

EXECUTION COPY

## Shareholders' Agreement

Kulczyk Oil Ventures Limited

and

Gastek LLC

and

Loon Ukraine Holding Limited

in respect of Loon Ukraine Holdings Limited

10 November 2009

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**THIS AGREEMENT** is made on 10 November 2009

**BETWEEN:**

- (1) **KULCZYK OIL VENTURES LIMITED** incorporated and registered in CYPRUS with company number 161672 whose registered office is at 12 Esperidon Street, 4th floor, 1087 Nicosia, Cyprus ("**KOL**");
- (2) **GASTEK LLC** incorporated and registered in California, United States of America whose registered office is at 1,000 Fourth Street, Suite 550, San Rafael, CA 94901 ("**Gastek**");
- (3) **LOON UKRAINE HOLDING LIMITED** incorporated and registered in Cyprus with company number 238218 whose registered office is at 12 Esperidon Street, 4th floor, 1087 Nicosia, Cyprus (the "**Loon Ukraine**").

**RECITALS:**

- (A) Pursuant to the Step 2 SPA (as defined in Clause 1.1 below), KOL and Gastek have agreed to jointly own Loon Ukraine in the following proportions: KOL – 70%, Gastek 30%.
- (B) Loon Ukraine will carry on business on the terms and conditions of this agreement.
- (C) KOL and Gastek will exercise their rights in relation to Loon Ukraine on the terms and conditions of this agreement.

**THE PARTIES AGREE AS FOLLOWS:**

1. **INTERPRETATION**

1.1 In this Agreement the following words and expressions and abbreviations have the following meanings, unless the context otherwise requires:

"**Accounting Principles**" means IAS and GAAP provided that to the extent of any inconsistency between a requirement of the IAS and a requirement of GAAP, the requirement of GAAP prevails.

"**Affiliate**" means a legal entity which Controls, or is Controlled by, or which is Controlled by an entity which Controls, a Party.

"**Agreement**" means this agreement, including its Schedules.

"**AMC**" means the Anti-Monopoly Committee of Ukraine .

"**Applicable Law**" means the laws and regulations in force in Ukraine from time to time.

"**Appraisal Well**" means any well (other than an Exploration Well or a Development Well) whose purpose at the time of commencement of drilling such well is to appraise the extent or the volume of Petroleum reserves contained in an existing Discovery.

"**Associated Gas**" means Natural Gas, commonly known as gas-cap gas, which is in contact with significant quantities of Crude Oil in a natural underground reservoir or which is in solution in Crude Oil in a natural underground reservoir but shall exclude any Crude Oil extracted from such gas.

"**Authority**" means the Ministry of Protection of the Environment of Ukraine.

"**Business**" has the meaning given to that term in Clause 2.1.

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**"Business Day"** means a day (other than a Saturday or Sunday) when banks in Calgary, Alberta, Kiev, Ukraine and the Republic of Cyprus are open for business.

**"Business Plan"** has the meaning given in clause 9.

**"Calendar Year"** means a period of twelve (12) months commencing with January 1 and ending on the following December 31 according to the Gregorian Calendar.

**"Commercial Discovery"** means any Discovery that is sufficient to entitle the parties to apply for authorization from the Government to commence exploitation.

**"Commercial Operations"** means Petroleum Operations conducted in accordance with an approved Development Plan.

**"Commercial Operations Date"** means the date upon which Commercial Operations commence under an approved Development Plan.

**"Competition Law"** means the Law of Ukraine "On the Protection of Economic Competition" No. 2210-III, dated 11 January 2001, as amended, and any and all regulations, directives, decisions and recommendations; and statutes and subordinate legislation; judgments, notices, orders, directions, instructions of any competent authority which have as a purpose or effect the protection of economic competition in the territory of Ukraine.

**"Completion"** means satisfaction by Gastek and Loon Ukraine of their obligations pursuant to Clause 6 of the Step 2 SPA.

**"Completion Date"** means the day upon which Completion occurs.

**"Confidential Information"** has the meaning given in clause 20.

**"Consenting Party"** means a Shareholder who agrees to participate in and pay its share of the cost of an Exclusive Operation.

**"Consequential Loss"** means any loss, damages, costs, expenses or liabilities caused (directly or indirectly) by any of the following arising out of, relating to, or connected with this Agreement or the operations carried out under this Agreement: (i) reservoir or formation damage; (ii) inability to produce, use or dispose of Petroleum; (iii) loss or deferment of income; (iv) punitive damages; or (v) other indirect damages or losses whether or not similar to the foregoing.

**"Consultant Personnel"** means employees of KOL and its Affiliates.

**"Continuing Shareholder"** has the meaning given in clause 13.5.

**"Control"** in relation to a body corporate, means the power of a person to secure that the affairs of the body corporate are conducted in accordance with the wishes of that person, including:

- (a) by means of the holding of shares, or the possession of voting power, in or in relation to that or any other body corporate; or
- (b) by virtue of any powers conferred by the constitutional or corporate documents, or any other document, regulating that or any other body corporate,

and a Change of Control occurs if a person who controls any body corporate ceases to do so or if another person acquires control of it but excludes such event or occurrence arising out of the IPO or KOV Trading.

"**Crude Oil**" means crude mineral oil, asphalt, ozokerite, and all kinds of Petroleum and bitumens, both in solid and in liquid form in their natural state or obtained from Natural Gas by condensation or extraction including propane and butane fractions, before the same has been refined or otherwise treated but excluding water and artificial substances as well as coal or bituminous shales or other stratified deposits from which Crude Oil can be extracted by destructive distillation. Crude Oil shall include any casing head petroleum spirit and condensate.

"**Day**" means a calendar day unless otherwise specifically provided.

"**Deadlock**" has the meaning given to that term in Clause 12.

"**Deepening**" means an operation whereby a well is drilled to an objective Zone below the deepest Zone in which the well was previously drilled. "**Deepen**" and other derivatives shall be construed accordingly.

"**Development Plan**" means a plan for the development of Petroleum from an Exploitation Area.

"**Development Well**" means any well drilled for the production of Petroleum pursuant to a Development Plan.

"**Discovery**" means the discovery of an accumulation of Petroleum whose existence until that moment was unproven by drilling.

"**Dispute**" means any dispute, controversy or claim (of any and every kind or type, whether based on contract, tort, statute, regulation, or otherwise) arising out of, relating to, or connected with this Agreement or the operations carried out under this Agreement, including any dispute as to the construction, validity, interpretation, enforceability or breach of this Agreement.

"**Encumbrance**" means all security interests, charges, prohibitions, pledges, liens, options, equities, claims, or other third party rights, including rights of pre-emption of any nature whatsoever.

"**Entitlement**" means a right of either KOL or Gastek to purchase that percentage of Petroleum (excluding all quantities lost or used in Petroleum Operations) produced by KUB-GAS that corresponds to the proportion of equity they hold in Loon Ukraine at the applicable time.

"**Environmental Loss**" means any loss, damages, costs, expenses or liabilities (other than Consequential Loss) caused by a discharge of Petroleum, pollutants or other contaminants into or onto any medium (such as land, surface water, ground water and/or air) arising out of, relating to, or connected with this Agreement or the Petroleum Operations or Exclusive Operations (as applicable), including any of the following: (i) injury or damage to, or destruction of, natural resources or real or personal property; (ii) cost of pollution control, cleanup and removal; (iii) cost of restoration of natural resources; and (iv) fines, penalties or other assessments.

"**Equity Interest**" as to any Shareholder, means the shareholding interest of that Shareholder in the issued ordinary equity of Loon Ukraine expressed as a percentage of the total shareholding interest in Loon Ukraine of all Shareholders.

"**Exclusive Operation**" means those operations and activities carried out pursuant to Schedule 3, the costs of which are chargeable to the account of the relevant EO Party(ies).

"**Expert**" means a person appointed in accordance with clause 16 to resolve a matter under this Agreement.

**"Exploitation Area"** means that part of the Licence Areas which is established for development of a Commercial Discovery pursuant to the Licences or, if the Licences do not establish an exploitation area, then that part of the Licence Areas which is delineated as the exploitation area in a Development Plan.

**"Exploration Well"** means any well the purpose of which at the time of the commencement of drilling is to explore for an accumulation of Petroleum, which accumulation was at that time unproven by drilling.

**"Exploitation Area"** means that part of the Licence Area which is established for development of a Commercial Discovery pursuant to the Licence or, if the Licence does not establish an exploitation area, then that part of the Licence Area which is delineated as the exploitation area in a Development Plan approved as a Petroleum Operation or as an Exclusive Operation.

**"Fair Value"** means the value of shares determined in accordance with clause 15.7.

**"Financial Year"** means, in relation to Loon Ukraine, a financial accounting period of 12 months ending on the date given in clause 3.12 but, in the first year in which Loon Ukraine is formed, means the period starting with the day Loon Ukraine is formed and ending on the date given in clause 3.12.

**"GAAP"** means generally accepted accounting principles as defined from time to time by the Accounting Standards Board of the Canadian Institute of Chartered Accountants in the Handbook of the Canadian Institute of Chartered Accountants.

**"G & G Data"** means only geological, geophysical and geochemical data and other similar information that is not obtained through a well bore.

**"Gastek Director"** means any director appointed to Loon Ukraine by Gastek.

**"Gastek Class Share"** means a Share of EUR 1.00 in the capital of Loon Ukraine held by Gastek and designated as an 'Gastek Class Share'.

**"Generated Intellectual Property"** means all Intellectual Property which is developed by KOL, Gastek and Loon Ukraine or any of them (as appropriate) in performing their obligations under this Agreement.

**"Good Oilfield Practice"** means those practices, methods, standards and procedures generally accepted and followed internationally by prudent, diligent, skilled and experienced operators in petroleum exploration, development and production operations and which, at a particular time in question are legally permitted in Ukraine and, in the exercise of reasonable judgement and in light of facts then known at the time a decision was made, would be expected to accomplish the desired results and goals provided that "Good Oilfield Practice" is not intended to be limited to optimum practices or methods to the exclusion of all others, but rather to be a spectrum of reasonable and prudent practices, methods, standards and procedures.

**"Government"** means the government of Ukraine and any political subdivision, agency or instrumentality thereof (including the Authority).

**"Group"** means, in relation to a company, that company, any company of which it is a Subsidiary (its holding company) and any other Subsidiaries of any such holding company; and each company in a Group is a member of the Group. Unless the context otherwise requires, the application of the definition of Group to any company at any time shall apply to the company as it is at that time.

**"Intellectual Property"** means all patentable inventions, copyrights, trade marks, designs and circuit layouts.

**"Interest Rate"** means interest accruing daily, compounded monthly, at an annual rate equal to LIBOR plus 2 percent.

**"International Accounting Standards or IAS"** means the international accounting standards, within the meaning of EC Regulation No. 1606/2002 of the European Parliament and the Council of 19 July 2002 on the application of international accounting standards, adopted from time to time by the European Commission in accordance with that Regulation.

**"Interim Period"** means the period between the Signing Date and the Completion Date.

**"IPO"** means an initial public offering of KOV, the acquisition of KOV by an entity listed on a recognised stock exchange, the acquisition of an entity listed on a recognised stock exchange by KOV or any other transaction or arrangement which results in KOV being, directly or indirectly, listed on a recognised stock exchange, including the initial public offering of KOV's shares and the listing of such shares on the Warsaw Stock Exchange or the offering and listing of KOV's shares on any other stock exchange.

**"KOL Director"** means any director appointed to Loon Ukraine by KOL.

**"KOL Class Share"** means a Share of EUR 1.00 in the capital of Loon Ukraine held by KOL and designated as a 'KOL Class Share'.

**"KOV"** means Kulczyk Oil Ventures Inc, a company incorporated under the laws of Alberta, Canada, with its registered office at Suite 1170, 700-4th Avenue SW Calgary, Alberta T2P 3J4, Canada.

**"KOV Trading"** means the trading of shares of KOV as well as any warrants, options or any other derivative or instrument in respect of the shares of KOV.

**"KUB-GAS"** means KUB-GAS Ltd incorporated and registered in Ukraine with company identification code 30694895 with its registered office at vul.Karla Marksa, 8, City of Lugansk, Ukraine.

**"LCIA"** means the London Court of International Arbitration.

**"LIBOR"** means the London Interbank Offered Rate for the USD for thirty (30) days as published by the British Bankers Association on the TELERATE screen at or about 11.00 a.m. (London time) on the relevant date.

**"Licence Account"** the relevant account maintained by KUB-GAS in relation to Petroleum Operations conducted in respect of the relevant Licence Area.

**"Licence Area"** means an area covered by a Licence.

**"Licences"** means any of the licences listed in Schedule 2.

**"Licence Documents"** means, in respect of each Licence, the Licence, the Operating Agreement and the ancillary documents relating to that Licence or Operating Agreement.

**"Loon Ukraine's Banker"** means the bank appointed pursuant to Clause 3.11 or such other financial institution as the Parties may agree from time to time.

**"Loon Ukraine Board"** means the Board of Directors of Loon Ukraine.

**"Loon Ukraine Loans"** has the meaning given to it in Clause 6.6.

**"Management Committee"** means the committee established by the Loon Ukraine Board to manage and direct the Petroleum Operations pursuant to Clause 5.20.

**"Management Protocol"** means the procedures by which the Management Committee and the parties will direct and procure KUB-GAS to conduct the Petroleum Operations appended as Schedule 1 to this Agreement.

**"Material"** means machinery, equipment and supplies acquired and held for use in Petroleum Operations.

**"Minimum Work Obligations"** means those work and/or expenditure obligations specified in the Licences that must be performed in order to satisfy the obligations of the Licences.

