19 4 and the provisions of Articles 21 and 22 Sections 24 2 and 24 3 and Article 25) shall terminate and be of no further force or effect

SECTION 19 5 Land / Sea Boundary The Parties acknowledge that as of the signing of the Agreement, the land and sea boundary between the Republic of Kazakstan and the Republic of Uzbekistan may not be clearly established because the Aral Sea level is gradually receding. The Investor Participants, in order to lessen the reality of circumstances described in Section 19 4(d) from occurring, agree to assist KCS in delineating a land / sea boundary and will prepare and submit to KCS a proposal for such delineation. The costs incurred by the Investor Participants in preparing a proposal shall be Consortium costs

SECTION 19 6 Environmental Impact Study As provided in the Environmental Work Program, prior to commencing the Exploration Research Study, the Investor Participants and the KCS shall review the Environmental Assessment Study prepared by Kazakstan resident consultants for the entire Aral Sea area and adjacent territory to determine whether the Study identifies any potential effects on the Exploration Area of the Exploration Research Study. The Parties acknowledge that even though the Aral Sea area is seriously degraded, more detailed environmental impact studies might be necessary for localized areas. The Parties also acknowledge that certain costs will be incurred (including costs associated with mobilization of a seismic contractor) prior to completion of any such localized environmental impact study in order to permit the seismic work in that portion of the Exploration Area to commence immediately following completion of the study where the results of the study indicate that such work may proceed. To take account of any special situation, the Parties have agreed as follows

(a) In the event the MOGI and Ministry of Ecology and Bioresources determine that seismic work cannot be conducted in a portion of the Exploration Area without harming the remaining natural environment of the Aral Sea, including flora, fauna and remaining marine life, or cannot be conducted without the imposition of restrictions that would significantly increase the costs of, or time required for, conducting such operations (“Adverse EIS Determination”), all expenditures for that portion of the Exploration Research Study area shall cease. The Parties shall meet to discuss

necessary and appropriate adjustments to the Work Program and the Budget to take into account the Adverse Determination. In the event the Parties (acting in good faith) do not unanimously agree to such adjustments within ninety (90) calendar days of the date of the meeting, the Government shall reimburse the Investor Participants for the Consortium costs including the costs associated with conducting the environmental impact study, except the costs of those environmental impact studies that the Investor Participants voluntarily carried beyond the level mandated by the Government.

(b) In the event the Government becomes obligated to reimburse the Investor Participants pursuant to Section 19.6(a), the Government will pay to each Investor Participant its pro rata share (based on Participating share) of the costs required to be reimbursed under Section 19.6(a) within six (6) months of the date on which the determination giving rise to such reimbursement obligation is made. Such reimbursement shall be made, at the option of the Government, in the same manner as set forth in Section 19.4(e).

(c) The Government will cause the MOGI and Ministry of Ecology and Bioresources to evaluate the environmental impact study and make a determination with respect to the conduct of seismic work in the Exploration Area, within three (3) months following the submission of such study to the MOGI and other appropriate agencies. MOGI and the said agencies shall act reasonably and in good faith, they shall apply cost/benefit principles in making their determination, and they shall adhere to prevailing international environmental standards and experience. The Parties shall be allowed to submit an alternate EIS at their own expense for consideration by the MOGI and the Ministry of Ecology and Bioresources. The MOGI shall allow for a hearing and shall rule on the proposal submitted by the Consortium Participants within sixty (60) calendar days of the receipt of the submittal.

(d) In the event the MOGI and Ministry of Ecology and Bioresources make an Adverse EIS Determination after consideration of the original report and any filed alternate proposals and the Parties fail to agree to adjustments to the Work Program and the Budget, this Agreement shall be modified or amended to reflect the deletion of the portion of the Exploration Area where seismic work or future exploration and production cannot be permitted.

(e) In the event this Agreement is not amended in reference to Section 19.6(d) following an Adverse EIS Determination and the parties fail to agree to adjustments to the Work Program and the Budget then, for a period of five (5) years from the date of such failure to agree, the Government will not permit any third party to conduct activities the same or similar to those contemplated by this Agreement without first offering such opportunity to the Investor Participants on the same terms and conditions contained in this Agreement.

ARTICLE 20

Term of Agreement

SECTION 20 1 Term Except as otherwise expressly provided in this Agreement the contractual relationship among the Consortium Participants shall terminate upon the occurrence of the last of the following events (1) the completion or deemed completion of Consortium Operations as provided in Section 14 4, (2) the signature and subsequent effectiveness of the production sharing agreements referred to in Section 11 and (3) or the two (2) year period referred to in Section 11 unless the Parties agree to expand the role of the Consortium to include the exploration and development of the Exploration Area or for any other purpose provided, however that the provisions of Articles 21 and 22, Sections 24 2 and 24 3 and Article 25 shall continue in effect following any termination of this Agreement

SECTION 20 2 Withdrawal of an Investor Participant

(a) All rights of an Investor Participant under this Agreement shall terminate upon the occurrence of one of the following events (each, a "Withdrawal Event")

- (1) A Bankruptcy Event with respect to such Investor Participant,
- (2) A Participant ceases to be an Affiliate of the Person, if any, delivering assurances to KCS of such Participant's obligations hereunder as contemplated in Section 19 1(d) or
- (3) A breach by such Participant of a material obligation under this Agreement which such Participant has not cured or commenced and diligently proceeded with recertifying within thirty (30) calendar days of written notice of the breach from another Investor Participant

(b) KCS shall notify the other Investor Participants of the occurrence of a Withdrawal Event with respect to a Participant Within thirty (30) calendar days following such notice, KCS and the other Investor Participants shall meet to discuss whether any of the remaining Participants wish to take an Assignment for no consideration of all of the rights and obligations under this Agreement of the Participant affected by the Withdrawal Event In the event only one Investor Participant wishes to take such an Assignment, the Parties (other than the withdrawing Participant) shall execute such documents and instruments as are necessary to give effect to such Assignment In the event more than one such Participant wishes to take such an Assignment, each such Participant shall be entitled to take a pro rata Assignment, based on each Investor Participant's Participating Share, of the rights and obligations of the Participant affected by the Withdrawal Event and the Parties (other than the withdrawing Participant) shall execute such documents and instruments as are necessary to give effect to such Assignment In the event no Investor Participant wishes to take an Assignment of all of the withdrawing Participant's rights and obligations under this Agreement, KCS shall have

the right to invite a third party subject to the approval of the remaining Participants (such approval not to be unreasonably withheld) to take an Assignment of the withdrawing Participant's rights and obligations under this Agreement and the Parties (other than the withdrawing Participant) and such third party shall execute such documents and instruments, in form reasonably satisfactory to KCS and the remaining Investor Participants, as are necessary to give effect to such Assignment. In the event KCS does not propose a third party that is acceptable to the other Investor Participants within three (3) months of the date of the notice of the Withdrawal Event, the other Participants shall collectively have the right to invite a third party, subject to the approval of KCS (such approval not to be unreasonably withheld), to take an Assignment of such withdrawing Participant's rights and obligations under this Agreement and the Parties (other than the withdrawing Participant) and such third party shall execute such documents and instruments, in form reasonably satisfactory to KCS and the remaining Participants, as are necessary to give effect to such Assignment. In connection with such Assignment such third party shall deliver to KCS a guarantee or other assurance of such third party's obligations under this Agreement in form and substance reasonably satisfactory to KCS executed by an Affiliate of such third party reasonably acceptable to KCS. In the event the remaining Participants do not propose a third party that is acceptable to KCS within two (2) months following the end of the three-month period referred to above, each such Participant shall be deemed to have taken a pro rata Assignment, based on its Participating Share, of the rights and obligations of the Investor Participant affected by the Withdrawal Event and in this event, the withdrawing Participant shall remain liable to the remaining Parties in respect of all the obligations so deemed to have been assigned (whether past, present or future).

(c) Nothing in this Section 20.2 shall relieve a withdrawing Investor Participant of any of its obligations under this Agreement or in any way limit any right or remedy that any party may have against a withdrawing Participant for any breach by such Participant of any of its obligations under this Agreement.

ARTICLE 21

Dispute Resolution

SECTION 21.1 Amicable Resolution In the event of any dispute arising out of or in connection with this Agreement between any of the Parties, any Party may notify the other Party or Parties of the nature of the dispute and the parties to the dispute shall in the first instance in good faith and using their best efforts seek to settle the dispute amicably through negotiation between senior executives of the parties to the dispute who have authority to settle the dispute and who do not have direct responsibility for administration of this Agreement or the matters in dispute. Within twenty (20) calendar days after delivery of said notice, such senior executives of all parties to the dispute shall meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary, to exchange relevant information and to attempt to resolve the dispute. If the matter has not been resolved within sixty (60) calendar days of the disputing party's notice, or if the parties

to the dispute fail to meet within twenty (20) calendar days any party to the dispute may initiate mediation of the dispute as provided thereafter in Section 21.2. If a negotiator intends to be accompanied at a meeting by an attorney the other negotiator(s) shall be given at least five (5) calendar days' notice of such intention and may also be accompanied by an attorney. All negotiations pursuant to this Section 21.1 are confidential and shall be treated as compromise and settlement negotiations for all purposes including the admission of evidence in any subsequent proceeding.

SECTION 21.2 Mediation

(a) After the periods specified in Section 21.1 if the dispute has not been resolved by negotiation, any party to such dispute may initiate a mediation proceeding by notice to the other party or parties to such dispute.

(b) The parties to the mediation proceeding shall endeavor to agree upon the sole mediator. The mediator shall be impartial and independent from any party to the mediation proceeding. If the parties to the mediation proceeding do not agree upon the mediator within twenty (20) calendar days of the notice to mediate, the mediator shall be selected by the President of the International Court of Justice at The Hague. The mediator is disqualified as a witness, consultant, attorney or expert in any subsequent proceeding relating to the dispute.

(c) The mediation shall be confidential and shall be treated as a compromise and settlement negotiation. Any statements or conduct made in connection with the mediation shall not be admissible in any other proceedings. Evidence otherwise admissible in a subsequent proceeding shall not be excluded merely because it was presented in the course of the mediation.

(d) Five days before the first mediation conference, each party to the mediation proceeding shall provide the mediator with a concise statement of its contentions and supporting evidence relative to each issue in dispute. Each party to the mediation proceeding shall be represented at all mediation conferences by a senior executive with authority to settle the dispute and such executive shall be prepared to discuss all issues in dispute in detail and in good faith.

(e) The place for the mediation conferences shall be agreed to by the parties to the mediation proceeding. Failing agreement within thirty (30) calendar days of the date of the notice invoking mediation hereunder, the place for mediation shall be Geneva, Switzerland.

(f) The parties to the mediation proceeding shall negotiate in good faith to agree on a single language for the proceeding, in order to save time and reduce costs. In the event no such agreement is reached:

- (1) The parties to the mediation proceeding shall present their respective written statements in English, Russian, and Kazak (if required).

(2) any other documents shall be translated if the mediator or any party to the mediation proceeding so determines and

(3) there shall be interpretation into Russian, English and Kazak (if required) at all conferences

(g) Efforts to reach a settlement will continue until the conclusion of the proceeding which is deemed to occur when

(1) a written settlement is reached, or

(2) the mediator concludes and informs the parties to the mediation proceeding in writing that further efforts would not be useful, or

(3) the parties to the mediation proceeding agree in writing that an impasse has been reached

No party to the mediation proceeding may withdraw before the conclusion of the proceeding

SECTION 21.3 International Arbitration (a) In the event that a dispute referred to in Section 21.1 is not settled amicably pursuant to Section 21.1 or Section 21.2, such dispute shall be finally settled by arbitration in accordance with the UNCITRAL Arbitration Rules as at present in force by three (3) arbitrators who shall be appointed in accordance with Article 7 of the UNCITRAL Arbitration Rules. For the purposes of the UNCITRAL Arbitration Rules, the appointing authority shall be the President of the International Court of Justice at The Hague

(b) The place of arbitration shall be agreed to by the parties to the arbitration and failing agreement within thirty (30) calendar days of the date of the notice invoking arbitration hereunder, shall be Geneva, Switzerland. The arbitrators may appoint a secretary with offices and facilities in the place of the arbitration to provide administrative services in support of the proceedings

(c) The parties to an arbitration proceeding shall negotiate in good faith to agree on a single language for the arbitration proceeding, in order to save time and reduce costs. In the event no such agreement is reached

(1) the parties to the arbitration shall present their respective statements of claim, defenses or otherwise in English, Russian and Kazak (if required),

(2) any other documents shall be translated if the arbitrators or any party so determines,

(3) there shall be interpretation into Russian, English and Kazak (if required) at all hearings and conferences, and

(4) the award and the reasons supporting it shall be translated into Russian English and Kazak (if required)

(d) The award of the arbitrators shall be final and binding upon the parties to the arbitration and may if necessary be enforced by any court of competent jurisdiction or other competent authority Save as aforesaid, all rights of appeal and of application to any court of law whatsoever in any country are hereby excluded in relation to any arbitration hereunder and any award made therein

(e) The law governing any arbitration proceedings under this Agreement shall subject to the UNCITRAL Arbitration Rules, be the Governing Law set out in Section 26 2 and not the principle of ex aequo et bono or otherwise

SECTION 21 4 Sovereign Immunity To the extent that the Republic of Kazakstan the Ministry of Oil and Gas Industry, or KCS has or hereafter may acquire any immunity from jurisdiction, with respect to themselves or their property, in any arbitration under Section 21 3 or in any proceeding to confirm or enforce such an arbitration award, each hereby irrevocably waives such immunity in respect of its obligations under this Agreement and agrees that it will not raise the defense of sovereign immunity The foregoing waiver and agreement are intended to be effective in any jurisdiction in which any such arbitration or any such proceeding with respect to an arbitration under this Agreement may be commenced This waiver and agreement shall not be effective in respect of any person other than the Investor Participants and their permitted assignees acting under the specific circumstances contemplated hereby

ARTICLE 22

Force Majeure

SECTION 22 1 Force Majeure (a) No Party shall, in any event, be under any liability for failure to perform any obligation hereunder if and to the extent that such failure to perform is caused by Force Majeure, provided, however, that Force Majeure shall not excuse any obligation to make payments called for pursuant to this Agreement

(b) Following the occurrence of Force Majeure, the Party affected thereby shall, as soon as practicable after that occurrence has come to its attention, give prompt notice thereof to each of the other Parties describing in reasonably full detail such Force Majeure, the effect such Force Majeure is claimed to have on the affected Party's performance of this Agreement, the expected duration of such effect and the actions of the affected Party intends to pursue to remedy the Force Majeure and mitigate its effects in accordance with Section 22(c) The notice as aforesaid shall be periodically updated to the extent necessary to ensure that such notice accurately reflects the circumstances relating to the Force Majeure and in any case not less than monthly The giving of

such notice shall not be a condition precedent to the right of a Party to invoke the protection of this Section but if no such notice is given by such Party within thirty (30) calendar days of its becoming aware of the occurrence of Force Majeure and the reason of giving such notice was not prevented or delayed by reason of Force Majeure that Party shall be liable for any damages caused to any other Party by failure to give such notice

(c) A Party affected by Force Majeure shall bear the burden of proof in demonstrating both the occurrence of the Force Majeure and the effect it has on such Party's ability to perform its obligations hereunder. Such Party shall use reasonable efforts to remedy the Force Majeure and mitigate the effects caused thereby.

