

PRODUCTION SHARING AGREEMENT

BETWEEN

- (1) **THE KURDISTAN REGIONAL GOVERNMENT**
AND
(2) **DNO ASA**

DATED

25 JUNE 2004

DIHOK AREA
PART OF DIHOK GOVERNORATE

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PRODUCTION SHARING AGREEMENT

This Agreement is made and entered into on 25 June 2004 by and between:

- (1) The Kurdistan Regional Government (hereinafter referred to as "the Government") as the party of the first part;
- (2) as party of the second part, DNO ASA, a company incorporated and existing under the laws of Norway (hereinafter referred to as "the Contractor").

The Government and the Contractor may sometimes be referred to as "Party" and collectively as the "Parties".

WITNESSETH:

WHEREAS, the people of the Kurdistan Region of Iraq (hereinafter referred to as "the Kurdistan Region") have chosen a Regional Assembly through democratic elections;

WHEREAS, the Kurdistan Assembly has formed a Government for the Kurdistan Region, and has enacted laws that govern the Kurdistan Region;

WHEREAS, the people of the Kurdistan Region own the natural resources of the Kurdistan Region, and the Government of the Kurdistan Region therefore has the power to exploit those resources for the benefit of the people of the Kurdistan Region;

WHEREAS, the Government enters into this Agreement wishing to promote the development of the Agreement Area and the Contractor desires to join and assist in the exploration, development and production of the potential resources within the Agreement Area;

WHEREAS, the Contractor has the requisite technical, managerial and financial capabilities and experience to carry out Petroleum Operations stipulated in this Agreement and desires to co-operate with the Government for the exploration and exploitation of Petroleum reserves within the Agreement Area;

WHEREAS, certain parties had concluded an agreement on March 2nd 2003 to promote the development of hydrocarbon resources in the Kurdistan Region, and to promote international investment in the Kurdistan Region.

NOW, THEREFORE, in consideration of the promises and the mutual covenants and conditions herein contained, it is hereby agreed as follows:

ARTICLE 1

DEFINITIONS

The following words and terms used in this Agreement shall unless otherwise expressly specified in this Agreement have the following respective meanings:

- 1.1 "Accounting Procedure" means the accounting procedure set out in Annex "B" hereto.

- 1.2 An "Affiliated Company" or "Affiliate" means with respect to a Contractor Party, a company, corporation, partnership or other legal entity:
- (a) in which a Contractor Party owns directly or indirectly at least fifty percent (50%) of the shares, voting rights or otherwise has the right to establish management policy; or
 - (b) in which at least fifty percent (50%) of the shares or voting rights are owned directly or indirectly by a company or other legal entity, which owns directly or indirectly at least fifty percent (50%) of the shares, voting rights or otherwise has the right to establish management policy of a Contractor Party;
- 1.3 "Agreement" or "PSA" means this Production Sharing Agreement together with all attached Annexes and any variation, extension or modification hereto which may be agreed in writing by all the Parties.
- 1.4 "Agreement Area" means the area specified and delineated in Annex A, as reduced or enlarged from time to time in accordance with the provisions of this Agreement.
- 1.5 "Agreement Year" means a period of twelve (12) consecutive months from the Effective Date within the term of the Agreement.
- 1.6 "Annex" or "Annexes" means each or both of the Annexes "A" and "B" attached to this Agreement and made a part hereof. In the event of a conflict between the provisions of an Annex and a term in the main body of this Agreement, the provisions of the latter shall prevail.
- 1.7 "Appraisal" means all works carried out by Contractor to evaluate and delineate the commercial character of a Discovery of Petroleum in the Agreement Area.
- 1.8 "Associated Natural Gas" means all gaseous hydrocarbons produced in association with Crude Oil and remaining after the Crude Oil has been separated therefrom.
- 1.9 "Authority" means any authorised body of the Government.
- 1.10 "Available Crude Oil" means Crude Oil produced and saved from a Development Area and not used in Petroleum Operations in accordance with Article 10.2.
- 1.11 "Available Natural Gas" means Natural Gas produced and saved from the Agreement Area and not used in Petroleum Operations in accordance with Article 10.2.
- 1.12 "Available Petroleum" is defined as set forth in Article 10.3.
- 1.13 "Barrel" means a quantity consisting of forty-two (42) United States gallons liquid measure, corrected to a temperature of sixty degrees (60°) Fahrenheit with pressure at sea level.
- 1.14 "Budget" means the estimate of the expenditures, listed category-by-category, relating to Petroleum Operations and contained in any Work Program proposed by Contractor.
- 1.15 "Calendar Quarter" or "Quarter" means a period of three (3) consecutive months beginning on January 1st, April 1st, July 1st and October 1st of each Calendar Year.

- 1.16 "Calendar Year" or "Year" means a period of twelve (12) consecutive months beginning on January 1st and ending on December 31st in the same year, according to the Gregorian Calendar.
- 1.17 "Commercial Discovery" means a Discovery that the Contractor in its sole discretion in accordance with the provisions of Article 8 commits itself to develop and produce under the terms of the Agreement.
- 1.18 "Commercial Production" means regular and continuous production of Petroleum from a Development Area in such quantities (taking into account any other relevant factors) as are worthy of commercial development.
- 1.19 "Contractor Party" means each company or legal entity comprising Contractor and which is a Party, being at the date hereof DNO ASA, having a participating interest of one hundred per cent (100%).
- 1.20 "Co-ordination Committee" means the committee composed of representatives of the Contractor and the Government constituted in accordance with Article 6.
- 1.21 "Cost Recovery Petroleum" means Cost Recovery Crude Oil and Cost Recovery Natural Gas.
- 1.22 "Cost Recovery Crude Oil" is defined as set forth in Article 10.5.
- 1.23 "Cost Recovery Natural Gas" is defined as set forth in Article 10.5.
- 1.24 "Costs and Expenses" comprise all costs, expenses and expenditures incurred in connection with Exploration, Development and Production including Operation Expenses together with Finance Costs whether directly or indirectly incurred by Contractor.
- 1.25 "Crude Oil" means crude mineral oil, asphalt, ozokerite and all kinds of hydrocarbons whether in a solid, liquid or mixed state at the wellhead or separator or which is obtained from Natural Gas through condensation or extraction.
- 1.26 "Current Legislation" means subject to Article 31.2, laws, legislative acts, and normative documents that are effective on the Effective Date in the Kurdistan Region.
- 1.27 "Customs Duties" means all import (or export) tariffs and duties and other mandatory payments as stipulated by applicable laws, regulations or other legal measures of the Kurdistan Region with respect to the import or export of materials, equipment, goods and any other similar items.
- 1.28 "Daily Production" means the production of Crude Oil starting from the midnight of any day until the first following midnight.
- 1.29 "Development Area" means all or any part of the Agreement Area specified in an approved Development Plan.
- 1.30 "Development Plan" means the plan to be produced by the Contractor in accordance with Article 8.6. following a declaration that Commercial Production may be established.

- 1.31 "Development" or "Development Operations" or "Development Work" means and includes any activities or operations associated with work to develop Petroleum for production and subsequently to produce and render Petroleum marketable for commercial sale and shall include, but not limited to:
- (a) all the operations and activities under the Agreement with respect to the drilling of wells, other than Exploration wells, the deepening, reworking, plugging back, completing and equipping of such wells, together with the design, construction and installation of such equipment, pipeline or gathering lines, installations, production units and all other systems relating to such wells and related operations in connection with production and operation of such wells as may be necessary in conformity with sound oil field practices in the international Petroleum industry;
 - (b) all operations and activities relating to the servicing and maintenance of pipelines, gathering lines, installations, production units and all related activities for the production and management of wells including the undertaking of re-pressurising, recycling and other operations aimed at intensified recovery, enhanced production and oil recovery rate.
- 1.32 "Discovery" means the Petroleum encountered by drilling a structure which is recoverable at the surface in a flow measured by conventional petroleum industry testing methods.
- 1.33 "Dollar" or "U.S.\$" means the currency of the United States of America.
- 1.34 "Double Tax Treaty" means any international treaty or convention for the avoidance of double taxation of income and/or capital which is applicable or will be applicable in the future, in the Kurdistan Region.
- 1.35 "Effective Date" means the date on which this Agreement has been signed by the Parties.
- 1.36 "Excess Associated Natural Gas" is defined as set forth in Article 15.1(b).
- 1.37 "Exploration" or "Exploration Operations" means operations conducted under this Agreement in connection with the exploration for previously undiscovered Petroleum, or the evaluation or Appraisal of discovered reserves which shall include geological, geochemical, geophysical, aerial and (other survey) activities and any interpretation of data relating thereto and the drilling of such shot holes, core holes, stratigraphic tests, Exploratory Wells, Appraisal wells and other related operations as may be contained in Exploration Work Programs and Budgets.
- 1.38 "Exploratory Well" means any well drilled forming part of Exploration Operations with the objective of confirming a structure or geologic trap in which Petroleum capable of Commercial Production in significant quantities has not been previously discovered.
- 1.39 "Field" means a Petroleum reservoir or group of reservoirs within a common geological structure or feature. "Field" may be an "Oil Field" or a "Natural Gas Field" as designated by Contractor.

- 1.40 "Finance Costs" or "Interest Costs" shall include all amounts of interest, fees and charges paid in respect of any debt incurred in carrying out the Petroleum Operations and any refinancing of such debts providing that, in the case of Affiliate debt, it shall include interest only to the extent that it does not exceed a rate which would have been agreed upon between independent parties in similar circumstances and such interest is not limited by which assets or services are purchased by the loan principal.
- 1.41 "Force Majeure" is defined as set forth in Article 24.2.
- 1.42 "Foreign Employee" is defined as set forth in Article 16.7.
- 1.43 "Foreign Exchange" means U.S.\$ and/or other freely convertible foreign currency generally accepted in the international banking community.
- 1.44 "Foreign Subcontractors" means Subcontractors which are organised outside of the Kurdistan Region and under Current Legislation are not obliged to establish permanent representative offices in the Kurdistan Region.
- 1.45 "Gas Sales Agreement" is any agreement to be entered into for the sale of Non-associated Natural Gas and Associated Natural Gas in accordance with the provisions of Article 15.1 or 15.2.
- 1.46 "Joint Operating Agreement" or "JOA" means the agreement to be concluded between the Parties comprising the Contractor, which shall be supplementary to and consistent with the provisions of this Agreement and which shall regulate the terms under which Petroleum Operations will be conducted by the Operator on behalf of the Contractor.
- 1.47 "Measurement Point" means the location specified in Article 14.2 as identified in an approved Development Plan, where the Petroleum is metered and delivered to the Parties or such other location as the Parties may agree from time to time prior to the submission of a Development Plan as the circumstances may require.
- 1.48 "Minimum Financial Commitment" means the amount to be paid by the Contractor pursuant to Article 3.2(b) under each phase of the Exploration period as set out in Annex C.
- 1.49 "Minimum Work Commitment" means the minimum work to be carried out by the Contractor under this Agreement under each phase of the Exploration period as set out in Annex C.
- 1.50 "Month" or "Calendar Month" means a calendar month.
- 1.51 "Natural Gas" means Non-associated Natural Gas and Associated Natural Gas in their natural state.
- 1.52 "Natural Gas Field" means a field from which more than fifty (50) percent of the estimated reserves on an energy equivalency basis are Natural Gas at surface conditions.

- 1.53 "Non-associated Natural Gas" means all gaseous hydrocarbons produced from gas wells, and includes wet gas, dry gas and residue gas remaining after the extraction of liquid hydrocarbons from wet gas.
- 1.54 "Oil Field" means a field from which more than fifty (50) percent of the estimated reserves comprise Crude Oil.
- 1.55 "Operation Expenses" means those costs incurred in day-to-day Petroleum Operations, whether directly or indirectly incurred including but not limited to all costs, expenses and expenditures associated with the Production, processing and transportation to the Measurement Point of Petroleum, training, administration, service, payments for abandonment and site restoration in accordance with Article 8.8, insurance costs in accordance with Article 22.2. and related expenses.
- 1.56 "Operator" means a person appointed as such pursuant to Article 7.1.
- 1.57 "Party" or "Parties" means the parties whose authorised representatives have affixed their signatures hereto.
- 1.58 "Petroleum" means Crude Oil and Natural Gas.
- 1.59 "Petroleum Operations" means the Exploration Operations, the Development Operations, Production Operations (which shall include transportation to the Measurement Point) and other activities related thereto carried out pursuant to this Agreement and the JOA.
- 1.60 "Petroleum Operations Account" shall mean the Statement of Costs and Expenses and Receipts in paragraph 9 of the Accounting Procedure.
- 1.61 "Production" or "Production Operations" means operations and all related activities carried out for Petroleum production after the commencement of Commercial Production, including without limitation extraction, injection, stimulation, treatment, transportation, storage, lifting, and associated operations, but does not include any storage or transportation beyond the Measurement Point.
- 1.62 "Profit Natural Gas" is defined as set forth in Article 10.8.
- 1.63 "Profit Oil" is defined as set forth in Article 10.8.
- 1.64 "Profit Petroleum" is defined as set forth in Article 10.8.
- 1.65 "Royalty" means the percentage of Crude Oil produced and saved from the Agreement Area allocated for the Government or any authority as determined by the Government as determined in Article 10.14.
- 1.66 "Study Area" means the part of the Agreement Area, which will be defined in a Study Program.
- 1.67 "Study Program" means the program to be produced and carried out by the Contractor in accordance with Article 8 following the conclusion that Commercial Production is feasible.

- 1.68 "Subcontractor" means any natural person or juridical entity other than the Operator, agreed directly or indirectly by or on behalf of Contractor to supply goods, works or services related to this Agreement.
- 1.69 "Taxes" means all levies, duties, payments, fees, taxes (including but not limited to VAT, profit tax, dividend tax, transfer tax, customs duties) or contributions payable to or imposed by the Government, the Federal Government of Iraq, agencies, subdivisions or municipal or local authorities within the Kurdistan Region.
- 1.70 "Third Party" or "Third Parties" means one or more of a natural person or juridical entity other than a Party and any Affiliate of a Party.
- 1.71 "Work Program" and "Work Program and Budget" means any work program and work program and Budget to be submitted to the Co-ordination Committee by the Contractor in accordance with the provisions of Article 9 and which shall set out the proposed Petroleum Operations to be carried out in the Agreement Area during any Calendar Year together with the associated Budget as the case may be.
- 1.72 In this Agreement:
- (a) headings are for convenience only and shall not affect the interpretation or construction of this Agreement;
 - (b) an expression which denotes any gender includes the other genders, a natural person includes an artificial person and vice versa, and the singular includes the plural and vice versa;
 - (c) references to an Article or Annex are to an article of or an annex to this Agreement;
 - (d) a reference to a Party includes that Party's successors in title and permitted assigns;
 - (e) the word "including" shall be construed without limitation;
 - (f) if a period of time is specified and dates from or to a given day or the day of an act or event, it shall be calculated exclusive of the later day; and
 - (g) references to writing shall include any modes of reproducing in a legible and non-transitory form.