**"Month"** means a Gregorian calendar month.

**"Net EO Proceeds"** has the meaning given to that term in Schedule 3.

**"Natural Gas"** means a mixture of Petroleum and varying quantities of non-Petroleum mainly composed of methane that exist either in a gaseous state or in solution with Crude Oil in a natural underground reservoir. Natural Gas may be classified as either Associated Gas or Non-Associated Gas.

**"Non-Associated Gas"** means Natural Gas that is found in a natural underground reservoir that does not contain significant quantities of Crude Oil.

**"Non-Consenting Party"** means each Shareholder who elects not to participate in an Exclusive Operation.

**"Obligatory Transfer Event"** means in relation to a party, any event specified as such in clause 14 of this Agreement.

**"Participating Interest"** has the meaning given to that term in paragraph 1.2(E)(2) of Schedule 3.

**"Petroleum"** means all substances which are subject to and covered by the Licences, including Crude Oil and Natural Gas.

**"Petroleum Operations"** means the Petroleum operations required to be conducted by KUB-GAS and pursuant to the terms of this Agreement in respect of the relevant Licence Area pursuant to the Licence Documents.

**"Plugging Back"** means a single operation whereby a deeper Zone is abandoned in order to attempt a Well Completion in a shallower Zone. **"Plug Back"** and other derivatives shall be construed accordingly.

**"Put Option"** has the meaning given to that term in the Step 2 SPA.

**"Put Option Agreement"** has the meaning given to that term in the Step 2 SPA.

**"Recompletion"** means an operation whereby a Well Completion in one Zone is abandoned in order to attempt a Well Completion in a different Zone within the existing wellbore. **"Recomplete"** and other derivatives shall be construed accordingly.

**"Reworking"** means an operation conducted in the wellbore of a well after it has achieved Well Completion in order to secure, restore, or improve production in a Zone which is currently open to production in the wellbore. Such operations include well stimulation operations, but exclude any routine repair or maintenance work, or drilling, Sidetracking, Deepening, Well Completing, Recompleting, or Plugging Back of a well. **"Rework"** and other derivatives shall be construed accordingly.

**"Schedule"** means a schedule to this Agreement.

"**Seconded**" means an employee of Loon Ukraine or its Affiliates selected to take up a secondment with KUB-GAS in accordance with the Management Protocol.

"**Signing Date**" means the date upon which this Agreement is signed.

"**Share**" means an ordinary issued share in the capital of Loon Ukraine.

"**Shareholder**" means any person who holds shares in Loon Ukraine.

"**Short Term Consultancy**" means a short term consulting arrangement agreed between the Parties in accordance with the Management Protocol.

"**Short Term Consultant**" means an employee of KOL or its Affiliates appointed to provide certain services to KUB-GAS pursuant to a Short Term Consultancy.

"**Sidetracking**" means the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or to drill around junk in the hole or to overcome other mechanical difficulties. "**Sidetrack**" and other derivatives shall be construed accordingly.

"**Step 1 Completion**" means completion for the purposes of the Step 1 SPA.

"**Step 1 SPA**" means the Sale and Purchase Agreement dated 10 November 2009 whereby Gastek sells 100 per cent. of the statutory capital of KUB-GAS to Loon Ukraine in exchange for Gastek being issued with 99 per cent. of the ordinary issued capital of Loon Ukraine.

"**Step 2 SPA**" means the agreement between KOL, Gastek, Loon Ukraine dated 10 November 2009 whereby KOL purchases a 70 per cent. equity interest in Loon Ukraine from Gastek.

"**Subsidiary**" in relation to a company (the holding company), any other company in which the holding company (or a person acting on its behalf) directly or indirectly holds or controls either:

- (a) a majority of the voting rights exercisable at general meetings of the company; or
- (b) the right to appoint or remove directors having a majority of the voting rights exercisable at meetings of the board of directors of the company,

and any company which is a Subsidiary of another company is also a Subsidiary of that company's holding company. Unless the context otherwise requires, the application of the definition of Subsidiary to any company at any time shall apply to that company as it is at that time.

"**Third Party**" means a person which is neither a party to this Agreement nor an Affiliate of such party. For the avoidance of doubt, KUB-GAS is not a Third Party.

"**Territory**" means Ukraine.

"**Testing**" means an operation intended to evaluate the capacity of a Zone to produce Petroleum. "**Test**" and other derivatives shall be construed accordingly.

"**Transaction Documents**" means the Step 1 SPA, the Step 2 SPA, this Agreement, the Put Option Agreement and the Guarantee.

"**Transfer Notice**" has the meaning given in clause 13.5.

"**Urgent Operational Matters**" means such operational matters reasonably considered by the Management Committee to require by their nature urgent determination.

"**USD**" means United States Dollars, the lawful currency of the United States of America.

"**Well Completion**" means an operation intended to complete a well through the Christmas tree as a producer of Petroleum in one or more Zones, including the setting of production casing, perforating, stimulating the well and production Testing conducted in such operation. "**Well Complete**" and other derivatives shall be construed accordingly.

"**Work Program and Budget**" means a work program for Petroleum Operations and budget therefor as described and approved in accordance with the Management Protocol.

"**Year**" means a calendar year.

"**Zone**" means a stratum of earth containing or thought to contain an accumulation of Petroleum separately producible from any other accumulation of Petroleum.

- 1.2 Clause and schedule headings do not affect the interpretation of this Agreement.
- 1.3 A person includes a corporate or unincorporated body.
- 1.4 Words in the singular include the plural and in the plural include the singular.
- 1.5 A reference to one gender includes a reference to the other gender.
- 1.6 All warranties, representations, agreements and obligations expressed to be given or entered into by more than one person are given or entered into jointly and severally by the persons concerned.
- 1.7 A reference to a law is a reference to it as it is in force for the time being, taking account of any amendment, extension, application or re-enactment and includes any subordinate legislation for the time being in force made under it.
- 1.8 Writing or written includes faxes but not e-mail.
- 1.9 Documents in agreed form are documents in the form agreed by the parties and initialled by them for identification.
- 1.10 A reference to a document is a reference to the document whether in paper or electronic form.

## 2. **THE BUSINESS OF LOON UKRAINE**

- 2.1 The business of Loon Ukraine, as directed by the Loon Ukraine Board, shall be:
  - (a) to oversee and, through the delegation of authority as appropriate to the Management Committee, to conduct the Petroleum Operations and, if applicable, Exclusive Operations, through Loon Ukraine's wholly owned subsidiary, KUB-GAS, pursuant to the Licence Documents, in respect of the Licence Areas; and
  - (b) exploring opportunities for the acquisition, exploration, development and production of other Petroleum assets within the Territory (the "**New Projects**"),

in accordance with the terms of this Agreement, the Management Protocol and Schedule 3 (together, the "**Business**").

- 2.2 Each party shall use its reasonable endeavours to promote and develop the Business of Loon Ukraine to the best advantage of Loon Ukraine.
- 2.3 The Business shall be managed in the manner prescribed by this Agreement.
- 2.4 To the extent permitted by law, KOL and Gastek agree not to undertake, or endeavour to undertake, any New Projects within the Territory except through Loon Ukraine and in accordance with the provisions of this agreement, provided that:
- (a) if either KOL or Gastek become aware of a potential New Project within the Territory they will provide the other party with notice of the same together with reasonable and sufficient supporting and technical information regarding such potential New Project; and
  - (b) if 10 Business Days after receipt of a notice under Clause 2.4(a), Gastek or KOL (as applicable) do not respond to such notice or indicate they wish not to proceed in respect of any such New Project, the other party (i.e. KOL or Gastek, as the case may be), may proceed independently of the other and Loon Ukraine.
- 2.5 Neither party nor any of its Subsidiaries may, in the Territory during the times specified below, carry on or be employed, engaged or interested in any business which would be in competition with any part of the Business (including any developments in the Business after the date of this Agreement). The times during which these restrictions apply are:
- (a) any time when the party in question is a shareholder in Loon Ukraine; and
  - (b) eighteen (18) months after the party in question ceases to be a shareholder in Loon Ukraine.
- 2.6 Neither party nor any of its Subsidiaries may, during the times specified, deal with or seek the custom of any person that is a client or customer of Loon Ukraine or KUB-GAS or was a client or customer at any time during the period of 12 months immediately preceding the party in question ceasing to be a shareholder in Loon Ukraine in competition with the Business. The times during which these restrictions apply are:
- (a) any time when the party in question is a shareholder in Loon Ukraine; and
  - (b) eighteen (18) months after the party in question ceases to be a shareholder in Loon Ukraine.
- 2.7 Neither party nor any of its Subsidiaries may, during the times specified, offer employment to, enter into a contract for the services of, or attempt to entice away from Loon Ukraine or KUB-GAS any individual who is, at the time of the offer or attempt an employee holding an executive or managerial position with Loon Ukraine or KUB-GAS, or procure or facilitate the making of any such offer or attempt by any other person. The times during which these restrictions apply are:
- (a) any time when the party in question is a shareholder in Loon Ukraine; and
  - (b) eighteen (18) months after the party in question ceases to be a member of Loon Ukraine.
- 2.8 The undertakings in clauses 2.5 to 2.7 are given by each party to the other and to Loon Ukraine and apply to actions carried out by each party (or any of its Subsidiaries) in any capacity and whether directly or indirectly, on the party's (or

Subsidiary's) own behalf, on behalf of any other person or jointly with any other person).

- 2.9 Nothing in clauses 2.5 to 2.7 prevents a party or any of its Subsidiaries from holding, for investment purposes only:
- (a) any units of any authorised unit trust; or
  - (b) any class of shares, interests or securities of any company.
- 2.10 Each of the covenants in clauses 2.5 to 2.9 is considered fair and reasonable by the parties, but if any such restriction is found to be unenforceable but would be valid if any part of it were deleted or the period or area of application reduced, the restriction shall apply with such modifications as may be necessary to make it valid and effective.
- 2.11 Each party shall, to the extent that it is able to do so, exercise all voting rights and other powers in relation to its Subsidiaries to procure that the Subsidiaries comply with the terms of this clause 2.
- 2.12 The provisions of clauses 2.4 to 2.6 (inclusive) above are conditional and shall become effective upon the AMC granting, in writing, its approval for concerted actions provided for by clauses 2.4 to 2.6 (inclusive), if such AMC approval is required by the Competition Law.

### **3. CHARACTERISTICS OF LOON UKRAINE**

- 3.1 Upon Completion, Loon Ukraine shall have the characteristics set out in this clause.
- 3.2 The share capital of Loon Ukraine shall be 1,000 shares of EUR 1.00 each divided into 300 Gastek Class Shares and 700 KOL Class Shares. All but a nominal amount of the consideration for the issue of the Shares shall be regarded as share premium and shall be credited to Loon Ukraine's share premium account.
- 3.3 The name of Loon Ukraine may be changed to a name agreed between the Parties prior to Completion.
- 3.4 Loon Ukraine's constitutional and corporate documents shall be amended as agreed by the Parties to take account of the requirements and provisions of this Agreement.
- 3.5 The KOL Directors shall be Tim Elliott, and two (2) other individuals nominated by KOL prior to Completion and who shall be resident in Cyprus.
- 3.6 The Gastek Directors shall be Mikhail Afendikov and one (1) other individual nominated by Gastek prior to Completion and who shall be resident in Cyprus].
- 3.7 The chairman shall be Tim Elliott.
- 3.8 The secretary shall be one of the two individuals appointed by KOV and resident in Cyprus.
- 3.9 The registered office shall be at 12 Esperidon Street, 4th floor, 1087 Nicosia, Cyprus.
- 3.10 The auditors shall be KPMG Cyprus, Nicosia, Cyprus.
- 3.11 The bankers shall be HSBC Bank Canada, Calgary Branch.

3.12 The Financial Year shall end on 31 December in each year.

4. **COMPLETION**

4.1 At Completion Loon Ukraine shall take such steps within its power as are necessary to ensure that Gastek is established as the legal owner of the Gastek Class Shares in accordance with Cypriot law.

4.2 At Completion the shareholdings of Loon Ukraine shall be as follows:

CLASS OF SHARE	SHAREHOLDER	NUMBER OF SHARES	PERCENTAGE INTEREST
GASTEK CLASS SHARE	GASTEK	300	30%
KOL CLASS SHARE	KOL	700	70%

4.3 At Completion, the Loon Ukraine Board shall consider, and when deemed appropriate but in any case no later than 1 calendar month after Completion, adopt the Business Plan that has been prepared for the Financial Year which is in agreed form.

4.4 At Completion, the Loon Ukraine Board on behalf of Loon Ukraine shall appoint Sergei Panchuk as the General Director of KUB-GAS (the "**General Director**") to be documented by a decision of Loon Ukraine, which subsequently must be notarised, apostilled and then translated into Ukrainian In Ukraine with such translation certified by a notary in Ukraine for the purposes of presenting to and registering with the relevant Ukrainian authorities.

4.5 Loon Ukraine shall not carry on any business, and shall have no assets or liabilities, before Completion except as necessary to comply with this clause 4.

5. **DIRECTORS AND MANAGEMENT**

5.1 The Loon Ukraine Board has responsibility for the supervision and management of Loon Ukraine and its business.

5.2 There shall be 5 directors on the Loon Ukraine Board made up:

- (a) if Gastek and its Affiliates (if applicable) hold less than 50% of the issued equity of Loon Ukraine, of 2 Gastek Directors and 3 KOL Directors provided that 2 of the KOL Directors and 1 of the Gastek Directors must be residents of the Republic of Cyprus; and
- (b) otherwise, 3 Gastek Directors and 2 KOL Directors provided that 1 of the KOL Directors and 2 of the Gastek Directors must be residents of the Republic of Cyprus.