(d) As soon as a Party affected by Force Majeure ceases to be so affected and is no longer delayed, hindered or prevented from complying with its obligations hereunder, such Party shall immediately notify the other Parties accordingly and resume performance of its obligations hereunder.

(e) Should the occurrence of Force Majeure endure more than one hundred eighty (180) calendar days, any Party may (provided such Party is not in default of its obligations) if any under Section 22(b)) request that the other Parties meet to consider the desirability of amending this Agreement, the Work Program, the Environmental Management System or the Budget to accommodate the effects of the Force Majeure, provided, however, that this Section 22(e) shall not be interpreted to impose any obligation upon a Party to agree to any such amendment.

ARTICLE 23

Technology, Confidentiality, Public Disclosure

SECTION 23.1 Technology (a) Standards to be Employed In carrying out Consortium operations, the Operator shall, as far as it is practicable and economical to do so, use the most up-to-date equipment, technology, expertise and methods of working which are available and are to the economic benefit of the Consortium. All such standards shall be conducive to achieving and promoting the objectives of the Consortium.

(b) Technology of Investor Participants To enable the Operator to meet the standards set out in Section 23.1(a), each Investor Participant agrees, subject to the signature of a technical services agreement on mutually acceptable terms and conditions, to make available to the Operator the best and most up-to-date technology, information, expertise and experience as is actually made available to third party operators in operations in which such Investor Participant is a participant, and as is necessary or appropriate for the Operator to conduct Consortium operations.

SECTION 23 2 Confidentiality Each Party agrees to keep confidential all data and reports prepared by the Consortium all information arising from the conduct of Consortium Operations and all information obtained by such Party in connection with this Agreement except information that

- (a) is or becomes generally available to the public (other than as a result of a disclosure by a Party otherwise in violation of the terms of the Section 23 2)
- (b) was available to such Party on a nonconfidential basis prior to its disclosure under this Agreement,
- (c) becomes available to such Party from a Person or a source that is not, to the knowledge of such Person, bound by a confidentiality agreement with respect to such information or otherwise prohibited from transferring such information to such Party, or
- (d) such Party may be required by any applicable law, regulation or legal process to disclose Notwithstanding the foregoing, a Consortium Participant may disclose data and reports to a bona fide potential assignee who has executed a confidentiality agreement with respect to such data and reports subject to the prior written consent of the other Consortium Participants

SECTION 23 3 Restrictions on Use of Information, Public Disclosure

(a) Restrictions on Use Except as otherwise expressly provided in this Article and in Section 24 2, and as necessary for the performance under this Agreement, no Party shall use any information obtained by such Party in connection with this Agreement for any purpose whatsoever

(b) Public Disclosure No Party shall be permitted to make any public disclosure concerning the terms and conditions of this Agreement except to the extent that, (1) a Party may be required to do so by any applicable law, regulation or legal process or (2) the Representatives on the Management Committee have unanimously consented in writing to such public disclosure (including the form and content of such disclosure)

Notwithstanding the foregoing, the Government, the Ministry of Oil and Gas Industry, and KCS shall be permitted to make such public disclosures as are deemed necessary or appropriate concerning the terms and conditions of this Agreement without the consent of the Representatives on the Management Committee, provided that such disclosures are accurate and do not relate to the commercial or economic terms and conditions of this Agreement The Management Committee and the Ministry shall develop written guidelines as to which activities and information deriving from E&P efforts should not be disclosed under any circumstances or disclosed in accordance with specified time lines

ARTICLE 24

Data and Infrastructure

SECTION 24 1 Existing Data KCS will use its best efforts to acquire at the lowest possible cost to the Consortium all existing geophysical, geological, geodetic and well data (whether on paper film, disc or tape) relating to the Aral Sea Exploration Area and located in the Republic of Kazakstan that the Management Committee determines is useful to the conduct of Consortium operations Where possible KCS shall provide such data in the possession of KCS the MOGI or any other ministry, or to which they otherwise have access free of charge to the Investor Participants All costs and expenses relating to the acquisition of such data shall be Consortium costs In the event the Exploration Area is expanded to include the part of the Aral Sea and adjacent territory located in the Republic of Uzbekistan, KCS will provide whatever coordination is necessary to obtain data on that area

SECTION 24 2 Consortium Data and Reports

(a) All data and samples obtained and all reports prepared as a part of Consortium operations will become the property of the Republic of Kazakstan KCS undertakes to store and maintain all such data, samples, and reports in accordance with standards generally applicable and acceptable in the international petroleum industry Notwithstanding the foregoing each Investor Participant shall have access (promptly upon request and at no cost) to such data samples and reports for the purposes of (1) conducting Consortium operations, (2) selection of E&P Blocks as described in Section 10 3, (3) exploration development and production in the E&P Blocks selected by such Investor Participants, and (4) participation in any future open bidding or licensing program conducted with respect to the Exploration Area For the foregoing purposes (but not for sale or for any other purpose), each Investor Participant shall be allowed to take copies of all such data and reports out of the Republic of Kazakstan (free of all customs, duties and taxes) for internal processing and analysis by such Investor Participant, provided that, following such processing and analysis, such Investor Participant shall promptly deliver a summary report of the results of all processing and analysis to KCS KCS will keep all such reports strictly confidential and will not disclose such reports or the information contained therein to any other Person other than the Government or the MOGI Similar requirements of confidentiality shall be honored by the MOGI or other ministry of the Kazakstan Government having a right of information review or collection

(b) Prior to the selection of E&P Blocks by the Investor Participants as provided in Section 10 3, no geophysical, geological or environmental data and reports or other information generated as a part of Consortium operations will be sold or otherwise be made available to third Parties by the Republic of Kazakstan (whether through the Government, the MOGI, KCS or otherwise) Following the selection of E&P Blocks by the Investor Participants as provided in Section 10 3, nothing in this Agreement shall in any way limit or restrict the right of the Republic of Kazakstan to use, sell, or dispose of otherwise as owner (whether through the Government, the

MOGI KCS or otherwise) any geophysical geological or environmental data or reports or other information generated as a part of Consortium operations, provided, however that no data or reports (other than regional reports and information) with respect to an E&P Block will be sold or otherwise made available to third parties which (1) have been selected by an Investor Participant (2) are subject to pending or completed negotiations, and (3) have not been abandoned by such Investor Participant

SECTION 24 3 Property Rights in Infrastructure Immediately upon the installation thereof, title to all fixed assets shall vest in KCS and KCS shall be deemed to be the owner thereof for all purposes under this Agreement and otherwise Title to non-fixed assets shall vest in KCS upon completion of Consortium operations and thereafter KCS shall be deemed to be the owner thereof for all purposes under this Agreement and otherwise Title to all other property and assets utilized in connection with Consortium operations shall be as provided in the relevant contract pursuant to which such property and assets are so utilized Each Investor Participant shall have the right to use all assets and property referred to in this Section 24 3 to which KCS has title free of charge during the conduct of Consortium operations for the purpose of conducting Consortium operations

SECTION 24 4 Social Infrastructure

(a) As to be provided in the Initial Budget for "Aralshelf," the Investor Participants will be expected to agree to fund social infrastructure and environmental upgrading projects in the Aral Sea area of the Republic of Kazakstan of the type described in Section 24 4(b) from and after the date and effectiveness of this Agreement The actual U S Dollar contribution to such fund shall be a subject of negotiation with the Investor Participants as will the timing of when such projects are to be implemented KCS shall recognize that the future of development and production from E&P Blocks depends initially on the results and interpretation of the Exploration Research Study and that the future interest of Investor Participants in such exploration, development and production in the Aral Sea area depends upon their estimated return on investment While KCS has the sole discretion to determine, in conjunction with local administrations, which social infrastructure projects have highest priority, KCS shall share this schedule with the Investor Participants during the period of Preliminary Agreement negotiation Once the general principles for addressing the costs and nature of social infrastructure and environmental problems for the Aral Sea area have been set forth, KCS shall notify the Investor Participants and provide them with information as to the timetable for commencement and completion of such projects and estimated costs thereof In the event that one or more of the Investor Participants disagrees with the estimated costs for a project or group of projects, such Investor Participant shall provide written documentation and alternate cost projections to the Management Committee for approval, modification or rejection As agreed to costs and expenses are incurred in connection with such projects, KCS shall notify the Investor Participants of the amount of such costs and expenses and each Participant will pay to KCS its participating share Prior to receipt from the Ministry of Ecology and Bioresources, the Ministry of Geology, and the MOGI of permission to conduct the Exploration Research Study, KCS will not request

contributions from the Investor Participants for social infrastructure and environmental projects

(b) Projects eligible for funding by the Investor Participants shall be those which are intended to contribute in a positive manner to the restoration of the environmental quality of the Aral Sea area and to upgrading living conditions and the general welfare of the population in and around the Aral Sea territory. Such conditions as the quality of the Aral Sea waters, the quality and quantity of surface discharges into the Sea and other situations beyond the control of either the KCS or the Investor Participants shall not be addressed, except in written justification where such was not part of ongoing activities.

ARTICLE 25

Indemnities

SECTION 25.1 Liability and Indemnity of Operator Notwithstanding anything to the contrary in this Agreement, the Operator shall not be liable to any of the Investor Participants for any loss, cost, claim of damage resulting from operations conducted hereunder unless such loss, cost, claim or damage results from the Willful Misconduct of the Operator, its directors, officers or supervisory staff (other than any Seconded) with respect to,

- (a) any provision of this Agreement, or
- (b) the Work Program and Budget

Save as aforesaid but subject to Section 14.4, the Investor Participants shall indemnify the Operator and shall keep it indemnified from and against loss, cost, claim or damage which it may incur or suffer as a consequence of its acting as Operator hereunder. The Government of Kazakhstan, MOGI and KCS shall be liable for reimbursement to an Investor Participant for operating property and equipment damage resulting from unauthorized handling of such equipment by a Government or local official under its employment or jurisdiction.

SECTION 25.2 Consequential Loss No Party shall have any liability under this Agreement for any loss of profit or any consequential, indirect or special loss unless said Party can provide written proof to the Management Committee that such loss was caused by tampering with E&P operating equipment or carrying on activities that otherwise physically deterred the Consortium participant from acting in the best interest of the Consortium.

ARTICLE 26

Miscellaneous

SECTION 26 1 Assignment

(a) Except as provided in Section 26 1(b) and subject to 26 1(c) neither this Agreement any right or obligation hereunder, nor any interest herein or hereunder shall be assigned sold conveyed, encumbered, hypothecated, pledged or otherwise transferred (directly or indirectly) by any Consortium Participant without the prior written consent of the other Consortium Participants In the case of the other Investor Participants, such consent is not to be unreasonably withheld Nothing in this Section 26 1(a) shall prohibit KCS from assigning its rights under this Agreement without the consent of the Investor Participants

(b) An Investor Participant may assign all (but not a portion) of its rights and obligations under this Agreement to an Affiliate of such Participant or to another Investor Participant without the consent of KCS and the other Investor Participants provided that, (1) the obligations of the assignor under this Agreement are assumed by the assignee in a manner acceptable to KCS and the other Investor Participants and a Person acceptable to KCS and the other Participants executes a guarantee or other assurance of the assignee's obligations hereunder in a form and in substance reasonably acceptable to KCS, (2) in the case of an Assignment to another Investor Participant immediately following such Assignment, the total number of Investor Participants shall not be less than three (3), and (3) prior to such Assignment, the assigning Investor Participant gives notice of such Assignment to KCS and the other Investor Participants

(c) In the event an Investor Participant wishes to assign its rights and obligations to a Person that is not an Affiliate of such Investor Participant, or is not another Investor Participant, such Participant shall first offer such Assignment to the other Investor Participants on the same terms and conditions as are being offered to such Person The other Investor Participants shall notify the assignor Participant within thirty (30) calendar days of such offer as to whether all or any of the remaining Investor Participants wish to take such Assignment In the event all or any of the other Investor Participants wish to take such Assignment, the provisions of Section 26 1(b) shall apply to such Assignment and, if more than one Investor Participant wishes to take such Assignment, such Investor Participants agree that such Participants shall exercise the rights of the assignor Investor Participant under Sections 10 3 and 11 jointly In the event that none of the other Investor Participants wish to take such Assignment, the provisions of Section 26 1(a) shall apply to such Assignment The remaining Investor Participants may internally agree on alternate arrangements as to the disposition of the Assignment in a mutually beneficial manner and shall notify the Management Committee of such alternate arrangement

SECTION 26 2 Governing Law This Agreement shall be governed by, and construed in accordance with, the laws, rules and regulations of the Republic of Kazakstan Where the laws of

the Republic of Kazakhstan have no determinative principle or provision the Government MOGI or KCS as the case may apply shall designate the law of a single market economy jurisdiction having a developed commercial law to be used in interpreting and enforcing this Agreement in the event of arbitration pursuant to Section 21.3. The laws of such jurisdiction shall be applied by the arbitrators if (but only to the extent the arbitrators determine that) the laws, rules and regulations of the Republic of Kazakhstan have no determinative principle or provision. Any Investor Participant may request the Chairman of the Management Committee to place matters pertaining to this Section on the agenda for discussion at the Management Committee regular meetings.

SECTION 26.3 Change of Law In the event that changes to the laws, rules or regulations enacted or promulgated after the signing of this Agreement have either a potentially or actual materially adverse effect on the rights granted to the Investor Participants pursuant to this Agreement or on the anticipated overall economic benefits of such rights, the Parties shall amend this Agreement so as to restore such rights and such anticipated overall economic benefits or grant such other rights as will have the practical effect of restoring such rights and benefits. This Agreement guarantees the Investor Participants immunity against complying with any environmental protection regulations which may be promulgated after the signing of the Agreement by all Parties unless compelling evidence is provided to the Consortium Management Committee that such regulations are applicable and necessary to the protection of environmental regimes that are not addressed but should have been addressed in the development and implementation of the Environmental Work or Management Plan for the Aral Sea and adjacent territory.

SECTION 26.4 Notices All notices required or permitted to be given under this Agreement and all other communications hereunder shall be written in English, Russian, and if applicable under the Laws of the Republic of Kazakhstan, Kazakh (including telecopy, telefax or cable communication) and shall be telecopied, telefaxed, cabled or delivered to each Party at the address set forth under such Party's name on the signature pages hereto or to such other address as shall be designated by such Party in a written notice to the other Parties. All such notices and communications shall, when telecopied, telefaxed or cabled, be effective when transmitted by telecopier, confirmed by telefax answerback or delivered to the cable company, respectively.

SECTION 26.5 Relationship of Parties The rights, duties, obligations and liabilities of the Consortium Participants under this Agreement shall be individual and not joint or collective. It is not the intention of the Consortium Participants to create, nor shall this Agreement be deemed or construed to create, a mining or other partnership, joint venture, association or trust, or as authorizing any Consortium Participant to act as an agent, servant or employee for any other Consortium Participant for any purpose whatsoever except as explicitly set forth in this Agreement. In their relations with each other under this Agreement, the Consortium Participants shall not be considered fiduciaries except where expressly provided.

SECTION 26.6 Counterparts This Agreement may be executed in any number of counterparts and by different Parties in separate counterparts, each of which when so executed and

delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement. This Agreement shall be executed in the English, Russian and Kazakh (if required) languages and each shall have the same effect and enforceability.

SECTION 26.7 Schedules, Headings, Rules of Construction

(a) The Schedules and Appendices attached hereto are incorporated herein by reference and form a part of this Agreement. In the event of any conflict between this Agreement and any provision of any Schedule or Appendix, the provisions of this Agreement shall prevail.