ARTICLE 2

SCOPE OF AGREEMENT AND GENERAL PROVISIONS

- 2.1 Subject to the terms and conditions of this Agreement, the Government hereby in accordance with Current Legislation grants to the Contractor the exclusive rights to conduct Petroleum Operations in the Agreement Area during the term of this Agreement.
- 2.2 The Contractor shall be responsible to the Government for the execution of such Petroleum Operations in accordance with the provisions of this Agreement.

- 2.3 In performing Petroleum Operations, the Contractor shall provide all financial and technical requirements, unless otherwise provided in this Agreement and shall conduct all operations in accordance with the standards generally accepted in the international Petroleum industry.
- 2.4 The Contractor shall be compensated for its services, not by way of reimbursement in cash of its expenditures under this Agreement, but by receipt of its share of Petroleum from the Agreement Area to which it may become entitled by way of cost recovery out of Cost Recovery Petroleum described in Article 10 and Contractor's right to Profit Petroleum as described in Article 10. If Petroleum produced from Development Areas within the Agreement Area developed by Contractor, Cost Recovery Petroleum under Article 10 and Profit Petroleum is insufficient to reimburse Contractor for Costs and Expenses incurred by Contractor, Contractor shall bear its own losses in respect of any shortfall.
- 2.5 This Agreement defines the Parties' rights and obligations, governs their mutual relations and establishes the rules and methods for the Exploration, Development, Production, and sharing of Petroleum between them.
- 2.6 During the period in which this Agreement is in force, all Available Crude Oil and Available Natural Gas resulting from Petroleum Operations, will be shared between the Government and the Contractor in accordance with the provisions of Article 10 and Article 15 of this Agreement.
- 2.7 The Government shall have the right to appoint an expert to act as co-ordinator between the Government and the Contractor and to advise the Government in relation to Petroleum Operations. The costs of such expert shall be payable by the Contractor and form part of the Costs and Expenses, provided that such costs shall not exceed Dollars three hundred thousand (\$300,000) in a Calendar Year prorated for part of a Calendar Year.

ARTICLE 3

AGREEMENT AREA AND MINIMUM WORK COMMITMENT

- 3.1 Except for rights and authorisations necessary for the implementation of the provisions of this Agreement, and except as otherwise provided herein, no right is granted to the Contractor, or to any other entity, to use or dispose of any natural or manmade resources, including aquatic resources save for aquatic resources used directly in Petroleum Operations in accordance with relevant permits which have been obtained through the Government.
- 3.2
 - (a) In respect of each Exploration period as set out in Article 4, the Contractor shall be required to carry out the Minimum Work Commitment for such period.
 - (b) If the Contractor fails to carry out the Minimum Work Commitment in respect of any Exploration period, the Contractor shall be liable to pay to the Government within sixty (60) days of the end of the applicable Exploration period an amount equal to the Minimum Financial Commitment in respect of

such period less all Costs and Expenses incurred in such period and forming part of such Minimum Work Commitment.

- (c) If during any Exploration period the Contractor drills any Exploratory wells in excess of the Minimum Work Commitment for that Exploration period, the Contractor shall be entitled to credit any such Exploratory well or wells against the Minimum Work Commitment for the next succeeding Exploration period or periods.

ARTICLE 4

AGREEMENT TERM

- 4.1 (a) Subject to Articles 4.1(b) and (c) the initial term of this Agreement will be from the date hereof until the expiry of the first four (4) year Exploration period unless extended by the Contractor into the succeeding second three (3) year Exploration period and, if applicable, the succeeding third three (3) year Exploration period in each case by the Contractor giving notice to the Government prior to expiry of the first or second Exploration period.
 - (b) Notwithstanding Article 4.1(a) if, at the time of the expiry of an Exploration period an Exploratory Well is being drilled, such Exploration period shall automatically continue until a date thirty (30) days after the completion, suspension or abandonment of such Exploratory Well and the Contractor shall have the right to extend the term of this Agreement into the succeeding Exploration period by notice to the Government given at any time prior to such date.
 - (c) Notwithstanding Article 4.1(a) if, at the time of the expiry of an Exploration period an Appraisal well is being drilled, such Exploration period shall automatically continue for such time to permit the Contractor to comply with its obligations under Article 8 including, if applicable, the submission and approval of a Development Plan, and the Exploration period shall terminate on the first to occur of (i) a decision by the Contractor that the Study Area is non-commercial, (ii) the non-approval of the Development Plan or (iii) the approval of the Development Plan and the continuation of this Agreement in respect of the Development Area designated in such Development Plan.
- 4.2 Upon expiry of the Exploration periods the term of this Agreement shall continue thereafter in respect of each Development Area for a total of twenty-five (25) consecutive Agreement Years from the date of approval of the Development Plan in respect of such Development Area, unless the Agreement is sooner terminated in accordance with Article 28 of this Agreement.
- 4.3 If in respect of any Development Area, Commercial Production remains possible beyond the initial period of twenty-five (25) consecutive Agreement Years specified in Article 4.2, the Contractor, after giving notice to the Government at least one (1) year prior to the end of any such period, and after obtaining approval by the Co-ordination Committee of a revised Development Plan shall be entitled to have an extension of the term of this Agreement with respect to such Development Area for an additional term of five (5) years or the producing life of the Development Area,

whichever is lesser, subject to the approval of the Government, and such approval shall not be unreasonably withheld.

- 4.4 The term of this Agreement shall be divided into three Exploration periods as follows:
- (a) The first Exploration period shall be a period of four (4) years from the date of this Agreement;
 - (b) The second Exploration period shall be a further period of three (3) years commencing immediately after the end of the first Exploration period; and
 - (c) The third Exploration period shall be a further period of three (3) years commencing immediately after the end of the second Exploration period.

ARTICLE 5

RELINQUISHMENTS

- 5.1 The Contractor may at any time relinquish voluntarily all or any part of the Agreement Area without any further liability. Such voluntary relinquishment will be deducted from the Contractor's mandatory relinquishment obligation. The area designated under this Article 5 for relinquishment shall consist as far as practicable of rectangular blocks bounded by lines running due north and south and due east and west and shall not be less than five (5) square kilometres. The area designated for relinquishment need not consist of one contiguous area.
- 5.2 The Contractor shall relinquish the following in accordance with Article 5.1:
- (a) At the end of the first Exploration period an area equal to twenty-five percent (25%) of the Agreement Area remaining after excluding therefrom all Development Areas;
 - (b) At the end of the second Exploration period, an area equal to twenty-five percent (25%) of the Agreement Area remaining after excluding therefrom all Development Areas; and
 - (c) At the end of the third Exploration period, all of the Agreement Area other than any Development Areas.

ARTICLE 6

CO-ORDINATION COMMITTEE

- 6.1 For the purpose of providing the overall supervision and direction of and ensuring the performance of the Petroleum Operations, the Government and the Contractor shall establish a Co-ordination Committee within forty-five (45) days of the Effective Date.
- 6.2 The Co-ordination Committee shall comprise a maximum total of four (4) members. The Government shall appoint a total of two (2) representatives and Contractor shall appoint two (2) representatives to form the Co-ordination Committee. All the aforesaid representatives shall have the right to attend and present their views at meetings of the Co-ordination Committee. Each representative shall have the right to

appoint an alternate who shall be entitled to attend all meetings of the Co-ordination Committee but who shall have no vote except in the absence of the representative for whom he is the alternate.

- 6.3 The first Chairman of the Co-ordination Committee shall be one of the representatives designated by the Government (or his alternate), and the first Vice Chairman shall be the chief representative designed by the Contractor (or his alternate). The Chairman and Vice Chairman shall be appointed for a term of two (2) years. The Chairman of the Co-ordination Committee shall preside over meetings of the Co-ordination Committee and in the absence of the Chairman (or his alternate); the Vice-Chairman shall preside. Such Parties may designate a reasonable number of advisers, who may attend, but shall not be entitled to vote at, Co-ordination Committee meetings.
- 6.4 A regular meeting of the Co-ordination Committee shall be held at least twice every Calendar Year. The secretary to be designated pursuant to Article 6.9 shall be responsible for calling such regular meetings of the Co-ordination Committee and shall do so at the request of the Chairman by sending a notice to the Parties. Other meetings, if necessary, may be held at any time at the request of either Party. In each case the secretary shall give the Parties at least thirty (30) days notice (or such shorter period as the Parties may agree) of the proposed meeting date, the time and location of the meeting.
- 6.5 The Parties hereby empower the Co-ordination Committee to:
- (a) review and adopt a proposed Development Plan as set out in Article 8, and review and examine any Development Work Program and Budget proposed by the Contractor and any amendment thereof;
 - (b) determine the commerciality of each proposed Development Operation;
 - (c) review and adopt proposed Development Operations and Budgets;
 - (d) approve or confirm the following items of procurement and expenditures:
 - (i) approve procurement of any item within the Budget with a unit price exceeding Two Hundred and Fifty Thousand U.S.\$ (U.S.\$250,000) or any single purchase order of total monetary value exceeding One Million U.S. \$ (U.S.\$1,000,000);
 - (ii) approve a lease of equipment, or an engineering sub agreement or a service agreement within the Budget worth more than Five Hundred Thousand U.S.\$ (U.S.\$500,000) in total; and
 - (iii) approve excess expenditures pursuant to Article 9.4 and the expenditures pursuant to Article 9.5;
 - (e) demarcate boundaries of a Development Area;
 - (f) review and approve the insurance program proposed by the Contractor and emergency procedures on safety and environmental protection and all programs and budgets which are in connection with environmental protection;

- (g) review and approve personnel policies, selection and training programs for Operator. Without prejudice to the foregoing, it is accepted that part of the personnel policy of Operator shall be to give preference to local citizens, provided that the conduct of Petroleum Operations shall not be affected;
 - (h) discuss, review, decide and approve other matters that have been proposed by either Party, Contractor or the Operator;
 - (i) review and discuss the development work and technological regimes proposed by the Parties;
 - (j) appoint sub-committees to meet from time to time to review any aspect of Petroleum Operations, which the Co-ordination Committee thinks fit; and
 - (k) review and adopt proposed Exploration Work Programs and Budgets for each Exploration period.
- 6.6 The meeting quorum of the Co-ordination Committee shall require the presence of at least one (1) representative from each Party. Decisions of the Co-ordination Committee shall be made by unanimous decision of the representatives present and entitled to vote. Each representative will have one (1) vote. All decisions made unanimously shall be deemed as formal decisions and shall be conclusive and equally binding upon the Parties.
- 6.7
- (a) The Parties shall endeavour to reach agreement and unanimous decision on all matters presented to the Co-ordination Committee. Where there is disagreement between the Parties regarding any matter arising under Article 6.5, or regarding a proposed Development Plan, the Co-ordination Committee shall endeavour to reach agreement within forty-five (45) days in the case of an Exploration Work Program and Budget and within sixty (60) days in the case of a Development Plan, in each case from the date of submittal by the Contractor of such Exploration Work Program and Development Plan for approval.
 - (b) Subject to an Exploration Work Program and Budget covering any Minimum Work Commitment for the applicable Exploration period if not approved by the Co-ordination Committee within the said forty-five (45) days the Exploration Work Program and Budget submitted by the Contractor shall be deemed to be approved as provided in Article 9.2.
 - (c) In respect of a Development Plan which is not approved by the Co-ordination Committee within the said sixty (60) days, the matter may be referred by either Party to an internationally recognised independent expert appointed by the Parties (or, where the Parties fail to appoint such expert within fifteen (15) days, then as appointed by the President of the United Kingdom Energy Institute), whose decision on the approval of the Development Plan shall be final and binding. The costs of the expert shall be met by the Parties equally and the Contractor's costs shall not be recoverable as Costs and Expenses, and the expert shall be deemed to be acting as an expert and not as an arbitrator.

- 6.8 A matter, which requires urgent handling, may be decided by the Co-ordination Committee without convening a meeting, with the Co-ordination Committee making decisions through electronic means or the circulation of documents.
- 6.9 The Co-ordination Committee shall nominate a secretary, to record minutes of the meetings of the Co-ordination Committee. The secretary shall take a record of each proposal voted on and the results of such vote at each meeting of the Co-ordination Committee. Each representative of the Parties shall sign and be provided with a copy of such record at the end of such meeting. The secretary shall provide each Party with a copy of the minutes of each meeting of the Co-ordination Committee within fifteen (15) days after the end of such meeting. Each Party shall thereafter have a period of fifteen (15) days to give notice of any objections to the minutes to the secretary. Failure to give notice within the said fifteen (15) day period shall be deemed approval of those minutes. In any event the record of proposals voted on to be provided at the end of each meeting shall be conclusive and take precedence over the minutes.
- 6.10 All costs and expenses incurred with respect to the activities of the Co-ordination Committee shall be paid or reimbursed by the Contractor and recoverable as Costs and Expenses in accordance with the Accounting Procedure.

