

**REGULATION FOR IMPLEMENTING
THE PETROLEUM LAW
OF THE MONGOLIAN PEOPLES REPUBLIC**

**SECTION I
GENERAL PROVISIONS**

Article 1. Purposes

The purposes of the Regulation for Implementing the Petroleum Law of the Mongolian People's Republic are to legally confirm general regulations for the Petroleum Operations in accordance with provisions and ideas of the Petroleum Law of the MPR.

Article 2. Definitions

1. "Petroleum" means liquid petroleum and different compounds of hydrocarbons in a gaseous or solid state occurring in the entrails of the earth and which may be produced in association with petroleum or separately.
2. "Petroleum Operations" means the operations related to the exploration, protection, production, processing, transportation, storage and marketing of Petroleum.
3. "Petroleum Administration" means an organization (hereafter referred to as the Administration) authorized by the MPR Government to enter into Agreement related to Petroleum Operations and exercise supervision over implementation thereof.
4. "Petroleum Contract" means (hereafter referred to as Contract) a contract executed by the Petroleum Administration and Contractor on conducting Petroleum Operations.
5. "Contractor" means any Mongolian or foreign investor that be any company as well as any individual who enters into a contract with the Petroleum Administration to conduct Petroleum Operations in the territory of MPR, and Contractor may grant any part of above operations to MPR's or foreign Subcontractors.
6. "Subcontractor" means any Mongolian or foreign company or individual hired by a Contractor to carry out Petroleum Operations.
7. "Contract Area" means the area designated, defined and demarcated by latitudes and longitudes, and, if applicable, international boundaries, which can consist of one (1) or more blocks and as reduced by relinquishments.
8. "Block" means a 10 minute latitude and 10 minute longitude gratitude.
9. "Application for Contract Area" means document submitted by Contractor to Petroleum Administration to get Contract Area for the purpose of conducting

Petroleum Operations in the territory of the MPR.

10. "Development Area" means an area within the Contract Area containing a Commercial Discovery.
11. "Commercial Discovery" means a reservoir or a group of two (2) or more reservoirs containing Petroleum, which Contractor determines to be worthy of being developed commercially, taking into consideration relevant technical and economic factors, including Contractor's estimates of recoverable reserves, prices of Petroleum and costs of development.
12. "Relinquishment of Areas" means relinquishment by Contractor voluntarily or in accordance with Agreement some parts of Contract Area at the certain stage of Exploration Work.
13. "Development Operations " means all operations and activities in respect of one or more Commercial Discoveries.
14. "Field" means an area in which the existence of single or multiple Petroleum reservoirs has been determined by a well or wells, the reservoirs all grouped on, or related to, the same individual geological structure or stratigraphic feature from which Petroleum may be produced.
15. "Discovery Well" means a well which is determined by Contractor to be worthy of further evaluation for the purpose of determining whether such reservoir, alone or with other reservoirs, could constitute a Commercial Discovery.
16. "Appraisal Area" means one or more geologic structure(s) or feature(s) the Contractor determines to be worthy of being appraised by an Appraisal Program.
17. "Appraisal Program" means a plan of work for the purpose of determining whether the Discovery made by such Discovery Well constitutes a Commercial Discovery.
18. "Development Plan" means a plan of Development Operations related to Commercial Discovery.
19. "Crude Oil" means hydrocarbons which are in a liquid state at atmospheric pressure either in a natural subsurface reservoir or after passing through a separator or other surface processing facility. Crude Oil also includes asphalt, condensate and natural gas liquids which are liquefied in separators, plants or other surface processing facilities.
20. "Natural Gas" means hydrocarbons that are in a gaseous phase at atmospheric conditions of temperature and pressure including light and heavy gas, a gas related to Petroleum development, residue gas remaining after the extraction or separation of liquid hydrocarbons from heavy gas, and non-hydrocarbon gas produced in association with liquid or gaseous hydrocarbons.
21. "Contract Crude Oil", "Contract Gas" mean, respectively, Crude Oil and Gas produced and saved from the Contract Area.