(b) Sections and subsection headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose or be given any substantive effect.

(c) As used in this Agreement, the words "include" and "including" shall be read respectively as "include, without limitation," and "including, without limitation," unless expressly provided otherwise. For all purposes under this Agreement, the definition of terms defined herein shall be equally applicable to both the singular and plural forms of the terms defined. The term "Investor Participant" is used to refer to any Consortium Participant who is not the KCS. Such Participant may be foreign or native to Kazakhstan.

SECTION 26.8 Entire Agreement, Amendments As of the date of effectiveness of this Agreement, it shall constitute the entire agreement between the Parties and supersede all prior agreements and understandings relating to the subject matter hereof, including without limitation the Preliminary Consortium Agreement. Other than as expressly provided herein with respect to amendments to the Work Program, the Budget, the Environmental Management System and the Accounting Procedures, any amendment hereto must be in writing and signed by the duly authorized representatives of all the Consortium Parties. Any amendment hereto must be consistent with the laws, rules and regulations of the Republic of Kazakhstan.

IN WITNESS WHEREOF, the Parties have duly executed this Agreement among the Government, Ministry of Oil and Gas Industry, KCS, and each of the Investor Participants as of the date first above written.

APPENDICES

APPENDIX A

SUGGESTED FRAMEWORK FOR DEVELOPING PETROLEUM EXPLORATION AND PRODUCTION SHARING AGREEMENTS

This Appendix contains an outline of the terms and conditions which should be considered for inclusion in petroleum exploration and production sharing agreements to be developed between foreign (investing) Participants and the Government of Kazakhstan and its Ministry of Oil and Gas Industry. The Appendix covers elements of both exploration (after completion of the Exploration Research Study and the selection of E&P Blocks) and production activities (once a commercial discovery is made).

Appendix B is not a draft of the actual contract language between the Ministry of Oil and Gas Industry (MOGI) and the Consortium Participants or, in the case of joint ventures and partnerships, the Contractor. Model Agreements for Petroleum Exploration and Production Sharing have been drafted and presented to the MOGI as a part of USAID's technical assistance and are available to Consortium Participants and Investors to use as a basis of negotiation. The MOGI, as the regulatory and contracting entity for the Government of Kazakhstan, must determine in consultation with the KCS and the Investor Participants whether individual tailoring of production sharing agreements and contracts are mutually advantageous in certain areas of Kazakhstan, where specific geological, hydrogeological or tectonic situations exist.

The Aral Sea area has unique environmental and socio-economic problems which may have an effect on the terms and conditions of oil or gas production sharing arrangements. As indicated under Sections 10.3 and Article 11 of the draft Consortium Agreement, two Production Sharing Agreements are desirable. One between the MOGI and the Consortium Participants which defines short and long term production sharing formulas and their respective interests and the other to be developed among the various Investor Participants to assure equal benefit and investment return since their contribution to the initial Consortium costs and the Exploration Research Study are equal. Consortium Participants also share equal financing of the Environmental Management Program and those related to improvement of social infrastructure.

The following elements should be in the Exploration and Production Sharing Contract:

ARTICLE 1

DEFINITIONS

This section should contain a definition of all critical terms used in the exploration and production sharing agreement. The definitions are particularly important for third-party interpretation, should

a dispute and arbitration proceeding develop At a minimum the following terms should be included

(1) Affiliate or affiliate agent (2) Appraisal in terms of E&P Block production potential and the limits of reservoir field capacity (3) Commercial discovery (4) Development Operations or Development, (5) Discovery and if applicable Discovery Bonus which includes a schedule for discovery depth and whether the discovery applies to oil, gas or both (6) Exploration or Exploration Operations, (7) Exploration Period, (8) Expenditures covering the range of activity from exploration through production, (9) Crude Oil and Natural Gas, (10) Minimum Exploration Program, (11) Operator, (12) Petroleum operations including a range of activities from extraction through transportation and marketing, (13) Plan of Development including a tentative schedule for both primary production and enhanced oil or gas recovery and the installation and design of water flood or other injection programs, (14) Production Area or E&P Block, (15) Production Operations which also includes servicing and repairing, (16) Subcontractor, (17) Tax Year as it applies to the laws and regulations of Kazakstan and (18) Work Program which is production and field development related

ARTICLE 2

ANNEXES

Annexes to the Agreement Agreements should have attachments for reference which show the Agreement with the Government of Kazakstan narrative and map description of the Contract Area a copy of the bank guarantee used to secure performance of the Minimum Exploration Program Accounting Procedures to be used, any Environmental Work Program commitments extending into the production phase and a detailed summary of the formulas used for production sharing with Kazakstan

ARTICLE 3

SCOPE OF AGREEMENT

This section should contain general statements as to what the Contractor is obligated to do in reference to the MOGI, its own assumption of risks, who is responsible for performance review, the Parties sharing in the production and which party retains the ownership to petroleum at any particular point in time from its "in situ" presence in the reservoir to final point of delivery once brought to the surface

ARTICLE 4

TERM RELINQUISHMENT AND TERMINATION

The term of a production license is established by the Law on Petroleum and is twenty-five (25) years including the five (5) year Exploration Period. The Agreement also should set forth whether the five (5) year Exploration Period may be extended. The Contractor has an obligation to relinquish rights to all E&P Blocks or portions thereof which have not been designated as Production Areas at the end of the initial Exploration area. This section sets forth conditions for voluntary relinquishment of acreage blocks by the Contractor, the obligation to complete the Minimum Exploration Program and the obligation to clean up acreage upon relinquishment. Conditions also cover any obligation to communicate in writing with the MOGI. Termination provisions cover actions to be taken by the MOGI should the Contractor fail to make a commercial discovery by the end of five (5) years or fail to live up to the Agreement provisions, i.e. maintain a state of non-compliance, become insolvent, or make false statements. The Agreement should describe procedures for return to good standing.

ARTICLE 5

MINIMUM EXPLORATION OBLIGATIONS

This section sets forth the obligation of the Contractor to commence Exploration operations within a specified period after the Exploration and Production License has been issued. In the case of Consortium operations, this would be once E&P Block selection has been finalized under Section 10.3 of the Consortium Agreement. The Contractor has an obligation under this section to develop a Minimum Exploration Program which develops an orderly plan for exploring the assigned Blocks and to maintain an estimated plan for expenditure for each year. Such section may contain provisions as to what type of subsurface methodology is to be used and the anticipation of expenditures. The Agreement should spell out the procedures for obtaining a bank guarantee to assure compliance with the Minimum Exploration program and it should describe the methods to be used by the Contractor to account for funds spent to date on the exploration program as well as the mechanism by which the bank guarantee is reduced as funds are being spent as envisioned in the Agreement. The Article should also spell out any sanctions, including forced relinquishment or termination of the license, imposed for acts of noncompliance.

ARTICLE 6

MANAGEMENT AND CONDUCT OF PETROLEUM OPERATIONS

This section should describe the latitude and limitations which the Operator, who also may be the Contractor, has in managing petroleum operations, preparing and implementing work programs,

program budgets for either exploration or production or both. In the case of Consortium Participants both activities would apply. The section should also contain provisions which delineate those matters such as drilling depth and annual production rate which require approval of the MOGI and those other matters such as activity reports and commencement of commercial production where MOGI needs to be advised without the need for MOGI approval. This section defines the Contractor as the Operator unless otherwise approved by the MOGI. The intention is to avoid situations whereby the Contractor, for various reasons, elects to assign the Blocks to another Person without the sanction of the MOGI. The MOGI's flexibility in appointing or replacing an Operator must be defined in understandable terms. Those forming E&P Agreements with the MOGI should pay particular attention to the amount of flexibility afforded the Contractor when a change in Operator may be of benefit to the Contractor but not perceived that way by the MOGI. The procedures also describe the removal of the Operator and the circumstances under which such action is taken.

ARTICLE 7

WORK PROGRAMS AND BUDGETS

This section sets forth provisions of the Agreement explaining how the Operator is to carry out the Exploration, Development and Production of the E&P Blocks or Contract Territory. It also contains a procedure to be followed once a Commercial Discovery is made. Under MOGI regulations an Operator must develop a work program and a budget for expenditure to perform the elements of the Work Program. The Operator, in the case of the Aral Sea Consortium, may be KCS or one or more of the Investor Participants. Any work programs and budgets developed by an Operator, who is not also a Contractor, must provide the program and budget to the Contractor for approval. The Agreement should specify those cases where expenditures by the Operator without Contractor approval are permissible. After drilling exploratory holes and making a Commercial Discovery, the Operator will have to submit a report which presents the geological, geophysical and physical characteristics of the hydrocarbon reservoir including the estimated amount of oil in place, the forecasted rate of recovery, estimated daily producing rate and a feasibility study of the projected production decline and cash flow on a yearly basis. One important element of the decision making process is for the Contractor or Operator to work out a set of mutually agreed-to criteria for judging what constitutes a Commercial Discovery. After the reports for the evaluation of a discovery have been developed by the Operator, the Operator will be required to implement a Plan of Development for the producing area in question. The Contractor should negotiate with the MOGI on the time deadlines which affect each segment of activity covered under this section. Ninety (90) days has been suggested as a reasonable length of time between approval and implementation without causing concern by the MOGI. The Operator should also be cautious in over projecting the amount of oil shown as annual production.

ARTICLE 8

COSTS AND EXPENDITURES

The costs, expenses and liabilities incurred by the Contractor or Operator in conducting Petroleum Operations shall be determined in accordance with an Accounting Procedure a draft of which is attached at the back of this appendix. Generally, it has been customary to have all costs, expenses and liabilities not attributable to the Petroleum Operations within a given E&P Block or field as well as those not directly attributable to Exploration activities or appraisals to be apportioned by the Operator among all his E&P Blocks or Fields in accordance with sound international accounting practice. Participants in a Consortium may want to negotiate which types of expenditures are and which are not, chargeable to capital investment that is ultimately recoverable from production. Certain development and overhead expenditures are usually exempt from generalized apportioning. All costs, expenses and liabilities incurred for all phases of Exploration, Development and Production are charged to first oil or gas production and should be grouped as Petroleum Operations Expenditures.

ARTICLE 9

RIGHTS AND OBLIGATIONS OF CONTRACTOR

This provision gives a Contractor or Consortium Participant the right to serve as Operator and to conduct Petroleum Operations in the assigned areas covered by E&P Blocks and to have access to the assigned acreage and other areas as necessary to conduct these activities. The Contractor shall have the right to install and operate telecommunications and other facilities necessary for the effective and efficient conduct of Petroleum Operations, subject to approval from the appropriate regulatory authority. The Contractor shall also have the right, during the term of the Exploration and Production License, to dispose of and export freely or sell directly to end users in Kazakhstan, its share of oil and gas produced under the Agreement.

The Contractor is obligated to advance all necessary funds and bear the costs and expenses required in carrying out Petroleum Operations. The share of Petroleum, as is described to be the share under Articles 12 and 13, shall serve as a basis for cost recovery. A Contractor or Consortium Participant who also serves as the Operator will have to fulfill the obligations of the Operator as described under Article 11. The Contractor, if different from the Operator, shall assist the latter in procuring materials, equipment, supplies, services and employment of personnel required for Petroleum Operations. The Contractor is also responsible for furnishing technical and managerial aid as needed, and for providing training for foreign personnel who are, by the Operator's designation, required to fulfill the obligations of the Agreement. The Contractor is responsible for keeping subcontractors advised of applicable laws and regulations of Kazakhstan and of local customs that may affect Petroleum Operations.

ARTICLE 10

RIGHTS AND OBLIGATIONS OF THE MINISTRY OF OIL AND GAS INDUSTRY

The MOGI has ownership of all original data arising from Petroleum Operations including geological, geophysical, petrophysical and engineering data together with logs records and reports related to such data. The MOGI requires that upon termination of the Production Sharing Agreement or removal of the Contractor as discussed in Article 6, all data must be delivered to the MOGI. The MOGI is entitled to retain copies of all manuals, technical specifications, design documents, drawings and construction records relating to Petroleum Operations. The designation of confidentiality by the Contractor obligates the MOGI to not disclose such documents and materials to a third party. The Contractor or Investor Participant should have a full understanding of the Kazakstan laws on confidentiality and include these in the Agreement.

The MOGI is, in turn, obligated to diligently assist Investor Participants and Contractors and associated subcontractors in obtaining from the Kazakstan Government authorities upon application in the prescribed manner, all permissions, licenses, visas, registrations and other approvals required to perform Petroleum Operations. In the case of the Aral Consortium, the scope of the MOGI's obligation will have already been set forth in writing. Specific activities related to the MOGI's obligation to the Contractor include assistance in opening bank accounts, exchanging foreign currency, easing customs formalities and assisting in the discovery of adequate office space, transportation and communications facilities. The MOGI should also provide medical services for Contractor's employees and their families, who either visit or reside in Kazakstan. The Agreement should also cover the timely permission of the Contractor to send documents, data and samples abroad for analysis and processing for E&P activities.

The MOGI is obligated to assist the Investor Participant or Contractor in obtaining or acquiring rights to use land or right of way across privately or publicly owned land which are necessary to the conduct of Petroleum Operations. In the event no voluntary arrangement can be concluded with the affected land owners or local governing authorities, the MOGI will exercise eminent domain authority to allow Petroleum Operations to proceed. In all cases, the Contractor will pay the costs of MOGI's efforts. Upon request of the Contractor, the MOGI will assign personnel as necessary to assist the Contractor, the costs of which will be borne by the Contractor, including the payment of employees' time. The Agreement should contain a provision which obligates the MOGI to ensure that the Contractor receives (or in the case of cost recovery, is credited with) fair market value for the Contractor's share of Natural Gas. The fair market value is defined as that equal to the value ascribed to Natural Gas in Article 13. If the Contractor receives less than fair market value for his share of Natural Gas, the MOGI shall pay the Contractor for the shortfall out of the MOGI's share of Crude Oil and Natural Gas.

ARTICLE 11

RIGHTS AND OBLIGATIONS OF OPERATOR

This section of the Agreement defines the rights and obligations of the Contractor who is the Operator or an Operator carrying out the Work Program and Budget for Petroleum Operations for the Contractor. The Contractor would be the Investor Participant in the Aral Consortium Agreement. The Operator is obligated to conduct Petroleum Operations within a Contract Area or E&P Block in accordance with the laws and regulations of Kazakhstan and use generally accepted practices and techniques of the international petroleum industry. Provisions should include assurances that efficient and safe Exploration and Production methods will be used to maximize the recovery of oil and gas from the assigned acreage. The Operator assures that all material equipment and facilities used comply with accepted engineering norms, wells meet proper construction standards and are kept in good working order. Other provisions of this Article should address the purchase or lease of equipment, procedures used to keep all Parties informed, filing of reports to appropriate parties and the right of ingress and egress of MOGI representatives to view facilities and make inspections. The Operator is obligated to maintain original records of production and exploration data and financial accounts of the operations, the latter to show an accurate record of all costs, expenses and liabilities incurred. The MOGI will require the Operator to provide acceptable working conditions and living accommodations and to provide medical and nursing care services for all personnel.

The Operator will be required by this Agreement to prevent damage to the producing formations through inappropriate or technically unsound oil field practices during drilling, production, gathering, storage or any other activity which may cause escape or waste of petroleum resources. The requirement extends to the prevention of pollution to water bearing strata and the migration of fluids from non-productive strata into the producing formation. All petroleum shall be stored in tanks or receptacles engineered for that purpose and waste oil, salt water and refuse shall be stored in facilities and disposed of in a manner in accordance with Kazakstani regulations. The MOGI requires that they be notified prior to the testing of a completed well.