5.3 The chairman shall have a casting vote. The post of chairman shall be held:

- (a) if Gastek and its Affiliates (if applicable) hold less than 50% of the issued equity of Loon Ukraine, by a KOL Director; and
- (b) otherwise, by a Gastek Director.

- 
- 5.4 A party may nominate a director, and remove a director whom it nominated, by giving notice to Loon Ukraine, the said director and the other party. The appointment of a director takes effect on the date on which the notice is received by Loon Ukraine or, if a later date is given in the notice, on that date.
- 5.5 Once a notice for removal of a director is received by Loon Ukraine, the Loon Ukraine Board will be obliged to convene, by special notice, a General Meeting of Loon Ukraine's shareholders, who will then, in turn, proceed with the passing of an ordinary resolution effecting the removal of the said director, as and in the manner provided for under ss. 136 and 178 of the Cypriot Companies' Law, Cap. 113, as amended, and Article 98 of the Articles of Association of Loon Ukraine.
- 5.6 The party removing a director shall indemnify and keep indemnified Loon Ukraine against any claim connected with the director's removal from office.
- 5.7 The parties intend there to be a meeting of directors at least once a quarter.
- 5.8 A director may, and at the request of a director the secretary shall, call a meeting of directors.
- 5.9 The parties shall ensure that at least seven days' notice of a meeting of directors is given to all directors entitled to receive notice accompanied by:
- (a) an agenda specifying in reasonable detail the matters to be raised at the meeting; and
  - (b) copies of any papers to be discussed at the meeting.
- 5.10 A shorter period of notice of a meeting of directors may be given if at least one KOL Director and one Gastek Director agree in writing.
- 5.11 Matters not on the agenda may not be raised at a meeting of directors, or business conducted in relation to those matters, unless all the directors agree in writing.
- 5.12 The quorum at any meeting of directors (including adjourned meetings) is one Gastek Director and one KOL Director.
- 5.13 No business shall be conducted at any meeting of directors unless a quorum is present at the beginning of the meeting and at the time when there is to be voting on any business.
- 5.14 If a quorum is not present within 45 minutes after the time specified for a directors' meeting in the notice of the meeting then it will be adjourned for 5 Business Days.
- 5.15 A meeting of directors shall be adjourned to another time or date at the request of all the Gastek Directors or all the KOL Directors present at the meeting. No business may be conducted at a meeting after such a request has been made.
- 5.16 Meetings of directors shall make decisions by passing resolutions. A resolution is passed if more votes are cast for it than against it.
- 5.17 At a meeting of directors, each director has one vote with the exception of the Chairman who has a casting vote pursuant to Clause 5.3.
- 5.18 A Gastek Director or a KOL Director who is absent from a meeting may appoint any person to act as his alternate at the meeting. For the purposes of the meeting the alternate director:

- (a) shall be the Gastek Director or KOL Director by whom he is appointed and may, in particular, vote in place of the Gastek Director or KOL Director; and
  - (b) where the person appointed as an alternate is already a director of Loon Ukraine in his own right, shall also be a director (and may vote) in his own right.
- 5.19 The Loon Ukraine Board will review, and when it deems appropriate and in a timely manner, approve and thereby consent:
  - (a) to any Work Program and Budget, Development Plan or other matter brought before it pursuant to paragraph 4 of the Management Protocol, with particular attention to ensuring that all Petroleum Operations are conducted in a manner consistent with Good Oilfield Practice and Applicable Law; and
  - (b) may recommend amendments to any Work Program and Budget, Development Plan or other matter brought before it pursuant to paragraph 4 of the Management Protocol if it believes, acting reasonably, making such amendment is required in order to make such Work Program and Budget, Development Plan or other matter consistent with Good Oilfield Practice.
- 5.20 Within 5 days of Completion, the Loon Ukraine Board will jointly appoint a committee of 4 persons (the "**Management Committee**") which shall provide advice and recommendations to the Loon Ukraine Board and the General Director, and shall have the power to act for and on behalf of Loon Ukraine with respect to all matters described in the Management Protocol, and the Management Committee shall be bestowed with and have:
  - (a) the authority and power to implement and undertake the Management Protocol; and
  - (b) such other powers and authority as the Loon Ukraine Board may decide from time to time, and

the Management Committee shall provide quarterly reports to the Loon Ukraine Board, the General Director, and such other reports as the Loon Ukraine Board may reasonably request from time to time; provided that all actions and decisions of the Management Committee must be ratified by the Loon Ukraine Board on a quarterly basis.
- 5.21 The Management Committee will comprise:
  - (a) two representatives of the holder of the KOL Class Shares, one of which must be designated by the holder of the KOL Class Shares as the chairman of the Management Committee (the "**MC Chairman**"); and
  - (b) two representatives of the holder of the Gastek Class Shares.
- 5.22 The MC Chairman shall have the casting vote in any resolution put to the Management Committee. If the MC Chairman is not present to vote upon such resolution, the other representative of the KOL Class Shares shall have the casting vote.
- 5.23 The Management Committee shall:
  - (a) establish a Technical Committee comprising of 6 individuals as nominated from time to time by the Management Committee with the power to consider and make recommendations to the Management Committee in respect of

technical aspects of conducting Petroleum Operations and Work Programs and Budgets; and

- (b) otherwise be entitled to delegate specific responsibilities to sub-committees or individual representatives as the Management Committee may determine from time to time, which shall report to the Management Committee.

- 5.24 Management Committee meetings may take place directly or by telephone conference. Unless otherwise agreed by each member of the Management Committee, the Management Committee meetings may not be held unless all members of the Management Committee have been given at least 4 Business Days notice of such meeting (including the time and location of the meeting unless waived by a particular member).
- 5.25 Unless otherwise determined by the Loon Ukraine Board, the Management Committee shall have the power and responsibilities to undertake those responsibilities expressly required of it pursuant to the Management Protocol.
- 5.26 The quorum of any meeting of the Management Committee shall be two members of the Management Committee, one of which must be a representative of the holder of the KOL Class Shares and the other a representative of the holder of the Gastek Class Shares.

## 6. **FINANCE FOR LOON UKRAINE**

- 6.1 In respect of each Licence, until such time as the relevant Licence Area has commenced Commercial Operations, funding of Petroleum Operations in respect of such Licence shall be met in accordance with the requirements of this Clause 6.
- 6.2 In respect of its own corporate affairs, the parties envisage that Loon Ukraine shall be self-financed from the cash flow of the Business and any cash contributions made by Gastek and KOL as agreed between them from time to time.
- 6.3 If it or KUB-GAS directly needs any additional finance, Loon Ukraine shall seek a loan from its principal bankers.
- 6.4 If KOL and Gastek need to provide any further finance to Loon Ukraine, such funds shall be provided to Loon Ukraine or KUB-GAS (if so agreed) by KOL and Gastek pro rata to the proportions of their respective shareholdings in Loon Ukraine at the relevant time unless KOL and Gastek otherwise mutually agree in writing prior to such time.
- 6.5 Any capital increase in Loon Ukraine or any action that could lead to dilution of a minority Shareholder requires consent of each Shareholder, such consent not to be unreasonably withheld. If the parties agree to increase the share capital of Loon Ukraine, the additional issued capital will be issued to KOL and Gastek pro rata to the proportions of their respective shareholdings in Loon Ukraine at the relevant time unless KOL and Gastek otherwise mutually agree in writing prior to such time.
- 6.6 By mutual agreement between the parties, Gastek or KOL may make an additional contribution by way of a loan to Loon Ukraine (a "**Loon Ukraine Loan**") provided that such Loon Ukraine Loan shall be on, or consistent with, the following terms:
  - (a) all Loon Ukraine Loans shall be senior to both equity and all other loans that are made by a shareholder of Loon Ukraine, but shall be subordinate to all other obligations of Loon Ukraine;

- (b) the proceeds of any Loon Ukraine Loan may only be used to pay any Business or internal corporate costs and shall not be used to repay any obligations to any shareholder of Loon Ukraine; and
  - (c) a Loon Ukraine Loan shall bear interest at a rate per annum not to exceed the Interest Rate.
- 6.7 Loon Ukraine will provide funding for 100% of the costs of Petroleum Operations through loans and advances made directly to KUB-GAS pursuant to the Management Protocol (except for any agreed loans made directly to KUB-GAS), the terms and conditions of this Agreement and in accordance with the requirements of the Accounting Principles.

7. **CONVERSION OF SHARES**

- 7.1 All Shares sold by KOL to Gastek in accordance with the Put Option Agreement shall cease to be designated as KOL Class Shares and instead will be designated as Gastek Class Shares.
- 7.2 Upon making the reclassification of any Shares pursuant to Clauses 7.1, the parties shall do all things necessary and required to effect the changes in directors and the chairman of Loon Ukraine contemplated under Clause 5 and shall duly and promptly act so as to inform the Registrar of Companies and Official Receiver in the Republic of Cyprus for the said changes by submitting all appropriate forms and / or documents, and undertaking all necessary and pertinent procedures.

8. **COVENANTS**

- 8.1 During the Interim Period, KOL and Loon Ukraine prior to Step 1 Completion, and thereafter, Gastek and Loon Ukraine, shall not unless required otherwise pursuant to any of the Transaction Documents:
- (a) amend or propose to amend the memorandum and/or articles of association of Loon Ukraine;
  - (b) split, combine or reclassify any outstanding shares of Loon Ukraine's registered share capital, or declare or pay any dividends or make any other distribution to the holders thereof;
  - (c) issue or sell any options, warrants, convertible securities or other rights (contingent or otherwise) of any character to purchase, subscribe to, or otherwise acquire shares in, or in any way reclassify any of the shares of Loon Ukraine;
  - (d) merge or consolidate with or into any other corporation or change in any manner the rights of Loon Ukraine's capital stock or the character of its business;
  - (e) acquire (by merger, consolidation or acquisition of stock or assets) any corporation, partnership or other business organisation or division thereof or make any equity investments therein;
  - (f) other than in the ordinary course of business enter into or modify any contract, lease or agreement or create any encumbrance of Loon Ukraine's assets; or
  - (g) subject to Clause 4.4 conduct its business other than in the ordinary course of business and in compliance with all applicable laws and regulations.

- 8.2 Gastek, and Loon Ukraine following Step 1 Completion, covenant(s) that:
- (a) it will procure that KUB-GAS performs its obligations under the Transaction Documents; and
  - (b) without prejudice to KOL's rights under any Transaction Document, upon receiving notice by KOL that KUB-GAS is in breach of any of its obligations under the Transaction Documents it shall procure that KUB-GAS acts to remedy such breach as soon as possible.

9. **THE BUSINESS PLAN**

9.1 The Business Plan is an annual business plan for Loon Ukraine prepared by the Management Committee, and approved by the Loon Ukraine Board based upon KUB-GAS's approved Work Program and Budget developed pursuant to the Management Protocol together with all other work programmes and budgets prepared by KUB-GAS or similar or analogous documents, programmes and budgets for the relevant year and it shall include, in particular, in relation to the Financial Year to which it relates:

- (a) a cash flow statement giving:
  - (i) an estimate of the working capital requirements; and
  - (ii) an indication of the amount (if any) that it is considered prudent to retain, for the purpose of meeting those requirements, out of those profits of the previous Financial Year that are available under the law of Cyprus for distribution to shareholders;
- (b) a monthly projected profit and loss account;
- (c) an operating budget and balance sheet forecast;
- (d) a management report giving business objectives for the Financial Year;
- (e) a financial report which shall include an analysis of the results of Loon Ukraine for the previous Financial Year compared with the Business Plan for that year, identifying variations in sales revenues, costs and other material items; and
- (f) copies of KUB-GAS's approved Work Program and Budget developed pursuant to the Management Protocol together with all other work programmes and budgets prepared by KUB-GAS or similar or analogous documents, programmes and budgets.

9.2 The Business Plan for the Financial Year in which Loon Ukraine is formed shall be in agreed form and adopted by the shareholders of Loon Ukraine at Completion.

9.3 The Business Plan for every other Financial Year:

- (a) shall be prepared within 45 days of the end of the preceding Financial Year (the first day being the first day of the Financial Year to which the plan relates); and
- (b) shall be adopted and approved by the Loon Ukraine Board and the KUB-GAS Board as soon as possible after it has been prepared.

10. **ACCOUNTING**

- 10.1 The Loon Ukraine Board is responsible for ensuring that at all times Loon Ukraine maintains accurate and complete accounting and other financial records in accordance with the requirements of all applicable laws, the Accounting Principles (to the extent applicable) and generally accepted accounting principles applicable in the Republic of Cyprus.
- 10.2 Each of Gastek and KOL and its authorised representatives shall be allowed access at all reasonable times to examine the books and records of Loon Ukraine.
- 10.3 Loon Ukraine shall supply each of Gastek and KOL with the financial information necessary to keep the party informed about how effectively the business of Loon Ukraine is performing and in particular will supply each Party with:
- (a) a copy of each year's Business Plan;
  - (b) a copy of the audited accounts of Loon Ukraine prepared in accordance with the laws applicable in, and the accounting standards, principles and practices generally accepted in, Cyprus, within 3 months of the end of the year to which the audited accounts relate; and
  - (c) monthly management accounts of Loon Ukraine to be supplied within 60 days of the end of the month to which they relate (the first day being the first day of the following month) and the accounts shall include, in particular, a profit and loss account, a balance sheet and a cash flow statement.