ARTICLE 7

CONTRACTOR RESPONSIBILITY

- 7.1 The Parties agree that DNO ASA, or its designee, shall act as the Operator for Petroleum Operations within the Agreement Area in accordance with approved Work Programs and Budgets unless and until the Contractor notifies the Government of the appointment of a new Operator. Following the appointment of a new Operator, that Operator shall act as the designated non-profit agent of the Contractor for the conduct of Petroleum Operations in accordance with this Agreement and the JOA. Under such circumstance of an appointment of a new Operator, the Contractor's overall joint and several liability for the acts and actions of the new Operator will continue.
- 7.2 The Contractor shall have the following obligations:
- (a) to perform the Petroleum Operations in accordance with all applicable laws and regulations and methods and practices customarily used and accepted in the international Petroleum industry and any directions received from the Co-ordination Committee. It is recognised that the Co-ordination Committee through the Contractor will have operating control of all Petroleum Operations;
 - (b) to conduct (implement) the Work Programs and Budgets approved by the Co-ordination Committee;
 - (c) to be responsible for purchasing facilities, equipment and miscellaneous material and enter into subcontracts and service contracts at Contractor's instruction with service providers and vendors related to the Petroleum Operations, in accordance with approved Work Programs and Budgets and instructions from Contractor;

- (d) to prepare and submit for approval a personnel training program and an annual budget and carry out the same as approved by the Co-ordination Committee;
 - (e) to establish and maintain complete and accurate accounting records regarding its costs and expenditures for the Petroleum Operations in accordance with the Accounting Procedure and this Agreement;
 - (f) to make necessary preparation for regular meetings of the Co-ordination Committee, and to submit to the Co-ordination Committee information related to the matters reviewed and approved by the Co-ordination Committee;
 - (g) to assist the Contractor and the Government as requested in the provision of reports to the Co-ordination Committee on Petroleum Operations conducted under this Agreement.
- 7.3 The Contractor shall not be responsible for any activities (including Petroleum activities) affecting the Agreement Area prior to the Effective Date and the Contractor shall have no responsibility for making safe any existing wells and for the abandonment and decommissioning of any existing wells, facilities and equipment not used by the Contractor in Petroleum Operations.
- 7.4 The Contractor shall provide both Parties with copies of all relevant data and reports pertaining to Petroleum Operations (including but not be limited to geophysical, geological, technological, operational, accounting or other material) required by such Parties.
- 7.5 The Contractor shall make good faith efforts to ensure that Third Parties have access to the capacity in any pipeline exceeding its own notified or contracted requirements available to third party users on reasonable commercial terms that do not discriminate among third party users.
- 7.6 (a) If the Contractor is unable to commence the acquisition of the seismic and/or drill an exploration well in the first twelve (12) months of the first Exploration period as provided in Annex C due to the inability of the Contractor to find a contractor able to commence such seismic work or exploration well, the Government shall have the right to enter into a contract with a seismic and/or drilling contractor on behalf of the Contractor and have such seismic work or exploration well commenced provided that the Contractor shall pay all the Costs and Expenses due to such contractor.
- (b) If notwithstanding Article 7.6(a) the Government is unable to fund a contractor to commence the acquisition of the seismic and/or an exploration well in the first twelve (12) months of the first Exploration period, the Contract shall be deemed to be in Force Majeure and the provisions of Article 24 shall apply.

ARTICLE 8

PROCEDURE FOR DETERMINATION OF COMMERCIALITY AND APPROVAL OF DEVELOPMENT PLANS

- 8.1 (a) Where, in the course of Petroleum Operations, the Contractor makes a Discovery of Petroleum in the Agreement Area, the Contractor shall inform the Co-ordination Committee immediately by notice in writing. Within forty-five (45) days of such notice the Contractor shall inform the Co-ordination Committee whether, in the Contractor's opinion, the Discovery is of potential commercial interest and merits appraisal.
- (b) If at any time the Contractor concludes that significant additional Commercial Production is feasible from any Development Area within the Agreement Area where Commercial Production has previously been established, the Contractor shall notify the Co-ordination Committee within forty-five (45) days of reaching such a conclusion.
- 8.2 Immediately following notification under Article 8.1(a) or 8.1(b), the Contractor shall in the first instance present to the Co-ordination Committee a proposed Study Program. The proposed Study Program shall specify in reasonable detail the Appraisal work including seismic, drilling of wells and studies to be carried out and the estimated time frame within which the Contractor shall commence and complete the program and also appropriate budgets.
- 8.3 Thereafter the Contractor shall carry out the Study Program. After completion of such Study Program, the Contractor shall submit to the Co-ordination Committee a comprehensive evaluation report on the Study Program. Such evaluation report shall include, but not be limited to: geological conditions, such as structural configuration; physical properties and extent of reservoir rocks; pressure, volume and temperature analysis of the reservoir fluid; fluid characteristics, including gravity of liquid hydrocarbons, sulphur percentage, sediment and water percentage, and product yield pattern; Natural Gas composition; production forecasts (per well and per Field); and estimates of recoverable reserves.
- 8.4 Together with the submission of the evaluation report, the Contractor shall submit to the Co-ordination Committee a written declaration including one of the following statements:
- (a) that the Commercial Production previously notified to the Government pursuant to Article 8.1 is feasible;
- (b) that such Commercial Production is not feasible (contrary to the notice containing Contractor's initial expectations); or
- (c) that Commercial Production will be conditional on the outcome of further specified work that the Contractor commits to carry out under a further Exploration or Study Program in specified areas within or outside the relevant Study Area.

- 8.5 In the event the Contractor makes a declaration under Article 8.4(c) above, the Contractor shall be entitled to retain the relevant Study Area pending the completion of the further work committed under that Article, at which time the Contractor shall advise the Co-ordination Committee of its conclusion as to whether or not there is in fact a new Commercial Discovery and the provisions of Article 8.4(a) or (b) shall be applied accordingly.
- 8.6 If the Contractor declares pursuant to Article 8.4(a) that Commercial Production is feasible, the Contractor shall submit to the Co-ordination Committee (i) a proposed Development Plan in respect of the relevant Commercial Discovery (containing the matters specified in Articles 8.7 and 8.8) and (ii) a proposed designation of the Development Area, both of which shall be subject to the Co-ordination Committee's approval to be given in accordance with Article 6.7.
- 8.7 The Contractor's proposed Development Plan to be submitted pursuant to Article 8.6 shall detail the Contractor's proposals for Development and operation of the Development Area. It will detail any facilities and infrastructure, which may be required up to the Measurement Point, either inside or outside of the Development Area. Any Development Plan shall set forth production parameters, number and spacing of wells, the facilities and infrastructure (including proposed locations) to be installed for production, storage, transportation and loading of Petroleum, an estimate of the overall cost of the Development, and estimates of the time required to complete each phase of the Development Plan, a production forecast and any other factor that would affect the economic or technical feasibility of the proposed Development.
- 8.8 Any Development Plan shall also include an abandonment and site restoration program together with a funding procedure for such program. Each abandonment plan shall describe removal and abandonment measures deemed necessary following completion of Production from the relevant Development Area together with an estimate of the costs thereof. The abandonment plan shall provide for the removal of facilities and equipment used in Petroleum Operations or their in place abandonment, if appropriate, in the Development Area and the return of used areas to a condition that reasonably permits the use of such areas for purposes similar to those uses existing prior to the commencement of Petroleum Operations hereunder. All payments made to an abandonment fund by Contractor to meet expenditures incurred in abandonment and site restoration shall be treated as Costs and Expenses and recoverable from Cost Recovery Petroleum in accordance with Article 10 and the Accounting Procedure. The start date for payments to an abandonment fund, and the method of calculation for periodic instalments to be paid into the abandonment fund, will be agreed in the Development Plan. The abandonment plan and budget shall be regularly reviewed by the Co-ordination Committee. Surplus accumulation in the abandonment fund will be credited to the cost recovery account. All funds collected pursuant to the funding procedure shall be dedicated to site restoration and abandonment and will be placed in a special interest bearing account by Contractor, which shall be held in the joint names of the Government and the Contractor or their nominees. The Contractor's responsibilities for environmental degradation, site restoration and well abandonment obligations, and any other actual, contingent, possible and potential activity associated with the environmental condition of the Development Area shall be limited to the obligation to place the funds agreed to be paid in accordance with the said funding procedure in the approved account in

accordance with generally accepted international Petroleum industry practice. Deposits in approved accounts shall be made on a quarterly basis in arrears commencing with the first Calendar Quarter in which there is Available Petroleum. All such payments deposited by Contractor shall be treated as Costs and Expenses and recoverable as Operation Expenses from Cost Recovery Petroleum in accordance with Article 10 of this Agreement. No Taxes shall be imposed on any amounts paid into, received or earned by or held in the special interest bearing account. The Contractor shall be solely responsible for the implementation of the abandonment plan.

- 8.9 Any significant changes to an approved Development Plan or proposals related to extension of a Field or for enhanced recovery projects shall be submitted to the Co-ordination Committee.
- 8.10 Subject to the terms of this Agreement the Contractor shall carry out, at its own expense and financial risk, all the necessary Petroleum Operations to implement an approved or revised Development Plan.
- 8.11 Where there is a perceived need recognised by the Parties to improve the economic effectiveness of the Petroleum Operations by constructing and operating certain common facilities with other organisations (including for example roads, non-import/non-export pipelines, compression and pumping stations and communication lines) the Parties shall use their best efforts to reach agreement between themselves and other appropriate enterprises as to the construction and operation of such facilities with all costs, tariffs and investments made by the Contractor to be recoverable as Operation Expenses in accordance with Article 10 of this Agreement and the Accounting Procedure.

ARTICLE 9

ANNUAL WORK PROGRAMS AND BUDGETS

- 9.1 The Contractor shall prepare and submit the annual Work Programs and Budgets in respect of each Exploration period and for Development, which in the case of Development shall be in conformity with the approved Development Plan. The Contractor shall be responsible for the procurement of installations, equipment and supplies and entering into contracts for the purchase of goods and services with Subcontractors including Foreign Subcontractors and others arising out of Petroleum Operations, all in accordance with approved Work Programs and Budgets. Operator shall assist the Contractor when requested in respect of the matters set out in the previous sentence, and shall implement domestic procurement operations as provided in Article 7.2(c) in accordance with approved Work Programs and Budgets.
- 9.2 Before the 31st October of each Calendar Year, the Contractor shall prepare and submit to the Co-ordination Committee for its review a proposed annual Work Program and Budget for the next Calendar Year. If the Co-ordination Committee agrees to modifications in an annual Work Program and/or Budget, the Contractor shall promptly make such modifications to the Work Program and/or Budget and resubmit the modified Work Program and Budget to the Co-ordination Committee. The Co-ordination Committee shall approve each Work Program and Budget as provided in Article 6.7.

- 9.3 In connection with the review and approval of the annual Work Program and Budget, the Contractor and Operator shall submit to the Co-ordination Committee such supporting data as reasonably requested by the Co-ordination Committee.
- 9.4 The Contractor may, in accordance with the following provisions, incur costs and expenditures in excess of the approved Budget or costs and expenditures outside the approved Budget in carrying out the approved Work Program and such costs and expenditures will be recoverable as Costs and Expenses under Paragraph 3.1(o) of the Accountancy Procedure, provided that the objectives in the approved Work Program are not substantially changed:
- (a) In carrying out an approved Budget, the Contractor may, if necessary, incur excess costs and expenditures of no more than ten percent (10%) of the approved Budget. The Contractor shall report quarterly the aggregate amount of all such excess expenditures to the Co-ordination Committee for confirmation.
 - (b) For the efficient and as required operative performance of Petroleum Operations, the Contractor may, without approval, undertake certain individual projects which are not included in the Work Program and Budget, for a maximum expenditure of One Hundred Thousand U.S.\$ (U.S.\$100,000), but shall, within ten (10) days after such expenditures are incurred, report to the Co-ordination Committee for confirmation.
 - (c) Excess expenditures under this Article 9.4 shall not exceed ten percent (10%) of the approved or modified total annual Budget for the Calendar Year. If the aforesaid excess is expected to be in excess of said ten percent (10%) of the total annual Budget, the Contractor shall present its reasons therefore to the Co-ordination Committee and obtain its approval prior to incurring such expenditures.
- 9.5 In case of emergency (as in where there is an immediate threat to life or property), the Contractor may incur emergency expenditures for the amount actually needed but shall report such expenditures to the Co-ordination Committee as soon as they are made. The said emergency expenditures shall not be subject to Article 9.4 above.
- 9.6 Petroleum Operations will only be performed in accordance with the approved or modified annual Work Program and Budget, otherwise they will not be deemed to be Costs and Expenses and will not be treated as Cost Recoverable.

ARTICLE 10

ALLOCATION OF PRODUCTION, RECOVERY OF COSTS AND EXPENSES, PRODUCTION SHARING, AND RIGHT OF EXPORT

- 10.1 The Contractor shall provide or procure the provision of all funds required to conduct Petroleum Operations under this Agreement, except as otherwise provided in this Agreement, and the Contractor shall be entitled to recover its Costs and Expenses from the proceeds of Petroleum produced from the Agreement Area as provided below.

- 10.2 The Contractor shall have the right to use free of charge Petroleum produced and saved from the Agreement Area to the extent required for Petroleum Operations under the Agreement. The amount of Petroleum which the Contractor shall be entitled to use for Petroleum Operations shall not exceed the amount which would be used by a reasonable and prudent operator in accordance with international Petroleum industry practice. For the avoidance of doubt, the use of such Petroleum shall only be for the benefit of Petroleum Operations and not the personal gain of any Party or Contractor Party. An appropriate record shall also be made of the use of such Petroleum.
- 10.3 Available Crude Oil and, subject to Articles 11.3 and 15, Available Natural Gas (hereinafter collectively referred to as "Available Petroleum") shall be measured at the Measurement Point and shall be sold by the Contractor, and in respect of the Government's share of Available Petroleum shall be sold by the Contractor on behalf of the Government, and the revenues determined in accordance with Article 11 generated from the sales of the Available Petroleum shall be distributed among the Parties in accordance with the terms of this Article 10.
- 10.4 Royalty calculated Quarterly in accordance with Articles 10.13 and 10.14 shall first be deducted from the Available Petroleum. From the remaining Available Petroleum the Contractor shall be entitled to recover all Costs and Expenses incurred in respect of Petroleum Operations in a manner consistent with the Accounting Procedure, Article 10.5 and Article 10.6.
- 10.5 Costs and Expenses shall be recovered from one hundred percent (100%) of remaining Available Petroleum (hereinafter referred to as "Cost Recovery Crude Oil" and "Cost Recovery Natural Gas" and collectively "Cost Recovery Petroleum" as appropriate) following the recovery of Operation Expenses. Costs and Expenses shall be recovered in the Quarter in which such Costs and Expenses are incurred.
- 10.6 To the extent that in a Quarter outstanding recoverable Costs and Expenses related to the Agreement Area exceed the value of all Cost Recovery Crude Oil or Cost Recovery Natural Gas from the Agreement Area for such Calendar Quarter, the excess shall be carried forward for recovery in the next and each succeeding Calendar Quarters until fully recovered, but in no case after termination of this Agreement.
- 10.7 To the extent that the value of Cost Recovery Petroleum received by the Contractor from the Agreement Area during a Calendar Quarter is greater or lesser than the Contractor was entitled to receive for that Calendar Quarter, an appropriate adjustment shall be made in accordance with the Accounting Procedure.
- 10.8 Following the deduction of Royalty and recovery of Costs and Expenses from Cost Recovery Petroleum in accordance with the provisions of this Article 10; the remaining Petroleum in any Quarter including any portion of Cost Recovery Petroleum not required for recovery of Cost and Expenses (hereinafter referred to as "Profit Oil" or "Profit Natural Gas" and collectively "Profit Petroleum") shall be allocated between the Parties in each Quarter in the following proportions for each and every Development Area;

The Profit Oil will be shared as follows:

Until the cumulative Available Crude Oil after deduction of the Royalty from any Development Area reaches fifty million (50.000.000) Barrels the Government share of the available crude oil from that Development Area will be sixty percent (60%) and the Contractor share will be forty percent (40%);

Thereafter, until the cumulative Available Crude Oil after deduction of the Royalty from any Development Area reaches three hundred million (300.000.000) Barrels the Government share from that Development Area will be seventy percent (70%) and the Contractor share will be thirty percent (30%);

Thereafter, until the cumulative Available Crude Oil after deduction of the Royalty from any Development Area reaches one billion (1.000.000.000) Barrels the Government share from that Development Area will be eighty percent (80%) and the Contractor share will be twenty percent (20%) and;

Thereafter, Available Crude Oil after deduction of the Royalty exceeding one billion (1.000.000.000) Barrels the Government share will be eighty-five percent (85%) and the Contractor share will be fifteen percent (15%).