The Operator is obligated to prepare and maintain reports and records of geological and geophysical information and original data of good quality and acceptable accuracy relating to the Exploration and Production of E&P Blocks. The Operator must deliver a copy of all such information and data to the MOGI within a reasonable time after processing. The Operator is also required to keep logs and records of all activities related to the drilling, modification, and abandonment and plugging of wells. Part of the record describes the well casing program and a description of the configuration of tubular goods used in constructing the well. The Operator agrees to submit the well completion or workover information to the MOGI in accordance with time deadlines established in the Agreement. The MOGI has the right to request the Operator to save cores or cuttings and to make such physical information available for inspection by MOGI representatives during reasonable hours. Such cores, cuttings and etc. shall be retained by the Operator for a period of time specified by negotiation with the MOGI after which they may be disposed of by the Operator unless otherwise instructed by the

MOGI Exportation of rock samples outside Kazakstan by the Operator requires permission from the MOGI, who has the right to request samples of equivalent size and quality before exportation. Originals of technical data and records may be only exported with the prior permission of the MOGI. However, magnetic tapes or other data that require processing outside Kazakstan may be exported if a record is maintained in Kazakstan and providing such exports are repatriated to Kazakstan as property of the MOGI.

The Agreement should require the Operator to permit the authorized representatives of the MOGI full and complete access to the E&P Block or Contract area at all reasonable times to inspect and observe operations. This includes inspection of records and data. The MOGI shall not unduly interfere with the Operator's activities. If other Kazakstan regulatory agencies desire to inspect activities or facilities that fall under their regulatory jurisdiction, such visitation shall be with the permission of the MOGI and with clearance from the Operator. The Operator will be required to provide transportation, reasonable office space and adequate housing for MOGI personnel and others authorized to visit its facilities and shall offer all privileges and facilities which are accorded by the Operator to its own employees. The Operator will be responsible for providing all safety equipment needed for those visiting the site.

The Operator, if different from the Contractor, shall not abandon a well or withdraw casing tubing or down hole pumps or remove surface equipment used in production without prior approval of the Contractor. Exceptions should be made for situations where safety is a consideration or there is a risk to human health or the environment. The Agreement should spell out time lines for the Operator to notify the Contractor. The Operator must follow the Contractor's instructions in plugging and abandoning any well with the recognition that such instructions are based on Kazakstan rules and regulations.

The Operator, if different from the Contractor, should be required to submit daily reports on drilling operations and weekly reports on geophysical operations when available. The Agreement should specify when such reports are due, and the content of the report (maps, description of operations). The Agreement should also address the submission of less frequently generated reports such as might be compiled quarterly or annually. If the Operator discovers any archaeologically or historically significant information, this should be reported along with the discovery of non-Petroleum natural resources.

ARTICLE 12

RECOVERY OF PETROLEUM OPERATION EXPENDITURES PRODUCTION SHARING OF CRUDE OIL

Very shortly after Investor Participants enter into a Consortium Agreement, each Participant must enter into a Production Sharing Agreement with the Kazakstan Government. This probably will

occur just after the Effective Date of the Agreement. This Article merely outlines a few of the principles to be used in negotiating and developing conditions of the Production Sharing arrangements for Crude Oil. Article 13 addresses those differences that might occur for production sharing of Natural gas.

In general, the Contractor or Investor Participant should be entitled to recover his entire "unrecovered" Production Operating Expenditures and in-country Overheads from the first sales proceeds and other dispositions of Crude Oil produced from the E&P Block. The Contractor should be able to recover all remaining Petroleum Operation Expenditures out of a negotiated percentage of the excess of, (1) the first sales proceeds or other dispositions of the Crude Oil which is produced and saved over (2) cost recovery of Production Operating Expenses and applicable Overheads until such time as the Contractor has, on a cumulative basis, recovered all cumulative Petroleum Operation Expenditures attributable to Production. To accelerate the discovery and production of petroleum, this Article may contain a provision under which the Contractor shall be entitled to recover the entirety of Petroleum Operation Expenditures from the sales proceeds of produced crude oil for a limited number of early years. This would not reduce the cumulative cash flow from production operations to the Government, but it would change its timing in favor of the Contractor.

In the event Contractor elects to receive Crude Oil in satisfaction of all or part of its cost recovery, Contractor should be entitled to take and receive and freely export its entitlement to such Crude Oil. For purposes of determining the quantity of Crude Oil to be delivered to Contractor to permit Contractor to recover its Petroleum Operations Expenditures, the price of crude oil to be delivered to the Contractor should be defined on the basis of an internationally recognized price series such as the Platt's Oilgram Price Report. Such price may be adjusted for quality and gravity differences but not reduced for storing, shipping, commissions, fees or other adjustments. Cost recoveries by the Contractor should be first made against the sale of Crude Oil and if not completely covered against the sale of Natural Gas as described in Article 13.

The Crude Oil remaining after deduction of the portion used in cost recovery of unrecovered Petroleum Operation Expenditures (Remaining Oil Production) should be taken and disposed of separately by the MOGI and the Contractor in accordance with their negotiated production sharing percentages. Depending on the negotiating parties' relative bargaining power, these percentages may reflect different combinations based on production volume, cumulative recovery, or other factors. The actual total of Crude Oil produced and saved from the Contract Area or E&P Block and not used in Petroleum Operations during any calendar month should be used as a basis of share determination.

The Contractor will generally be entitled to no other remuneration other than described above or under Article 10, however, he will have the right to export freely all Crude Oil received in kind and retain the proceeds from all Crude Oil sales outside Kazakhstan on a duty free basis. Any crude oil produced from production testing and not recovered under the provisions of Article 12 shall be available to the MOGI at the wellhead, free of charge, should the MOGI elect to receive it. The MOGI would be responsible for bearing the costs of taking such quantities.

ARTICLE 13

RECOVERY OF PETROLEUM OPERATIONS EXPENDITURE AND PRODUCTION SHARING OF NATURAL GAS

The Production Sharing Agreement for the production of Non-Associated Natural Gas should be essentially the same as for the production of Crude Oil as it applies to the relationship between the MOGI and the Contractor or Investor Participant. Once Non-Associated Natural Gas has been discovered on a Contract Area or E&P Block, the Parties should determine whether processing and utilization are economical, in addition to the quantities used for secondary recovery operations or field pressure maintenance programs. If determined potentially economical, the Parties should construct and install facilities for such processing and utilization which then becomes part of the Contractor's Work Program.

For purposes of calculating the equitable share of Natural Gas for the MOGI and the Investor Participant, a mutually acceptable price should be negotiated. Since natural gas is being imported into Kazakhstan, its opportunity cost, as reflected by the import price of natural gas at the border should be used to determine monthly values. All other conditions should be the same as for Crude Oil. If the MOGI and the Contractor determine that Natural Gas from the Contract Area is not economical, it may be flared if permissible under Kazakhstan law.

The Production Sharing of Natural Gas should follow the same form as for Crude Oil, with possible percentage variations as a function of production rates or cumulative recovery. The MOGI and the Contractor should agree to use their best efforts to find a market for Associated Natural Gas not used in Petroleum Operations. If the Parties agree to process and utilize Associated Natural Gas, such activity will become part of the Work Program.

ARTICLE 14

UNITIZATION

If a producing field extends beyond the boundary of a Participant's Contract Area (E&P Block) into another Participant's Area, Consortium Participants may wish to collaborate on the development and production of the common reservoir. Failure to voluntarily take such action may cause the MOGI to require collaboration and field unitization. Such a requirement may extend to those instances where a potential producing zone is not found to be a Commercial Discovery if solely evaluated on the basis of the deposit's productivity within the Contract Area but would be Commercial Production if included into an unitized project. All unitization proposals prepared by a group of Operators should be submitted to the MOGI for approval. In the event that the MOGI requests a proposal for common development and production within a certain time period and the Parties either fail to

present their proposal on time or the proposal is unacceptable to MOGI the latter should make provision to develop its own version of a reasonable unitization plan subject to arbitration if that plan is unacceptable to the Contractors

ARTICLE 15

LOCAL CONTRACTORS AND PERSONNEL

Under a Production Sharing Agreement, the Operator should be responsible for providing all materials, equipment, supplies, services and personnel required for Petroleum Operations on E&P Blocks or Contract Areas. Part of this responsibility is the acquisition and supervision of subcontractors. The MOGI should be required to be consulted on the selection of subcontractors and suppliers to ensure that prices and other terms and conditions of contracts are no less favorable than those available in Kazakhstan for goods and services of comparable quality. The MOGI should request submission of copies of all contracts and purchase orders.

The Operator and its Affiliates and subcontractors should be required to use local contractors where their prices, performance, safety and work quality are comparable to those of international contractors. Preference should also be given to the purchase of locally manufactured materials, equipment, machinery and consumables as long as their performance, quality and time of delivery are comparable to the international availability of the same items. Such materials and items should be allowed to be imported if the local price when delivered to the Operator's base in Kazakhstan is higher (by a negotiated percentage) than the price of competing import items before customs duties but after transportation and insurance costs have been added.

The Government of Kazakhstan should require that the Operator give first priority in employment to Kazakhstani nationals in all job categories and classifications, technical and non-technical. The Operator should be held responsible for selecting the employees. There should be exceptions to the local priority mandate, including certain engineering, geological and technical categories that must be filled promptly after the Effective Date of the Agreement to enable the Operator to meet Work Program requirements imposed by the Agreement and key supervisory and technical personnel who are crucial to the Operator's international exploration and management program. Foreign personnel should not be engaged except to occupy posts where Kazakhstani with equivalent qualifications and experience are unavailable.

Kazakhstani personnel to be employed by the Operator should be selected in consultation with the MOGI. The Government of Kazakhstan should require that wages and salaries paid to Kazakhstani nationals be commensurate to those of expatriates with equivalent training, experience and job responsibility. Kazakhstani laws and regulations will have some impact on the Operator's obligations with respect to social security contribution and income tax on salaries. The Agreement should have a stability provision to protect the Operator's or Contractor's ability to get a reasonable return on the

initial investment in the event of unfavorable changes in Kazakstani law regulations or policy during the term of the Production Sharing Agreement

ARTICLE 16

TITLE TO ASSETS

In general, once a Commercial Discovery has been declared in a Contract Area or E&P Block all fixed assets that were acquired by the Operator in the performance of Petroleum Operations under a production sharing agreement, should become the property of the MOGI at no cost to the latter. Such assets should become the property of the MOGI upon purchase, whether acquired in Kazakstan or imported. As long as these assets are used exclusively for the conduct of Petroleum Operations they should remain in the custody of the Operator, free of charge. The Operator should be responsible for keeping all equipment and assets in good repair and working order. The MOGI ownership provision should not apply to assets, equipment and machinery owned by third parties and rented to the Operator as long as such assets and equipment are necessary to the production of oil and gas and work toward efficient execution of this Agreement. The subcontractors of the Operator should be allowed to freely import such assets into Kazakstan and to export them at the end of their use. Unless agreed to by the MOGI, no property which was imported by the Operator on a leased or rented basis, may be used outside of the Contract Area where Petroleum Operations are being carried out.

ARTICLE 17

TAXES

The taxes paid to the Kazakstani Government on the production share of oil and natural gas should be guided by the provisions of the Law on Taxation in force at the time the production sharing agreement is signed. Stabilization clauses should be introduced in the tax provision of the Consortium Agreement and the production sharing agreement to protect foreign and Kazak investors against subsequent tax increases on petroleum production or exports. This approach, apart from being eminently reasonable and conducive to attracting foreign investments in the petroleum industry, is one that is endorsed by the World Bank.

Stabilization clauses can take many different forms. One would be a provision calling for an automatic re-negotiation of the production sharing percentages in the exact amount to offset the additional tax burden. Such a re-negotiation mechanism would have to be made subject to arbitration in the event of non-closure. Another method would have the lead ministry pay taxes on behalf of the foreign investor over the entire production period. If known from the beginning, the negotiated production sharing percentages would reflect this burden with the result that the Government's take

would be higher. When this procedure is chosen, any tax increase on petroleum operations or exports after the signing of the production sharing agreement would involve the Government taxing itself for a zero net impact on the foreign investor.

One source of potential friction after production has been established and taxation becomes a concrete reality is the collection of fees by the central or by local governments in all kinds of forms and under many different names. These would typically include severance taxes, ad valorem taxes, taxes based on sales or revenues, excise taxes, value added taxes, transfer taxes, import and export duties on materials, equipment and supplies brought into Armenia by the Contractor, its contractors and subcontractors, and exactions in respect of sales or revenues, property, capital, net worth, operations, remittances or transactions including any tax or levy on or in connection with operations performed by the Contractor. The production sharing agreement should clearly define those taxes that are payable and should provide protection against new or unexpected taxes as mentioned in the preceding.

The Contractor may be required to pay an annual surface rental or usage fee to the MOGI for the right to conduct Petroleum Operations on each Contract Area or E&P Block during the Exploration Period. This should be the only payment due the MOGI or the Kazakstani Government for surface rental. The MOGI will hold the Contractor and Operator harmless from and against any claims or losses in respect to surface damages asserted by any third party or party of prior ownership of any portion of the Contract Area.

The Operator's subcontractors should be liable to pay Kazakstani income taxes on profits derived from Petroleum Operations carried out under the Agreement. The Operator should be made responsible for notifying the MOGI as to what amounts were paid to subcontractors for work done in Kazakstan relative to their E&P operations. Expatriate employees of both Contractor and Operator, as well as subcontractors, operating under this Agreement should be liable for payment of Kazakstani income taxes on salaries in accordance with Kazakstani law.

ARTICLE 18

IMPORTS AND EXPORTS

The Contractor, Operator and their subcontractors engaged in Petroleum Operations under a Production Sharing Agreement should be permitted to import and should be exempt from customs duties with respect to the importation of all machinery, equipment, vehicles, materials, supplies, consumable items and movable property, as long as such items are certified by the MOGI to be used solely in carrying out Petroleum Operations under the production sharing agreement. The MOGI should reserve the right to inspect records and documentation to make sure that the use of each item qualifies for exemption.

Exemptions may or may not be extended to imported items when items of the same kind and quality are manufactured locally and are available for purchase and timely delivery in Kazakhstan at a competitive price. The Contractor should be given the right to consult with MOGI to determine which situation applies. As mentioned in Article 16, items imported into Kazakhstan, whether exempt or non-exempt from customs duties, taxes or imposts, should be permitted to be exported by the importing party without export duty. The Contractor and its respective purchasers should definitely be exempted from duty, tax or fee for export of its share of Petroleum except for those charges paid to the Government for actual services rendered such as normal port and storage charges. The agreement should spell out whether the MOGI should effect transportation of the Contractor's share of Crude Oil to port of export with or without cost to the Contractor. The Contractor should make sure the port and storage fees, if chargeable, are reasonable and ordinary.

Expatriate employees of the Contractor, Operator and subcontractors assigned to Kazakhstan on a resident basis should be permitted to import and be exempt from all customs duties for household goods, items and personal effects including automobiles. This is provided such imported properties are for the sole use of the employee and his family and shall be re-exported at the end of the employee's assignment. Any imported personal effects which are sold in Kazakhstan should be subject to fees and import duties as provided under Kazakhstani law.