22. "Cost Oil" means a quantity of Crude Oil for recovering Contractor's costs and expenses.
23. "Profit Oil" or "Production Sharing Oil" mean a quantity of Contract Crude Oil allocated between Petroleum Administration and Contractor.
24. "Royalty" means payment in accordance with the MPR Petroleum Law and the Law on the entrails of the earth and the Petroleum Law for utilization of the natural non-renewable resources.
25. "Sliding scale" means accounting procedure for determining an amount and sharing proportion of Profit Oil to be allocated between Petroleum Administration and Contractor, depending on the average quantity of daily production.
26. "Barrel" means a quantity consisting of 158.987 liters at standard atmospheric pressure of 1.01325 bar and temperature of sixty degrees Fahrenheit (60 F).
27. "Effective Date" means the date on which a Contract is adopted by the MPR's Government.
28. "Rule" means methods and procedures to be followed in process of carrying certain types of Petroleum Operations.
29. "Exclusive right for conducting the Petroleum Operations" means the rights of the Contractor to conduct the Petroleum Operations within Contract Area during the period in which Contract is in force.

Article 3. State management of Petroleum Operations

1. The Government of MPR shall consider a draft of a contract submitted by Administration and may permit Contractor to conduct the Petroleum Operations in the territory of the MPR. Mining permit is to be granted according to appropriate procedures.
2. The Government of the MPR and Administration shall have the right of access to and control of the Contract Area and Petroleum Operation. The municipal organization shall only have the right of access.
3. The Government will adopt the amount and forms of payment of royalty and levy tax according to the MPR appropriate tax regulation.
4. In case of emergencies involving national security, environmental damage, or preservation of historical and cultural values, the Government may decide to prohibit and restrict Petroleum Operations and will inform Contractor of the decision in time.

Article 4. Rights of Petroleum Administration

1. The Administration shall audit Contractor's document related to Petroleum Operations at least once per year.

2. The Administration shall own all original information related to geology, geophysics, petrochemistry and geochemistry and all other information on the Petroleum Operations.
3. The Administration is entitled to receive copies of all technical documents related to Petroleum Operations conducted by Contractor, including manuals, related to the technical charts and designs of equipment, facilities and buildings.
4. The Administration is entitled to all other rights included in other Articles of this Regulation.

Article 5. Obligations of the Petroleum Administration

1. The Administration shall assist Contractor in obtaining all required permits necessary to conduct Petroleum Operations including the MPR's visas for Contractor's employees and their families, including living facilities, office and other work area requirements, travel and communication services, medical services and in contacting with other related organizations of the MPR.
2. The Administration shall adopt Rules for the drilling of and maintenance of wells, including exploration, appraisal, production, water and other wells.
3. The Administration shall adopt Rules for the installation of production equipment and Crude Oil and Natural Gas measurement equipment.
4. The Administration shall adopt Rules for the procedure for measurement, calibration and calculation of the flow rate of Crude Oil and Natural Gas, including the measurements of other Petroleum physical properties.
5. The Administration shall adopt Rules for installation and utilization of all permanent facilities necessary for conducting Petroleum Operations.
6. The Administration shall adopt Rules for regulating the parts of Petroleum Operations conducted by Contractor related to transport, storage and marketing.
7. The Administration shall adopt Rules for procedure of receiving from Contractor original geological and geophysical data.
8. The Administration shall undertake obligations, provided in other Articles of this Regulation.

Article 6. Rights of the Contractor

1. The Contractor shall have the Exclusive Right of conducting Petroleum Operations in the Contract Area.
2. The Contractor is entitled to install and use communication facilities in accordance with appropriate regulations.

3. The original Contractor, in case of transferring the rights shall retain not less than five (5) per cent of his rights and obligations in Petroleum Operations and may transfer his rights and obligations to other parties, provided Contractor notifies the MPR's Government beforehand.
4. The Contractor is entitled to all other rights provided in other sections of this Regulation.

