

THE CODE ON SUBSOIL AND SUBSOIL USE

SPECIAL PART. SECTION 7.
STAGES (PERIODS) / Ts&Cs (TERMS & CONDITIONS)
FOR HYDROCARBONS





Oil fields in Kazakhstan

EXPLORATION PERIOD IN CONTRACTS

- Maximum period for onshore fields - up to **6** consecutive years.
- Maximum period for offshore fields - up to **9** consecutive years.
- Such periods are set in the auction notice or during direct negotiations with KMG.
- Period starts from the date when the *E&P contract is registered*.
- Subsoil user may terminate the contract early by returning the subsoil plot.

EXPLORATION TURNS INTO «COMPLEX PROJECTS»

- When drilling is **deeper than 5,000 meters**
- When hydrogen sulphide in the oil fluid is **3,5 per cent** or more
- Unusually high pressure with **anomaly ratio of 1,5** and more

APPLYING FOR PROLONGATION TO EXPLORE

- If the initial exploration period was less than the maximum period
- If any of the Complex Projects conditions occur during exploration
- Single prolongation may be allowed for [Assessing Oil Reservoir](#):
3 years for onshore fields and
6 years for offshore fields or Complex Projects

Total period of exploration contract resulting from such prolongation may not exceed:
9 years for onshore fields and
15 years for offshore fields.

- Single **3 years** prolongation may be allowed for [Production Testing](#).
- Total period of exploration contract resulting from such prolongation may not exceed:
12 years for onshore fields and
18 years for offshore fields.

PREPARATION PERIOD

Preparation stage and allocation of the plot may be allowed for **up to 3 years** in contracts after exploration stage but before the production.

Condition precedent for Preparation Stage is favorable opinion from state expertise on calculation of geological reserves.

Preparation period can be allowed for:

1. preparing, approval and conduct of the necessary expertise for the field development;
2. facilities construction; and
3. production of hydrocarbons in trial volumes (such oil can not be imported, but it can be sold within Kazakhstan)

PRODUCTION PERIOD

- Maximum timing for production in the contracts is **25 years** but for *large* or *unique* oil fields it is **45 years**.
- Newly found data that extends profitable production period does not automatically result into prolongation of the contract.
- The period commences as of the date of contract registration.
- The subsoil user may terminate contract early by returning the oil field(s).
- Application for production period must be filed by the subsoil user. Within 20 business days the Ministry must
 - (a) agree to production period;
 - (b) consent to negotiating additional condition when the deposits qualify as Large Fields; or
 - (c) refuse signing production addendum to the contract.

PROVISIONS FOR LARGE OIL/GAS FIELDS

Subsoil user should agree to *one* of the below conditions:

1. Creation of processing facilities by establishing new legal entity; or
2. Modernization or reconstruction of existing extraction facilities; or
3. Modernization or reconstruction of existing processing facilities; or
4. Supplying oil and gas to the processing plants in Kazakhstan; or
5. Implementation of a new investment project or alternatively social economical project in the relevant region.

If the Ministry consents to consider the application then the above must be negotiated within additional 24 months.

SIGNING CONTRACT ADDENDUM

If the Ministry makes a positive decision to grant the production time then it notifies the oil company within 20 business days.

The oil company then has another 20 business days to send signed addendum to the contract on exploration and production which envisages the plot, production period as well as terms and conditions of implementing the new obligations for large fields.

The Ministry then signs the addendum to the contract that was sent by the oil company within 20 business days

APPLYING FOR PROLONGATION TO EXTRACT

- Additional **25 years** may be granted for production/ extraction.
- Application must be filed not later than six months before the end of existing production contract.
- If the field qualifies as Large Field then *one of* mandatory provisions for Large Fields must be included into the contract
- Application must be reviewed by the Ministry within 2 months or in case of large fields - 24 months.

REFUSING PROLONGATION TO EXTRACT

- i. Application is late;
- ii. Application does not comply with formal requirements of the Code (incomplete information, no program of works, not all documents, annexes, parameters, etc);
- iii. Initial development project of the oil company was less than the newly requested.
- iv. The oil company did not eliminate violations that Ministry notified on previously.
- v. No intention of the Ministry to prolong the contract including:
 - a. not reaching agreement on implementing industrial innovative project that has high added value (deep refining and processing) or
 - b. other additional investment obligations including mandatory conditions for Large Fields.

REQUIREMENTS TO CONTRACT ADDENDUM ON PRODUCTION

- If the drafted Addendum complies with the form of the model contract then you addendum must be signed within 1 month from the date when Ministry made a positive decision. New Program of Works that oil company promised when applying for prolongation must be part of such new addendum.
- If the draft addendum does not comply with the model contract then the Ministry and the oil company have 2 months to correct the draft and sign new Addendum.
- **If the original contract was for 20 years or longer then during prolongation of extraction the terms of the contract must be corrected to comply with current legislation of Kazakhstan that exists at the date of such prolongation. Clause 120.11**

What consequences this may have for contracts signed in 1990s?