New material, equipment and goods or used but serviceable material which the Operator finds to be unnecessary for the conduct of Petroleum Operations may be sold within Kazakhstan provided the purchaser pays the applicable customs duties or taxes. Sale of such materials to the MOGI or one of its Appended Units, or with the approval of the MOGI, to another Contractor exempts either party from customs duties. Materials, equipment and goods damaged or used to such an extent to be non-serviceable should be classified as junk or scrap by the Operator and may be sold as junk or scrap without payment of customs duties, taxes or imposts, with prior approval of the MOGI.

ARTICLE 19

DOMESTIC MARKET

This provision should describe the willingness of the MOGI to assist the Contractor with the development of any agreements necessary with domestic companies for delivery and payment for quantities of Crude Oil and Natural Gas which the Contractor wishes to make available for delivery to the Kazakhstan market. The provision should also acknowledge the right of the Contractor to remit abroad in freely convertible currencies, the amounts derived from its sale of Petroleum to domestic purchasers.

ARTICLE 20

MEASUREMENT OF PETROLEUM

The volume and quality of Petroleum produced and saved by the Operator should be measured by methods and equipment in accordance with general accepted international petroleum industry practice. The Contractor may have to negotiate with the MOGI as to the point of Production measurement. The Parties should be given the right to inspect the measuring equipment used to gauge volumes or determine quality and the MOGI should retain the right to assign an inspector to supervise any such measurements or determination. Those Parties desiring to measure a Contractor's production should do so at their own expense and risk. Appropriate language should be included in the Agreement to adjust for measurement errors. The Contractor and the MOGI should develop a written understanding as to the transportation line temperature and pressure particularly with natural gas measurement.

ARTICLE 21

TRAINING AND TECHNOLOGY TRANSFER

As a continuation of the training of Kazakhstan technical and managerial personnel which was begun under the Aral Consortium Agreement, the Investor Participants should agree to continue training and advanced education of Kazakstani nationals under the Production Sharing Agreement. This provision would facilitate the rapid and comprehensive transfer of technology of Petroleum Exploration and Production. The Contractor's Annual Work Program and budget should set forth an agenda of subjects or activities to be undertaken by the Contractor and the selection of personnel to receive training. MOGI's requests, either for training subjects or appropriate personnel to receive training, should be strongly considered. The Contractor, as a part of his annual budget development process, should break training expenditures into two categories, for the Exploration period and after Commercial Discovery.

ARTICLE 22

PAYMENTS AND EXCHANGE CONTROL

The Kazakstani Government should require that a Contractor supply all necessary funds to conduct Petroleum Operations in freely convertible currencies from abroad, from borrowings, or as generated from its sales of Petroleum in Kazakhstan for local demand. The MOGI should designate a bank to which the Contractor is to make payment in U S Dollars. The Operator, if different from the Contractor, may request that payments due him be in the currency unit of his election (tenge, dollars, or other currencies). The Operator should be required to pay local subcontractors and suppliers in

the currency stipulated by law, probably tenge. The Agreement should give both the Contractor and Operator the right to make payments directly abroad for goods and services obtained for Petroleum Operations and to charge such payments without having first to transfer the funds for such payments to Kazakhstan.

The Agreement should have a negotiated period which addresses when payments are due (e.g. thirty or sixty days after the a payment obligation occurs). If a payment in U.S. Dollars is still owing at the end of the due date, interest should be charged at a rate based on an internationally recognized reference. If a Party fails to pay its share of any payment when due, the non-defaulting Party should have the right to advance to the Operator any and all amounts the defaulting party has not paid. This advance may be deemed a loan and shall accrue interest. The Agreement should have a provision that allows a non-defaulting party to appropriate and own the defaulting Party's share of production for the period of default. In the event an E&P Block is transferred to a third Contracting party, the new Contractor shall be responsible for making up default payments unless the MOGI receives and approves an agreement of the two or more parties as to the manner and timeliness of restitution.

The Contractor and Operator must have the right to purchase Kazakhstani currency when required for Petroleum Operations. He must also be able to facilitate currency conversions at local authorized banks and at current Kazakhstani rate of exchange. If the official exchange rate for tenge is less favorable than that in effect at commercial Kazakhstani banks, the commercial rate should be used. The Contractor should be given the right to convert tenge into freely convertible currency and freely remit such funds abroad. Banks' commissions and costs of transfers related to currency should be Contractor costs. The Contractor should have no restriction on receiving, retaining abroad and using the proceeds received from export sales of its share of Petroleum received from an assigned E&P Block. All foreign exchange transactions should be subject to the laws, rules and regulations in force at the time the Production Sharing Agreement is signed. Any amendments to regulations that occur after the Effective Date of the Agreement should be a point of negotiation (and if needed, arbitration) between the Contractor and the MOGI.

ARTICLE 23

ENVIRONMENTAL AND SAFETY MEASURES, INSURANCE AND RESPONSIBILITY FOR DAMAGES

As was required for the Aral Consortium Agreement, the Contractor and Operator should be obligated to conduct Petroleum Operations in accordance with generally accepted international petroleum industry practice. This includes a commitment to cause as little damage as reasonably practical to the environment, water resources, crops and private and state owned property. The Contractor should be obligated to take immediate steps to bring emergency situations under control and protect against loss of life and damage to property from blow-outs, spills, accidents and other emergencies. By this Agreement, the Operator should be obligated to respond expeditiously to determinations by the MOGI or the Ministry of Ecology and Bioresources that facilities or activities

by the Operator are endangering or may endanger human health the environment or are likely to cause pollution The MOGI should have the authority to require remedial action or order the shutdown of Petroleum Operations until needed remedial measures or repairs have been made The Contractor should negotiate general guidelines with the MOGI on the reporting and conduct of remedial measures so that each party has an understanding of the timelines required to address each type of emergency situation Such understanding will minimize the need for the MOGI to draw from the Operator's account to perform corrective action or control the emergency

Within a specified number of days of the effective date of an Agreement the Operator should be required to provide the Contractor with an insurance program for the conduct of Petroleum Operations which meets international standards At a minimum, such insurance should cover loss or damage to the installation and associated equipment used in Petroleum Operations pollution to the environment, property insurance and third party liabilities

In addition, the Operator should indemnify, defend and hold the Ministry harmless against all claims losses and damages of any nature whatsoever, including, without limitation claims for loss or damage to property or injury or death to persons caused by or resulting from any Petroleum Operations conducted by or on behalf of Operator All losses, damages, and costs relating to insured or uninsured events or conditions in respect of Petroleum Operations which are borne by Contractor shall be considered Petroleum Operations Expenditures

ARTICLE 24

ASSIGNMENT

The Production Sharing Agreement should specify that the Contractor must receive prior written consent from the MOGI before it can assign any rights, duties, privileges or obligations of this Agreement or a portion thereof to another person, firm or corporation The Contractor may assign its rights, privileges, duties and obligations to an Affiliate after written notice to the MOGI The Agreement should specify the timing and content of MOGI's response The Affiliate should be able to demonstrate at least the same level of technical and financial competence as the original Contractor

Even though the MOGI's written consent should not, by stipulation, unreasonably be withheld or delayed, the Ministry should insist that the assignor certify that all obligations up to the date of assignment have been fulfilled and that the assignee jointly and severally guarantees fulfillment of the remaining obligations The assignee must assume the covenants contained in the Agreement and demonstrate to the MOGI that it has technical and financial competence to fulfill the Agreement obligations A provision should be included which renders any such assignment free of any transfer or related taxes, charges or fees MOGI should retain the right and the obligation to review, approve and register the assignment

ARTICLE 25

GOVERNING LAW AND ARBITRATION

The assurances which Aral Consortium Participants gave in agreeing to abide by the laws, rules and regulations of Kazakhstan should be incorporated into Production Sharing Agreements. Such assurances should also apply to subcontractors. Regular meetings between the MOGI and Contractor should be emphasized in the Agreement. Unresolved disputes should be stipulated as going to arbitration for final settlement. If Kazakhstan is currently a member of the World Bank Arbitration Convention (the International Convention for the Settlement of Investment Disputes or ICSID) this may be an ideal forum for arbitration proceedings, but others are available including the International Chamber of Commerce in Paris and the Permanent Court of Arbitration at the Hague.

The non-performance or delay in performance by MOGI or the Contractor of any obligation of the Agreement (other than the payment of funds or provision of notice) should be excused if the delay is caused by Force Majeure, provided the affected Party has taken appropriate precautions and reasonable alternative measures to carry out the Agreement. The term "Force Majeure" should be defined in the Agreement or carried over from the Consortium Agreement. The Agreement should have provisions for giving notice to the other Party stating the cause of non-performance and delay and the measures being taken to minimize the consequences of the event. A declaration of Force Majeure shall cause time obligations set forth in the original Agreement to be reestablished by negotiation of the Parties.

ARTICLE 26

BOOKS OF ACCOUNT, ACCOUNTING, AUDIT AND FINANCIAL REPORTING

The MOGI, Contractor and Operator should each be required to maintain a set of books of accounts in accordance with the attached Accounting Procedures and accepted accounting practices generally used in the international petroleum industry. Such records should be maintained in the Kazakhstan offices of the respective Parties. The books and records are necessary to show the work done under the Agreement and must include the amount and value of all petroleum produced, sold or stored. Accounting records should be kept in both U.S. Dollars and Kazakhstani currency (Tenge) and in both Russian and English.

The Contractor's and Operator's accounting records should be available for inspection during reasonable hours by duly authorized representatives of the Government of Kazakhstan. The Operator of a Production Sharing Agreement involving Aral Consortium Participants, who jointly carry out Petroleum Operations in E&P Blocks, should develop an auditing program which allows for both

internal and external (MOGI) inspection and auditing of books and accounts. The Agreement should specify the length of time from the date of submission of books and accounts that such accounts are eligible for audits and the conditions where extensions of time can be granted. The Agreement should limit the period of time during which an audit can be conducted.

The Agreement should also specify a deadline for filing an exception to the audit findings and stress that a failure to provide written exception within the time frame establishes correctness of the Operator's books of account except in cases of manifest error. Unresolved disputes should be directed first to the respective managements of the Parties for resolution and if still unresolved by the Parties, subsequently referred to independent public accountants of international standing who are not the regular accountants of any of the Parties to the Agreement. Such accountants should be bound, by separate agreement, to a deadline based on the date of referral to provide the finding. Such findings should be binding on all Parties.

ARTICLE 27

CONFIDENTIALITY

Except as otherwise provided, all information acquired or received under the Production Sharing Agreement should be maintained with the same levels of confidentiality as was the case with the original Consortium Agreement. Such information and data should not be divulged without the written consent of other parties to the Agreement. Exceptions should be made for legal counsels, independent public accountants and other professional advisors or consultants retained by the Parties. Confidentiality does not apply where compliance with securities and other rules or regulations of any government or stock exchange requirements are at issue. Information which becomes part of the public domain through sources other than the parties to the Agreement cannot be protected. The Contractor should be entitled to provide a general description of his operations in annual reports and in communications with shareholders. The Contractor should seek to maintain confidentiality for a stipulated number of years after the Agreement is terminated. A five (5) year period is commonly used.

Parties to an agreement should be entitled to disclose such information to their employees, affiliates, consultants or subcontractors as is deemed necessary to conduct Petroleum Operations efficiently and should obtain a written pledge of non-disclosure from them which is no less restrictive than the obligation of the disclosing Party under this Agreement. In those cases where a portion of E&P Block acreage is relinquished to the MOGI, the MOGI, for purposes of obtaining new offers, should be entitled to show another entity such data and information during the term of the Agreement provided it is at least a year old. Any party to the Agreement should be able to disclose information of a confidential nature to financial institutions for purposes of obtaining a loan.

ARTICLE 28

OFFICE AND SERVICE OF NOTICE

Any Contractor doing business with Kazakhstan must register with the MOGI and other competent authorities as prescribed by law. The Contractor should also agree to establish and maintain an office in Kazakhstan for the term of the Agreement, where notices may be validly served. The Contractor must provide the MOGI the address of the office and the name of the General Manager and any administratively and technically competent alternative representative who has sufficient powers to represent and bind the Contractor in all dealings with the MOGI or third parties in Kazakhstan.

Any and all notices, requests, demands, orders and other communications required or permitted under the Agreement shall be made in Russian and English, and to the degree required by the MOGI in Kazak. The Agreement should specify when notices, requests and etc. are deemed to have been received. For example, hand delivery during business hours, hand delivery outside of business hours, notification by telex or fax transmission are activities for which official notification criteria should be established. The Parties need to establish when notarial notice is required, or if such notice is necessary under any circumstances.

ARTICLE 29

GENERAL

This section usually contains a confirming statement that the Agreement is between the Contractor and the MOGI and may not be amended, modified or supplemented except by written agreement of the Parties. The rights, duties, obligations and liabilities between the Contractor and the MOGI should be several and not joint and collective, and should not constitute an association or partnership. Aral Consortium Participants should keep in mind this one-to-one relationship with the MOGI once the Exploration Research Study has been completed and E&P activities begin on individual Blocks.

The Agreement with the MOGI by each Consortium Participant should not prevent the development of agreements among the various Investor Participants. The performance of any condition or obligation under this agreement should not be subject to a waiver except by written assent of the MOGI or other party granting a waiver or postponement. The granting to one party of a waiver from certain conditions or obligations does not automatically grant a waiver to other parties from performing the same conditions or obligations. This, and any subordinate agreements should be drafted in English, Russian and, if specifically required, in Kazak. The legally dominant language should be specified for the event that a conflict develops among the three languages on text, syntax or interpretation.

ARTICLE 30

APPROVAL OF THE GOVERNMENT

Each Production Sharing Agreement should have an approval page which verifies by signature the formal agreement of MOGI and the Contractor to carry out the Petroleum Operations and Production Sharing activities

APPENDIX B

DRAFT ARAL SEA CONSORTIUM AGREEMENT

DRAFT

DRAFT PROSPECTUS
ARAL SEA CONSORTIUM AGREEMENT

Prepared by U S Agency for International Development and
Hagler Bailly Consulting, Inc

11 March 1997

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PLEASE NOTE:

THE DRAFT PROSPECTUS OF THE ARAL SEA CONSORTIUM AGREEMENT WAS PREPARED PRIOR TO THE PRESIDENTIAL DECREES "ON REGULAR MEASURES ON REFORMING THE STATE BODY SYSTEM OF THE REPUBLIC OF KAZAKHSTAN" AND "ON THE ESTABLISHMENT OF THE KAZAKHOIL NATIONAL OIL AND GAS COMPANY" THESE TWO DECREES WERE ADOPTED ON 4 MARCH 1997, WHICH EFFECTIVELY REORGANIZED AND SEPARATED DEPARTMENTS OF THE MINISTRY OF OIL AND GAS INDUSTRY, THE MINISTRY OF ENERGY AND COAL INDUSTRY, AND THE MINISTRY OF GEOLOGY INTO THE MINISTRY OF ENERGY AND NATURAL RESOURCES AND "KAZAKHOIL" AT THE TIME OF THIS DRAFT , THE GOVERNMENT OF KAZAKHSTAN HAD NOT MADE FINAL DETERMINATIONS ON THE RESPONSIBILITIES OF THE NEW ORGANIZATIONS THEREFORE REFERENCES TO THE FORMER MINISTRY OF OIL AND GAS INDUSTRY REMAIN INTACT

DRAFT PROSPECTUS ARAL SEA CONSORTIUM AGREEMENT

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OVERVIEW

INTRODUCTION

The investment climate in Kazakhstan is viewed by many foreign investors as promising. One of the areas where such investment is particularly favorable is the development of Kazakhstan's mineral and fossil fuel resources which require foreign capital and technological expertise to properly and expeditiously exploit. The Government of Kazakhstan and the Ministry of Oil and Gas Industry (MOGI) are extending an invitation to foreign oil and gas companies to join its State Oil Company "Kazakstancaspishelf", in forming a Consortium project called "Aralshelf". The purpose of this project is to explore and eventually produce oil and gas from the Aral Sea area both onshore and offshore. In this Prospectus the project will be referred to as the Aral Sea Consortium. The Government of Kazakhstan is quite naturally excited and enthusiastic over their estimates of potential oil and gas reserves in the Aral Sea area. They were hoping to have a Preliminary Agreement signed with interested Foreign Investors by November 1996. However, the projected date has since been moved to mid-1997.