11. **DIVIDEND POLICY**

- 11.1 Loon Ukraine, on an annual basis but only to the extent permitted by law and subject to the funding requirements for Loon Ukraine's cash and operational requirements as set out in the Business Plan for each succeeding Financial Year prepared and approved in accordance with clause 9 and subject to a resolution of the Loon Ukraine Board and any Net EO Proceeds payable by Loon Ukraine to Consenting Parties in respect of Exclusive Operations, shall distribute the maximum amount available for distribution to the Shareholders in proportion to their respective Shareholdings or otherwise as specified in this Agreement by way of dividend at intervals determined by the Loon Ukraine Board from time to time.

12. **DEADLOCK**

- 12.1 If at any time KOL and Gastek are unable to reach a decision in accordance with this Agreement on any matter which requires to be so determined by them (a "**Deadlock**") then, if such matter remains unresolved for a period of at least 10 Business Days, the matter may be referred by either of KOL or Gastek to the chief executives (or equivalent) of each of KOL and Gastek for resolution by them (or such other persons as KOL and Gastek may nominate in writing from time to time) (the "**Deadlock Representatives**") jointly and acting in such a manner that is not likely to render:
- (a) KUB-GAS in breach of its obligations under the Licences or Licence Interest Documents; or
  - (b) any party in breach of their obligations under the Transaction Documents or this Agreement.
- 12.2 The Deadlock Representatives shall notify any such resolution of the matter jointly to KOL, Gastek and Loon Ukraine within seven days from the date on which it was

referred to them and such resolution shall be given effect by KOL and Gastek without any further delay.

13. **TRANSFER OF SHARES**

- 13.1 No Shareholder shall transfer, grant any security interest over, or otherwise dispose of or give any person any rights in or over any share or interest in any share in Loon Ukraine unless it is permitted to do so under this Agreement or the Put Option Agreement.
- 13.2 A Shareholder may do anything prohibited by this clause 13 if the other Shareholder(s) has/have consented to it in writing.
- 13.3 A Shareholder may transfer all of its shares in Loon Ukraine to a member of its Group without following the steps in this clause 13 if, at the time of the transfer and in relation to the shares being transferred, the transferring party:
- (a) procures that the transferee enters into a shareholders' agreement with the remaining party to this Agreement on the same terms as apply to the transferring party in relation to those shares immediately before the transfer;
  - (b) in the case of Gastek, procures that the transferee enters into a put option agreement in the same form as the Put Option Agreement for the benefit of KOL; and
  - (c) guarantees all the obligations and any liability of the transferee under the agreement referred to in (a) and the Put Option Agreement referred to in (b).
- 13.4 A Shareholder may transfer all its shares in Loon Ukraine to any person for cash and not on deferred terms if that Shareholder follows the steps in this Clause 13.
- 13.5 The Shareholder wishing to transfer its shares (in this Clause, a "**Seller**") must give an irrevocable notice (a "**Transfer Notice**") to the other party (the "**Continuing Shareholder**") of the details of the proposed transfer including, in particular, the identity of the buyer and the price of the shares and other material terms of the proposed sale.
- 13.6 If the Continuing Shareholder gives notice to the Seller within 14 days of receiving the Transfer Notice (the first day being the day after it receives the Transfer Notice) that it wishes to buy all the Seller's shares in Loon Ukraine, the Continuing Shareholder shall have the right to do so at the price specified in the Transfer Notice.
- 13.7 The Continuing Shareholder is bound to buy all the Seller's shares when it gives notice to the Seller that it wishes to do so under clause 13.6. The sale and purchase of shares shall take place on the terms set out in clause 18.
- 13.8 If, at the expiry of the period specified in clause 13.6, the Continuing Shareholder has not notified the Seller that it wants to buy the shares the Seller may transfer all its shares in Loon Ukraine and to the buyer identified in the Transfer Notice at a price not less than the price specified in that notice, provided that it does so within 3 months of the expiry of the period specified in clause 13.6.
- 13.9 Each Shareholder undertakes (in respect of the shares that it holds) to give, and to use its reasonable efforts to procure that shareholders in its Group give, the approvals required for the transfer of shares under this Clause 13.

- 13.10 The Seller shall procure that, in relation to the shares being sold in Loon Ukraine, any buyer of the shares who is not a party to this Agreement enters into:
- (a) a shareholders' agreement at closing with the Continuing Shareholder on the same terms as apply to the Seller in relation to those shares before closing and
  - (b) if the Seller is Gastek, procures that:
    - (i) the buyer enters into a put option agreement in the same form as the Put Option Agreement for the benefit of KOL; and
    - (ii) such transfer of shares by Gastek to the buyer is without prejudice to KOL's rights under the Put Option Agreement.
- 13.11 References in this Clause 13 to all the shares held by a party in Loon Ukraine are to all the shares in Loon Ukraine held by that party and any members of its Group, and not some only of those shares.

14. **INSOLVENCY, PAYMENT DEFAULT AND CHANGE IN CONTROL**

- 14.1 If anything mentioned in this clause 14 happens to a party (other than Loon Ukraine) it constitutes an "**Obligatory Transfer Event**" in respect of that party.
- 14.2 If the party is insolvent or unable to pay its debts within the meaning of the insolvency legislation applicable to that party and has stopped paying its debts as they fall due.
- 14.3 If a step has been taken to initiate any process by or under which:
- (a) the ability of the creditors of the party to take any action to enforce their debts is suspended, restricted or prevented; or
  - (b) some or all of the creditors of the party accept, by agreement or in pursuance of a court order, an amount of less than the sums owing to them in satisfaction of those sums with a view to preventing the dissolution of the party; or
  - (c) a person is appointed to manage the affairs, business and assets of the party on behalf of the party's creditors; or
  - (d) the holder of a charge over assets of the party is appointed to control the business and assets of the party.
- 14.4 If a process has been instituted that could lead to the party being dissolved and its assets being distributed among the party's creditors, shareholders or other contributors.
- 14.5 If there is a Change of Control of the party.
- 14.6 If either KOL or Gastek:
- (a) fails to advance funds to Loon Ukraine:
    - (i) contrary to a resolution of the Loon Ukraine Board requiring that such funds are advanced; or
    - (ii) after that party had indicated in writing that it will advance such further funds to Loon Ukraine; or

- (b) fails to pay the amount of any subscription for additional capital in Loon Ukraine agreed as payable between KOL and Gastek pursuant to Clause 6.5; or
  - (c) fails to make a payment required of it in respect of a Loon Ukraine Loan,
- (a "Payment Default").

**15. TRANSFER FOLLOWING AN OBLIGATORY TRANSFER EVENT**

- 15.1 Where an Obligatory Transfer Event happens to a party, it shall notify the other party of it as soon as possible and, if it does not, is deemed to have given notice of it on the date on which the other party becomes aware of the Obligatory Transfer Event.
- 15.2 The party receiving notice of an Obligatory Transfer Event (in this clause "Buyer") has the right, within 14 days of receiving the notice (the first day being the day after it received notice), to offer to buy all the shares of the other party (in this clause "Seller") in Loon Ukraine at a price specified in the offer for cash and not on deferred terms, provided that if the relevant Obligatory Transfer Event is also a Payment Default, notwithstanding any other provision of this Agreement such price per share will be deemed to be as follows:

$$Price = (VSE - PD)/NSS$$

Where:

- (a) VSE = an amount equal to the value of the Seller's equity in Loon Ukraine as determined by financial statements developed by an Expert within 30 Days of such Payment Default (provided that such financial statements shall not take into account the effect of such Payment Default);
  - (b) PD = an amount equal to the relevant Payment Default (provided that if such Payment Default and the value of the Loon Ukraine Shares are denominated in different currencies the value of the relevant Payment Default will be converted to the same currency in respect of the value of the Loon Ukraine Shares are denominated using the standard interbank conversion rate used by Loon Ukraine's Banker on the date of the relevant Payment Default; and
  - (c) NSS = the number of shares in Loon Ukraine held by the Seller at the time of the Payment Default,
- provided that if using the above equation, the price per share is a negative number, the Seller shall be required to:
- (i) transfer its shares to the Continuing Shareholder; and
  - (ii) pay the Continuing Shareholder an amount equal to the absolute value of the price per share calculated in accordance with the above equation,

in consideration for a complete release by the Continuing Shareholder of the obligation to make the payment subject of the Payment Default.

- 15.3 The Seller has a period of 5 days (in this clause the "Share Pricing Period") of receiving the offer (the first day being the day after the day of the offer) within which to:
- (a) accept the price offered for the shares by the Buyer; or

(b) request that a Fair Value for the shares is determined by the Expert,

and the Seller is deemed to have accepted the price offered for the shares if it does not expressly accept or request a Fair Value determination by the end of the Share Pricing Period.

15.4 The price for the shares shall be:

(a) the price offered by the Buyer if, at the expiry of the Share Pricing Period, the Seller:

(i) has accepted that price; or

(ii) has neither accepted that price nor requested the determination of a Fair Value by the Expert; or

(b) the Fair Value determined by the Expert if the Seller requests such a determination before the expiry of the Share Pricing Period.

15.5 Where the price is referred to the Expert, to exercise its right to buy, the Buyer shall give notice to the Seller within 5 days of receiving notification of the Fair Value as determined by the Expert (the first day being the day after the Buyer receives the Fair Value notification).

15.6 Acceptance or deemed acceptance under clause 15.3 or the service of a notice to buy under clause 15.5 shall bind the parties to buy and sell the shares in accordance with clause 18.

15.7 In this clause the Fair Value of the shares to be sold in Loon Ukraine shall be the value that the Expert certifies to be the fair market value in his opinion based on the following assumptions:

(a) the value of the shares in question is that proportion of the fair market value of the entire issued share capital of Loon Ukraine that the Seller's shares bear to the then total issued share capital of Loon Ukraine (with no premium or discount for the size of the Seller's shareholding or for the rights or restrictions applying to the shares under this Agreement or the by-laws of Loon Ukraine);

(b) the sale is between a willing buyer and a willing seller on the open market;

(c) the sale is taking place on the date that the Obligatory Transfer Event occurred;

(d) Loon Ukraine's businesses shall continue to be carried on as a going concern (unless Loon Ukraine is insolvent or unable to pay its debts within the meaning of the insolvency legislation applicable to Loon Ukraine); and

(e) the shares are sold free of all liens, charges and other encumbrances.

## 16. **EXPERT**

16.1 An Expert is a person appointed in accordance with this clause 16 to resolve those matters arising under Clause 15 of this Agreement, which call for the opinion of the Expert.

16.2 The parties shall endeavour to agree on the appointment of an independent Expert.

- 16.3 If the parties are unable to agree on the appointment of an Expert within seven days of either party serving details of a suggested expert on the other, either party shall then be entitled to request the President of the International Chamber of Commerce to appoint an Expert of repute with international experience in the valuation of oil and gas exploration, development and production companies.
- 16.4 The Expert is required to prepare a written decision and give notice (including a copy) of the decision to the parties within:
- (a) In the case of a decision pursuant to Clause 15.2, the period required pursuant to that Clause; or
  - (b) a maximum of three months of the matter being referred to the Expert.
- 16.5 If the Expert dies or becomes unwilling or incapable of acting, or does not deliver the decision within the time required by this clause 16:
- (a) either party may apply to the President of the International Chamber of Commerce to discharge the Expert and appoint a replacement Expert with the required expertise; and
  - (b) this clause 16.5 applies in relation to the new Expert as if he were the first Expert appointed.
- 16.6 All matters under this clause 16 shall be conducted, and the Expert's decision shall be written, in the English language.
- 16.7 The parties are entitled to make submissions to the Expert and shall provide (or procure that others including Loon Ukraine provide) the Expert with such assistance and documents as the Expert reasonably requires for the purpose of reaching a decision.
- 16.8 Each party shall, with reasonable promptness, supply (and procure that others including Loon Ukraine supply) each other with all information and give each other access to all documentation and personnel as the other party reasonably requires to make a submission under this clause 16.
- 16.9 The Expert shall act as an expert and not as an arbitrator. The Expert's written decision on the matters referred to him shall be final and binding in the absence of manifest error or fraud.
- 16.10 Each party shall bear its own costs in relation to the reference to the Expert. The Expert's fees and any costs properly incurred by him in arriving at his determination (including any fees and costs of any advisers appointed by the Expert) shall be borne by the parties equally or in such other proportions as the Expert directs.