Any Available Natural Gas, whether Associated or Non-Associated, which the Contractor intends to produce and sell, shall be allocated between the Parties in each Quarter in the following proportions: fifty percent (50%) for the Government and fifty percent (50%) for the Contractor.

- 10.9 The Contractor shall prepare and provide the Government not less than ninety (90) days prior to the beginning of each Calendar Quarter a written forecast setting out the total quantity of Petroleum that the Contractor estimates can be produced and saved hereunder during each of the next four (4) Calendar Quarters in accordance with accepted international Petroleum industry practices and the Work Program established in accordance with Article 9.
- 10.10 Title to their shares of Petroleum determined in accordance with this Article 10 shall pass to the Parties at the Measurement Point. The Contractor shall account to the Government for the Government's share of all proceeds (less a pro-rata share of all costs, Taxes, duties and other charges incurred by the Contractor) incurred by the Contractor and attributable to the Government's share of any Profit Petroleum sold by the Contractor on behalf of the Government, and the risk of loss or default of a Third Party purchaser shall be borne by the Government.
- 10.11 Notwithstanding Article 10.3 the Government may, by giving not less than ninety (90) days notice in writing to the Contractor, elect to lift and take all or part of its entitlement to Profit Oil in kind during one (1) or more subsequent Quarters. In that event the Parties shall agree on procedures for taking volumes of Crude Oil corresponding to their respective entitlements on a regular basis and in a manner that is appropriate having regard to the respective destinations and uses of the Crude Oil, all in accordance with the provisions of this Agreement. If necessary the Parties will enter into a lifting agreement setting out the agreed procedures for taking volumes of Crude Oil, and such agreement shall comply with the principles of accepted international Petroleum industry practice. The Government shall assume credit risk and risk of loss from the Measurement Point in any part of Profit Oil so taken in kind.

- 10.12 The Royalty shall be paid by Contractor to the Government or to any authority as designated by Government in Quarterly instalments in arrears. The first payment in respect of production to date shall be made on the first day of the first Calendar Quarter following the commencement of Commercial Production. The Royalty shall be five percent (5%) of the value of the Available Crude Oil produced in the relevant Quarter.
- 10.13 Royalty in respect of Available Natural Gas shall be determined by agreement made in accordance with Article 15.
- 10.14 The Royalty payment shall be calculated from the value of Crude Oil at the Measurement Point as determined in accordance with Article 11.
- 10.15 Any Royalty Petroleum sold by the Contractor on behalf of the Government for the purposes of Article 10.13 shall be deemed to be sold by the Contractor as agent for the Government. The Contractor shall account to the Government for the proceeds (less all costs, Taxes, duties and other charges incurred by the Contractor) incurred by the Contractor and attributable to the Royalty Petroleum sold by the Contractor on behalf of the Government, and the risk of loss or default of a Third Party purchaser shall be borne by the Government.

ARTICLE 11

VALUATION OF CRUDE OIL AND NATURAL GAS

- 11.1 If the Contractor can demonstrate that Petroleum is being sold to a Third Party on an arm's length basis, then the Crude Oil shall be valued as the actual revenues received by the Contractor for sales of Crude Oil at the Measurement Point (adjusted if necessary for transportation, storage and processing costs). If however such a Third Party sale cannot be demonstrated then the Parties agree that the value of the Crude Oil, if sold on international markets, shall be adjusted to the international market price for Crude Oil from time to time. In this case, for the purpose of determining the value of the Petroleum taken and disposed of by the Parties and/or their assignees under this Agreement during each Calendar Quarter, the Parties shall, prior to the commencement of Commercial Production, agree upon the basket of Crude Oils freely traded in international markets and referred to in Article 11.1(a) below and the value of the Petroleum shall be adjusted to reflect the weighted average of daily f.o.b. prices for similar term or spot sales for the same Calendar Quarter, it being understood that the following principles will apply:
- (a) The weighted average of the basket shall be such that the average quality of the basket and the average quality of the types of Crude Oil produced under this Agreement are equal; and
 - (b) The prices for individual referenced crude oil markers used within the basket shall be based upon the arithmetic average of a daily report of the actual price for each referenced crude oil marker as published in agreed internationally recognised publications; and
 - (c) Adjustment provisions will be incorporated into the basket formula to take account of transportation costs involved in Crude Oil produced under this

Agreement arriving at a designated sales point (where the sales point is not the Measurement Point) and to take account of quality variation beyond a pre-agreed range; and

- (d) Unless agreed otherwise, the last calculated weighted average basket price shall serve as the provisional price for a Calendar Quarter until a new price is determined.
- 11.2 In the event that the Parties are unable to agree upon the basket of Crude Oil envisaged in Article 11.1 above, or the principles relating thereto, then either of the Parties may refer the question for a final and binding determination by an independent expert (who shall be deemed to be acting as an expert and not as an arbitrator) designated by the President of the UK Energy Institute. Pending such determination, the price shall be as determined in Article 11.1(d) above.
- 11.3 Natural Gas sold in arm's length transactions shall be valued at the actual revenues received less transportation, storage, treatment, processing, marketing, distribution, liquefaction and all other associated costs incurred by Contractor beyond the Measurement Point in supplying Natural Gas to customers beyond the Measurement Point. Natural Gas sold in other than arm's length transactions shall be valued in accordance with the terms of an agreement made under Article 15 which shall be approved by the Government.

ARTICLE 12

ANCILLARY RIGHTS OF THE CONTRACTOR AND OPERATOR

- 12.1 In addition to the rights to carry out Petroleum Operations within the Agreement Area the Government shall provide or otherwise procure access by Contractor to all existing facilities and infrastructure in the Agreement Area owned by the Government for the purpose of carrying out its Petroleum Operations during the term of the Agreement. Such access shall be on terms as regards access and tariffs no less favourable than those offered to other persons or entities and, in addition, in any case within the Current Legislation.
- 12.2 Provided that the Government is furnished the information below, the Government shall make available at no cost and the Contractor shall have the right to use, produce, reprocess and export all existing (and as may be acquired by the Contractor) geoscience, engineering, environmental and geodetic data (including magnetic tapes and films) maps, surveys, reports, and studies it deems necessary to carry out Petroleum Operations hereunder including, but not limited to: magnetic surveys, seismic surveys, well logs and analysis, core analysis, well files, geologic and geophysical maps and reports, reservoir studies, reserve calculations, accurate geodetic co-ordinates for the location of all wells and seismic lines and all other pertinent data relative to the Agreement Area, which are owned by the Government. In the event that any information is to be sold on a confidential basis to any Third Party by the Parties (consent for which is required from the Parties) any profit made on such sale shall be distributed in accordance with the share of Profit Oil under Article 10.

- 12.3 The Contractor shall have the right to conduct all geoscience, engineering, environmental and geodetic studies it deems necessary to carry out Petroleum Operations under the Work Program. Said studies may include, but are not limited to: seismic surveys, magnetic surveys, global positioning surveys, aerial photography (obtaining relevant permits), and collection of soil/water/oil/rock samples for scientific and environmental studies. The Contractor shall be granted access to and/or permission to fly subject to obtaining appropriate consents (which will not be unreasonably withheld or delayed) over the Agreement Area to conduct said studies. The Contractor shall have the right to import equipment and supplies necessary to conduct said studies as well as the right to export data, film and samples to laboratories outside the Kurdistan Region to conduct such studies.
- 12.4 Subject to (i) prior approval by the Co-ordination Committee, and (ii) prior consent and/or permit from any necessary local administration or Government body and relevant landowners, the Contractor and/or Operator shall have the right to clear the land, to dig, pierce, drill, construct, erect, locate, supply, operate, manage and maintain pits, tanks, wells, trenches, excavations, dams, canals, water pipes, factories, reservoirs, basins, maritime storage facilities and such, primary distillation units, separating units for first oil extraction, sulphur factories and other Petroleum producing installations, as well as pipelines, pumping stations, generator units, power plants, high voltage lines, telephone, telegraph, radio and other means of communication (including satellite communication systems), plants, warehouses, offices, shelters, personnel housing, hospitals, schools, premises, underwater piers and other installations, roads, bridges, and other means of transportation, garages, hangars, workshops, maintenance and repair shops and all the auxiliary services which are necessary or useful to Petroleum Operations or related to them and, more generally, everything that is or could become necessary or accessory to carry out the Petroleum Operations in accordance with the Current Legislation.
- 12.5 The agents, employees and personnel of the Contractor and Operator, or Subcontractors, may enter or leave the Agreement Area and have free access, within the scope of their functions, to all installations put in place by the Contractor or Operator or otherwise utilised in Petroleum Operations.
- 12.6 Subject to prior consent of any appropriate local governmental bodies and the relevant landowners, the Contractor shall have the right to utilise the upper soil, mature timber, clay, sand, lime, gypsum and stones other than precious stones, and any other similar substances necessary for the performance of Petroleum Operations in accordance with the Current Legislation. The Contractor may utilise the water necessary for Petroleum Operations, on condition that reasonable efforts are taken to minimise potentially adverse effects on irrigation and navigation, and that land, houses and watering places are not adversely affected.
- 12.7 The Contractor shall have the right to use existing pipeline and terminal facilities belonging to or under the control of the Government. The Government shall assist in making these facilities available to the Contractor on terms with regard to access and tariffs that are no less favourable than those made available to others.

ARTICLE 13

ASSISTANCE PROVIDED BY THE GOVERNMENT

- 13.1 To enable the Contractor to properly carry out the Petroleum Operations, the Government shall have the obligation to assist the Contractor and produce all consents and approvals required by the Contractor or its Foreign Subcontractors upon request to:
- (a) provide the approvals or permits needed to conduct Petroleum Operations, to carry out associated business activities and to open local and foreign bank accounts (for both local and foreign currency) in the Kurdistan Region;
 - (b) arrange for Foreign Exchange to be converted in accordance with the principles set out in Article 18.9 of this Agreement;
 - (c) use office space, office supplies, transportation and communication facilities and make arrangements for accommodations as required;
 - (d) assist with any custom formalities;
 - (e) provide entry and exit visas and work permits for employees and their family members of Operator, Contractor, their Affiliated companies and Foreign Subcontractors, who are not citizens of the Kurdistan Region and who come to the Kurdistan Region to implement the Agreement and to provide assistance for their transportation, travel and medical facilities whilst in the Kurdistan Region;
 - (f) provide necessary permits to send abroad documents, data and samples for analysis or processing during the Petroleum Operations;
 - (g) contact and instruct appropriate departments and ministries of the Government and any other bodies controlled by the Government to do all things necessary to expedite Petroleum Operations;
 - (h) provide permits, approvals, and land usage rights requested by the Contractor and/or Operator for the construction of bases, facilities and installations for use in conducting Petroleum Operations; and
 - (i) provide to the Contractor data and samples if such data and samples exist concerning the Agreement Area other than those produced as a result of Petroleum Operations.

ARTICLE 14

MEASUREMENT, QUALITY AND VALUATION OF PETROLEUM

- 14.1 All Petroleum produced, saved and not used in the Petroleum Operations in accordance with Article 10.3 shall be measured at the Measurement Point approved in the Development Plan.

- 14.2 The Measurement Point shall be an outlet of the very final facility, among all facilities, the cost of which is included as a Cost and Expense recoverable from Cost Recovery Petroleum under this Agreement.
- 14.3 All Petroleum shall be measured in accordance with standards generally acceptable in the international Petroleum industry. All measurement equipment shall be installed, maintained and operated by the Operator. The installed measurement equipment will have certificates of standard from appropriate international organisations. The Parties shall be entitled periodically to inspect the measuring equipment installed and all charts and other measurement or test data at all reasonable times. The accuracy of measuring equipment shall be verified by tests at regular intervals and upon request by either Party, using means and methods generally accepted in the international Petroleum industry.
- 14.4 Should a meter malfunction occur, the Operator shall immediately have the meter repaired, adjusted and corrected and following such repairs, adjustment or correction shall have it tested or calibrated to establish its accuracy. Upon the discovery of a metering error, Operator shall have the meter tested immediately and shall take the necessary steps to correct any error that may be discovered and after each case approval of the Government on using the meter is necessary.
- 14.5 In the event a measuring error is discovered, the Parties shall use all reasonable efforts to determine the correct production figures for the period during which there was a measuring error and correct previously used readings. Contractor shall submit to the Co-ordination Committee a report on the corrections carried out. In determining the correction, Contractor shall use, where required, the information from other measurements made inside or outside the Development Area. If it proves impossible to determine when the measuring error first occurred, the commencement of the error shall be deemed to be the point in time halfway between the date of the previous test and the date on which the existence of the measuring error was first discovered.
- 14.6 All measurements for all purposes in this Agreement shall be adjusted to standard conditions of pressure at sea level and temperature at sixty degrees Fahrenheit (60°F).

ARTICLE 15

NATURAL GAS

- 15.1 Associated Natural Gas
- (a) Associated Natural Gas produced within the Agreement Area shall be used primarily for purposes related to the Production Operations and production enhancement including, without limitation, oil treating, gas injection, gas lifting and power generation.
 - (b) Based on the principle of full utilisation of the Associated Natural Gas and with no impediment to normal production of the Crude Oil, any Development Plan shall include a plan of utilisation of Associated Natural Gas. If there is any excess Associated Natural Gas remaining in any Oil Field after utilisation pursuant to Article 15.1(a) above (hereafter referred to as "Excess Associated

Natural Gas”), the Contractor shall carry out a feasibility study regarding the commercial utilisation of such Excess Associated Natural Gas.