As is true with any newly formed nation, Kazakhstan has had to cope with a large number of issues and situations at one time. Economic instability has been a problem since 1991 when Kazakhstan declared itself a sovereign Republic. The Government realizes that the exploitation of Kazakhstan's oil and gas deposits along with other valuable minerals will eventually create a more stable economy as the country embraces the concept of a free market economy and philosophy and moves toward privatization. As with any country which has chosen a new destiny, the changing of past attitudes and bureaucratic processes is evolutionary rather than an overnight event. Prospective foreign investors will need to be aware that such changes are occurring and be able to adjust accordingly in their relationships with the Government.

In proposing the Aral Sea Consortium, the Government of Kazakhstan's motives are simple: continue the trend of encouraging foreign oil and gas companies with world class financial and technological resources to enter into consortium and other types of agreements to explore large onshore and offshore areas of the country. The Aral Sea is such an area. Kazakhstan also needs foreign investments to derive income for upgrading devastated ecosystems and human health conditions which currently exist in the Aral Sea area. Human health projects include establishing improved transportation arteries, public water supplies, schools and hospitals. This Prospectus presents an outline of what prospective foreign investors should be aware of in making decisions to participate in the Aral Sea Consortium. Oil and gas prospects appear promising for foreign investment. The petroleum related laws and associated regulations have been undergoing considerable change since mid-1995 and Foreign Participants in a consortium should find the task of obtaining licenses, getting approval of environmental work programs and negotiating production sharing contracts a less involved process than may be the case in individual partnerships and joint ventures.



WHY A CONSORTIUM ?

The Government of Kazakstan and its Joint Stock Company "Kazakstancaspishelf" (KCS) believe the Aral Sea and its surrounding territory is a sufficiently large and promising area to support a consortium of four or five oil and gas companies including KCS. Other types of oil and gas exploration and production arrangements such as joint ventures and partnerships were reviewed by KCS and the Ministry of Oil and Gas Industry (MOGI) and were not considered to be as favorable toward achieving all necessary objectives of the Government of Kazakstan. These objectives include developing economic, environmental, health and social programs for the depressed Aral Sea area in addition to deriving financial benefits for foreign investors and for Kazakstan which would be realized from oil and gas resource development and production.

Kazakstan believes the positive experience gained through its participation in the Caspian Sea Consortium demonstrates the value of this type of exploration and seismic research arrangement for large offshore areas and believes an Aral Sea Consortium could operate efficiently and carry out effective exploration activities while avoiding some of the difficulties encountered during the Caspian Sea Consortium. Both the Government of Kazakstan and KCS have learned valuable lessons in oil and gas exploration technology from foreign oil investors. As their comfort level grows, future years will be characterized by positive influences on the type of oil and gas regulations administered by the Government of Kazakstan. KCS has named the proposed Consortium "Aralshelf".

KCS believes the only way the Aral Sea can be properly understood from a geological-geophysical perspective is with the shared expertise and active participation of foreign oil and gas companies to conduct an Exploration and Research Program. The Government of Kazakstan believes that the invitation of foreign investors into a Consortium assures the highest quality of geologic and geophysical interpretation. These companies have the capability of maintaining international standards for onshore and offshore oil field technology. These technologies and practices not only maximize the potential for discovering and subsequently developing and producing oil and gas, but they are also able to develop and enhance safety and environmental sensitivities.

Even though the Ministry of Oil and Gas Industry and the KCS believe that a Consortium is the best option for geologically defining the Aral Sea and Adjacent Territories, foreign investors may also want to evaluate alternative exploration and production arrangements such as joint ventures or partnerships. The Exploration Research Study proposed here may reveal that the oil and gas potential in the Aral Sea area exists in more isolated deposits which would make a detailed exploration of large E&P Blocks less desirable to the investors. Less extensive, but still highly productive geographic areas could exist which would be more conducive to the joint venture or partnership concept. If so, the Government of Kazakstan may have to revise its Environmental Work Program and associated social programs that are directed toward upgrading the human health and

cultural well-being of residents to a more targeted less comprehensive set of activities Joint ventures or partnerships may be the most practical approach to the ultimate recovery of oil or gas Either way, a strict focus on return on investment while beneficial to Kazakstan in terms of taxes and income, may impose limits on the development of large public work or environmental projects

CONSORTIUM MANAGEMENT AND ORGANIZATION

The Aral Sea Consortium, as perceived by KCS will be an unincorporated contractual organization similar to the Caspian Sea Consortium It will be created pursuant to an agreement among two or more foreign oil or gas companies and the State Joint Stock Company "Kazakstancaspishelf" The agreement will be in accordance with the laws and regulations of the Republic of Kazakstan The Consortium will not be a juridical entity nor will it constitute a separate entity for tax purposes

Overall supervision and operational control of the Consortium operations at the highest organizational level will be vested in a Management Committee comprised of one designated representative from each Consortium Participant The duties of the Management Committee will be set forth in a negotiated agreement A few of its more important powers are listed as follows

- Development of policies and procedures for the conduct of Consortium operations,
- Approval of the Environmental Management System and deviations or exceptions,
- Approval of contractors, suppliers and technical and management experts,
- Consideration, revision and approval or disapproval of all Annual Work Programs,
- Amendments to accounting procedures, and
- Representation by the Operator (KCS) on behalf of individual Consortium Participants

Prospective foreign investors along with the KCS (whose representative will act as Chairman) will each have one vote on most Consortium matters The Chairman (KCS) will have the prerogative to veto any Management Committee decision if he feels such decision is not in compliance with applicable laws of the Republic of Kazakstan This includes laws pertaining to the environment, public health or safety The veto also applies when the action would be perceived to harm the international relations of the Republic of Kazakstan Foreign Participants are assured that all vetoes will be justified in writing, with specific reasons They will also need to negotiate with KCS on other matters such as voting in absentia

Operator

The Operator who by arrangement, must be the KCS, represents the second organizational level of the Consortium. The Chairman of the Management Committee will appoint a Director General for KCS who will be responsible for seeing that the day-to-day activities of the Consortium (Operations) proceed efficiently. A Deputy Director General will be appointed by nomination of the Foreign Participants to balance the partnership relationship. Although potential foreign investors may view this arrangement as unequal, the resulting structure does provide certain benefits, especially the Consortium's ability to keep up and remain in compliance with evolving laws, rules and regulations in a Country that is committed to full conversion to a market system.

The duties of the Operator will be set forth in the negotiated agreement but a few of the more important items are listed as follows:

- To perform Consortium Operations in accordance with the laws of the Republic of Kazakstan, the provisions of the Consortium Agreement, the Work Program, the Environmental Management System and the Management Committee
- To acquire, or assist Foreign Participants in acquiring, all necessary licenses, consents, approvals, surface or other rights that might be required, including the issuance of exploration and production licenses to Foreign Participants who are in good financial standing as defined by the Consortium Agreement financial provisions
- To plan for and obtain all requisite services and materials necessary to conduct Consortium Operations efficiently and in a timely manner
- To keep Consortium Participants promptly and fully advised of all matters having a significant effect on Consortium Operations, including notification of emergencies that affect life, health, environment and property, and
- To promptly pay for and discharge all liabilities and expenses incurred in connection with Consortium Operations as long as the Foreign Participants have contributed sufficient funds in accordance with the Consortium Agreement

Administration and Technical Management

The third organizational level of the Consortium is the Operator's internal hierarchy, as represented by its management and employees. "Kazakstancaspishelf", as in the past, will fulfill four basic functions:

- (1) As Consortium Operator,
- (2) As a Consortium Participant,
- (3) As a representative of the Ministry of Oil and Gas Industry (when specified),
- (4) On its own behalf as the State Oil Company, KCS

To foreign investors not previously involved with a quasi state entity serving quadruple roles such an arrangement may appear complicated. The role of KCS as a Consortium Participant is a distinct advantage to foreign oil and gas companies that might otherwise find the path toward seeking licenses and contract territory approval through individual joint ventures or partnerships somewhat labyrinthine if pursued through the existing bureaucratic process.

KCS, in its role as Operator of the Caspian Sea Consortium has developed an internal organizational structure and has assigned qualified personnel to positions within the following departments and support services:

- (1) Environmental and Safety Department,
- (2) Public Relations Department,
- (3) Geology and Geophysics Department,
- (4) Legal Department,
- (5) Contract and Procurement Department,
- (6) Human Resource Department,
- (7) Finance and Accounting Department, and
- (8) Logistics and Infrastructure Department

Whatever agreed-to structure for the Aral Sea Consortium evolves, Foreign Investors have a definite voice in program changes by the Operator, through the Management Committee. Foreign oil and gas companies involved in an Aral Sea effort should find the above departments working reasonably smoothly because of their Caspian Sea Consortium experience where the difficulties of developing a new system for the first time have been addressed and to a large extent resolved. The management of the above departments and support offices, if set up as in the past, will be under the joint responsibility of the Director General (KCS) and Deputy Director General (Foreign Participant Appointee). This Prospectus does not provide detail on the various Operator departments except to stress that KCS and the Government of Kazakhstan, through the Ministry of Oil and Gas Industry, welcome the international level of expertise provided by foreign oil companies, particularly in the implementation of environmental protection, safety, international petroleum law, geology, geophysics and socio-economic projects. A detailed description of day-to-day relationships will be included in the actual agreement and attachments.

Technology and Personnel Transfer Issues

The Government of Kazakhstan realizes that the best way to build local technical expertise is by exposing Kazak experts on a daily basis to State of the Art activities in petroleum exploration, well design and enhanced recovery techniques as used by foreign oil and gas companies. This is

especially true for all aspects of offshore technology (exploration through production) which is becoming more sophisticated each year. Kazakhstan believes that by agreements such as the Aral Sea Consortium valuable native technical expertise can be developed to the point that the Country can eventually exploit its own natural resources (coal, gas, oil and other minerals) and increase its financial reserves sufficiently to improve health conditions, repair socio-economic infrastructure conditions, maintain a sound fiscal policy and address many of the environmental problems inherited from the past. The primary advantage to foreign investors is that by sharing their technology and personnel on activities such as the Aral Sea Consortium they gain access to world class hydrocarbon reserves that would otherwise be inaccessible. There is also the long term value of Kazakhstan becoming an equal player on the foreign scene thus making all types of exploration and production arrangements based on technology pooling more equitable.

In the Aral Sea Consortium agreement, Foreign Participants would be expected to designate technical and managerial experts to be assigned under KCS to assist in the efficient conduct of Consortium Operations, in accordance with good petroleum industry practice. While the details of employee remuneration and payroll costs will be conditions of the Agreement, it is accepted practice that the remuneration and personnel policies of the Foreign Participants would be followed. This manner of technology transfer for Consortium Operations does not preclude the right of KCS to engage outside consultants with specific areas of expertise, subject to Management Committee approval. Potential foreign investors in a consortium arrangement may want to consider selection of personnel who are conversant in Russian and English so that the normal barriers to common technical interpretation of procedures, oil field terminology and scientific methods created by translation can be minimized. Kazak is the official language of Kazakhstan and certain oil field related statutes require applications to be submitted in Kazak as well as in English and Russian. Consortium Participants, including KCS, should consider hiring selected staff members who are versed in Kazak and who are familiar with oil field terminology.

PAST SURVEYS

Geophysical

Geophysical work in the Aral Sea area has been confined to two separate efforts: the first in the 1960's and a more recent one during the 1971-1975 period. The 1960 work was done in connection with hydrogeological surveys and was the joint effort of the geological surveying organizations of Kazakhstan, Uzbekistan and "Aerogeology". During this survey, several seismic profiles were obtained in the western part of the Aral region by correlation and refraction methods.

The 1971-1975 project was conducted by the Industrial Geological Association (IGA) "Morgeophysika" (located at Gelenjik) This group made a regional profile network of the Aral Sea offshore area by using wave reflection methods and Common Depth Point The seismic surveys resulted in the discovery of several brachianticlinal folds which received additional investigation As set forth in another section of this Prospectus, one of the early tasks of the Consortium would be to select appropriate seismic techniques to develop and implement a comprehensive and in some justified cases, a detailed seismic survey grid of the Aral Sea and Adjacent Territory The term "Adjacent Territory" is used by KCS to define that land strip between the present Aral Sea shoreline and the location of the shoreline as it existed in 1982

Geological

The major part of the Aral region was surveyed and mapped at a scale of 1:200,000 in the 1960-1970 period by IGA Smaller selected areas to the north and west of the Aral Sea were surveyed and mapped on a scale of 1:50,000 The mapping was followed by a drilling program with a density of 20-30 holes per sheet The depth of these holes did not exceed 300-500 meters and terminated in Paleogene sediments Limited quantities of natural gas were discovered in a few of these holes The emphasis at the time was to delineate trends in coal deposits During this period a hydrogeological survey was conducted wherein several holes were drilled to a depth of 1000 meters Two additional "deep tests" were drilled into the Kulandinso-Zhilansko-Tasaransko horst-anticline complex one to 760 meters and the other to 3000 meters A great percentage of the geological interpretations used by KCS in preparing the Aral Consortium proposal to the Ministry of Oil and Gas Industry was based on these seismic surveys and deeper tests

In the early 1990's, Kazakstan organizations began a new series of geological surveys of the Aral region This entailed geological and hydrogeological mapping at a scale of 1:200,000 Most of this work was keyed into the geo-environmental research of the dried zone of the Eastern Aral region Financial problems prevented completion of the studies and preparation of reports until the current effort The geological studies are primarily geomorphic and geographical in content and while they may provide potential Consortium Participants needed baseline information on shoreline fluctuations and terrestrial problems, they may not be useful in developing a picture of potential oil and gas deposits KCS has indicated that scientists of the National Academy of Science are trying to complete compilation of the 1990 data by the time the Consortium Agreement is formalized

GEOLOGIC SETTING OF THE ARAL SEA AREA

For purposes of this Prospectus, only a brief summary of the geologic setting, stratigraphy and tectonic and structural features is provided Potential Foreign Participants will want to review available data which the KCS has on file or is developing relating to the Aral Sea area and

surrounding territory. Since the premise of abundant oil and gas reserves in the Aral Sea area is based on correlations with and stratigraphic similarities to the South Turgai oil producing area to the east (250 km east of the Aral territory), a detailed geologic study will be needed once Consortium agreements are finalized and activities begin.