**17. TERMINATION AND LIQUIDATION**

- 17.1 Except for the provisions listed in Clause 17.2 below which shall continue in full force after termination, this Agreement shall terminate:
- (a) when either Gastek or KOL ceases to hold any shares in Loon Ukraine; or
  - (b) when a resolution is passed by shareholders or creditors, or an order is made by a court or other competent body or person instituting a process that will lead to Loon Ukraine being dissolved and its assets being distributed among Loon Ukraine's creditors, shareholders or other contributors.
- 17.2 The following provisions of this Agreement remain in full force after termination:

- (a) clause 1;
  - (b) clauses 2.6 to 2.12;
  - (c) this clause 17;
  - (d) clause 20;
  - (e) clause 22 ;
  - (f) clause 24;
  - (g) clause 25;
  - (h) clause 29;
  - (i) clause 31;
  - (j) clause 32; and
  - (k) clause 36.
- 17.3 Termination of this Agreement shall not affect any rights or liabilities that the parties have accrued under it.
- 17.4 If this Agreement terminates (other than by reason of a transfer of shares pursuant to clause 13.3) each party shall, if requested by the other, procure that the name of Loon Ukraine is changed to avoid confusion with the name of the party making the request.
- 17.5 Where Loon Ukraine is to be dissolved and its assets distributed, the parties shall agree on a suitable basis for dealing with the interests and assets of Loon Ukraine and shall endeavour to ensure that:
- (a) all existing contracts of Loon Ukraine are performed to the extent that there are sufficient resources;
  - (b) Loon Ukraine does not enter into any new contractual obligations;
  - (c) Loon Ukraine is dissolved and its assets are distributed as soon as practicable; and
  - (d) any proprietary information or intellectual property rights belonging to or originating from a party are returned to it by the other party or Loon Ukraine.
- 18. CLOSING THE SALE AND PURCHASE OF SHARES IN LOON UKRAINE**
- 18.1 This Clause 18 applies only to transfers between the parties pursuant to clause 13, clause 14 and clause 15.
- 18.2 Subject to any regulatory approvals that may be required under law (including receipt of any approval from the AMC) and any approvals from any principal bankers (if so required under the terms of any financing), the sale of shares under this Agreement shall close at the offices of KOL on the 10th Business Day:
- (a) after the Continuing Shareholder (having received a Transfer Notice) gives notice to the Seller that it wishes to buy all the Seller's shares under clause 13.6; or

- (b) after acceptance or deemed acceptance of an offer to buy under clause 15.3 or after service of a notice to buy under clause 15.5.
- 18.3 At closing the party selling the shares shall:
  - (a) transfer the shares free from all Encumbrances (including any Encumbrances relating to security in respect of advances made to Loon Ukraine) in such form and following due process as is necessary for the buyer to establish legal ownership in accordance with Cypriot law;
  - (b) deliver the resignations of any directors appointed by the selling party to take effect at closing and acknowledging that they have no claims against Loon Ukraine;
  - (c) warrant that it has no right to require Loon Ukraine to issue any share capital or other securities and that no Encumbrance affects any unissued shares or other securities of Loon Ukraine;
  - (d) warrant that no commitment has been given to create an Encumbrance affecting the shares being sold (or any unissued shares or other securities of Loon Ukraine) and that no person has claimed any rights in respect thereof subject to receipt of any waivers from principal bankers if so required; and
  - (e) undertake to do all it can, at its own cost, to give the buyer the full legal and beneficial title to the shares.
- 18.4 At closing the party buying the shares shall pay the purchase price by electronic transfer in cleared and immediately available funds to the party selling the shares.
- 18.5 At or before closing, Loon Ukraine shall repay any loans made by the selling party to Loon Ukraine (together with any interest accrued thereon) and the parties shall use their best endeavours to procure that the selling party is released from any guarantees, security arrangements and other obligations that it has given in respect of Loon Ukraine and its business.
- 18.6 The shares shall be sold with all rights that attach, or may in the future attach, to them (including, in particular, the right to receive all dividends and distributions declared, made or paid on or after the events referred to in clause 18.2(a) and clause 18.2(b)).
- 18.7 The party buying the shares is not obliged to complete the purchase of any of the shares being sold unless the purchase of all the shares is completed simultaneously.
- 18.8 If the party selling the shares fails to complete the transfer of shares as required under this clause 18:
  - (a) Loon Ukraine is irrevocably authorised to appoint any person to transfer the shares on the seller's behalf and to do anything else that the buyer may reasonably require to complete the sale; and
  - (b) Loon Ukraine may receive the purchase price in trust for the party selling the shares, giving a receipt that shall discharge the party buying the shares.

19. **STATUS OF AGREEMENT**

- 19.1 Each party shall, to the extent that it is able to do so, exercise all its voting rights and other powers in relation to Loon Ukraine to procure that the provisions of this Agreement are properly and promptly observed and given full force and effect according to the spirit and intention of this Agreement.

19.2 If any provision in the constitutional documents of Loon Ukraine conflicts with any provision of this Agreement, this Agreement shall prevail.

19.3 The parties shall, when necessary, exercise their powers of voting and any other rights and powers they have to amend, waive or suspend a conflicting provision in the constitutional documents to the extent necessary to permit Loon Ukraine and its business to be administered as set out in this Agreement.

## 20. **CONFIDENTIALITY**

20.1 In this clause Confidential Information means any information which:

- (a) either party may have or acquire (whether before or after the date of this Agreement) in relation to the customers, business, assets or affairs of Loon Ukraine (including, without limitation, any information provided pursuant to clause 10); or
- (b) either party or any member of its Group may have or acquire (whether before or after the date of this Agreement) in relation to the customers, business, assets or affairs of the other party or any member of the other party's Group as a consequence of the negotiations relating to this Agreement or the performance of this Agreement; or
- (c) relates to the contents of this Agreement (or any agreement or arrangement entered into pursuant to this Agreement),

but excludes the information in clause 20.2.

20.2 Information is not Confidential Information if:

- (a) it is or becomes public knowledge other than as a direct or indirect result of the information being disclosed in breach of this Agreement; or
- (b) either party can establish to the reasonable satisfaction of the other party that it found out the information from a source not connected with the other party or its Group and that the source is not under any obligation of confidence in respect of the information; or
- (c) either party can establish to the reasonable satisfaction of the other party that the information was known to the first party before the date of this Agreement and that it was not under any obligation of confidence in respect of the information; or
- (d) the parties agree in writing that it is not confidential.

20.3 Each party shall at all times use all reasonable endeavours to keep confidential (and to ensure that its employees, agents, Subsidiaries and the employees and agents of such Subsidiaries (including KUB-GAS), and Loon Ukraine (in respect of information specified in clause 20.1(b) and clause 20.1(c)) keep confidential any Confidential Information and shall not use or disclose any Confidential Information except:

- (a) to another member of the Gastek Group or KOL Group, as the case may be, or to a party's professional advisers where such disclosure is for a purpose related to the operation of this Agreement; or
- (b) with the written consent of either Loon Ukraine or the party or any member of its Group that the information relates to; or

- (c) as may be required by law or by the rules of any recognised stock exchange, or governmental or other regulatory body or court order, when the party concerned shall, if practicable, supply a copy of the required disclosure to the other before it is disclosed and incorporate any amendments or additions reasonably required by the other; or
  - (d) to any tax authority to the extent reasonably required for the purposes of the tax affairs of the party concerned or any member of its Group but only if so required by law or written order of the tax authority; or
  - (e) if the information comes within the public domain (otherwise than as a result of the breach of this clause 20.3).
- 20.4 Each party shall inform (and shall use all reasonable endeavours to procure that any Subsidiary (including KUB-GAS) and Loon Ukraine shall inform) any officer, employee or agent or any professional adviser advising it in relation to the matters referred to in this Agreement, or to whom it provides Confidential Information, that such information is confidential and shall require them:
- (a) to keep it confidential; and
  - (b) not to disclose it to any third party (other than those persons to whom it has already been disclosed in accordance with the terms of this Agreement).
- 20.5 On termination of this Agreement, either party may demand from the other and Loon Ukraine and KUB-GAS the return of any documents containing Confidential Information in relation to the first party by notice in writing, whereupon the other party shall (and shall use all reasonable endeavours to ensure that its Subsidiaries (including KUB-GAS), and its officers and employees and those of its Subsidiaries and Loon Ukraine) shall:
- (a) return such documents; and
  - (b) destroy any copies of such documents and any other document or other record reproducing, containing or made from or with reference to the Confidential Information,
- save, in each case, for any submission to or filings with governmental, tax or regulatory authorities or courts. Such return or destruction shall take place as soon as practicable after the receipt of any such notice.
- 20.6 The obligations of each of the parties in this clause 20 shall continue without limit in time and notwithstanding termination of this Agreement for any reason.
- 20.7 On the signing of this Agreement and receipt of any necessary regulatory approvals including AMC approval, the parties shall issue a joint announcement about the formation of Loon Ukraine in the agreed form.
- 20.8 Each Shareholder undertakes to each of the other Parties that he will not at any time make any adverse comment or make any disclosure concerning any party or any company in that party's group or its business or affairs, or any comment or disclosure that may have a potential adverse impact on such business or affairs and will obtain prior clearance from the Board before making any formal written or verbal public statement or disclosure unless such comment or disclosure is required to be made by law or by the rules of any recognised stock exchange, or governmental or other regulatory body or court order, or the subject matter of such disclosure or comment is already in the public domain.

21. **WARRANTY**

21.1 Loon Ukraine and KOL warrant and represent that, at the date of this Agreement, Loon Ukraine has not carried on any business, has no assets or liabilities, has no employees and is not a party to any contracts, except as necessary to comply with clause 3.

22. **ENTIRE AGREEMENT**

22.1 This Agreement, and any documents referred to in it or executed contemporaneously with it, constitute the whole agreement between the parties and supersede any arrangements, understanding or previous agreement between them relating to the subject matter they cover.

22.2 Each party acknowledges that, in entering into this Agreement and any documents referred to in it or executed contemporaneously with it, it does not rely on, and shall have no remedy in respect of, any statement, representation, assurance or warranty of any person other than as expressly set out in this Agreement or those documents.

22.3 Nothing in this clause 22 operates to limit or exclude any liability for fraud, wilful misconduct or gross negligence.

23. **ASSIGNMENTS**

23.1 This Agreement shall be binding on the parties and their respective successors, administrators, managers, receivers, liquidators and assigns.

23.2 Neither of the parties may assign, nor grant any security interest over, this Agreement or any of its rights and obligations under it, except as permitted in this Agreement.

24. **VARIATION AND WAIVER**

24.1 A variation of this Agreement shall be in writing and signed by or on behalf of all parties.

24.2 A waiver of any right under this Agreement is only effective if it is in writing and it applies only to the person to which the waiver is addressed and the circumstances for which it is given.

24.3 A person that waives a right in relation to one person, or takes or fails to take any action against that person, does not affect its rights against any other person.

24.4 Unless specifically provided otherwise, rights arising under this Agreement are cumulative and do not exclude rights provided by law.

25. **COSTS**

25.1 Unless otherwise provided, all costs in connection with the negotiation, preparation, execution and performance of this Agreement shall be borne by the party that incurred the costs.

26. **NO PARTNERSHIP**

26.1 The parties to this Agreement are not in partnership with each other and there is no relationship of principal and agent between them.

27. **GOOD FAITH**

- 27.1 All transactions entered into between either party or any company Controlled by it and Loon Ukraine shall be conducted in good faith and on the basis set out or referred to in this Agreement or, if not provided for in this Agreement, as may be agreed by the parties and, in the absence of such agreement, on an arm's length basis.
- 27.2 Each party shall at all times act in good faith towards the other and shall use all reasonable endeavours to ensure that this Agreement is observed.
- 27.3 Each party shall do all things necessary and desirable to give effect to the spirit and intention of this Agreement.

28. **THIRD PARTY RIGHTS**

- 28.1 This Agreement is made for the benefit of the parties and their successors and permitted assigns and is not intended to benefit, or be enforceable by, anyone else.
- 28.2 The right of the parties to terminate, rescind or agree any amendment, variation, waiver or settlement under this Agreement is not subject to the consent of any person that is not a party to this Agreement.

29. **NOTICES**

- 29.1 A notice given under this Agreement:
- (a) shall be in writing in the English language (or be accompanied by a properly prepared translation into English);
  - (b) shall be sent for the attention of the person, and to the address, or fax number, given in this clause 29 (or such other address, fax number or person as the party may notify to the others, such notice to take effect five days from the notice being received); and
  - (c) shall be:
    - (i) delivered personally; or
    - (ii) sent by fax; or
    - (iii) sent by pre-paid first-class post, recorded delivery or registered post; or
    - (iv) (if the notice is to be served by post outside the country from which it is sent) sent by registered airmail.
- 29.2 The addresses for service of notice are:
- (a) With respect to KOL:
    - (i) Address: Ashurst, 5 Appold Street, London EC2A 2HA, United Kingdom
    - (ii) Facsimile number: +44 20 7639 1112
    - (iii) Attention: Geoffrey Picton-Turbervill
  - (b) With respect to Loon Ukraine:

- (i) Address: Ashurst, 5 Appold Street, London EC2A 2HA, United Kingdom
- (ii) Facsimile number: +44 20 7639 1112
- (iii) Attention: Geoffrey Picton-Turbervill
- (c) With respect to the Gastek:
  - (i) Address: Salans, 2 Lambeth Hill, London EC4V 4AJ, United Kingdom
  - (ii) Facsimile number: +44 20 7429 6001
  - (iii) Attention: Myron Rabij (care of the Managing Partner)
  - (iv) With a copy to be sent by fax to Mikhail Afendikov at +1 415 747 8320 and +1 415 785 7766

or such other address in England as such Party may notify from time to time to the other Parties.

29.3 A notice is deemed to have been duly given or made as follows:-

- (a) if personally delivered, upon delivery at the address of the relevant Party;
- (b) if sent by first class post, five Business Days after the date of posting;
- (c) if sent by air mail, five Business Days after the date of posting;
- (d) if sent by fax, when received with confirmation of having been sent received on the sender's machine; and
- (e) if sent by email, when received,

provided that if, in accordance with the above provisions, any such notice, demand or other communication would otherwise be deemed to be given or made outside 9.00a.m. - 5.00p.m. on a Business Day such notice, demand or other communication shall be deemed to be given or made at 9.00 a.m. on the next Business Day. To prove service, it is sufficient to prove that the notice was transmitted by fax or email to the fax number or sent by email address (as applicable) of the party or, in the case of post, that the envelope containing the notice was properly addressed and posted.

29.4 Any notice given by fax or email shall be subsequently and promptly confirmed by letter sent by recorded delivery or registered post or delivered personally, but without prejudice to the validity of the original notice if received as provided in clause 29.1.

29.5 A party may notify the other party to this Agreement of a change to its name, relevant addressee, address, email address or fax number for the purposes of clause 29.1 provided that such notification shall only be effective on:-

- (a) the date specified in the notification as the date on which the change is to take place; or
- (b) if no date is specified or the date specified is less than five Business Days after the date on which notice is given, the date falling five Business Days after notice of any such change has been given.