- (i) If the Parties agree that Excess Associated Natural Gas has no commercial value, then Operator shall act under the plan approved by Co-ordination Committee, so as not to interfere with normal oil production. For the avoidance of doubt, both the plan and the Operator’s activities under the plan shall exclude pollution and correspond to relevant standards effective in Current Legislation.
 - (ii) If the Parties agree that Excess Associated Natural Gas has commercial value, they will endeavour to enter into gas sales agreement(s) and/or other commercial and/or technical arrangements with Third Parties required to develop such Excess Associated Natural Gas, and shall implement a new agreement regarding the Appraisal and possible development and marketing of the Excess Associated Natural Gas in the domestic and international markets. Investments in the facilities necessary for production, transportation and delivery of Excess Associated Natural Gas shall be made by the Contractor. The construction of facilities for such Production and utilisation of the Excess Associated Natural Gas shall be carried out at the same time as the Development Operations, or at any time as may be agreed to by the Parties.
 - (iii) If either Party considers that Excess Associated Natural Gas has commercial value while the other considers that Excess Associated Natural Gas has no commercial value, the one who considers Excess Associated Natural Gas to have commercial value may utilise such Excess Associated Natural Gas, at its own cost and expense and without impeding the Production of Crude Oil or affecting the shares of Crude Oil and Natural Gas otherwise to be allocated under the other provisions of this Agreement. If such Excess Associated Natural Gas is not so utilised at any time or from time to time, then such Excess Associated Natural Gas shall be disposed of by the Operator in accordance with Article 15.1(b)(i).
- (c) The price of Associated Natural Gas produced from the Agreement Area shall be determined by the Parties based on general pricing principles taking into consideration factors such as sales prices of internationally transported gas delivered in Western Europe, quality and quantity of the Associated Natural Gas (including the equivalent substitute energy value) and the economics of Development.
 - (d) Investments made in conjunction with the utilisation of both Associated Natural Gas and Excess Associated Natural Gas, together with investments incurred after approval of a Development Plan in carrying out feasibility studies on the utilisation of Excess Associated Natural Gas, shall be charged to Operation Expenses.

15.2 Non-associated Natural Gas

When any Non-associated Natural Gas is discovered within the Agreement Area, the Parties shall implement a new agreement regarding the Appraisal and possible development and marketing of the Non-associated Natural Gas in the domestic and international markets. If the Parties cannot reach a new agreement within six (6) months or any period mutually agreed upon, the Government will own and will or cause to appraise, develop or produce such Non-associated Natural Gas. The Government will take all necessary measures to avoid any effect, which may hamper the Petroleum Operations of the Contractor while producing Crude Oil.

ARTICLE 16

TAX/FISCAL REGIME

- 16.1 This Article shall apply to each Contractor Party individually.
- 16.2 Each Contractor Party, Foreign Employee and Operator shall be entitled to full and complete exemption from all Government Taxes prior to or after the Effective Date of this Agreement except as otherwise provided for in this Agreement. If any Tax is levied on the Contractor Party, Foreign Employee or Operator within the territory of Iraq, such Tax will be offset from the Government's share of Profit Petroleum.
- 16.3 This Agreement is entered into on the basis that the project shall be free from Kurdistan Regional Government and Iraq Taxes.
- 16.4 It is acknowledged that Double Tax Treaties will have effect to give relief from Taxes to, but not limited to, the Contractor, Contractor Parties, Foreign Subcontractors and Foreign Employees in accordance with the provisions of such Double Tax Treaties, but not otherwise.
- 16.5 The Contractor shall withhold Tax on payments to Subcontractors at a rate of five percent (5%).
- 16.6 Each Contractor Party shall maintain its tax books and records both in local currency and in U.S.\$.
- 16.7 Employees of the Contractor, Contractor Parties, their Affiliates and Subcontractors, and those employees assigned by the Contractor to the Operator who are not citizens or residents of the Kurdistan Region or of Iraq ("Foreign Employees") shall not be liable to the Kurdistan Region for personal income tax imposed by the Kurdistan Regional Government in accordance with Tax legislation. However, where Iraq has entered into a Double Tax Treaty which has the effect of relieving a Foreign Employee from personal income tax in their home nation, that Foreign Employee shall be liable for personal income tax to the Kurdistan Region in accordance with such Double Tax Treaty.
- 16.8 Foreign Employees who perform work in the Kurdistan Region and their employers that would otherwise be covered by and subject to social insurance, pension fund contributions and similar payments under the social security system of the Kurdistan Regional Government will be exempt from those payments.

ARTICLE 17

ACCOUNTING, FINANCIAL REPORTING AND AUDIT

- 17.1 The Contractor shall maintain books and accounts of Petroleum Operations in accordance with the Accounting Procedure attached hereto as Annex B. These shall be maintained in Iraqi Dinars and in U.S.\$ in accordance with generally accepted international Petroleum industry accounting principles. All books and accounts, which are made available to the authorities in accordance with the provisions of the Accounting Procedure, shall be prepared in the English language.
- 17.2 The Accounting Procedure specifies the procedure to be used to verify and establish promptly and finally Contractor's Costs and Expenses under Article 10 of this Agreement.
- 17.3 Sales revenues, expenditures, financial results, tax liabilities, and loss carry-forwards of each Contractor Party shall be determined in accordance with the rules, rights, and obligations set forth in this Agreement in so far as such sales revenues, expenditures, financial results, tax liabilities, and loss carry-forwards are related to Petroleum Operations under this Agreement.
- 17.4 On an annual basis Contractor shall submit to the Government or other nominated Governmental agency an internationally recognised auditor's report on Costs and Expenses incurred, that under Article 10 should be compensated by Cost Recovery Petroleum. The auditor's report shall also include a profit calculation pursuant to the provisions of Article 10 of this Agreement. The Government shall have the right to audit the books and accounts maintained by Contractor.

ARTICLE 18

CURRENCY, PAYMENTS AND EXCHANGE CONTROL

- 18.1 The Contractor and each Contractor Party, and their Affiliates, Subcontractors and the Operator shall have the right to open, maintain, and operate Foreign Exchange bank accounts both in and outside of the Kurdistan Region and local currency bank accounts inside the Kurdistan Region. Such operations performed in the Kurdistan Region will comply with Current Legislation.
- 18.2 The Contractor and each Contractor Party, and their Affiliates shall have the right to transfer all funds received in and converted to Foreign Exchange in the Kurdistan Region without payment of Taxes, fees, duties or imposts to bank accounts outside the Kurdistan Region in accordance with the Current Legislation.
- 18.3 The Contractor and each Contractor Party, and their Affiliates and Foreign Subcontractors shall have the right to hold, receive and retain outside the Kurdistan Region and freely use all funds received and derived from Petroleum Operations by them outside the Kurdistan Region without any obligation to repatriate or return the funds to the Kurdistan Region, including but not limited to all payments received from export sales of the Contractor Parties' share of Petroleum and any sales proceeds from an assignment of their interest in this Agreement.

- 18.4 The Contractor and each Contractor Party, and their Affiliates, Foreign Subcontractors and the Operator shall have the right to import into the Kurdistan Region funds required for Petroleum Operations under this Agreement in Foreign Exchange and to export freely any funds held in the Kurdistan Region to bank accounts outside Iraq.
- 18.5 The Contractor and each Contractor Party, and their Affiliates and Foreign Subcontractors shall have the right to pay outside of the Kurdistan Region for goods, works and services of whatever nature in connection with the conduct of Petroleum Operations under this Agreement without having first to transfer to the Kurdistan Region the funds for such payments.
- 18.6 Whenever such a need arises the Contractor and each Contractor Party and their Affiliates, Foreign Subcontractors and the Operator shall be entitled to purchase local currency with Foreign Exchange and convert local currency into Foreign Exchange in accordance with provisions stipulated in legislation.
- 18.7 The Contractor and each Contractor Party, and their Affiliates and Foreign Subcontractors shall have the right to pay outside the Kurdistan Region the principal and interest on loans used for funding Petroleum Operations without having to first transfer to the Kurdistan Region the funds for such payment.
- 18.8 The Contractor and each Contractor Party and their Affiliates, and the Operator shall have the right to pay wages, salaries, allowances and benefits of Foreign Employees working in the Kurdistan Region in Foreign Exchange partly or wholly outside of the Kurdistan Region.
- 18.9 Conversions of currency shall be recorded at the rate actually experienced in that conversion. Expenditures and sales revenues in currency other than the U.S.\$ shall be translated to U.S.\$ at the rates officially published by the Central Bank of Iraq at the close of business on the first business day of the current month.

ARTICLE 19

IMPORT AND EXPORT

- 19.1 The Contractor, each Contractor Party and Affiliates and their agents and the Operator shall have the right to import into, export and re-export from the Kurdistan Region in accordance with the Current Legislation in force on the date this Agreement is signed.
- 19.2 The Contractor, each Contractor Party and Affiliates and their agents shall have the right to sell any materials or equipment or goods which were used in Petroleum Operations provided that such items are no longer needed for Petroleum Operations and the costs of such items have not been and are not intended to be included as Costs and Expenses recoverable from Cost Recovery Petroleum.
- 19.3 The Contractor, each Contractor Party, their customers and their carriers shall have the right to export from the Kurdistan Region all Petroleum to which the Contractor becomes entitled under this Agreement free of all export duties, customs duties, levies or imposts.

- 19.4 Foreign Employees and family members of the Contractor and its Affiliates, its agents and Foreign Subcontractors, shall have the right to import into and re-export from the Kurdistan Region household goods and personal property at any time free of any import or export duty, customs duty, levy or impost.
- 19.5 The Contractor and any Foreign Subcontractors bringing equipment, facilities or goods required for Petroleum Operations into the Kurdistan Region shall be exempt from any import duties, customs duties, levies or imposts on such equipment, facilities or goods and on the export thereof.

ARTICLE 20

EXPORT OF HYDROCARBONS, TRANSFER OF OWNERSHIP, AND REGULATIONS FOR DISPOSAL

- 20.1 The Government shall make good faith efforts to ensure that the Contractor has access to capacity in export facilities controlled by the Government on terms which are equivalent to those which would be available to a bona fide arm's length user. If any production or export quotas are at any time imposed by the Government, the Government shall ensure that the Contractor shall have equal rights to produce and export Petroleum produced under this Agreement as all other contractors holding interests in production sharing agreements in the Kurdistan Region.
- 20.2 The transfer of title to each Contractor Party of its share of Petroleum shall be effective upon the lifting of that share by such Party at the Measurement Point or, at the Parties' option, at some other point, as designated by the Co-ordination Committee.
- 20.3 The Parties shall each be entitled to designate (at their own cost) an employee, independent company or consultant who shall check the lifting of Petroleum from the Measurement Point or at such other point as may be designated in accordance with Article 20.2.
- 20.4 If one of the Parties is unable to lift its share of Petroleum in due time, with the result that Petroleum Operations may be interfered with or in any way disrupted, then after giving such notice as is practical in the circumstances any other Party may dispose of it, and subsequently give back to such Party an equivalent amount of Petroleum (taking into account any costs incurred).

ARTICLE 21

OWNERSHIP OF ASSETS

- 21.1 Ownership of any asset, whether fixed or moveable, acquired by or on behalf of the Contractor in connection with Petroleum Operations hereunder shall vest in the Government without consideration if (i) both the costs of such asset have been recovered by the Contractor under this Agreement, and (ii) either this Agreement has come to an end or, if earlier, when the asset is no longer required for Petroleum Operations by the Contractor. The Contractor shall enjoy continued free, exclusive and unrestricted use of all assets at no cost or loss of benefit to the Contractor until the termination of this Agreement or if earlier until they are no longer required for

Petroleum Operations. The Contractor shall bear the custody and maintenance of such assets and all risks of accidental loss or damage thereto while they are required for Petroleum Operations, provided however that all costs necessary to operate, maintain and repair such assets and to replace or repair any damage or loss shall be recoverable as Operation Expenses from Cost Recovery Petroleum in accordance with the provisions of Article 10.

- 21.2 Whenever the Contractor relinquishes any part of the Agreement Area, all moveable property located within the portion of the Agreement Area so relinquished may be removed to any part of the Agreement Area that has been retained for use in Petroleum Operations.
- 21.3 The provisions of Article 21.1 and 21.2 shall not apply to materials or other property that are rented or leased to the Contractor, its Affiliates or Operator or which belong to employees of the Contractor, its Affiliates or Operator.

ARTICLE 22

INSURANCE, ENVIRONMENT, HEALTH, SAFETY AND LIABILITY

- 22.1 The Contractor shall obtain and maintain such types and amounts of insurance for the Petroleum Operations as are reasonable and such that they comply with the Current Legislation and accepted international Petroleum industry practice and standards to the extent such insurance coverage is available on reasonable commercial terms.
- 22.2 The insurance which may be obtained, may cover:
- (a) destruction and damage to any property held for use during Petroleum Operations and classified as fixed capital and/or leased or rented property and/or interests in pipelines operated by the Contractor;
 - (b) destruction of Crude Oil in storage;
 - (c) liability to Third Parties;
 - (d) liability for pollution and expenses for cleaning up in the course of Petroleum Operations;
 - (e) expenses for wild well control;
 - (f) liability incurred by the Contractor in hiring land drilling rigs, vessels and aircraft serving the Petroleum Operations; and
 - (g) losses and expenses incurred during the transportation and storage in transit of goods shipped from areas outside the Agreement Area.
- 22.3 In any insurance agreements, the amount for which the Contractor itself is liable (the "deductible amount") shall be reasonably determined between the Contractor and the insurer and such deductible amount shall in the event of any insurance claim be considered as Costs and Expenses of Petroleum Operations recoverable from Cost Recovery Petroleum.