TERMS AND CONDITIONS OF EXPLORATION AND PRODUCTION

HYDROCARBONS TERMS I

Reservoir of hydrocarbons means part of subsoil that consists of isolated natural accumulation of hydrocarbons in the trap formed within sealed materials.

Field of hydrocarbons means reservoir or complex of reservoirs related to one or numerous traps controlled by single structural element and and where calculation of reserves was confirmed by positive conclusion of state expertise.

Discovery means discovery of new reservoirs() with a document confirming receipt of hydrocarbons info from the well.

Exploration means set of works related to search and evaluation of hydrocarbons reserve us including experimental exploitation.

HYDROCARBONS TERMS 2

Appraisal survey means works conducted with the purpose of discovering hydrocarbons reservoirs, determination of forecast reserves, their preliminary geological and economic evaluation, and deciding on further geological exploration works.

Evaluation works means works made for the purposes of determining boundaries and evaluating discovered reservoirs, calculating reserves using industrial categories and evaluating the need to proceed with industrial development.

Experimental exploitation means works made to confirm existing and getting new data on geological parameters of the reservoirs and layers, geological, geophysical and hydrodynamical study of the wells for providing project of the field development. Experimental exploitation assumes temporary utilization of the wells and hydrocarbons extractions for studying purposes and may not exceed 3 years.

Production of hydrocarbons means set of works related to extraction of hydrocarbons from the subsoil up to the surface.

Best practices means generally accepted international practice used in subsoil use activities which is rational, safe, necessary and economical.

PREEMPTION RIGHT ON BUYING HYDROCARBONS

Kazakhstan has preemption right to purchase hydrocarbons prior to any third parties using the prices of the oil company in its other transactions as of the date of the purchase.

In case of absence of such sample transactions the corresponding world prices shall be used.

Maximum thresholds for purchasing hydrocarbons by the Government and type of payment shall be envisaged by the subsoil use contract.

All data on exploitation of wells shall be recorded and such records must be kept with the oil company until the end of production.

CONDITIONS FOR EXPLORATION

- Appraisal survey and evaluation works must be in full compliance with the Project of Exploration Works that was previously submitted.
- Exploration works must be done methods envisaged by the Project of Exploration Works or Project of Experimental Exploitation in accordance with the best practices of subsoil use.
- During exploration oil company may drill only those wells that are listed by the Project of Exploration Works or Project of Experimental Exploitation.
- After each new discovery of reservoir the oil company must send application on the Discovery within one month. The Geology Committee has the right to confirm or deny confirmation of the discovery within 20 business days.

CONDITIONS FOR PRODUCTION

- All production activities must be in compliance with Field Development Project, project of experimental exploitation or analysis of the development.
- Production must prevent losses of hydrocarbons that are not envisaged by the main project document in accordance with the best practices of subsoil use.
- Production wells must be listed in the field development projects or analysis for the development.
- Finding new reservoirs in the field does not result in to their inclusion into the production contract nor does it mean prolongation of the contract.

ANNUAL FINANCING OF EDUCATION, SCIENCE, SOCIAL AND ECONOMIC DEVELOPMENT

- 1% of total production costs must be deployed for education of Kazakhstani employees;
- 1% of total production costs must be deployed for funding scientific research, technological or experimental construction works
- 1% of annual investments under the production contract must be deployed on financing the social and economic development of the region and expansion of its infrastructure. Such amounts can be either spend on development and maintenance of social infrastructure objects as well as payments into the state budget for these purposes.

SUPPORTING OIL PRODUCTS MARKET

- In order to fulfill needs of internal oil product market oil companies must supply oil for processing on the territory of Kazakhstan in accordance with special schedule approved by the Ministry.
- Substances that qualify as *Wide fraction of light hydrocarbons* can only be sold and processed on the territory of Kazakhstan.

REPORTS DURING EXPLORATION AND PRODUCTION

1. Geological report
2. Report on performance of license and contractual conditions (LKU)
3. Report on acquired goods, works and services and local content therein
4. Report on local content in HR
5. Report on costs for funding education of Kazakhstani employees
6. Report on costs of scientific research, scientific technical and experimental constructors works
7. Report disclosing entities that have direct or indirect control of the subsoil user

LIABILITY FOR VIOLATING CONDITIONS OF THE CONTRACT

Violation of obligations envisaged in the subsoil use contract may result in:

- Fine or
- Early termination of subsoil use contract according to Article 106