30. **INTEREST ON LATE PAYMENT**

- 30.1 Where a sum is required to be paid under this Agreement, but is not paid on the date the parties agreed, the party due to pay the sum shall also pay an amount equal to interest on that sum for the period beginning with that date and ending with the date the sum is paid (and the period shall run after as well as before judgment).
- 30.2 The rate of interest shall be the Interest Rate, and shall accrue on a daily basis and be compounded at a maximum of two (2) times per annum and without any interest being charged upon interest.
- 30.3 This clause 30 is without prejudice to any claim for interest under the law.

31. **LANGUAGE**

- 31.1 If this Agreement is translated into any language other than English, the English language text shall prevail.

32. **SEVERANCE**

- 32.1 If any provision of this Agreement (or part of a provision) is found by any court or administrative body of competent jurisdiction to be invalid, unenforceable or illegal, the other provisions shall remain in force.
- 32.2 If any invalid, unenforceable or illegal provision would be valid, enforceable or legal if some part of it were deleted or modified, the provision shall apply with whatever modification is necessary to give effect to the commercial intention of the parties.

33. **FURTHER ASSURANCE**

- 33.1 Without prejudice to clause 4, each party shall promptly execute and deliver all such documents, and do all such things, as the other party may from time to time reasonably require for the purpose of giving full effect to the provisions of this Agreement.

34. **COUNTERPARTS**

- 34.1 This Agreement may be executed in any number of counterparts, each of which is an original and which together have the same effect as if each party had signed the same document.

35. **AGREEMENT SURVIVES COMPLETION**

- 35.1 This Agreement (other than obligations that have been fully performed) remains in full force after Completion.

36. **GOVERNING LAW AND JURISDICTION**

- 36.1 This Agreement (and any dispute, controversy, proceedings or claim of whatever nature arising out of or in any way relating to this Agreement or its formation) shall be governed by and construed in accordance with English law. This reference to English law shall be construed to exclude the application of the English conflict-of-laws rules.
- 36.2 Each of the parties to this Agreement irrevocably agrees that any dispute (including as to the validity of this clause 36) ("**Disputes**"), if not resolved within 30 Business Days of notice to the other party, shall be submitted to final and binding arbitration under the LCIA Rules, which Rules are deemed to be incorporated by reference into

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this clause, for these purposes, each party irrevocably submits to the jurisdiction of the LCIA, including the jurisdiction to grant any appropriate interim relief. The seat of arbitration shall be London without any obligation on the arbitrators to hold the hearings or deliberations in the specified seat. The language to be used in the arbitral proceedings shall be English.

- 36.3 Each party irrevocably waives any objection which it might at any time have to the LCIA being nominated as the forum to hear and decide any Disputes and to settle any Disputes and agrees not to claim that the LCIA is not a convenient or appropriate forum for resolution of any such Disputes and further irrevocably agrees that a judgment in any Dispute brought before the LCIA referred to in this clause 36 shall be conclusive and binding upon the Parties and may be enforced in the courts of any other jurisdiction. In particular, parties waive their right to apply to the courts pursuant to s. 45 and s. 69 of the English Arbitration Act 1996.
- 36.4 At the request of KOL (but no other party) the arbitral tribunal may include in any proceeding, decision or award any dispute arising out of any Transaction Documents or any other agreement contemplated hereby; but subject to the foregoing, no other parties or other disputes shall be included in, or consolidated with, the arbitral proceedings.

## SCHEDULE 1

### Management Protocol

1. **GENERATED INTELLECTUAL PROPERTY**
- 1.1 Loon Ukraine shall have the complete ownership of all Generated Intellectual Property.
2. **OPERATING THE LICENCES**
- 2.1 Vis-à-vis the Authority and the Government, operatorship responsibilities shall be those prescribed by the Licences and otherwise as required by the Applicable Law. However, the parties will procure that KUB-GAS undertakes the Petroleum Operations in accordance with the directions of the Management Committee and pursuant to the terms and conditions of this Schedule.
- 2.2 Notwithstanding any provision in this Protocol, the Management Committee and its decisions and actions shall at all time be subject to the direction and control of the Loon Ukraine Board, and to the extent of any inconsistency between the provisions of this Protocol and the provisions of the Shareholders' Agreement, the provisions of the Shareholders' Agreement shall prevail.
- 2.3 In undertaking the Petroleum Operations, the Management Committee shall have or otherwise be responsible for directing KUB-GAS in undertaking, the following responsibilities and obligations in respect of the Petroleum Operations (the "**Petroleum Obligations**"):
  - (a) overall responsibility for directing KUB-GAS in conducting Petroleum Operations in accordance with Good Oilfield Practice;
  - (b) jointly with KUB-GAS and Gastek, maintaining good relations with all third party stakeholders in the Licences, potential business partners, the Authority and the Government;
  - (a) arranging for the provision of management and staff (either directly or by way of secondments or consultancy arrangements) to KUB-GAS as required for the proper conduct of its business and Petroleum Operations in accordance with the terms of this Schedule;
  - (b) arranging for the provision of technical support and services to KUB-GAS as required;
  - (c) exploration, development and production strategy planning and implementation (including developing and executing Work Programs and Budgets pursuant to the terms of this Schedule);
  - (d) production of oil/gas and management of reservoirs;
  - (e) evaluation of reservoir simulation results;
  - (f) production optimisation;
  - (g) drilling;
  - (h) procurement;
  - (i) engineering;
  - (j) information technology and systems;

- (k) transportation;
- (l) refining;
- (m) recovery optimization and life extension;
- (n) perform its obligations under the Licence Documents;
- (o) marketing and sales of Petroleum; and
- (p) administering the Accounts in accordance with the requirements of this Schedule and the Accounting Procedures and to the financial accounting and reporting requirements to which KOL and Gastek may otherwise be subject.

2.4 Loon Ukraine will procure that KUB-GAS will:

- (a) follow all directions given to it by the Management Committee pursuant to paragraph 2.3 except to the extent that such direction is inconsistent with Applicable Law in which case the parties will procure that it shall promptly inform the Management Committee of such inconsistency;
- (b) not make any decision, or take any action unless at the direction of the Management Committee, in respect of the matters falling within the scope of paragraphs 2.3(a) to 36.4(o) with respect to Petroleum Operations;
- (c) not charge an operator fee to any of the parties;
- (d) with the assistance of Loon Ukraine, to the extent required of it by the Applicable Law, acquire all permits, consents, approvals, and surface or other rights that may be required for or in connection with the conduct of Petroleum Operations or to allow it to perform its obligations under the Transaction Documents;
- (e) maintain the Licences in full force and effect in accordance with the requirements of the Applicable Law;
- (f) where applicable at the direction and with the approval of the Management Committee, pay to the Government from the relevant Licence Account, within the periods and in the manner prescribed by the relevant Licence and the Applicable Law, all periodic payments, royalties, taxes, fees and other payments pertaining to Petroleum Operations but excluding any taxes measured by the incomes of the parties; and
- (g) with the assistance of the management committee or otherwise at the direction of the management committee, prepare and furnish reports, records and information as may be required to be prepared and furnished to the Government and/or the Authority pursuant to the Licences.

3. **PROVISION OF PERSONNEL AND PERFORMANCE**

- 3.1 The Management Committee shall ensure that KUB-GAS engages or retains such employees, contractors, consultants and agents as are reasonably necessary to perform the Petroleum Obligations. Subject to the Licences, the Management Committee shall determine the number of such employees, contractors, consultants and agents, the selection of such persons, their hours of work, and the compensation to be paid to all such persons in connection with Petroleum Operations.
- 3.2 Any Seconded to KUB-GAS under this Schedule shall be sourced from KOL and/or its Affiliates unless KOL is unable to provide such Seconded in which case the Management Committee may direct KUB-GAS to source such Seconded from a Third Party.

- 3.3 The parties shall ensure that, subject to the terms of this Schedule, KUB-GAS performs all lawful directions provided to it by the Management Committee in respect of the Petroleum Obligations:
- (a) in a manner consistent with KUB-GAS's obligations as operator under the Licences; and
  - (b) so as to allow KUB-GAS to satisfy its obligations as operator under the Licences in respect of the Licence Areas.
- 3.4 Subject to the provisions of this Schedule, the Petroleum Obligations shall be performed, at the Management Committee's sole discretion, by any the following means:
- (a) directly by KUB-GAS itself (subject to a valid direction in respect of such Petroleum Operations being provided by the Management Committee to KUB-GAS;
  - (b) secondment to KUB-GAS of personnel of KOL and its Affiliates, selected for their specialist skills in performing relevant Petroleum Obligations;
  - (c) provision of personnel of KOL and its Affiliates on Short Term Consultancies to KUB-GAS; and
  - (d) preparation and submission of feasibility studies, designs, drawings and reports and provision of other specific consultancy, developmental, support and services work from time to time during the term of this Schedule,
  - (e) provided that any provision made by the Management Committee pursuant to this paragraph 3.4 shall be provided on a chargeable basis and shall be charged to the relevant KUB-GAS' Account (as the case may be).

#### **4. WORK PROGRAMMES AND BUDGETS FOR PETROLEUM OPERATIONS**

- 4.1 The Work Program and Budget for 2009 agreed by the Loon Ukraine Board shall be agreed between the Parties prior to Completion.
- 4.2 On or before the first Day of January of each Calendar Year, the Management Committee shall deliver to the Loon Ukraine Board a Work Program and Budget detailing the Petroleum Operations to be performed for the following Calendar Year.
- 4.3 If a Discovery is made, the Management Committee shall deliver any notice of Discovery required under the relevant Licence and shall as soon as possible submit to the Loon Ukraine Board a report containing available details concerning the Discovery and the Management Committee's recommendation as to whether the Discovery merits appraisal. If the Loon Ukraine Board determines that the Discovery merits appraisal, the Management Committee within ninety (90) Days shall deliver to the Loon Ukraine Board a proposed Work Program and Budget for the appraisal of the Discovery. Within thirty (30) Days of such delivery, or earlier if necessary to meet any applicable deadline under the Licences, the Loon Ukraine Board shall meet to consider, modify and then either approve or reject the appraisal Work Program and Budget. If the appraisal Work Program and Budget is approved by the Loon Ukraine Board, the Management Committee and KUB-GAS (acting at the direction of the Management Committee) shall take such steps as may be required under the relevant Licence to secure approval of the appraisal Work Program and Budget by the Government. In the event the Government requires changes in the appraisal Work Program and Budget, the matter shall be resubmitted to the Loon Ukraine Board for further consideration.
- 4.4 Any approved Work Program and Budget may be revised by the Loon Ukraine Board acting reasonably to ensure compliance of the relevant Work Program and Budget with Good Oilfield Practice. To the extent revisions are made by the Loon Ukraine Board, the

Work Program and Budget shall be amended accordingly. The Management Committee shall prepare and submit a corresponding Work Program and Budget amendment to the Government if required by the Licences.

- 4.5 Subject to paragraph 4.14, any Work Program and Budget which includes:
- (a) an Exploration Well, whether by drilling, Deepening or Sidetracking, shall include all expenditures necessary for drilling, Deepening or Sidetracking, as applicable, and Testing and Well Completing an Exploration Well.
  - (b) an Appraisal Well, whether by drilling, Deepening or Sidetracking, shall include all expenditures necessary for drilling, Deepening or Sidetracking, as applicable, and Testing and Well Completing such Appraisal Well.
- 4.6 If the Management Committee determines that a Discovery may be a Commercial Discovery, the Management Committee shall, as soon as practicable, deliver to the Loon Ukraine Board a Development Plan together with the first annual Work Program and Budget (or a multi-year Work Program and Budget pursuant to paragraph 4.13) and provisional Work Programs and Budgets for the remainder of the development of the Discovery, which shall contain, inter alia:
- (a) details of the proposed work to be undertaken, personnel required and expenditures to be incurred, including the timing of same, on a Calendar Year basis;
  - (b) an estimated date for the commencement of production; and
  - (c) a delineation of the proposed Exploitation Area.
- 4.7 After receipt of the Development Plan and prior to any applicable deadline under the Licences, the Loon Ukraine Board shall meet to consider, modify and then either approve or reject the Development Plan and the first annual Work Program and Budget for the development of a Discovery, as submitted by the Management Committee. If the Management Committee and the Loon Ukraine Board determine that the Discovery is a Commercial Discovery and approve the corresponding Development Plan, Loon Ukraine and KUB-GAS (acting at the direction of the Management Committee) shall, as soon as possible, deliver any notice of Commercial Discovery required under the Licences and take such other steps as may be required under the Licences to secure approval of the Development Plan by the Government. In the event the Government requires changes in the Development Plan, the matter shall be resubmitted the Loon Ukraine Board with the Management Committee's recommendation for further consideration.
- 4.8 If the Development Plan is approved, such work shall be incorporated into and form part of annual Work Programs and Budgets, and the Management Committee shall, on or before the first Day of January of each Calendar Year submit a Work Program and Budget for the Exploitation Area to the Loon Ukraine Board, for the following Calendar Year. Subject to paragraph 4.9, within thirty (30) Days after such submission, the Loon Ukraine Board shall endeavour to agree such Work Program and Budget, including any necessary or appropriate revisions to the Work Program and Budget for the approved Development Plan.
- 4.9 On or before the first Day of January of each Calendar Year, the Management Committee shall deliver to the Loon Ukraine Board and the Parties a proposed production Work Program and Budget detailing the Petroleum Operations to be performed in the Exploitation Area and the projected production schedule for the following Calendar Year. Within thirty (30) Days of such delivery, the Loon Ukraine Board shall agree upon a production Work Program and Budget.