- 22.4 It is understood that, in order to meet their insurance obligations, insurance providers used by Contractor may conclude reinsurance and co-insurance agreements with any other insurance enterprises and organisations.
- 22.5 Notwithstanding the other provisions of this Agreement, the Contractor shall indemnify and hold harmless the Government against all losses, damages and liability arising under any claim, demand, action or proceeding brought or instituted against the Government by any employee of the Contractor or any Subcontractor or dependent thereof, for personal injuries, industrial illness, death or damage to personal property sustained in connection with, related to or arising out of the performance or non-performance of this Agreement regardless of the fault or negligence in whole or in part of any entity or individual; provided, however, that such losses, damages and liabilities are not caused by or do not arise out of the performance or non-performance of this Agreement by the Government and the Government shall indemnify and hold the Contractor (including for this purpose any Affiliate, the Operator and all Subcontractors) harmless against all such damage, losses and liabilities.
- 22.6 The Contractor (including for this purpose any Affiliate and the Operator) shall indemnify the Government for all loss or damage suffered by the Government arising out of the Contractor's Petroleum Operations if such Petroleum Operations were not in accordance with international Petroleum industry practices or applicable laws, rules and regulations and, notwithstanding the foregoing, for any loss or damage to the environment or any cultural or national monument arising out of conduct of the Petroleum Operations; provided, however, that the Contractor (including for this purpose any Affiliate, and the Operator) shall have no liability hereunder if and to the extent any loss and damage is caused by or arises out of any breach of this Agreement (and any other agreements that may be entered into by and between the Contractor and the Government in respect of the Petroleum Operations) or breach of duty by the Government. Notwithstanding the foregoing, the Contractor (including for this purpose any Affiliate and the Operator) shall not be liable to the Government for any punitive or exemplary damages or any other indirect or consequential damages, or for loss of production or hydrocarbon reserves, or for damage to any hydrocarbon reservoir.
- 22.7 The Contractor shall not be responsible to the Government for, and shall bear no cost, expense or liability of the Government for, any claim, damage or loss to the extent such claim, damage or loss does not arise out of a failure to conduct Petroleum Operations as provided in Article 22.6. In amplification of the foregoing, the Contractor shall not be responsible for any environmental condition or damage existing in the Agreement Area prior to the date of this Agreement or caused by a Force Majeure event during the term of this Agreement. Existing environmental conditions will be evidenced by an independent Third Party environmental baseline study of existing environmental conditions to be commissioned by the Contractor, at its own cost and expense (which shall be included as Costs and Expenses for the purposes of determining Cost Recovery Petroleum, subject to prior approval by the Co-ordination Committee) and shall be completed prior to the commencement of the relevant Petroleum Operations under an approved Development Program and Budget and in accordance with international Petroleum industry practices and Current Legislation related to the environmental issues. Such baseline study shall be submitted to the Government and shall be incorporated in the Environmental Impact

Assessment to be prepared by the Contractor in accordance with the environmental laws for the purpose of obtaining a permit for Petroleum Operations from the authority, which permit and any other permits, authorisations and consents which are or may be applicable under the Current Legislation, shall not be unreasonably withheld. The Government agrees to provide Contractor with all authorisations, permits, certificates and other documents necessary for Petroleum Operations. If in the course of the Petroleum Operations, the Government provides other areas for the Contractor's activities, then new environmental baseline studies shall be included in the Development Plan that includes these areas. The Government shall indemnify the Contractor against any claim, damage or loss arising from such pre-existing environmental condition or damage, subject however, to the Contractor having taken reasonable and appropriate precautions in conducting Petroleum Operations, it being understood that in pursuing Petroleum Operations the Contractor has assumed the risk of working in the Agreement Area, and provided, further, that such indemnification shall not extend to any natural pre-existing condition.

- 22.8 In conducting Petroleum Operations, the Contractor shall operate according to international Petroleum industry practices and use best endeavours to minimise potential disturbances to the environment, including the surface, subsurface, sea, air, flora, fauna, other natural resources and property. The order of priority for actions shall be protection of life, environment and property.
- 22.9 The Contractor shall take all necessary steps to respond to, and shall promptly notify the Government of, all emergency and other events (including explosions, leaks and spills), occurring in relation to the Petroleum Operations which are causing or likely to cause material environmental damage or material risk to health and safety. Such notice shall include a summary description of the circumstances and steps taken and planned by the Contractor to control and remedy the situation. The Contractor shall provide such additional reports to the Government as are necessary in respect of the effects of such events and the course of all actions taken to prevent further loss and to mitigate deleterious effects.
- 22.10 In the event of emergency situations as set forth in Article 22.9 above, at the request of the Contractor, the Government, without prejudice and in addition to any indemnification obligations the Government may have hereunder, shall assist the Contractor, to the extent possible, in any emergency response, remedial or repair effort by making available any labour, materials and equipment in reasonable quantities requested by the Contractor which are not otherwise readily available to the Contractor and by facilitating the measures taken by the Contractor to bring into the Kurdistan Region personnel, materials and equipment to be used in any such emergency response or remedial or repair effort. The Contractor shall reimburse the Government's reasonable and necessary costs incurred in such efforts, which reimbursed amounts shall be considered Costs and Expenses.
- 22.11 The Contractor shall not be liable to the Government or Third Parties for any damages caused by contamination entering the Agreement Area as a result of Government, or Third Party activities beyond or within the boundaries of the Agreement Area. The Government shall be legally and financially responsible for any loss, damage and liability, including remedy of environmental conditions, which may be required for safe conduct of the Petroleum Operations, caused by the Government's activities beyond or within the Agreement Area.

- 22.12 The Contractor shall not be liable for any loss or damage, including but not limited to spillage, explosion, contamination or similar environmental damage, in respect of any storage facilities, pipelines or means of transportation which are not under the direct possession and control of the Contractor or its Affiliates or its Subcontractors or the Operator. In addition to the foregoing, the Contractor shall not be liable for any damage whatsoever in respect of the Government share of Petroleum, storage or transportation thereof once the Government has taken custody of the Government share of Petroleum.
- 22.13 The Government shall make best efforts to ensure the safety and security of the Contractor's property and personnel in the Kurdistan Region and to protect them from loss, injury and damage resulting from war (declared or undeclared), civil conflict, sabotage, blockade, riot, terrorism, unlawful commercial extortion, or organised crime. Notwithstanding anything to the contrary contained herein, the Contractor acknowledges and agrees that the obligations undertaken by the Government in this Article 22.13 are no greater than the general obligations of the Government towards citizens of the Kurdistan Region in respect to the perils named above. Furthermore, the Contractor agrees that it shall have no claim for legal or equitable relief for failure of the Government to comply with the provisions of this Article 22.13, except as may be permitted by law.
- 22.14 The Parties agree that, where the field equipment is damaged or destroyed by an act of war or terrorism, and where there was not wilful misconduct by the Contractor, the loss of the Contractor will be indemnified by considering such loss as recoverable Cost and Expenses.
- 22.15 Except as set forth in Article 28, it is understood and agreed that the Government shall not seek or declare any cancellation or termination of this Agreement as a result of the occurrence of any emergency event described in this Article 22.
- 22.16 Notwithstanding anything to the contrary contained herein, the Government acknowledges that the Contractor shall in no circumstances be liable for a sum greater than the value of the investment made by the Contractor in the Kurdistan Region at the time that the liability is incurred.

ARTICLE 23

PERSONNEL

- 23.1 The Contractor shall be entitled to bring Foreign Employees into the Kurdistan Region in connection with the performance of Petroleum Operations. The entry into the Kurdistan Region of such personnel is hereby authorised, and the Government's authorised body shall issue at the Contractor's request the required documents, such as entry and exit visas, work permits and residence cards. At the Contractor's request, the Government shall facilitate all immigration formalities at the points of exit and entry into the Kurdistan Region for the employees and family members of the Contractor, its Affiliates, Subcontractors, Operator, agents and brokers. The Contractor (or Operator on its behalf) shall contact the appropriate offices of the Government to secure the necessary documents, and to satisfy the required formalities.

- 23.2 The employees working within the scope of Petroleum Operations shall be placed under the authority of the Contractor, its Affiliates, its Subcontractors, agents or brokers or the Operator, each of which shall act individually in their capacity as employers. The works, hours, wages, and all other conditions relating to their employment shall be determined by the relevant employer of such employees. In relation to employees who are citizens of the Kurdistan Region, their employment shall be in accordance with the Current Legislation. To the extent that any expatriate personnel are engaged under an Agreement subject to the Current Legislation, that Agreement shall comply with the provisions of the Current Legislation. The Contractor, its Affiliates, its Subcontractors, agents or brokers however, shall enjoy full freedom in the selection and assignment of their employees.

ARTICLE 24

FORCE MAJEURE

- 24.1 If as a result of Force Majeure, a Party is rendered unable, wholly or in part, to carry out its obligations under this Agreement, other than the obligation to pay any amounts due, then the obligations of such Party, so far as and to the extent that the obligations are affected by such Force Majeure, shall be suspended during the continuance of any inability so caused, and for such reasonable time therefore as may be necessary to allow such Party to be in the same position as existed prior to such Force Majeure occurring. The affected Party shall notify the other Party of the Force Majeure situation within seven (7) days of becoming aware of the circumstances relied upon and shall keep the other Party informed of all significant developments. Such notice shall give reasonably full particulars of the said Force Majeure, and also estimate the period of time which such Party will probably require to remedy the Force Majeure. The affected Party shall use all reasonable diligence to remove or overcome the Force Majeure situation as quickly as possible in an economic manner. The period of any such non-performance or delay, together with such period as may be necessary for the restoration of any damage done during such delay, shall be added to the time given in this Agreement for the performance of any obligation dependent thereon (and the continuation of any right granted) and to the term of this Agreement.
- 24.2 For the purposes of this Agreement, "Force Majeure" shall mean a circumstance which is irresistible or beyond the reasonable control of a Party and which prevents, hinders or impedes Petroleum Operations or the discharge of a Party's obligations under this Agreement, and shall be in accordance with the principles of the international Petroleum industry. Except for a declaration of war or the actions of another government, for the purposes of this Agreement, an act or failure to act of the Government shall not be treated as Force Majeure and shall not excuse performance by the Government of its obligations hereunder.
- 24.3 The Contractor, or any Contractor Party shall have the right to terminate this Agreement if a Force Majeure continues for a period in excess of twenty-four (24) months, at any time thereafter by thirty (30) days' notice to the Government in which event the Contractor shall be released from all obligations and liabilities hereunder.

ARTICLE 25

ASSIGNMENTS AND GUARANTEES

- 25.1 DNO ASA may assign and transfer all of its rights and obligations as Contractor under this Agreement to a newly incorporated company which is an Affiliate of DNO ASA and which is incorporated for the sole purpose of such assignment and the carrying out of all the obligations, and the exercise of all rights, of the Contractor.
- 25.2 No assignment, mortgage or charge or other encumbrance shall be made by the Contractor or by a Contractor Party of its rights obligations and interests arising under this Agreement other than in accordance with the provisions of this Article 25. Any purported assignment made in breach of the provisions of this Article 25 shall be null and void.
- 25.3 A Contractor Party may assign all or part of its rights, obligations and interests arising from this Agreement to a Third Party provided that the Third Party :
- (a) has the technical and financial ability to perform the obligations to be assumed by it under this Agreement; and
 - (b) as to the interest assigned to it, accepts and assumes all of the terms and conditions of this Agreement.

Any such assignment shall be subject to the prior written consent of the Government, which consent shall not be unreasonably withheld or delayed. By way of clarification, and not in limitation of the foregoing provisions of this Article 25.3, the Government shall not be considered to be acting unreasonably in declining to consent to any such assignment if the assignment to such proposed assignee is deemed contrary to the Government's interests, as evidenced in writing to that effect signed by the representative of the Government.

If within thirty (30) days following notification of an intended assignment, accompanied by a copy of the proposed deed of assignment and related documentation with respect to the proposed assignee, including certified financial statements and other evidence to the Government's reasonable satisfaction of the matters set forth in this Article 25.3 and such documentation, which shall include evidence of the identity of owners of the assignee, provided in the case of a company the stock of which is registered on a recognised stock exchange, a copy of the documents identifying the significant owners, as such concept is defined or used in the applicable laws pursuant to which such company registered its stock, will satisfy the foregoing requirements, and its direct and indirect parent companies, including the identity of the owners of the ultimate parent, subject to the foregoing proviso, as may be reasonably necessary for the Government, and as requested by the Government, to make a determination of the Government's interests as described above, the Government has not given its written decision concerning such assignment, then it shall be deemed that the Government has declined to give such consent; provided that thereafter if upon the further written request of the Contractor for a written decision, the Government has not given a written response of any kind within fifteen (15) days after such further request, then the assignment shall be deemed approved and the Contractor Party shall execute an assignment, in a form acceptable to the

Government, accepting such assignment. This second request from the Contractor shall cite the provisions of this paragraph and the Contractor shall obtain confirmation from the Government that the request has been received. In the event of the transfer of rights and obligations under this Agreement to a Third Party, Contractor shall pay all costs associated with such transfer and any tax or charge due on such transfer under the Current Legislation.

- 25.4 (a) In addition to the rights of DNO ASA under Article 25.1, a Contractor Party may assign all or part of its rights, obligations and interests arising from this Agreement to another Contractor Party or Affiliate, without prior consent of the Government, provided that any such Affiliate:
- (i) has the technical and financial ability to perform the obligations to be assumed by it under this Agreement; and
 - (ii) as to the interest assigned to it, accepts and assumes all of the terms and conditions of this Agreement; or
- (b) A Contractor Party may freely mortgage, pledge or otherwise encumber its interests in the Agreement or any property in or outside the Agreement Area which is used for Petroleum Operations in connection with funding its share of the Costs and Expenses, provided that any such mortgage, pledge or other encumbrance shall be made expressly subject to the terms of this Agreement.
- 25.5 Each reference in this Agreement to the Contractor shall be treated as including each assignee to which an assignment has been made pursuant to this Article 25.
- 25.6 Subject to the approval of the Government in the event of there being any proposed assignment in accordance with the terms of this Article 25 then to the extent of the interest assigned the assignor shall be released from all further obligations and liabilities arising under this Agreement after the effective date of the assignment. The assignee shall thereafter be liable for the obligations arising from such interest in this Agreement except to the extent provided in this Agreement.

ARTICLE 26

AGREEMENT ENFORCEMENT AND STABILISATION, AND REPRESENTATIONS AND WARRANTIES

- 26.1 In the course of performing the Petroleum Operations, the Operator and the Parties shall be subject to all applicable laws, decrees, rules and regulations.
- 26.2 The Government agrees and commits to Contractor, for the duration of this Agreement, to exercise its best efforts to maintain the stability of the fiscal conditions of this Agreement.
- 26.3 The Parties agree to co-operate in every possible way in order to achieve the objectives of this Agreement. The Government and its subdivisions shall facilitate the exercise of the Contractor's activities by granting it all decrees, permits, resolutions, licenses and access rights and making available to it all appropriate existing facilities and services under the control of the Government so that the Parties may derive the

greatest benefit from Petroleum Operations for their own benefit and for the benefit of the Kurdistan Region.

- 26.4 If at any time after this Agreement has been signed there is a change in the applicable Kurdistan Regional Government laws, regulations or other provisions of effective Current Legislation or enactment of new laws, other than changes in laws relating to the environment, health and safety, which adversely affect the economic benefits of the Contractor or any Contractor Party hereunder, the Government shall exercise its best efforts to exempt or indemnify the Contractor or Contractor Party to the extent of the adverse effect and/or shall make necessary revisions and adjustments to the relevant provisions of this Agreement to restore and maintain the original economic benefits to the Contractor Party.
- 26.5 If the Contractor believes that its economic position has been adversely affected under Article 26.4, it may give notice to the Government describing how its position has been so affected and the nature of an appropriate exemption and the extent of an appropriate indemnity. If matters have not been resolved within ninety (90) days or as otherwise agreed the matter may be referred to arbitration by any Party in accordance with the provisions of Article 29.
- 26.6 The Contractor Parties represent and warrant that:
- 26.6.1 The Contractor possesses the technical expertise and financial resources to fulfil the obligations of Contractor under this Agreement;
- 26.6.2 The execution, delivery and performance by Contractor of this Agreement are within the corporate powers of the Contractor;
- 26.6.3 The Contractor has obtained all corporate consents, approvals, authorizations and resolutions in accordance with its corporate statutes and the applicable laws to empower the Contractor, to execute this Agreement, to undertake all of the obligations of the Contractor hereunder.