Article 7. Obligations of Contractor

1. The Contractor shall be responsible for all costs necessary for Petroleum Operations.
2. The Contractor shall comply with the MPR Petroleum Law, this Regulation, Rules related to Petroleum Operations, other legal acts and the provisions of Agreement.
3. The Contractor shall obtain permits for right-of-way to Contract Area for conducting Petroleum Operations.
4. The Contractor shall undertake all responsibilities related to his Petroleum Operations in the MPR, including damages and losses incurred because of violation of Petroleum Operations' procedure.
5. The Contractor will comply with practices accepted in the international oil industry standard in conducting Petroleum Operations.
6. The technology and equipment imported to the MPR are to be used for efficient development of Petroleum and developing infrastructure and petroleum processing industry in the MPR and to comply with the practices accepted in the best international oil industry standard.
7. Petroleum Operations shall be conducted in accordance with budget, adopted by the Administration.
8. The Contractor shall maintain records of Petroleum Operations and submit to Administration required data according to regulations set forth.
9. The Contractor shall give preference to hiring Mongolian citizens, educating and training them at Contractor's costs in Mongolia or abroad in order to get prepared skilled personnel for all levels of Petroleum industry.
10. The Contractor shall give preference to Mongolian services, materials and goods in conducting Petroleum Operations.
11. The Contractor shall take the following measures to safeguard the Mongolian people, animals, nature, national resources and land surface:
 - a) The Contractor shall submit a plan of restoration work and budget for restoring natural land surface areas used in Operations to be agreed to by the Administration in the Contract.
 - b) Plans and precautions to protect the safety of the Mongolian people,

Contractor's personnel, animals, wildlife and the ecology during the Petroleum Operations will be agreed by the Administration and the Contractor in the Petroleum Contract.

- c) Plans and precautions to prevent pollution to the air, surface and subsurface waters and land surface by means related to Petroleum Operations will be agreed by the Administration and the Contractor in the Petroleum Contract.
- d) In case of conducting the Petroleum Operations near the territories within which Petroleum Operations are prohibited, concrete measures shall be taken for protection of these territories.
- e) The Contractor shall take other measures provided in related MPR's legal acts.

12. The Contractor shall undertake other responsibilities provided in other sections of this Regulation.

SECTION II

APPLICATION, NEGOTIATIONS, APPROVAL

Article 8. Invitation for Application

1. The Administration may issue, by published notice in national and international news media, an announcement of the opening of the acceptance of application for Contract Areas (hereafter referred to as Application) to conduct Petroleum Operations.
2. It shall be no less than sixty (60) days between the announcement of the opening until the closing of the acceptance of the Applications.
3. Those who may wish to apply for Contract Areas are requested to submit Application an certain Basic Information, prior to the closing date of acceptance of the Applications. The Basic Information is to be submitted in Mongolian or English as described in Annex 1, Application as described in Annex II.
4. After the Application closing date, the Administration will evaluate the applications, and will notify qualified applicants within forty-five (45) days if their applications are under consideration or have been rejected then undertake negotiations with the selected Applicants, afterwards the other Applicants.

Article 9. Negotiations, information

1. Based on the negotiations with Contractor, the Administration will submit its recommendation and draft Agreement to the MPR Government for the MPR Government's approval. Upon receiving the MPR Government approval, the Administration will execute the Contract within thirty (30) days of the date of the MPR Government's approval.

2. The Administration will submit the Agreement to the MPR's Government for ratification.
3. Contractor shall submit its work program and necessary information to the Administration not less than fifteen (15) days prior to beginning of conducting the Petroleum Operations.

Article 10. Contract Area

1. Contract Area shall be determined by the Administration but shall be no more than 50,000 square kilometers.
2. The Development Area shall be determined by the mutual agreement of the Contractor and the Administration on the basis of exploration data.
3. In case, Contractor acquires more than one Contract Area, each Contract Area shall be required separate Contract.

SECTION III PETROLEUM OPERATIONS

Article 11. Term of Exploration Operations

1. The term of Exploration period might be up to five (5) years beginning from the Effective Date and could consist of three (3) phases. The Administration might require the Contractor to shorten this term to be less than five (5) years, depending on the type, amount and cost of the Work Obligation proposed by the Contractor.
2. The Administration may, upon mutual agreement with a Contractor, extend the Exploration period for two (2) times, by two (2) year extension terms, provided the Contractor submits to the Administration its application form for extending the term of Operations for Exploration at least thirty (30) days prior to the end of work of any Exploration phase.
3. The Administration shall require the Contractor to complete the work within one (1) year if the result of the Appraisal Program, which had commenced at the last phase of second extension of the Exploration period, has not yet determined at the day of termination of this phase.