- 4.10 During the preparation of the proposed Work Programs and Budgets and Development Plans contemplated in this paragraph 4, the Management Committee shall consult with the Loon Ukraine Board regarding the contents of such Work Programs and Budgets and Development Plans.
- 4.11 Each Work Program and Budget and Development Plan submitted by the Management Committee shall contain an itemised estimate of the costs of Petroleum Operations and all other expenditures to be made for the relevant Licence Account during the Calendar Year in question and shall, inter alia:
- (a) identify each work category in sufficient detail to afford the ready identification of the nature, scope and duration of the activity in question;
  - (b) include such reasonable information regarding KUB-GAS's allocation procedures and estimated manpower costs; and
  - (c) comply with the requirements of the Licences.
- 4.12 The Work Program and Budget shall designate the portion or portions of the Licence Areas in which Petroleum Operations itemised in such Work Program and Budget are to be conducted and shall specify the kind and extent of such operations in such detail as the Management Committee may deem suitable.
- 4.13 Any work that cannot be efficiently completed within a single Calendar Year may be proposed in a multi-year Work Program and Budget. Such multi-year Work Program and Budget shall, subject only to revisions approved by the Loon Ukraine Board thereafter:
- (a) remain in effect through the completion of the work; and
  - (b) be reflected in each annual Work Program and Budget.
  - (c) If the relevant Licence requires that Work Programs and Budgets be submitted to the Government for approval, such multi-year Work Program and Budget shall be submitted to the Government either in a single request for a multi-year approval or as part of the annual approval process, according to the terms of the relevant Licence.
- 4.14 For expenditures on any line item of an approved Work Program and Budget, Loon Ukraine or KUB-GAS (acting at the direction of the Management Committee) shall be entitled to incur such expenditure without further approval of the Loon Ukraine Board.
- 4.15 At such time as the Management Committee reasonably anticipates the limits of any expenditure on any line item of an approved Work Program and Budget will be exceeded, the Management Committee shall furnish to the Loon Ukraine Board, a supplemental report for the estimated expenditures for Loon Ukraine Board's approval, and the Management Committee shall provide reasonable details of such over expenditures. The Work Program and Budget shall be revised accordingly and such over expenditures permitted shall be based on the revised Work Program and Budget. The Management Committee shall promptly give notice of the amounts of over expenditures when actually incurred.
- 4.16 Notwithstanding any other provision of this Schedule, the Management Committee may make any expenditure for such operational matters reasonably considered by the Management Committee to require by their nature urgent determination without the Loon Ukraine Board's approval.

**5. THE ACCOUNTS**

- 5.1 All costs incurred in performing the Petroleum Obligations or otherwise by KUB-GAS in conducting the Petroleum Operations shall be charged to the relevant Licence Account in accordance with the requirements of the Accounting Procedure.
- 5.2 In the event that, KUB-GAS has insufficient financial resources to meet the costs applied to the relevant Licence Account in accordance with the requirements of this Schedule (a "Balance Deficit"), Loon Ukraine will procure that KUB-GAS will forthwith request a further advance from Loon Ukraine. The Loon Ukraine Board will, within 5 Business Days of Loon Ukraine receiving such notice, meet to decide on how Loon Ukraine will fund KUB-GAS in accordance with the requirements of Clause 6 of this Agreement.

**6. DISPOSITION OF PRODUCTION**

- 6.1 Both KOL and Gastek shall have the right to purchase their Entitlement from KUB-GAS at a fair market price. If both KOL and Gastek agree to purchase their Entitlement from KUB-GAS, KOL and Gastek shall, to the extent permitted by Applicable Law, use their reasonable endeavours to agree a price upon which to purchase such Entitlement.
- 6.2 All revenues derived or earned by KUB-GAS arising out of or in connection with Commercial Operations shall be paid into the Licence Account. The Licence Account will be in the name of, and controlled by, KUB-GAS.
- 6.3 Loon Ukraine will procure that, monthly, the balance of the Licence Account shall be applied by KUB-GAS in the following order:
- (a) to satisfy KUB-GAS's corporate taxation payment obligations arising pursuant to the Applicable Laws provided that the computation of such taxes payable will be subject to the Management Committee's approval prior to any filing, application or payment being made to the relevant Government authority; and
  - (b) to make any payments required to be paid to the Government pursuant to the Licences and Applicable Laws by way of rent or royalties;
  - (c) to cover KUB-GAS's reasonable corporate expenses (as approved by the Management Committee);
  - (d) to make and pay dividends or other distributions to Loon Ukraine.

**7. SURRENDER, EXTENSTIONS AND RENEWALS**

- 7.1 If a Licence requires the parties to surrender any portion of the Licence Area, the Management Committee shall:
- (a) advise the Loon Ukraine Board of such requirement at least one hundred and twenty (120) Days in advance of the earlier of the date for filing irrevocable notice of such surrender or the date of such surrender; and
  - (b) provide the Loon Ukraine Board with its recommendation in relation to the size, shape and location of the area to be so surrendered.
- 7.2 Prior to the end of such period, the Loon Ukraine Board shall determine the size and shape of the surrendered area, consistent with the requirements of the relevant Licence. In making such determination, the Loon Ukraine Board shall follow the Management Committee's recommendation unless, acting reasonably, the Loon Ukraine Board believes that following such recommendation would materially contravene the Applicable Law or provisions of the relevant Licence. The parties shall execute any and all documents and take such other actions as may be necessary to effect the surrender. Each Party

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renounces all claims and causes of action against KUB-GAS, Loon Ukraine and any other party on account of any area surrendered in accordance with the foregoing but against its recommendation if Petroleum is subsequently discovered under the surrendered area.

7.3 A surrender of all or any part of the Licence Area which is not required by the Licence shall require the unanimous consent of the Parties.

8. **ABANDONMENT**

8.1 In performing the Petroleum Obligations, the Management Committee may, acting in its absolute discretion in accordance with Good Oilfield Practice, direct KUB-GAS to plug and abandon any well which has been drilled as a Joint Operation.

8.2 Loon Ukraine will ensure that any well which it directs KUB-GAS to have plugged and abandoned under this Schedule shall be plugged and abandoned in accordance with Good Oilfield Practice and Applicable Law and the costs of doing so shall be charged to the relevant Licence Account.

9. **SECONDMENTS**

9.1 The Management Committee may arrange for KUB-GAS to be provided with Secondees from time to time pursuant to paragraph 3.4.

9.2 Unless otherwise directed by the Management Committee, the duration of each secondment arrangement entered into pursuant to this Schedule shall be one (1) year renewable annually at Loon Ukraine's sole discretion.

9.3 Secondees (including any replacement Secondees required from time to time) shall be selected according to the procedure set out in this Schedule.

10. **SHORT TERM CONSULTANCIES**

10.1 The Management Committee may arrange for KUB-GAS to be provided with Short Term Consultants from time to time pursuant to paragraph 3.4.

10.2 Unless otherwise directed by the Management Committee, the duration of each Short Term Consultancy shall be three (3) months renewable at Loon Ukraine's sole discretion.

11. **SECONDMENTS AND SHORT TERM CONSULTANCIES – GENERAL PROVISIONS**

11.1 All fees or charges payable to the Government in respect of Secondees or Short Term Consultants shall be chargeable to the Licence Account.

11.2 Loon Ukraine will ensure that the appointment of each Secondee is exclusive and shall ensure that no Secondee during the term of his or her secondment performs work or services other than for KUB-GAS.

11.3 Provision of the following amenities for Secondees, Short Term Consultants and members of their immediate families shall be the responsibility of Loon Ukraine on behalf of KUB-GAS:

- (a) housing (including furnishings);
- (b) shipment of belonging and personal effects of the Secondee or Short Term Consultant (as appropriate) from the usual place of residence of the Secondee or Short Term Consultant including the belongings of their immediate families, both at the beginning and end of the secondment or Short Term Consultancy (as appropriate);

- (c) local transportation (including to and from the work site);
  - (d) travel expenses from the usual place of residence of the Secondee or Short Term Consultant (as appropriate);
  - (e) medical care;
  - (f) education expenses; and
  - (g) shipment of remains in the event of death of a Secondee or a Short Term Consultant or any member of their immediate families during the term of the secondment or consultancy.
  - (h) normal compensation, wages, etc.
- 11.4 Loon Ukraine, with the assistance of the other Parties, shall be responsible for obtaining all necessary visas, work permits and residence permits required by Secondees, Short Term Consultants and their families and shall procure that KUB-GAS provides all such assistance as may be required of it.
- 11.5 The terms and conditions of employment of Secondees while on secondment to KUB-GAS shall be:
- (a) in compliance with Applicable Law; and
  - (b) unless otherwise agreed between the parties, no more onerous or less advantageous than their normal terms and conditions of employment with KUB-GAS.
- 11.6 Loon Ukraine shall ensure that all Secondees are certified medically fit and that KUB-GAS has received proof of medical fitness of each Secondee.
- 11.7 If Loon Ukraine receives notice that any Secondee is absent from work (other than as provided for in this Schedule) for a period greater than 10 days continuously or 10 days in any six (6) month period or that any Short Term Consultant is absent from work (other than as provided for in this Schedule) for a period greater than 15 days, Loon Ukraine shall immediately withdraw such Secondee or Short Term Consultant (as the case may be) and provide a replacement.
- 11.8 Where the termination of the appointment of a Secondee or Short Term Consultant is on account of the unsatisfactory behaviour or poor performance of such person, Loon Ukraine shall promptly withdraw such Secondee or Short Term Consultant (as the case may be).
- 11.9 KUB-GAS shall ensure that each Secondee or Short Term Consultant is equipped with suitable office accommodation and facilities to enable effective performance of the relevant Petroleum Obligation.

## 12. **INSURANCE**

- 12.1 Loon Ukraine shall ensure that all Secondees, Short Term Consultants and other Consultant Personnel are covered by worker's compensation and employer's liability policies for the liabilities and the quantities required by:
- (a) Applicable Law;
  - (b) the law of Cyprus (to the extent applicable); and
  - (c) Good Oilfield Practice,

in respect of claims arising out of injury to, illness, disease or death of any such personnel however, whenever and wherever occurring.

- 12.2 Loon Ukraine shall for the duration of this Agreement and for two (2) years thereafter effect and maintain insurance cover either directly or through KUB-GAS (as may be required by Applicable Law) in accordance with Good Oilfield Practice
- 12.3 All insurance policies shall state that the relevant insurers agree to waive in favour of KUB-GAS and its Affiliates and its and their agents, officers and employees any rights, remedies or relief to which they may become entitled by subrogation.
- 12.4 Any insurance policy effected and maintained under clauses 12.1 and 12.2 shall:
- (a) name KUB-GAS and its Affiliates as additional insured (or Loon Ukraine as additional insured if the insurance policy is directly in the name of KUB-GAS and is so permitted by Applicable Law);
  - (b) carry a right of contribution from other insurance which may be available to KUB-GAS (or Loon Ukraine as the case may be and to the extent permitted) and its Affiliates; and
  - (c) in any case, be subject to shareholder approval in accordance with Clause 5.1 of this Agreement.
- 12.5 KUB-GAS shall arrange reasonable automobile, bodily injury and property damage insurance covering any automobiles which may be provided by KUB-GAS to Consultant Personnel involved in the provision of Services in accordance with Applicable Law.
- 12.6 The costs of all insurance policies falling within the scope of this paragraph 12 shall be applied to the relevant Licence Account if so permitted by Applicable Law.

### 13. **SETTLEMENT OF CLAIMS AND LAWSUITS**

- 13.1 Loon Ukraine will ensure that:
- (a) KUB-GAS promptly notifies the parties of any and all material claims or suits that relate in any way to Petroleum Operations;
  - (b) KUB-GAS, acting at the direction of the Management Committee, shall represent the parties and defend or oppose the claim or suit;
  - (c) KUB-GAS, at the direction of the Management Committee, compromises or settles any such claim or suit or any related series of claims or suits for an amount not to exceed the equivalent of five hundred thousand U.S. dollars (USD 500,000) exclusive of legal fees;
  - (d) KUB-GAS obtains the approval and direction of the Loon Ukraine Board on amounts in excess of the above-stated amount.
- 13.2 Without prejudice to the foregoing, each party shall have the right to be represented by its own counsel at its own expense in the settlement, compromise or defence of such claims or suits.
- 13.3 Any party shall promptly notify the other parties of any claim made against such party by a third party that arises out of or may affect the Petroleum Operations, and such party shall defend or settle the same in accordance with any directions given by the Management Committee. Those costs, expenses and damages incurred pursuant to such defence or settlement which is attributable to Petroleum Operations shall be for the relevant Licence Account.

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13.4 Notwithstanding paragraph 13.1 and paragraph 13.3, each party shall have the right to participate in any such suit, prosecution, defence or settlement conducted in accordance with paragraph 13.1 and paragraph 13.3, at its sole cost and expense; provided always that no party may settle its share of any claim without first satisfying the Management Committee that it can do so without prejudicing the interests of the Petroleum Operations.