ARTICLE 27

NOTICES AND CONFIDENTIALITY

- 27.1 Except as otherwise specifically provided, all notices authorised or required between the Parties by any of the provisions of this Agreement, shall be in writing in English and delivered in person or by registered mail or by courier service or by any electronic means of transmitting written communications which provides confirmation of complete transmission, and addressed to such Parties as designated below. The originating notice given under any provision of this Agreement shall be deemed delivered only when received by the Party to whom such notice is directed, and the time for such Party to deliver any notice in response to such originating notice shall run from the date the originating notice is received. The second or any responsive notice shall be deemed delivered when received. "Received" for purposes of this Article 27 with respect to written notice delivered pursuant to this Agreement shall be actual delivery of the notice to the address of the Party to be notified, specified in accordance with this Article. Each Party shall have the right to change its address at any time and/or designate that copies of all such notices be directed to

another person at another address, by giving written notice thereof to all other Parties. The addresses for service of notices on each of the parties are as follows:

Contractor: DNO ASA
Hopsneveien 127
N-5232 Paradis Bergen
Norway
Attn: Helge Eide
Tel: 00 47 55 22 47 00
Fax: 00 47 55 22 47 01

Government: Prime Minister's Office
Kurdistan National Assembly
Irbil, Kurdistan
Iraq

- 27.2 Subject to the provisions of the Agreement, the Parties agree that all information and data acquired or obtained by any Party in respect of Petroleum Operations shall be considered confidential and shall be kept confidential and not be disclosed during the term of the Agreement to any person or entity not a Party to this Agreement, except:
- (a) To an Affiliate, provided such Affiliate maintains confidentiality as provided herein;
 - (b) To a governmental agency or other entity when required by this Agreement;
 - (c) To the extent such data and information is required to be furnished in compliance with any applicable laws or regulations, or pursuant to any legal proceedings or because of any order of any court binding upon a Party;
 - (d) To prospective or actual contractors, consultants and attorneys employed by any Party where disclosure of such data or information is essential to such contractor's, consultant's or attorney's work;
 - (e) To a bona fide prospective transferee of a Contractor Party's participating interest (including an entity with whom a Contractor Party or its Affiliates are conducting bona fide negotiations directed toward a merger, consolidation or the sale of a majority of its or an Affiliate's shares);
 - (f) To a bank, financial institution or any other person providing funding to a Contractor Party to the extent disclosure is required in connection with securing and arranging for funding of a Contractor Party's obligations;

- (g) To the extent that any data or information which, through no fault of a Party, becomes a part of the public domain.
- 27.3 Disclosure pursuant to Article 27.2(d), (e), and (f) shall not be made unless prior to such disclosure the disclosing Party has obtained a written undertaking from the recipient party to keep the data and information strictly confidential for at least three (3) years and not to use or disclose the data and information except for the express purpose for which disclosure is to be made.

ARTICLE 28

TERMINATION AND BREACH

- 28.1 At any time, if in the opinion of the Contractor, circumstances do not warrant continuation of the Petroleum Operations, the Contractor may, by giving written notice to that effect to the Government relinquish its rights and be relieved of its obligations pursuant to this Agreement except for the Contractor's obligations to complete the Minimum Work Commitment, and except such rights and obligations as related to the period prior to such relinquishment. Neither this Agreement nor any of the rights granted hereunder nor the Operator's right may be terminated as a result of any act or omission of the Operator save in the case where the Operator has carried out an act or omitted to do something at the specific request of the Contractor and the Operator has previously advised the Contractor prior to carrying out the act or omitting to do something that to carry out that act or to omit to do the relevant thing may result in this Agreement being terminated.
- 28.2 The Government is entitled to terminate this Agreement by giving ninety (90) days' advance written notice thereof to all Parties, when the Contractor commits a material breach in relation to its obligations indicated in this Agreement or if the Contractor has not accomplished its warranties according to Article 26.6, all as specified in such notice, and in either case the Contractor has not remedied such breach (to the extent it is capable of being remedied) prior to the expiry of such ninety (90) days. Any termination notice will only be effective at the end of the arbitration procedure in the case that the claim of material breach is referred to arbitration as stipulated in Article 29 and an award confirming such breach is made.

ARTICLE 29

DISPUTE RESOLUTION

- 29.1 The construction, validity and performance of this Agreement shall be governed by the laws applicable to the Kurdistan Region and principles of international law.
- 29.2 All disputes between the Parties arising in out of or relating to this Agreement, or to the breach, termination or validity thereof, which the Parties are unable to resolve amicably, shall be referred by either Party to arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL) in force on the date when this Agreement was signed.
- 29.3 A Party need not exhaust administrative or judicial remedies prior to commencement of arbitral proceedings.

- 29.4 For the purpose of an arbitration under the UNCITRAL Rules:
- (a) the appointing authority shall be the International Court of Arbitration of the International Chamber of Commerce;
 - (b) there shall be a single arbitrator appointed in accordance with said Rules;
 - (c) the seat and venue of the arbitration will be London, United Kingdom and it will be conducted in the English language; and
 - (d) the law of the arbitration shall be the laws of England and Wales.
- 29.5 This clause shall survive the termination of this Agreement until all rights and obligations amongst the Parties in connection with this Agreement have ceased.
- 29.6 The award of the arbitration tribunal shall be reduced to writing and shall be final and binding upon the Parties.
- 29.7 The award shall be made and promptly paid in U.S.\$, free of any deductions or offsets; and any costs and fees incidental to enforcing the award shall, to the maximum extent permitted, be charged to the Party or Parties resisting such enforcement.
- 29.8 Judgement on the award may be entered in any court having jurisdiction over the person or assets of any Party owing the judgement, or application may be made to such court for a judicial acceptance of the award and an order of enforcement, as the case may be.
- 29.9 The Parties shall not be liable to each other in respect of and the arbitrator shall not have the power to award any punitive damages or exemplary damages, and each Party hereby irrevocably waives any right to recover such damages with respect to any dispute resolved by arbitration.

ARTICLE 30

TEXT

This Agreement shall be executed in three (3) originals in the English language, which will be duly certified by a competent authorised body selected by the Government.

ARTICLE 31

APPROVAL AND EFFECTIVE DATE

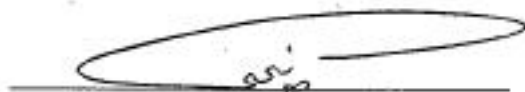
- 31.1 The Parties acknowledge that this Agreement, together with its Annexes (and any documents to be entered into by any Party pursuant to this Agreement), constitutes the totality of the agreement between the Parties, and supersedes and replaces any previous agreement or contract. This Agreement may only be varied by a document signed by both Parties, and a waiver of any term, provision or condition of, or consent granted under, this Agreement shall be effective only if given in writing and signed by

the waiving or consenting Party and then only in the instance and for the purpose for which it is given.

31.2 The Parties acknowledge that this Agreement is subject to applicable Iraqi law, regulations of the Coalition Provisional Authority, and relevant United Nations Security Council resolutions.

Signed this _____ day of June 2004 in three (3) copies in the English language.

For the Government of the Kurdistan Region

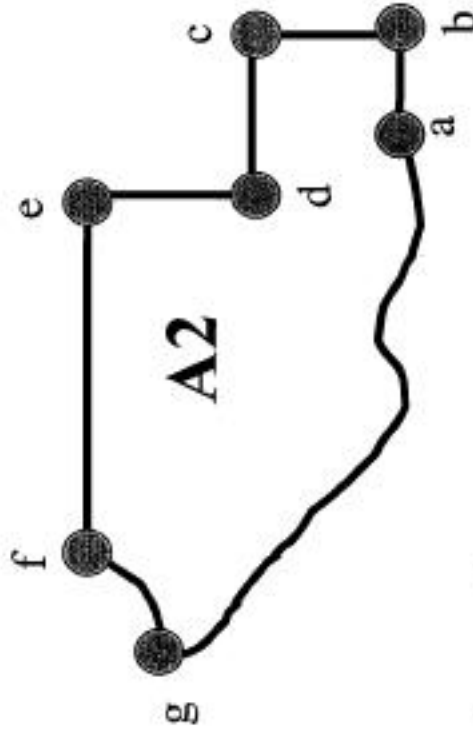
A handwritten signature in black ink, appearing to be 'ar', written over a horizontal line.

For Contractor

A handwritten signature in black ink, appearing to be 'J. Ali', written over a horizontal line.

ANNEX A

AGREEMENT AREA



Area: 3,250 km² (approx.)

Agreement Area;

- X: 352,560 Y: 4,068,880
- X: 358,525 Y: 4,068,880
- X: 358,525 Y: 4,092,270
- X: 327,370 Y: 4,092,270
- X: 327,370 Y: 4,119,613

Line f-g: Border line Kurdistan/Turkey

Line a-g: "Green-Line" between Kurdistan and Iraq

ANNEX B
ACCOUNTING PROCEDURE

1. GENERAL PROVISIONS

1.1 Purpose

To classify expenditures, define recoverable Costs and Expenses, and prescribe the manner in which the Contractor's accounts shall be prepared and approved.

1.2 Definitions

Words and phrases to which a meaning has been assigned in Article 1 of the Agreement shall have the same meaning when used in this Annex.

1.3 Inconsistency

In the event of any inconsistency or conflict between the provisions of this Annex and the other provisions of the Agreement, then the other provisions of the Agreement shall prevail.

1.4 Accounting Records and Reports

- (a) The Contractor shall maintain at the Contractor's office in Kurdistan Region or in the Company's head office complete accounts, books and records of all revenues, Costs and Expenses relating to all Petroleum Operations hereunder in accordance with generally accepted accounting procedures and standards in the international petroleum industry and in accordance with the charts of accounts agreed under Paragraph (b) below, Contractor shall keep a certified copy of said accounts books and records at its office in Kurdistan Region at all times.
- (b) Within sixty (60) days of the Effective Date, the Contractor shall submit to and discuss with the Government a proposed outline of charts of accounts, books, records and reports, which outline shall be in accordance with generally accepted standards and recognised accounting systems and consistent with normal petroleum industry practice and procedures. Within ninety (90) days of receiving the above submission, the Government shall either provide written notification of its approval of the proposal or request in writing revisions to the proposal. Within one hundred and eighty (180) days after the Effective Date, the Contractor and the Government shall agree on the outline of charts of accounts, books and records and reports which shall describe the basis of the accounting system and procedures to be developed and used under this Agreement. Following such agreement, the Contractor shall expeditiously prepare and provide the Government with formal copies of the comprehensive charts of accounts and manuals related to the accounting, recording and reporting functions, and procedures which are, and shall be, observed under the Agreement.

- (c) Notwithstanding the generality of the foregoing, the Contractor shall make regular Statements relating to the Petroleum Operations. These Statements are as shown:
- (i) Production Statement (as indicated in Clause 6 of this Annex).
 - (ii) Value of Production and Pricing Statement (as indicated in Clause 7 of this Annex).
 - (iii) Cost Recovery and Share Account Statement (as indicated in Clause 8 of this Annex).
 - (iv) Statement of Costs and Expenses and Receipts (as indicated in Clause 9 of this Annex).
 - (v) Final End-of-Year Statement (as indicated in Clause 10 of this Annex).
 - (vi) Budget Statement (as indicated in Clause 11 of this Annex).
- (d) All reports and statements shall be prepared in accordance with the Agreement, Current Legislation and where there are no relevant provisions of either of these, in accordance with generally accepted practices in the international petroleum industry.

1.5 Language and Units of Account

All accounts, records, books and reports shall be maintained and prepared in the English language and shall be recorded in Dollars. Where necessary for clarification, the Contractor may also maintain accounts and records in other currencies.

1.6 Audit and Inspection Rights of the Republic

- (a) The Government shall have the right:-
- (i) to audit the Contractor's accounts and records maintained under the Agreement with respect to each Calendar Year within two Years from the end off each such Year.
 - (ii) to retain an auditor of international standing familiar with international petroleum industry accounting practice to undertake or assist the Government to undertake the audit.
- (b) The cost of retaining an auditor pursuant to Clause 1.6(a) shall be borne by the Contractor and treated as Operation Expenses for the purpose of Cost Recovery under Article 10 of the Agreement.
- (c) Any audit exceptions shall be made in writing and notified to the Contractor within one hundred and eighty (180) days, following completion of the audit in question, and failure to give such written exception within such time shall be deemed to be an acknowledgement of the correctness of the Contractor's books and accounts.

- (d) For purposes of auditing, the Government may examine and verify, at reasonable times upon prior notice to the Contractor, all charges and credits relating to the Petroleum Operations, such as books of account, accounting entries, material records and inventories, vouchers, payrolls, invoices and any other documents, correspondence and records including electronic records considered necessary by the Government to audit and verify the charges and credits. Furthermore, the auditors shall have the right in connection with such audit, to visit and inspect at reasonable times, all sites, plants, facilities, warehouses and offices of the Contractor directly or indirectly serving the Petroleum Operations and to question personnel associated with those Operations. Where the Government requires verification of charges made by an Affiliated Company of the Contractor, the Government shall have the right to obtain an audit certificate from an internationally recognised firm of public accountants acceptable to both the Government and the Contractor, which may be the Contractor's statutory auditor.
- (e) The Contractor shall answer any notice of exception under Clause 1.6(c) within one hundred and eighty (180) days of receipt of such notice. Where the Contractor has, after the said one hundred and eighty (180) days, failed to answer a notice of exception the exception shall prevail.
- (f) All agreed adjustments resulting from an audit and all adjustments required by prevailing exceptions shall be promptly made in the Contractor's accounts and any consequential adjustments to payments due to the Government shall be made promptly.
- (g) If the Contractor and the Government are unable to reach final agreement on proposed audit adjustments they may, by mutual agreement refer their dispute for binding and final resolution by an internationally recognised firm of public accountants acceptable to both of them. Such firm shall be deemed to be acting as experts and not as arbitrators. Such referral if agreed shall be in place of Arbitration under Article 29 of the Agreement. When issues are outstanding with respect to an audit, the Contractor shall maintain the relevant documents and permit inspection thereof until the issue is resolved.