Article 12. Term of Development Operations

1. The Administration shall make a decision on Petroleum Development upon receiving and consideration of the Contractor's notice on Commercial Discovery. The term of Development Operations might be up to twenty (20) years from the date of above decision.
2. The Administration may extend the Development period for two (2) times, by not more than five (5) year extension terms, each, provided that the Contractor

submits to the Administration its application form for extending the term of Development Operations with the economic evaluation at least sixty (60) days, prior to the expiration of the term of Development Operations.

Article 13. Exploration Work Program

1. The Contractor shall submit to the Administration the Work Program and budget with full details of each Exploration phase under the instruction of the Administration within sixty (60) days after the Effective Date. The Contractor shall commence to implement the Work Program within sixty (60) days after reviewing and adopting the Work program by the Administration and granting the mining right to the Contractor by the municipal Governing Body. The Contractor shall submit to the Administration the Work Program and budget for the succeeding year at least ninety (90) days prior to the beginning of the given year and shall commence to implement from the date of adoption.
2. The Contractor might make an amendment to above mentioned Work Program and budget, provided that the Contractor informs the Administration on an amendment at the appropriate time and if necessary to be agreed with on given amendments.
3. In case, if the Contractor does more work than required by the Work Program, the excess might be credited to the next phase of the Exploration period.

Article 14. Relinquishment of Areas

1. The Contractor shall relinquish twenty-five to fifty (25-50) per cent of the original Contract Area within thirty (30) days of the last day of the Initial Exploration phase, and an additional twenty to thirty (20-30) per cent within thirty (30) days of the last day of the Second Exploration phase.
2. The Contractor shall relinquish all remaining areas of the original Contract Area, excluding any area designated as a Development Area or Development Area application under consideration, by the last day of the Third Exploration Phase.
3. The Contractor may, during Exploration Operations, voluntarily relinquish all or any part of the Contract Area and all such partial voluntary relinquishments shall not be less than ten (10) per cent of the existing Contract Area. The voluntary relinquishment shall be credited to the required relinquishments specified in Articles 14.1 and 14.2.
4. The required and voluntarily relinquished areas shall be a contiguous block area.
5. Relinquishment of areas shall not reduce, by any means, Contractor's work obligations, specified in the Work Program.
6. If Contractor relinquishes areas for which work obligations specified in Article 13 have not been completed, the unexpended budgeted funds for the unperformed work shall be transferred to the Administration.
7. Contractor shall, immediately, transfer to the Administration all original records,

notices, reports and other materials, upon relinquishing areas.

8. Contractor is to complete work plan on restoring the areas into its original form, before relinquishing them.

Article 15. Development Operations

1. The Contractor shall notify the Administration within fifteen (15) days after each Discovery Well or Commercial Discovery and shall register them. The Contractor shall submit to the Administration within ninety (90) days after the date of registration of a Discovery Well, the Appraisal Program, Budget, related maps, and other description of the Area, and within one hundred eighty (180) days after the date of registration of a Commercial Discovery, the Development Program, budget, related maps and other description.
2. For consideration of the Development Program, the Administration may require the Contractor to submit additional information within thirty (30) days after receiving the Development Program.
3. If the Administration considers that there is no necessity to amend or change the Development Program, it shall adopt the Program within ninety (90) days after receiving this program, shall grant petroleum development permits, and the MPR Government shall grant official mining permits. If amendments are necessary, the Authorized Body has the right to extend consideration of the program up to one hundred eighty (180) days.
4. Contractor shall commence Development Operations within ninety (90) days after the date of the Administration's decision to permit petroleum development.
5. Contractor shall report to the Administration the maximum recoverable reserves for each Commercial Discovery within ninety (90) days after commencing the first commercial production.
6. Contractor shall submit to the Administration for adoption a detailed Development Program for each succeeding year ninety (90) days prior to the end of a Calendar Year.
7. The Contractor may, based on additional information or evaluation, revise or rescind the Appraisal Program and Development Program. Contractor shall notify the Administration in writing of such revision or rescission six (6) months prior to the end of a Calendar Year. The above amendments shall not include the areas relinquished under Article 14.
8. If the Contractor does work in excess of its obligations under the Work Program and budget, the excess work is to be credited to the Development Program and budget of the succeeding year.
9. If the extent of a field, which is a Commercial Discovery, is demonstrated to be not fully within the Development Area, the Administration and Contractor might agree to adjust the size of the Development Area, provided that this field is entirely within an original Contract Area.