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**SCHEDULE 2**

**Licences**

**[redacted – description of Licences]**

## **SCHEDULE 3**

### **Exclusive Operations**

#### **1. LIMITATION ON APPLICABILITY**

- 1.1 No Petroleum Operations may be conducted by a party to this Agreement except by KUB-GAS at the direction of the Loon Ukraine Board in accordance with this Agreement OR by KUB GAS as an Exclusive Operation pursuant to this Schedule 3. No Exclusive Operation shall be conducted (other than the tie-in of Exclusive Operation facilities with existing production facilities pursuant to Paragraph 6) which conflicts with a previously approved Petroleum Operations or with a previously approved Exclusive Operation.
- 1.2 Petroleum Operations which are required to fulfill the Minimum Work Obligations must be proposed and conducted as Petroleum Operations to be conducted by KG at the direction of Loon Ukraine in accordance with this Agreement, and may not be proposed or conducted as Exclusive Operations under this Schedule.
- 1.3 If a Petroleum Operation has been properly proposed to the Management Committee and the Management Committee has not approved such proposal in a timely manner, then any Party whose nominees on that Management Committee that voted in favour of such proposal shall have the right for the 5 calendar days after the day upon which the Management Committee was required to consider such proposal, to propose and conduct an Exclusive Operation involving operations essentially the same as those proposed for such Petroleum Operation.
- 1.4 Any operation that may be proposed and conducted as a Petroleum Operations, other than operations pursuant to an approved Development Plan, may be proposed and conducted as an Exclusive Operation, subject to the terms of this Schedule 3.

#### **2. PROCEDURE TO PROPOSE EXCLUSIVE OPERATIONS**

- 2.1 Subject to Paragraph 1, if any Shareholder proposes to conduct an Exclusive Operation, such Shareholder shall give notice of the proposed operation to all Parties. Such notice shall specify that such operation is proposed as an Exclusive Operation and include the work to be performed, the location, the objectives, and estimated cost of such operation.
- 2.2 Any Shareholder entitled to receive such notice shall have the right to participate in the proposed operation.
  - (a) For proposals to Deepen, Test, Complete, Sidetrack, Plug Back, Recomplete or Rework related to Urgent Operational Matters, any such Shareholder wishing to exercise such right must so notify the proposing Party and Loon Ukraine within twenty-four (24) hours after receipt of the notice proposing the Exclusive Operation.
  - (b) For proposals to develop a Discovery, any Shareholder wishing to exercise such right must so notify Loon Ukraine and the Shareholder proposing to develop within sixty (60) Days after receipt of the notice proposing the Exclusive Operation.
  - (c) For all other proposals, any such Shareholder wishing to exercise such right must so notify the proposing Shareholder and Loon Ukraine within ten (10) Days after receipt of the notice proposing the Exclusive Operation.
- 2.3 Failure of a Shareholder to whom a proposal notice is delivered to properly reply within the period specified above shall constitute an election by that Party not to participate in the proposed operation.

- 2.4 If all Shareholders properly exercise their rights to participate, then the proposed operation shall be conducted as Petroleum Operations. Loon Ukraine shall procure that KUB-GAS commences such Petroleum Operations as promptly as practicable and conduct it with due diligence.
- 2.5 If less than all Parties entitled to receive such proposal notice properly exercise their rights to participate, then:
- (a) The Shareholder proposing the Exclusive Operation, together with any other Consenting Parties, shall have the right exercisable for the applicable notice period set out in Paragraph 2.2, to instruct Loon Ukraine to direct KUB-GAS to conduct the Exclusive Operation.
  - (b) If the Exclusive Operation is conducted, the Consenting Parties shall bear a participating interest in such Exclusive Operation, the numerator of which is such Consenting Party's Equity Interest as stated in Clause 4.2 and the denominator of which is the aggregate of the Equity Interests of the Consenting Parties as stated in Clause 4.2, or as the Consenting Parties may otherwise agree (the "**Participating Interests**").
  - (c) If such Exclusive Operation has not been commenced within 90 Days (excluding any extension specifically agreed by all Parties) after the date of the instruction given to Loon Ukraine under Paragraph 2.5(b), the right to conduct such Exclusive Operation shall terminate. If any Shareholder still desires to conduct such Exclusive Operation, notice proposing such operation must be resubmitted to the Parties in accordance with the requirements of this Schedule 3, as if no proposal to conduct an Exclusive Operation had been previously made.

### 3. **RESPONSIBILITY FOR EXCLUSIVE OPERATIONS**

- 3.1 Until the Work-Out Date in respect of an Exclusive Operation:
- (a) the Consenting Parties shall bear in accordance with the Participating Interests agreed under Paragraph 2.5(b), the entire cost and liability of conducting such Exclusive Operation and shall indemnify the Non-Consenting Parties, KUB-GAS and Loon Ukraine from any and all costs and liabilities incurred incident to such Exclusive Operation (including Consequential Loss and Environmental Loss) and shall keep the Licence Area free and clear of all liens and encumbrances of every kind created by or arising from such Exclusive Operation.
  - (b) the Consenting Parties shall, in a timely manner, pay to Loon Ukraine all moneys required by Loon Ukraine and KUB-GAS to allow KUB-GAS to conduct such Exclusive Operation;
  - (c) subject to and upon the terms and conditions contained in this Agreement, Loon Ukraine holds and stands possessed, and will continue to hold and stand possessed of the Beneficial Interest as bare trustee in trust for and on behalf of the Consenting Parties in respect of the relevant Exclusive Operations.
- 3.2 From the Work-Out Date in respect of an Exclusive Operation, such Exclusive Operation will:
- (a) become part of KUB-GAS' Petroleum Operations;
  - (b) be conducted as Petroleum Operations by KUB-GAS at the direction of the Management Committee subject to the Loon Ukraine Board in accordance with this Agreement; and

- (c) all proceeds by KUB-GAS arising out of or in connection with undertaking such Exclusive Operation will be treated as if such proceeds arose out of or in connection with Petroleum Operations and all costs incurred by KUB-GAS in conducting such Exclusive Operation will be borne by KUB-GAS as Petroleum.

3.3 For the purposes of this Schedule 3:

- (a) "**Beneficial Interest**" means in connection with an Exclusive Operation, an economic interest in the Net EO Proceeds received by Loon which is equal to the amount of such Net EO Proceeds, but free from any Encumbrances.
- (b) "**Net EO Proceeds**" means an amount equal to 90 per cent. that component of all revenue received by Loon Ukraine from KUB-GAS arising out of KUB-GAS conducting the relevant Exclusive Operations:
  - (i) including revenue generated by sales of Petroleum products; but
  - (ii) less all charges arising out of or in connection with the generation of such revenues, including, but not limited to royalties, taxes of any kind (including sales tax, value added tax, but excepting for taxes on corporate income), processing fees or charges, well operating expenses;
- (c) "**Work-Out**" occurs, in respect of an Exclusive Operation, when the amount of Net EO Proceeds paid to the relevant Consenting Parties pursuant to paragraph 3.1(c) equals 200% of the sum of the amounts paid and payable (calculated on a cash basis) by the Consenting Parties pursuant to paragraphs 3.1(a) and (b);
- (d) "**Work-Out Date**" means, in respect of an Exclusive Operation, the date upon which Work-Out occurs.

3.4 Upon being notified of a Commercial Discovery being made in an Exclusive Operation, Loon Ukraine shall direct KUB-GAS to give notice to the Government under the appropriate provision of the Licence requesting a meeting to advise the Government that the Consenting Parties consider the Discovery to be a Commercial Discovery. Following such meeting, Loon Ukraine will direct KUB-GAS to apply for an Exploitation Area (if applicable in the Licence).

#### 4. **ORDER OF PREFERENCE OF OPERATIONS**

- 4.1 Except as otherwise specifically provided in this Agreement, if any Party desires to propose the conduct of an operation that will conflict with an existing proposal for an Exclusive Operation, such Party shall have the right exercisable for five (5) Days (or twenty-four (24) hours for Urgent Operational Matters) from receipt of the proposal for the Exclusive Operation, to deliver such Party's alternative proposal to all Parties entitled to participate in the proposed operation. Such alternative proposal shall contain the information required under Paragraph 2.1.
- 4.2 Each Party receiving such proposals shall elect by delivery of notice to Loon Ukraine and to the proposing Parties within the appropriate response period set out in Paragraph 2.2 to participate in one of the competing proposals. Any Party not notifying Loon Ukraine and the proposing Parties within the response period shall be deemed to have voted against the proposals.
- 4.3 The proposal receiving the largest aggregate Equity Interest vote shall have priority over all other competing proposals. In the case of a tie vote, Loon Ukraine shall choose among the proposals receiving the largest aggregate Equity Interest vote. Loon Ukraine shall deliver notice of such result to all Parties entitled to participate in the operation within five (5) Days (or twenty-four (24) hours for Urgent Operational Matters).

- 4.4 Each Party shall then have two (2) Days (or twenty-four (24) hours for Urgent Operational Matters) from receipt of such notice to elect by delivery of notice to Loon Ukraine and the proposing Parties whether such Party will participate in such Exclusive Operation, or will relinquish its interest in such Exclusive Operation. Failure by a Party to deliver such notice within such period shall be deemed an election not to participate in the prevailing proposal.

5. **STAND-BY COSTS**

- 5.1 When an operation has been performed, all tests have been conducted and the results of such tests furnished to the Parties, stand by costs incurred pending response to any Party's notice proposing an Exclusive Operation for Deepening, Testing, Sidetracking, Completing, Plugging Back, Recompleting, Reworking or other further operation in such well (including the period required under Paragraph 4 to resolve competing proposals) shall be charged and borne as part of the operation just completed. Stand by costs incurred subsequent to all Parties responding, or expiration of the response time permitted, whichever first occurs, shall be charged to and borne by the Shareholders proposing the Exclusive Operation in proportion to their Participating Interests, regardless of whether such Exclusive Operation is actually conducted.

- 5.2 If a further operation related to Urgent Operational Matters is proposed while the drilling rig to be utilised is on location, any Party may request and receive up to five (5) additional Days after expiration of the applicable response period specified in Paragraph 2.2(a) within which to respond by notifying Loon Ukraine that such Party agrees to bear all stand by costs and other costs incurred during such extended response period. Loon Ukraine may require such Party to pay the estimated stand by costs in advance as a condition to extending the response period. If more than one Party requests such additional time to respond to the notice, stand by costs shall be allocated between such Parties on a Day-to-Day basis in proportion to their Equity Interests.

6. **LOST PRODUCTION DURING TIE-IN OF EXCLUSIVE OPERATION FACILITIES**

If, during the tie-in of Exclusive Operation facilities with the existing production facilities of another operation, the production of Petroleum from such other pre-existing operations is temporarily lessened as a result, then the Consenting Parties shall compensate Loon Ukraine to such existing operation for such loss of production in the following manner. Loon Ukraine shall determine the amount by which each Day's production during the tie-in of Exclusive Operation facilities falls below the previous month's average daily production from the existing production facilities of such operation. The so-determined amount of lost production shall be recovered by Loon Ukraine. Upon completion of the tie-in, such lost production shall be recovered in full by Loon Ukraine deducting up to one hundred percent (100%) of the production from the Exclusive Operation, prior to the Consenting Parties being entitled to receive any such production.

7. **CONDUCT OF EXCLUSIVE OPERATIONS**

- 7.1 Each Exclusive Operation shall be carried out by the Consenting Parties, subject to the provisions of this Agreement applied mutatis mutandis to such Exclusive Operation and subject to the terms and conditions of the relevant Licence.
- 7.2 The computation of liabilities and expenses incurred in Exclusive Operations, including the liabilities and expenses of KUB-GAS for conducting such operations, shall be made in accordance with the Accounting Procedure.
- 7.3 Loon Ukraine will procure that KUB-GAS shall maintain separate books, financial records and accounts for Exclusive Operations. All Parties shall, at their own cost, be entitled to examine and audit such accounts. All production and profit generated by the Exclusive

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Operations shall be remitted by Loon Ukraine to the Consenting Parties in proportion to the Participating Interests.

- 7.4 Loon Ukraine, shall, for itself and on behalf of KUB-GAS, be entitled to request cash advances from the Consenting Parties and shall not be required to use its own funds to pay any cost and expense and shall not be obliged to commence or continue Exclusive Operations until cash advances requested have been made, and the Accounting Procedure shall apply to KUB-GAS in respect of any Exclusive Operations conducted by it.
- 7.5 Should the submission of a Development Plan be approved in accordance with this Agreement, or should any Party propose (but not yet have the right to commence) a development in accordance with this Schedule 3 where neither the Development Plan nor the development proposal call for the conduct of additional appraisal drilling, and should any Party wish to drill an additional Appraisal Well prior to development, then the Shareholder proposing the Appraisal Well as an Exclusive Operation shall be entitled to proceed first. If such an Appraisal Well is produced, any Consenting Party shall own and have the right to take in kind and separately dispose of all of the Non-Consenting Party's Entitlement from such Appraisal Well until the value received in sales to purchasers in arm-length transactions equals one hundred percent (100%) of such Non-Consenting Party's Equity Interest shares of all liabilities and expenses that were incurred in any Exclusive Operations relating to the Appraisal Well. Following the completion of drilling such Appraisal Well as an Exclusive Operation, Loon Ukraine may direct KUB-GAS to proceed with the Development Plan approved pursuant to this Agreement, or (if applicable) the Shareholders may complete the procedures to propose an Exclusive Operation to develop a Discovery. If, as the result of drilling such Appraisal Well as an Exclusive Operation, the Shareholder or Shareholders proposing to develop the Discovery decide(s) not to do so, then each Non-Consenting Party who voted in favor of such Development Plan prior to the drilling of such Appraisal Well shall pay to the Consenting Party its Equity Interest share of such costs.

**IN WITNESS** whereof this Agreement has been executed on the date first above wrjttten.

Signed by Tim Elliott )  
for and on behalf of **KULCZYK OIL** )  
**VENTURES LTD:** )  
 )  
 ) signed "Tim Elliott"

Signed by Tim Elliott )  
for and on behalf of **LOON UKRAINE** )  
**HOLDING LIMITED:** )  
 )  
 ) signed "Tim Elliott"

Signed by Mikhail Afendikov )  
for and on behalf of **GASTEK LLC:** )  
 )  
 )  
 ) signed "Mikhail Afendikov"