Structure and Tectonics

The Aral Sea and adjacent territory area are composed of six major structural features which are part of two transcontinental tectonic belts and orogenic trends. Structures in the pre-Mesozoic formations indicate association with the development of the Western part of the Uralo-Mongolski belt. Some of these are associated with the Eastern slope of the Southern Urals in the East Aral. These two areas are structurally separated by the Aralo-Kyzylkumska swell arch which is a north-south trending linear structure that extends through the central part of the Aral Sea into Uzbekistan in the south and through a series of highs into the Northern Aral adjacent territory. The total length of the swell arch is about 900 km (560 miles). The six structural features are the (1) Turan Platform, (2) Eastern part of the North Ustyurt trough, (3) Bazaisko-Akkulovskoy high zone, (4) Chelkarski trough, (5) Kulandinsko-Zhilansko-Tasaranski horst-anticline zone, and (6) Eastern Aral trough. The area west of the Aralo-Kyzylkumski arch has been subject to considerable faulting. Tectonic activity subsided toward the end of the Jurassic time. During the Cretaceous time, the Aral region developed into a platform structure. The Cretaceous-Cenozoic time span was characterized by adjustment movements of the platform where the anticlines and troughs pitched along axial trends. Eventually, additional anticlines with smaller closure contours (brachianticlines) developed as superimposed structures.

Stratigraphy

The pre-Jurassic rocks in the Aral region are predominantly igneous and metamorphic and are not thought to be potential sources of hydrocarbons. Hence they will not be discussed except to acknowledge that they form the basement complex for various structures responsible for oil and gas accumulations and stratigraphic entrapment.

(1) The Jurassic section has a maximum thickness range of 2100-2500 meters in the deepest troughs of the Central Aral zone. In the Western Aral adjacent area, the section thins to 1100-1300 meters and in the Eastern Aral adjacent area to 500-700 meters. The Lower Jurassic sediments are characterized as terrigenous or continental in origin and consist of sediments formed in warm, humid climates, conducive to the formation of coal. The Upper Jurassic represents a general transition from continental or near shore deposition transgressing upward into carbonates of marine origin. Kazakhstan geologists believe that Upper Jurassic structures and stratigraphic traps have the best potential for hydrocarbon accumulation and development. The Jurassic section is generally absent across uplifted areas in the northern and eastern portion of the Aral adjacent area.

(2) The Lower Cretaceous-Cenomanian Series, with few exceptions cover the Aral region. These sediments reach their maximum thickness in the South and Southwestern part of the Aral adjacent territory (Uzbekistan) where they reach a complete section thickness of 2000 meters. These sediments thin north and eastward across the Aral Sea while maintaining a complete sequence but gradually lose some of the lower section in the Eastern Aral adjacent territory. Lithologically these sediments are an interlayering of primarily continental rocks with some included carbonates. The Upper Cretaceous is represented by the Turan Maastrichski series which is composed of marine and coastal marine facies that underlie the entire Aral region. The lower part consists of gray and greenish gray clays and siltstones interbedded with sandstones and reach a thickness of 170 meters in the Barsakelmesski trough. The upper part consists mainly of carbonate rocks, limestones and marls, and has a maximum thickness of 350 meters.

(3) The Paleocene-Miocene sediments cover the Aral region except for structural highs in the Northern Aral adjacent territory where the section is absent. These are marine sediments and have thicknesses ranging from 900-1400 meters. The sediments consist of coastal marine and lagoon facies in the Northern onshore portion of the Aral Sea area (Oligocene).

(4) The Pliocene-Quaternary covers the area for the first several hundred meters and represents various sediments of coastal marine and lagoonal origin.

The interest in hydrocarbon occurrence is believed to be limited to the thick Jurassic sequence. The Cretaceous and Paleogene sediments are thought to contain some oil and gas but generally not in commercially recoverable quantities. The results of an exploration research program may indicate potential beyond that attributed to the Jurassic.

OIL AND GAS POTENTIAL

The Kazakstancaspishelf Joint Stock Company, on the basis of initial geological and regional seismic surveys, has made estimates of the amount of recoverable oil and gas from the Aral Sea area, including its adjacent territory as defined above. Interested foreign investors may want to clarify with KCS whether these estimates represent potentially recoverable reserves, based on current technological interpretations, or whether they represent estimates of oil and gas in place. At any rate, the calculated recoverable hydrocarbons are as follows based on IGA ("Yuzhkazgeology") in 1991:

122 million tons of oil and 113 billion cubic meters of gas under dry land areas of Northern and Western parts of the Aral adjacent territory,

Two million tons of oil and eight billion cubic meters of gas underlying dry land in the Eastern part of the Aral adjacent territories and

(1) 131 million tons of oil and 96 billion cubic meters of gas under the Aral Sea proper

KCS believes that the above potentials are underestimations of the actual amount of hydrocarbons present in the total area to be covered by Aral Sea Consortium Agreement. Part of the basis for believing large quantities of oil exist in at least the Jurassic, if not in the entire Mesozoic-Cenozoic section, is the presence of oil in the Jurassic-Neocom series of the South Turgai oil field about 250 km to the east. Kazakstan geologists believe the Jurassic in the Aral region to have a strong correlation with similar lithology and stratigraphic characteristics to the Turgai. In the territory just west of the planned Consortium area, three small to medium Paleocene gas deposits were discovered at a depth of 300-500 meters. This hydrocarbon occurrence is only a few kilometers west of the Aral adjacent territory. Traces of gas were also found in the 3000 meter deep Kulandy Key Hole #1 in the 1960's. This test was located along the east coast of the Aral Sea where it existed at that time.

CURRENT STATUS OF ARAL SEA

The current condition of the Aral Sea is a major environmental disaster in Central Asia which directly affects Kazakstan, Uzbekistan and Turkmenistan. In 1960, the Aral Sea was the fourth largest inland lake in the world with an area of 70,000 square kilometers (sq km). By 1989 the sea level had fallen 14.3 meters (approximately 47 feet) and the surface area had shrunk by about one-half. The surface area of the Aral Sea has continued to shrink since 1989 to the point where the remaining water area is about 40,000 sq km. The salinity of the water has increased threefold since 1960 and is now 4,500 milligrams per liter (mg/l) of Total Dissolved Solids. This salinity increase along with the introduction of fertilizer and organic pesticide compounds related to past agricultural activities in Uzbekistan and Turkmenistan have destroyed the ecosystem, put an end to commercial fishing, and induced drastic declines in health for people living in the region.

As a result, severe population declines have taken place throughout the entire area since the drastic coastline reduction and associated environmental problems have occurred. The disaster stems from the huge diversion of water from the Amu Darya and Syr Darya, two major central Asian rivers which formerly fed the Aral Sea. Short and medium term mitigation or reversal of the Aral Sea ecosystem disaster and the water quality and lacustrine environmental degradation appears to be next to impossible. Initial efforts are expected to focus on the most serious human impacts such as accessibility to potable water for families, schools and hospitals, reduced contamination and bacteria levels, and improved sanitation and public health.

Assistance, or promised assistance to alleviate these human health conditions have come from several sources. USAID has committed several million dollars toward rehabilitating water wells and providing chlorination equipment. The World Bank has entered into discussions relating to investment in repair or possible extension of water transportation lines and water distribution systems. In 1993, the five Central Asian presidents met in Kzyl-Orda, Kazakstan and established an Inter-State Council for the Aral Sea. They pledged that one percent of the GDP in the region would be devoted to addressing the overall (regional) Aral Sea environmental problem. Other groups, in addition to the World Bank and USAID are bringing policy-makers together to discuss common concerns and forge internal policy-based strategies for disaster mitigation and long-term water management.

Environmental Studies, Surveys and Assessments

During the past two years, the Government of Kazakstan, through its Ministry of Ecology and Bioresources, has focused increased attention on the protection of air, water, and plant and animal protection, particularly those species that are endangered, and to preserve the remaining wildlife habitat areas. The preceding description of the Aral Sea disaster is included in this Prospectus because in negotiating the terms of a Consortium Agreement which may be in existence for several years, foreign investors need to know the baseline of the environmental and public health conditions at the time the agreement has been established. The establishment of production will, of course, extend the obligation of foreign investors for many years after dissolution of Consortium activities.

What prospective foreign investors should find attractive in the Aral Sea Consortium is that a temporary Working Group, "Kazakstan-Caspj" consisting of Kazakstan scientists and specialists, has entered into a contract with Hagler-Bailly Consulting, Inc., to do an up-front ecological and environmental review of the Aral Sea Basin. The scope of this initial review and the contents thereof were determined through a technical assignment of the Joint Stock Company, "Kazakstancaspishelf", which is slated to be the Kazakstan State Partner and Operator in the Aral Sea Consortium. Unlike the Environment Impact Assessment required for such areas as the Caspian Sea and surrounding territories, where Special Protection Areas have been established, the Aral Sea Environmental Review should yield a lesser number of critical assessment considerations. The Aral Sea and surrounding territory (for purposes of this Consortium Agreement, the 1982 coastline as a point of reference) is currently at its most degraded stage. Once the Environment Impact Assessment has been submitted by KCS to the Ministry of Ecology and Bioresources, environmental and water quality monitoring programs are expected to be a primary obligation of the Consortium's Environmental Work Program. This program is designed to protect the remaining ecosystem and also to make sure that Consortium Participants have a backlog of "State-in-time" data on changing conditions in the Aral Sea and surrounding territory.

The Aral Consortium Participants also have the advantage of KCS's prior experience of working with foreign oil and gas companies in the Caspian Sea Consortium. Additionally, the Government of Kazakhstan, through its Ministry of Oil and Gas Industry and the Ministry of Ecology and Bioresources, has been directed through a Decree issued June 5, 1996, to implement Regulations on the Procedure for Conducting Offshore Scientific Research connected with Petroleum Operations at Sea and in Internal Water Bodies of the Republic of Kazakhstan. While these regulations have the potential of becoming barriers for getting the detailed seismic work accomplished in a timely manner, they also indicate that the Government of Kazakhstan is diligently working toward adopting International Environmental Protection Standards. This regulatory evolution should be a benefit to Aral Sea Consortium Participants who are accustomed to implementing international standards for environmental protection during all phases of oil operations from seismic surveys through exploration, development and eventually production.

The State Joint Stock Company (KCS) would be responsible under the proposed Consortium Agreement to obtain all necessary licenses, permits and approvals.

Special Problem

One special problem that will need to be assessed from a health and safety standpoint will be the Uzbekistani part of the Vozrozhdeniye Island where bacteriological weapon testing took place. Tests were carried out by explosion and by inoculation of animals with rare cultures of plague and malignant anthrax, etc. No human infection is known to have taken place. Still, as a precaution, sampling for residual bacteria occurring in the offshore vicinity of the island will have to be undertaken prior to the beginning of any geophysical survey.

POTENTIAL INTER-COUNTRY AGREEMENTS

Kazakhstan, through the KCS, will be negotiating an agreement with the neighboring country, the Republic of Uzbekistan, to allow expansion of the general and detailed seismic surveys and geologic studies to cover all of the Aral Sea and adjacent territory. Nearly half of the Aral Sea area is located in Uzbekistan and many of the prominent geologic and tectonic features which are believed to be potentially oil or gas producing, trend north-south cross the two republics, both onshore and offshore. If these negotiations are successful and Uzbekistan Aral Sea territory is included under the Consortium Agreement, the Foreign Investors would have an opportunity to select additional E&P blocks in accordance with whatever protocol is agreed to in advance by Kazakhstan and Uzbekistan. Whether Uzbekistan State oil interests join the Consortium or maintain a role limited to a production sharing agreement would be a subject of negotiation with Investor Participants. At present, KCS, or as it will be called in the Consortium, "Aralshelf", is seeking to become the Operator for both

countries due to its developing role as an international exploration and producing company and also due to its experience in negotiating and working with foreign oil and gas companies in the Caspian Sea Consortium

KCS recognizes the difficulties and shortcomings of implementing an environmental protection and offshore pollution management plan for one-half of a common body of water when the present and future ecosystem rehabilitation can only be met with success if the entire Aral Sea area can be holistically addressed as one unit. The advantages of intergovernmental involvement are many from a production and exploration aspect, and future environmental studies and work programs are going to be more meaningful and less duplicative if conducted on an intergovernmental basis.

APPLICABLE LAWS AND REGULATIONS

The Government of Kazakstan has issued several laws pertaining to petroleum production since the advent of the Caspian Sea Consortium agreement. For example, a law on licensing has been passed and several sets of regulations have been promulgated in 1996, as required by the Presidential Edict Concerning Petroleum. Foreign investors are advised that the Government of Kazakstan is in the process of revising 160 or more statutes and edicts that were inherited from the former Soviet Union. Any consortium agreement should have a solid "point in time" definition and be insulated from transitional short-term changes in laws or regulations that may result from the Country's ongoing efforts to move to a more market-oriented economy.

SELECTION OF E&P BLOCKS

The current plan is that the configuration and size of Exploration and Production (E&P) Blocks will be determined upon the completion of the Exploration Research Study. KCS has developed a budget for Phase I of the Exploration Research Study. This budget has been submitted in draft form for internal review and sets forth costs of seismic studies and also for drilling a limited number of stratigraphic tests to deeper horizons (2,500-4,000 meters). The KCS cost projections for the Phase I work are shown in Table 1. Even though a budget has been prepared by KCS for these activities, this development has occurred before any Consortium Agreement has been signed. As a result, the Management Committee established under the Aral Sea Consortium Agreement would have to approve both the content and financing of the Work Program and of the budget projections for future years. At the time of preparation of this prospectus, the Ministry of Oil and Gas Industry had not yet approved the plan and budget submitted by KCS.

The Exploration Research Study is considered complete when the earliest of the three following situations occurs:

- (1) The date when all seismic survey lines and stratigraphic tests listed in the approved Work Program have been completed and processed to an agreed-to standard and appropriate structure maps have been produced which allow for data interpretation or
- (2) The date when aggregate Consortium costs for the Exploration Research Study reach a pre-agreed to maximum amount, or
- (3) The date when all Consortium costs reach a pre-agreed to maximum amount

Adjustments to the Annual Work Plan or to the proposed expenditure level for Phase I completion costs that may be proposed by the Operator or the investor Participants are approved or denied by the Management Committee. For example, some concern has been expressed in the Phase I preliminary report prepared by KCS that the ability to transport heavy vehicular equipment over the salt saturated ground between the 1982 coastline and the current coastline may be limited to the winter months when the ground is frozen. The costs and timing of Exploration Research Program activities reflect this contingency in Table I. If the situation turns out to be better or worse than originally perceived, the Management Committee has the option to revise the budget accordingly.

Process

The Operator (KCS) in consultation with the Investor Participants will develop a map of E&P blocks within the Exploration area. This map will show the most prospective (promising) areas based on Phase I activities. If the Foreign Participants are dissatisfied with the blockage selection, they have the right to request the preparation of a revised map to replace the first one, provided no Participant has selected an E&P block on the basis of the original map. The blocks will be uniform in size for a particular area. However, the Operator may consider enlarging the size of blocks located in areas that are considered to be less productive. Furthermore, the Investor Participants may request the inclusion of additional blocks. Blocks located in areas believed to have the best hydrocarbon recovery potential will be arranged contiguously. The Participants may request the Operator to develop the map of E&P blocks any time after the Exploration Research Study has been completed and the Operator shall promptly commence development of the map. If the Participants do not request a map, the Operator has 90 days after completion of the Exploration Research Study to complete the map and to forward it to the other Consortium Members.

A protocol needs to be established in the Agreement on how E&P blocks are to be selected. If structured as in the past, each Investor Participant will have an opportunity to select either one or two E&P blocks with a timely written notification to the MOGI or KCS delineating his selection. KCS is empowered to resolve conflicts in those cases where two or more Participants select the same

block. In those few instances where KCS is unable to resolve the conflict, the Ministry of Oil and Gas Industry shall have the right to run a closed tender with the block going to the highest bidder. The loser has the right to select another E&P block. After all Participants have selected blocks, KCS has the opportunity to select two blocks of its own.