10. The Administration may permit two or more Contractors to produce Petroleum in the following cases:
 - a) the field is on two different contract areas with separate Contracts,
 - b) commercial development is possible as a result of unitizing several fields in one Contract Area,
 - c) commercial development is possible as a result of unitizing two or more fields existing in two different Contract Areas which are contiguous and have different agreements.
11. If a Contractor discovers Natural Gas, whether or not in association with Crude Oil, the Administration and Contractor, unless previously set forth in the Petroleum Contract, shall immediately consult for the purpose of developing commercial use of such Natural Gas. If no commercial use for Natural Gas has been developed, Contractor shall have the right to request a formation of a committee to enable Contractor to develop a commercial market, as specified in the Petroleum Contract. A committee shall be consisted of representatives of both the Administration and Contractor. The committee shall jointly review assessments of the discovery and of it considers that would be Commercial Production. shall adopt developing plan and control its implementation.
12. If Contractor discovers any mineral not related to Petroleum during the Petroleum Operations, then Contractor shall notify the Administration within 15 days after such discovery.

SECTION IV
VALUATION OF PETROLEUM, ROYALTY, RENT,
TAXATION, BONUSES, ADMINISTRATION FEE,
ACCOUNTING PROCEDURE

Article 16. Petroleum valuation

1. The price of Crude Oil shall be valued at the weighted average realized price received in arms length transactions for similar quality Crude Oil in the freely convertible currency in the World Market during the preceding Calendar Quarter and a specified market location, grade, quality and other Petroleum physical properties. The method and procedure of the Petroleum valuation shall be agreed to by the Administration and the Contractor in the Contract.
2. The value of Natural Gas shall be determined under the related provisions of this Regulation, unless previously set forth in the Petroleum Contract.

Article 17. Royalty

1. Contractor shall pay Royalty according to the MPR legal regulations. Contractor may include Royalty into production sharing accounts.
2. The MPR Government shall specify the amount of Royalty by a Sliding Scale.
3. Royalty might be paid in kind, or in freely convertible currencies.

Article 18. Land Rental

The Contractor shall pay a Land Surface Rent for conducting Petroleum Operations within a Contract Area, as prescribed in Annex 3.

Article 19. Taxes

1. The Contractor shall pay income and other taxes according to the MPR legal regulations.
2. Tax on Contractor's taxable income charged shall not exceed 40% of Contractor's profit.
3. The other taxes to be paid by Contractor shall be calculated according to legal regulations in force at the time of execution of the Contract, or any legal regulations to be adopted during the Contract term.
4. In lieu of any tax and fees according to the MPR tax regulations, Contractor may make compensating payments according to a procedure included in the Contract.

Article 20. Bonuses

1. Bonuses for education, technical training for Mongolian citizens and research work shall be paid by the Contractor, and the plan, schedule and form of payment of these bonuses shall be submitted in the Application and will be agreed by the Contractor and the Administration in the Petroleum Contract.
2. Signature, Commercial Discovery and Production Bonuses shall be submitted in Applications and negotiated with the Administration.

Article 21. Administration Fee

Contractor shall pay an administration fee to the Administration for administrative services related to application, extension of terms, and changes of the terms of Contract as described in Annex III.

Article 22. Accounting Procedure

1. Contractor shall maintain accounting records related to Petroleum Operations according to procedures accepted in the international petroleum industry, in the English language and in U.S. Dollars.
2. Contractor shall submit to the Administration quarterly accounting reports according to the Accounting procedure.

SECTION V

COST RECOVERY, PRODUCTION SHARING

Article 23. Cost Recovery

1. For the purpose of recovering costs for Petroleum Operations according to the provisions of 6.2, Section 6 of this Regulation, Contractor shall dispose of Cost Oil each Calendar month.
2. The issue of recovery of Contractor's costs incurred in Petroleum Operations is to be mutually agreed by the Administration and Contractor, and be included in the Agreement. Recovery of costs will not exceed 40 per cent of the total amount of Petroleum produced in a given year.
3. Contractor's unrecovered costs shall be credited to the succeeding months until full recovery.

Article 24. Production Sharing

In the case of Petroleum Sharing Contract:

1. The Administration and Contractor shall share the remaining part of Petroleum produced in a given month after deduction of Royalty and Cost Oil and the amount of production to be shared shall be based on average daily quantity of Petroleum produced, or as otherwise provided in the Contract.
2. The Administration has the right to request Contractor to supply its share of Petroleum for the MPR domestic needs and in this case, Contractor shall be paid the Petroleum prices in freely convertible currency.
3. In case the Administration or Contractor has not fully received its share of Profit Oil, a procedure, amount and evaluation for compensation shall be mutually agreed and may be provided in the Contract.
4. If a Natural Gas field, which might be commercially developed, is discovered, the Administration and Contractor shall negotiate and execute a separate Contract covering developing, processing, sharing, and marketing this Natural Gas.
5. Production sharing measurements shall be made in accordance with generally accepted methods used in the international petroleum industry.
6. Contractor's share of Profit Oil shall be transferred to Contractor at the point of production sharing measurement, or at other mutually agreed points in the territory of the MPR.

SECTION VI IMPORTING, OWNING, FREE OF CUSTOMS DUTIES, AND SELLING PROPERTY

Article 25. Import to and export from the MPR.

1. Contractor has the right to import into the MPR all equipment, facilities and their spares, and other materials necessary for conducting Petroleum Operations.
2. Contractor's expatriate employees may import home appliances, materials and personal property in quantities permitted by the MPR Customs Regulations.
3. Contractor has the right to export his share of Petroleum and re-export equipment imported temporarily.

Article 26. Ownership and use of properties

Equipment, buildings, facilities, and materials necessary for conducting Petroleum Operations shall become MPR State property without additional payments, upon termination of the Contract.

Article 27. Exemption from Customs Duty

The Contractor may import, according to provisions of the MPR Petroleum Law equipment, facilities, their spares, and materials into Mongolia, re-export equipment imported temporarily, export Contractor's share of oil free of Customs Duties.

Article 28. Selling

1. The Contractor may sell to others items imported into the MPR after approval of and subject to conditions agreed by the Administration.
2. Contractor's expatriate employees may sell items imported into the MPR according to the MPR's legal regulations.

**SECTION VII
OTHER PROVISIONS**

Article 29. Emergency

1. Contractor shall promptly notify the Administration about any emergency and will take necessary action.
2. The MPR Government shall require the Contractor to produce Petroleum at maximum safe rate in case of national emergency and may requisition Contractor's share of Profit Oil, which shall be paid for by the MPR.

Article 30. Force Majeure

The Administration may extend related terms of Contract to compensate the Contractor for losses caused by Force Majeure in Petroleum Operations.

Article 31. Cancellation

1. If the Agreement does not enter into force within one hundred eighty (180) days following the Effective Date, or Contractor fully relinquishes all Contract Areas, the Contract may be canceled.
2. The Administration or Contractor shall cancel the Contract within 90 days after the written notice about cancellation to the other party.
3. Contractor is obligated to implementing the Work Obligation for this Contract Year in the event of cancellation.

Article 32. Applicable Law

For implementation and interpretation of the Contract, the MPR legal regulations shall be applied, and in the absence of related legal provisions, principles of international law shall be applied.

Article 33. Arbitration

1. In case Contractor and the Administration cannot settle disputes about property or other matters arising in Petroleum Operations, unless it is otherwise provided in the Contract, it could be submitted to the MPR court.
2. Disputes arising from interpretation of provisions of the Contract and cancellation of it and other issues regarding the Contract may be resolved by related organization, according to the UNCITRAL Rules currently in force.