The Agreement encourages Investor Participants to negotiate among themselves for the purpose of reducing the number of times the tender process has to be invoked. The reality, of course, is that some blocks, on the basis of data collected, appear to have better prospects than others. Each Participant contributes equally to the Consortium in proportion to its interest. Hence, the principle of equivalent returns on their investment, taking into consideration their relative risks, should be reflected in the Production Sharing Agreements which Investor Participants are permitted to arrange among themselves.

PRODUCTION SHARING AGREEMENTS

The development of Production Sharing Agreements is a negotiation process involving the Ministry of Oil and Gas Industry, KCS, and the Investor Participants. The production sharing provisions of the Caspian Sea Consortium Agreement were negotiated before the enactment of the 1995 Presidential Edict Concerning Petroleum and various sets of regulations and decrees that have subsequently been approved in 1996. KCS has indicated that the intended process for negotiating production sharing agreements with potential Participants for the Aral Sea Consortium will be similar to the one that was used with the Caspian Sea Consortium. The provisions in Article 26 of the Law on Petroleum merely states that terms and conditions of such an agreement must be in accordance with applicable law and license requirements, considering the terms and conditions of the model contract established by the Government of the Republic of Kazakhstan. A draft contract for production sharing was developed by the Ministry of Oil and Gas Industry in mid-1995. This Prospectus includes an outline of a typical Production Sharing Agreement, providing a short description of the underlying principles and listing the principal internationally accepted components, Appendix B.

Negotiations regarding the sharing of production generally occur as soon as practicable after the effective date of the Consortium Agreement. The negotiations will also include an agreement on tax schedules related to production and the Investor Participants' respective shares. The production sharing agreement so negotiated will be executed as soon as practicable after the selection of E&P blocks by the Participants. In the event that the Republic of Uzbekistan becomes a member of the Aral Sea Consortium, the negotiation of terms will be intergovernmental. However, the Investor Participants, as a matter of common sense, will be given the opportunity to renegotiate their production sharing agreements if the terms arrived at by the two Republics are substantially different.

for Uzbekistan and Kazakstan. Since the financial contributions by the Foreign Participants are considerable and are done at a time when the detailed Exploration Research Program has not commenced, the financial risk to some Participants may potentially be greater than for others because the recoverable reserves under some selected E&P blocks will have a better prospectivity. As was discussed in a previous section of this Prospectus, Investor Participants may resort to combining E&P blocks prior to signing the Aral Sea Consortium Agreement as a way to avoid problems among themselves.

Negotiations on production sharing agreements are generally viewed on the good faith principle that all parties want to come to an equally beneficial arrangement. One of the most critical points of negotiation, of course, has to do with the initial rate of return realized by the Participants to recover the costs of their initial investment and subsequent development program. Most companies with sufficient financial resources to participate in exploration and production ventures of a consortium magnitude have had considerable experience in negotiating Production Sharing Contracts more than what will be described in this prospectus. The purpose here is to summarize the process, not the detail of the resulting agreement. The ultimate interest of the Republic of Kazakstan is to develop its oil and gas resources efficiently and effectively. The Government wishes to attract those companies that have the technological and financial resources to do so. The Kazakstan share of production will be contingent upon the success of the Investor Participants, as well as that of the KCS. Therefore, mutually attractive production sharing contracts should be attainable.

Foreign Investors should also be aware of the process favored by the Government of Kazakstan should the former fail to come to an agreement on production sharing. If the parties fail to come to closure on the provisions of the production sharing contract and on the short- and long-term objectives of the Government, a mediator of international reputation and stature will be appointed by mutual agreement of all parties. Failure of the mediator to satisfactorily resolve the issues within a specified time, usually two years, may cause the MOGI to hold all blocks previously selected for two more years, after which time the E&P blocks can be offered to a third party. Costs of mediation would be shared equally by KCS (50%) and the Investor Participants (50%). The original Participant(s) have the opportunity to bid on the projects under the same terms as offered the third party, subject to an adjustment to take into account the Preliminary Fee paid under the Preliminary Consortium Agreement and the Consortium Fee and Consortium costs paid by the Foreign Participants. In the event that the Foreign Participants elect not to exercise their option, the third party may acquire the rights to such E&P Blocks. However, the third party shall be required by KCS or the MOGI, as a condition to the effectiveness of its acquisition of such rights, to repay the relevant Investor Participants the pro rata share of the Preliminary fee, Consortium fee and Consortium costs attributable to such E&P blocks. The above described procedure, while fair to Participants, is somewhat onerous and can be avoided if the Foreign Participants are able to agree among themselves on the production sharing terms to be negotiated.

ENVIRONMENTAL AND SOCIAL WORK PROGRAMS

In an earlier section of this preface, the current degraded status of the Aral Sea and adjacent territory was described. The degradation of the environment and the water quality of the Aral Sea has brought on a virtual collapse of the socio-economic infrastructure of the area. Investor Participants in an Aral Sea Consortium will be expected to assist the Government of Kazakstan in preventing further environmental degradation, provided the Government retains or acquires control over the causes of the Aral Sea problems. The Republics of Kazakstan, Uzbekistan, Turkmenistan and others have formed a Council to deal with and resolve a number of inter-country environmental problems including those associated with the Aral Sea and adjacent territory. Restoring the social infrastructure of the Aral Sea area is an objective of the Kazakstan Government.

In developing Environmental Work Programs, the Consortium Participants may find it advantageous to separate environmental and water quality issues into short and long term scenarios. As part of the environmental and ecological studies done by KCS and the Kazakstan Temporary Working Group "Kazakstan-Caspj", scientists have provided a qualitative analysis of the Aral Sea problems as a prelude to Consortium activities. A quantitative definition of these problems in terms of potential time for mitigation or abatement will require Consortium expertise, based on experiences gained in other parts of the world. Negotiations regarding the scope of the Environmental Work Program and the Management Plan with KCS will require prospective Foreign Investors to fully define the existing environmental and human health situation in terms of potential costs for each task.

Investors should be prepared to develop their own social infrastructure for company personnel and their families who are involved in the Aral Sea Consortium Exploration Research Study and beyond into future exploration, development and production activities. This will entail construction of schools, hospital facilities and other appropriate functional activity centers. The Work program agreed to under the Consortium Agreement will include a commitment on the part of Consortium Participants to provide financial assistance to the Government with which to install similar facilities for the Kazakstan population. The objective of the Government is to use the development of oil and gas and the financial benefits derived therefrom to reestablish the pre-1960 population and its quality of life and public health. In this respect, the environmental work program and the socio-economic infrastructure restoration program is synergetic. The long term viability of the Aral Sea area is strictly mineral resource dependent at this time, because the sustainability of human habitation in the Aral Sea area is contingent upon a viable water supply, the improvement of the water quality of Aral Sea tributaries, and an environment where human disease is repressed and pre-1960 flora and fauna balances are achieved. Foreign investors who commit to participation in the Consortium must fully understand the Aral Sea situation before negotiations begin, in order to gain long-term benefit from their investment.

DRAFT CONSORTIUM AGREEMENT

The next section of this Prospectus contains a draft Consortium Agreement which is generally patterned after the one developed between KCS and Investor Participants for the Caspian Sea area. A review of this document will show that many elements are necessary to formulate such an agreement. One of the areas where the draft Consortium Agreement differs from the Caspian Sea Agreement is the role KCS is committed to assume in steering foreign investors through the bureaucratic intricacies and complexities that must be dealt with when exploring for and producing oil and gas in Kazakstan. Several sets of regulations have been adopted since the issuance of the Law on Petroleum. Some of these, particularly the environmental and safety requirements for offshore oil and gas activities, are quite detailed and could be a deterrent to Consortium development if KCS did not play an active role in facilitating the bureaucratic requirements. The regulatory hurdles that must be overcome during the implementation phase are not reflected in the draft Agreement because such matters do not affect the general relationship of parties to the Agreement.

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SCOPE OF SEISMIC SURVEY (METHOD OF COMMON DEPTH POINT)
AND DRILLING IN ARAL REGION (ON-SHORE)

Table 1

REGIONS	Seismic studies								Drilling						Total Cost of Seismic & Drilling, 10 ⁶ Tenge				
	Regional		Prospecting		Detailed		Tentative Time Schedule	Cost		Other Wells		Exploratory Wells		Tentative Time Schedule		Cost			
	Linear km	Cost 10 ⁶ Tenge	Linear km	Cost 10 ⁶ Tenge	Linear km	Cost 10 ⁶ Tenge		1997	Total	Quantity	Depth m	Cost 10 ⁶ Tenge	Quantity			Depth m	Cost 10 ⁶ Tenge	1997	Total
1. Mılandinski	-	-	1200.0	280.0	500	117.0	1997-2000	280.0	397.0	1	4500	302.0	3	9000	362.0	1997-2000	302.0	664.0	1081.0
2. Kokaralski	-	-	-	-	400	94.0	1997	94.0	94.0	-	-	-	1	2500	100.0	1998-2000	-	100.0	194.0
Vozrozhdeniye 3. Island	-	-	1100.0	258.0	750	176.0	1998-2000	-	434.0	1	4500	302.0	-	-	-	1998-2000	-	302.0	736.0
Barsa-Kelmas 4. Peninsula	-	-	300.0	70.0	150	35.0	1998-2000	-	105.0	1	4000	268.0	-	-	-	1998-2000	-	268.0	373.0
Eastern Ara Adjacent territory 5. (incl. oilfield zone)	350	82.0	3500.0	820.0	1000	235.0	1998-2000	-	1137.0	1	2500	100.0	5	12500	503.0	-	-	603.0	1740.0
6. Aktaukski	-	-	-	-	-	-	-	-	-	-	-	-	1	3500	235.0	1997	235.0	235.0	235.0
Total	350	82.0	6100.0	1428.0	2800	657.0		374.0	2167.0	4	1550	972.0	10	27500	1200.0		537.0	2172.0	4339.0

Note: Beginning of 1997 Exchange Rate is Approximately 75 Tenge per U.S. Dollar 1 0.

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APPENDIX C

DRAFT INTERGOVERNMENTAL AGREEMENT

AGREEMENT

**Between the Government of the Republic of Kazakstan
and the Government of the Republic of Uzbekistan
about Carrying Out of Coordinated Policy in the Sphere
of Geologic Research Studies, Exploration and Production
of Hydrocarbons in the Aral Sea Region**

The states - participants of the present Agreement in the person of Governments,
hereinafter - the Parties

- guided by objectives and principles of previous agreements signed with participation of the Parties and by resolutions of the Head of the Republic of Kazakstan and the Head of the Republic of Uzbekistan,
- building upon the tradition of amicable relations, mutual acknowledgment and respect of state sovereignty, principles of equal rights and non-intervention into internal affairs, territorial integrity and imperishability of the existing borders,
- confirming the responsibilities, undertaken by the parties in their capacities as States Party to the International Fund for the Preservation of the Aral Sea,
- seeking to encourage stable development of the Aral Sea Region in a manner that makes appropriate use of its natural resources,
- acknowledging the importance of carrying out coordinated activities aimed to attract foreign investments for the development of subsoil resources of the Aral Sea region,

agreed upon the following

Article 1 Being used in this Agreement the terms shall mean

“Project” - a set of operations conducted and services rendered in the Aral Sea Region related to geological research studies, exploration and production of hydrocarbons and attendant works,

“Aral Sea Region” - water area of the Aral Sea with 1960 water line and the Aral adjacent territory,

Article 2 Cooperation in the Aral Sea Region shall be based on the following principles

- use of the Aral Sea Region for peaceful purposes,
- imperishability and integrity of the state borders of the Parties in the Aral Sea region,
- equal rights, mutual profit, observation of norms of international treaties and legislation in regard to protection of the environment and biological and mineral resources,
- integrity and indivisibility of the Aral Sea Region during geological research studies, exploration and production of hydrocarbons,
- efficient development of the subsoil resources,
- establishment of common economic, investment and tax policy for the operating entities

Article 3 In the purposes of support and successful execution of works, provided by this Agreement, The Parties agreed to cooperate in the following spheres

- geological research studies, exploration and production of hydrocarbons,
- exchange of geological, geophysical and other information on the subsurface, and other data of a scientific-technical nature,
- conduct of joint scientific-technical research and development of cooperation projects,
- prohibition of any activity, capable of endangering the environment and/or causing damage to it,
- creation of joint ventures, capable to conduct operations and render services under this project,
- most favorable treatment of each other, investors and conductors of operations in relation to taxes and other payments to the budget, customs duties and other fees, including local taxes, fees and duties,

- conduct of uniform policy with regard to project execution approaches investors, Aral Sea shelf division into licensed blocks use of infrastructure belonging to the Parties and also production and transportation of hydrocarbons,
- other forms of cooperation acknowledged by the Parties as being necessary for the execution of the project

Article 4 Taking into consideration the importance of the project, ecological situation in the region, terms of conducting research studies and in the purposes of attracting foreign investments for the implementation of the project, the Parties agreed to provide exemption for all kinds of activities and services, and also for imported and exported goods from all types of taxes, customs duties, fees, including local taxes duties and fees for economic entities during the period of conduct of research studies

Article 5 The procedures and conditions for joint activities for execution of the project shall be determined by the present Agreement, international acts and legislation of the parties, which are in compliance Provisions of the present Article shall not cover other works and services, which are not related to the objectives and tasks of the present Agreement

Article 6 The Parties shall approve the Intergovernmental Commission for Coordination of activity of the state and local administrations, economic entities, working at the project and for consideration and resolution of issues, related to the execution of the present Agreement The Commission shall consist of representatives of different ministries and departments and shall be headed by the Chairman, appointed by the Governments of the Parties by turns The term of work for the Chairman of the Commission shall be 1 (one) year, with following replacement by the representative of the other Party

Article 7 The Parties agreed to designate the JSS Kazakhstancaspishelf to run the project in the capacity of an Operator

Article 8 Disputes related to the interpretation and application of the present Agreement shall be resolved by the Commission created in accordance with Article 6 of the present Agreement

Article 9 Nothing in this Agreement may be interpreted as impeding either of the Parties in fulfilling its obligations in accordance with any international agreement, in which the Party is a party or may be a party, under the condition that such obligations do not contradict the provisions and purposes of this Agreement A Party which intends to conclude agreements with other states on the issues of development and exploration of oil and gas deposits in the Aral Sea region, shall timely notify and inform the other party of the conditions of its participation in the proposed agreements

Article 10 Each Party has the right to withdraw from the present Agreement notifying the other Party about its withdrawal. Validity of the Agreement for the initiating Party stops 6 (six) months after the date of receipt of notification by the other Party. Herewith undertakings of the Parties under the present Agreement in relation to the other Party and foreign investors shall be wholly implemented.

Article 11. Any changes or additions to this Agreement may be made if submitted in writing and agreed by the Parties.

Article 12 This agreement shall enter into force on the date of signing and shall be effective until one of the Parties notifies the other Party about its desire to terminate it. Said notification shall be made six months prior to the expiration of the validity term of this Agreement.

After termination of the present Agreement its provisions shall apply to all the obligations undertaken during its validity period till complete execution of the obligations.

Concluded in the city of _____ “ “ _____ 1997
in duplicate in Russian.

Official translations into Kazakh and Uzbek are attached to each copy of the Agreement.

**For the Government
of Kazakhstan**

**For the Government
of Uzbekistan**