Article 34. Responsibility under the Law

1. In case of conducting Petroleum Operations without permission by the MPR's Government equipment, property used in such operation, his produced Petroleum and income shall be confiscated by the MPR's Government and transferred to the MPR.
2. If Contractor conducts operations in violation of the MPR's Petroleum Law and other related laws of MPR causes losses or damages to organizations or individuals, he will undertake responsibility for such losses or damages under the Mongolian legal regulations.
3. Damages or losses caused by violation of contract obligations shall be compensated by the party at fault as provided in the Agreement or in Mongolian Civil Law.

Article 35. Confidentiality

All documents, data, materials and information acquired by Contractor in process of Petroleum Operations shall be kept confidential, and, are not to be transferred in any form to a third party without written notice submitted to the other party.

ANNEX 1

BASIC INFORMATION

Mr. _____
President
The Petroleum Administration
of the Mongolian People's Republic

Date of submission _____

Ulaanbaatar

We,

with our headquarters office located at _____

and registered at

wish to submit the Application for Contract Area(s) within the Mongolian People's Republic hereby present the following Basic Information about our company.

1. Name, title, address, telephone, telefax and telex of the contact person authorized to respond to inquiries on behalf of the applicant(s).
2. In the event the applicant is to be a joint venture of two or more applicants, information as to who may act as the operator, particulars pertaining to their mutual obligations.
3. Evidence showing that the applicant(s) commands expertise, experience, specialists and financial capital required for undertaking of Petroleum Operations.
4. Basic understanding of the Petroleum Geology of Mongolia supported by geological and geophysical information to demonstrate the applicant's expertise.

ANNEX 2

CONTRACT AREA APPLICATION

An applicant shall submit the following information for each Contract Area within the period prescribed for submission of applications.

Mr. _____
President
The Petroleum Administration
of the Mongolian People's Republic

Date of submission _____

Ulaanbaatar

We,

with our headquarters office located at

and registered at

desire to undertake Petroleum Operations in Contract Area No.____ under the Petroleum Contract subject to the Petroleum Law of the MPR and the Regulations for Implementing this Law.

Signature, name, title, address, telephone, telefax and telex of the person(s) authorized to represent the applicant(s).

1. Information to be submitted with the Application:
 - a) Document of evidence of the legal status of the applicant(s).
 - b) Document of evidence of the authority for the person(s) signing the application.
 - c) Name, title, address, telephone, telefax and telex of the contact person(s) authorized to act on behalf of the applicant(s).
 - d) In the event the applicant is to be a joint venture of two or more applicants, information as to which of the applicant(s) is the operator, their mutual obligations and involvement in the Petroleum Operations.
 - e) Documents of evidence showing the applicant(s) command of financial capital for undertaking of Petroleum Operations submitted in the application.
 - f) Evidence that the applicant(s) has demonstrated its command of expertise, experience and specialists required for the undertaking of the Petroleum Operations submitted in the application.
 - g) Evidence and/or interpretations supporting the minimum work obligation submitted in the application.
 - h) Methods and time schedule of the work obligation for the Petroleum Operations submitted in the application.
 - i) A plan, schedule, title and number of Contractor's and Subcontractor's foreign nationals and qualified Mongolian nationals to be working within the MPR for the first Contract Year and an estimate of the total number of foreign nationals for each of the following Contract Year for the term of the Exploration Period.
 - j) A contract year Budget, in US Dollars by Contract Quarter and a Calendar Year Budget, by Quarter for the Work Obligation for the first Contract Year. The Tugrik expenditures are to be budgeted where available with the US Dollar equivalent.

2. Minimum work obligations to be undertaken and costs to be incurred during the Exploration Period:
 - a) During the initial term of the Exploration Period, the following is the minimum work obligations that shall be carried out:

Work obligations	Amount-US Dollars
(insert details)	
 - b) Restoration Work and Costs:
(insert details)
 - c) Education and training to be provided:
During each Contract Year of the Exploration Period, a minimum of _____ US Dollars shall be spent, as directed by the Petroleum Administration, on the education and training of Mongolian nationals (who are not employees of Contractor or Subcontractor) related to all aspects of Petroleum Operations.

Specify the scholarships, education grants, study programs, seminars, schools, libraries, laboratories, equipment and research work to be provided in the Contractor's head-quarter country and in the MPR.

d) In carrying out such Work Obligations, Education, Training and Restoration Total Costs of _____ US Dollars will be budgeted, as indicated above.

3. At least ____ percent of the original Contract Area, excluding any area designated as a Development Area, will be relinquished within 30 days of the last day of the initial Exploration Period.

4. Minimum work obligations to be undertaken and costs to be incurred during the second Exploration Period:

a. During the initial term of the second Exploration Period, the following is the minimum work obligations that shall be carried out:

Term	Work obligations	Amount-US Dollars
	(insert details)	

b. Restoration Work and Costs:
(insert details)

c. Education and training to be provided:

During each Contract Year of the second Exploration period, a minimum of _____ US Dollars shall be spent, as directed by the Petroleum Administration, on the education and training of Mongolian nationals (who are not employees of Contractor or Subcontractors) related to all aspects of Petroleum Operations.

Specify the scholarships, educational grants, study programs, seminars, schools, libraries, laboratories, equipment and re-search work to be provided in the Contractor's headquarters country and in the MPR.

d. In carrying out such Work Obligations, Education, Training and Restoration Total Costs of _____ US Dollars will be budgeted, as indicated above.

5. At least ____ percent of the original Contract Area, excluding any area designated as a Development Area, will be relinquished within 30 days of the last day of the first extension period. The relinquishment will be effective the last day of the second Exploration period.

6. Minimum work obligations to be undertaken and costs to be incurred during the third Exploration Period:

a. During the initial term of the third Exploration Period, the following is the minimum work obligations that shall be carried out:

Term	Work obligations	Amount-US Dollars
	(insert details)	

b. Restoration Work and Costs:
(insert details)

c. Education and training to be provided:

During each Contract Year of the third Exploration period, a minimum of _____ US Dollars shall be spent, as directed by the Petroleum Administration, on the education and training of Mongolian nationals (who are not employees of Contractor or Subcontractors) related to all aspects of Petroleum Operations.

Specify the scholarships, educational grants, study programs, seminars, schools, libraries, laboratories, equipment and re-search work to be provided in the Contractor's headquarters country and in the MPR.

d. In carrying out such Work Obligations, Education, Training and Restoration Total Costs of _____ US Dollars will be budgeted, as indicated above.

7. Royalty, Fixed or Sliding Scale
(Amounts to be inserted)

8. Cost Recovery, Cost Oil

Contractor's per cent of Crude Oil and/or Natural Gas Total production [Not to exceed 40 per cent]
(Amounts to be inserted)

9. Production Sharing, Profit Oil

a) Crude Oil Average b/p/d	MPR's Share of production (Amounts to be inserted)	Contractor's Share of production
-------------------------------	--	-------------------------------------

b. Natural Gas Average cm/p/d	MPR's Share of production (Amounts to be inserted)	Contractor's Share production
----------------------------------	--	----------------------------------

10. Signature and Production Bonuses
(details to be inserted)

11. The Contractor's share of the tax on Contractor's profit derived from Petroleum revenues will be negotiated by the Petroleum Administration and the Contractor based on the Contractor's proposal, and will be in accordance with the MPR Tax Laws existing at the time of the Contract. The MPR Government shall approve the method of tax payment as agreed in the Petroleum Contract by the Contractor and the Petroleum Administration.

ANNEX 3

LAND SURFACE RENTALS AND ADMINISTRATIVE SERVICE FEES

I	Contractor shall pay annual surface rentals	Rate in US Dollars
	1. For Contract Area during Initial Exploration Period Per Square Kilometer (excluding Development Areas)	1.00

2. For Contract Area during Second Exploration Period Per Square Kilometer (excluding Development Areas)	2.00
3. For Contract Area during Third Exploration Period Per Square Kilometer (excluding Development Areas)	4.00
4. For Development Contract Area, per Square Kilometer	50.00

II Administrative Service Fees

Contractor shall pay for the following Administrative Services:

a. For each Contract Area Application	10,000
b. For each extension of Exploration term	25,000
c. For each Development Area Permit	50,000
d. For each change or adjustment in the Development Area	25,000
e. For each extension of Development term	100,000
f. For each application to transfer any rights and obligations for Petroleum Operations	100,000