1.7 Payments

- (a) All payments between the Parties shall, unless otherwise agreed, be in Dollars and be made through a bank designated by each receiving party. Unless otherwise specified all sums due under the Agreement shall be paid in accordance with the terms of the Agreement.
- (b) All sums due by one party to the other under the Agreement shall, for each day such sums are overdue, bear interest compounded daily at the London Interbank Offered Rate for three month deposits in Dollars ("LIBOR") plus two and half per cent (2.5%).

1.8 Currency Exchange Rates

- (a) It is the intent of this Accounting Procedure that neither the Government nor the Contractor should experience an exchange gain or loss at the expense of,

or to the benefit of, the other. However, should there be any gain or loss from exchange of currency, it will be credited or charged to the accounts under the Agreement.

- (b) Amounts received and Costs and Expenses made in Dollars or in other currencies which are in excess of ten thousand (10,000) Dollars, or the equivalent in other currencies, shall be converted from other currencies into Dollars on the basis of the average of the buying and selling exchange rates between the currencies in question, as published by the Central Bank of Iraq, prevailing on the date upon which such amounts are received and Costs and Expenses are paid.
- (c) Amounts received and Costs and Expenses made in Dollars or in other currencies which do not exceed ten thousand (10,000) Dollars, or the equivalent in other currencies, shall be converted from other currencies into Dollars on the basis of the average of the buying and selling exchange rates between the currencies in question, as published by the Central Bank of Iraq, prevailing on the last business day of the month preceding the month in which such amounts are received and Costs and Expenses are made.

1.9 Revision of the Accounting Procedure

By mutual agreement between the Government and the Contractor this Accounting Procedure may be revised from time to time by a document in writing signed by the Parties.

1.10 Accrual Basis, Cash Flow Basis and Reports

All books and accounts shall be prepared on an accrual basis. Revenues shall be attributed to the accounting period in which they are earned, and Costs and Expenses to the accounting period in which they are incurred, without the need to distinguish whether cash is recovered or disbursed in connection with a particular transaction. Costs and Expenses shall be deemed to have been incurred when paid by the Contractor.

1.11 Values and Treatments

Values and treatments proposed by the Contractor relating to all Costs and Expenses shall be subject to challenge by the Government in the course of audit to ensure that they are in accordance with the provisions of this Accounting Procedure. Upon request by the Government or its representative, the Contractor shall present all records and original documents supporting such Costs or Expenses, such as invoices, cash vouchers, debit notes, price lists or similar documentation verifying the values and treatment proposed.

2. CLASSIFICATION, DEFINITION AND ALLOCATION OF COSTS AND EXPENSES

2.1 Segregation of Costs and Expenses

Costs and Expenses shall be segregated in accordance with the purposes for which such Costs and Expenses are made. The purposes which shall qualify are those which have been included in the approved Work Programme and Budget for the year in which the Costs and Expenditures are made and other items which have been agreed by the Parties from time to time. All Costs and Expenditures recoverable under Clause 3 relating to Petroleum Operations shall be classified, defined and allocated as set out below.

2.2 Exploration Expenses

Exploration Expenses are all direct and allocated indirect expenditures incurred in the search for Petroleum in an area which is, or was at the time when such Costs and Expenses were incurred, part of the Agreement Area including:

- (a) Aerial, geophysical, geochemical, paleontological, geological, topographical and seismic surveys and studies and their interpretation.
- (b) Stratigraphic test hole drilling and water well drilling.
- (c) Labour, materials, supplies, and services used in drilling wells with the object of finding Petroleum or Appraisal wells excluding any costs of the subsequent completion of such wells as producing wells.
- (d) Facilities used solely in support of the purposes described in Clauses 2.2(a), (b) and (c) above, including access roads and purchased geological and geophysical information, all separately identified.
- (e) That portion of all Service Expenditures and that portion of all General and Administrative Expenditures allocated to Exploration Expenses as determined by the proportionate share of total Petroleum Operations Expenditures (excluding General and Administrative Expenditures and Service Expenditures) represented by all other Exploration Expenses.
- (f) Any other Costs and Expenses incurred in the search for an appraisal of Petroleum after the Effective Date.

2.3 Development Costs and Expenses

Development Costs and Expenses shall consist of all Costs and Expenses incurred in:

- (a) Drilling wells which are completed as producing wells and drilling wells for purposes of producing from a Petroleum reservoir, whether these wells are dry or producing and drilling wells for the injection of water or gas to enhance recovery of Petroleum.
- (b) Completing wells by way of installation of casing or equipment or otherwise after a well has been drilled for the purpose of bringing the well into use as a

producing well or as a well for the injection of water or gas to enhance recovery of Petroleum.

- (c) The costs of Petroleum production, transport and storage facilities such as pipelines, flow lines, production and treatment units, wellhead equipment, subsurface equipment, enhanced recovery systems, Petroleum storage facilities, and access roads for production activities.
- (d) Engineering and design studies for the wells and facilities referred to in Clauses 2.3(a), (b) and (c).
- (e) That portion of all Service Expenditures and that portion of all General and Administrative Expenditures allocated to Development as determined by the proportionate share of total Costs and Expenses for Petroleum Operations (excluding General and Administrative Expenditures and Service Expenditures).

2.4 Operation Expenses

Operation Expenses are all Costs and Expenses incurred in Petroleum Operations after the commencement of Commercial Production which are other than Costs and Expenses for Development and General and Administrative Expenditures and Service Expenditures. The balance of General and Administrative Expenditures and Service Expenditures not allocated to the Exploration or Development Costs and Expenses shall be allocated to Operation Expenses.

2.5 Service Expenditures

Service Expenditures are costs and expenditures in support of Petroleum Operations including warehouses, vehicles, motorised rolling equipment, aircraft, fire and security stations, workshops, water and sewerage plants, power plants, housing, community and recreational facilities and furniture, tools and equipment used in these activities. Service Expenditures in any Calendar Year shall include the costs incurred in such year to purchase and/or construct the said facilities as well as the annual costs of maintaining and operating the same. All Service Expenditures shall be regularly allocated as specified in Clauses 2.2(e), 2.3(e) and 2.4 to Exploration and Development and Operation Expenses and shall be separately shown under each of these categories. Where Service Expenditures are made in respect of shared facilities the basis of allocation of costs to Petroleum Operations hereunder shall be specified.

2.6 General and Administrative Expenditures

General and Administrative Expenditures are:

- (a) All main office, field office and general administrative expenditures in the Kurdistan Region including but not limited to supervisory, accounting and employee relations services.
- (b) Where the Operator is a Foreign Contractor, an annual overhead charge for services rendered (excluding the direct expenditures as referred in Clause 3.1(b)(ii) below) by the Operator or its parent company or an Affiliate of the

parent company outside the Kurdistan Region to support and manage Petroleum Operations under the Agreement, or where the Operator, not being a Foreign Contractor, draws upon the services of its parent company or an Affiliate of the parent company within the Kurdistan Region, an annual overhead charge for services rendered by such company to support and manage Petroleum Operations under the Agreement ("Parent Company Overhead").

Parent Company Overhead will be deemed to cover the actual cost (being salaries, wages and labour burden, employee benefits, travel, hotel and other normally reimbursable expenses paid by the Operator or its parent company or an Affiliate of the parent company in accordance with its standard personnel policy in force in the relevant period, provision of office accommodation and provision of services reasonably necessary for operation and maintaining such staff offices) incurred for services rendered by those functions of Operator or its parent company, such as, but not limited to, international production headquarters, international exploration headquarters, treasury, payroll, taxation, insurance, legal, communications, computer services, controllers, personnel, executive administrative management, research and development, central engineering and process engineering which:

- (i) cannot be charged under any other section of this Annex; and
- (ii) are properly allocable to Petroleum Operations under the Agreement. It is understood, however, that services performed by the departments listed above and other corporate departments which directly benefit Petroleum Operations under the Agreement shall be charged as direct costs in accordance with Clause 3 of this Annex.

In respect of the costs of the Operator or Parent Company Overhead, as described above, the Contractor shall charge monthly to Petroleum Operations an amount equal to the total of the following:

(1) Exploration Overhead

The Contractor shall be entitled to an annual charge based on a sliding scale percentage and charged monthly to Petroleum Operations. The basis for applying this percentage shall be the total of Exploration Costs and Expenses during each Calendar Year or fraction thereof less expenditures which have been subjected to the five (5) per cent fee, referred to in Clause 3.1(h)(ii). The sliding scale percentage shall be the following:

For the first five million (5,000,000) Dollars five per cent (5%)

For the next five million (5,000,000) Dollars four per cent (4%)

Over [ten] million (10,000,000) Dollars three per cent (3%)

The foregoing percentages may be reviewed but not more often than annually, and any approved appropriate adjustment shall be made, if necessary, prospectively.

(2) **Development and Production Operations Overhead**

The overhead rates applicable to Development and Production Operations shall be agreed between the Parties in due course but shall in any event be not less than 1.5% of Costs and Expenses and shall incorporate the following guidelines:

- (A) The Contractor's charges must be charged as direct charges whenever possible. Overhead charges exist only to compensate the Contractor's Affiliates for costs which are properly allocable to Petroleum Operations under the Agreement but which cannot, [without unreasonable effort and/or release of confidential data proprietary to the Contractor's Affiliates], be charged under any other section. Overhead costs are billed monthly. Overhead must be commensurate with services rendered and based on actual cost studies but may not exceed an amount calculated as a percentage of certain annual expenditures excluding Exploration Expenses. That percentage as well as the types of expenditures, which affect overhead and those, which do not, shall be agreed among the Parties.
 - (B) The maximum percentage rates may be revised by mutual agreement not more often than annually. The initial maximum percentage rates and the types of expenditures to which they apply shall be agreed as soon as the Parties possess reasonably reliable cost estimates for the relevant Development Area.
 - (C) Overhead charges are not subject to audit by Government.
 - (D) The Contractor must budget for overhead charges.
- (c) All General and Administrative Expenditures shall be regularly allocated as specified in Clauses 2.2(e), 2.3(e) and 2.4 to Exploration Expenses, Development Expenditures and Operation Expenses respectively.

3. COSTS, EXPENSES, EXPENDITURES AND CREDITS OF THE CONTRACTOR

3.1 Costs Recoverable Without Further Approval of the Government

Costs and Expenses incurred by the Contractor pursuant to the Agreement as classified under the headings referred to in Clause 2 shall be recoverable for the purpose of Article 10 of the Agreement (except to the extent provided in Clause 4 or elsewhere in this Annex), subject to audit as provided for herein.

(a) Surface Rights

All direct costs necessary for the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the purposes of the Agreement.

(b) Labour and Associated Labour Costs

- (i) *The Contractor's locally recruited employees based in the Kurdistan Region:* Costs of all Contractor's locally recruited employees who are directly engaged in the conduct of Petroleum Operations under the Agreement in the Kurdistan Region. Such costs shall include the costs of employee benefits and Government benefits for employees and levies imposed on the Contractor as an employer, transportation and relocation costs within the Kurdistan Region of the employee and such members of the employee's family (limited to spouse and dependent children) as required by law or customary practice in the Kurdistan Region. If such employees are engaged in other activities in the Kurdistan Region, in addition to Petroleum Operations, the cost of such employees shall be apportioned on a time sheet basis according to sound and acceptable accounting principles.
- (ii) *Assigned Personnel:* Costs of salaries and wages including bonuses of the Contractor's employees directly engaged in the conduct of the Petroleum Operations under the Agreement, whether temporarily or permanently assigned, irrespective of the location of such employees, it being understood that in the case of those personnel only a portion of whose time is wholly dedicated to Petroleum Operations under the Agreement, only that pro-rata portion of applicable salaries, wages, and other costs as delineated in Clauses 3.1(b)(iii), (iv), (v), (vi) and (vii), shall be charged and the basis of such pro-rata allocation shall be specified.
- (iii) The Contractor's costs regarding holiday, vacation, sickness and disability benefits and living and housing and other customary allowances applicable to the salaries and wages chargeable under Clause 3.1(b)(ii) above.
- (iv) Expenses or contributions made pursuant to assessments or obligations imposed under Current Legislation which are applicable to the Contractor's cost of salaries and wages chargeable under Clause 3.1(b)(ii) above.
- (v) The Contractor's cost of established plans for employees' group life insurance, hospitalisation, pension, stock purchases, savings, bonus, and other benefit plans of a like nature customarily granted to the Contractor's employees, provided however that such costs are in accordance with generally accepted standards in the international petroleum industry, applicable to salaries and wages chargeable to Petroleum Operations under Clause 3.1(b)(ii) above.

- (vi) Actual transportation and travel expenses of employees of Contractor, including those made for travel and relocation of the expatriate employees, including their families and personal effects, assigned to the Kurdistan Region whose salaries and wages are chargeable to Petroleum Operations under Clause 3.1(b)(ii) above.

Actual transportation expenses of expatriate personnel transferred to Petroleum Operations from their country of origin shall be charged to the Petroleum Operations. Transportation expenses of personnel transferred from Petroleum Operations to a country other than the country of their origin shall not be charged to the Petroleum Operations. Transportation cost as used in this section shall mean the cost of freight and passenger service, meals, hotels, insurance and other expenditures related to vacation and transfer travel and authorized under the Contractor's standard personnel policies. The Contractor shall ensure that all expenditures related to transportation costs are equitably allocated to the activities, which have benefited from the personnel concerned.

- (vii) Reasonable personal expenses of personnel whose salaries and wages are chargeable to Petroleum Operations under Clause 3.1(b)(ii) above and for which expenses such personnel are reimbursed under the Contractor's standard personnel policies. In the event such expenses are not wholly attributable to Petroleum Operations, the Petroleum Operations shall be charged with only the applicable portion thereof, which shall be determined on an equitable basis.

(c) Transportation and Employee Relocation Costs

The cost of transportation of employees, equipment, materials and supplies other than as provided in Clause 3.1(b)(vi) necessary for the conduct for the Petroleum Operations under the Agreement along with other related costs such as, but not limited to, import duties, customs fees, unloading charges, dock fees, and inland and ocean freight charges.

(d) Charges for Services

(i) *Third Parties*

- (1) The actual costs of contract services, services of professional consultants, utilities, and other services necessary for the conduct of the Petroleum Operations under the Agreement performed by Third Parties other than an Affiliate of the Contractor.

(ii) *Affiliates of the Contractor*

- (1) Professional and Administrative Services Expenses: cost of professional and administrative services provided by any Affiliates of the Contractor for the direct benefit of Petroleum Operations, including but not limited to services provided by

the Production, Exploration, Legal, Financial, Insurance, Accounting and Computer Services Divisions other than those covered by Clause 3.1(d)(ii)(2), 3.1(f) and 3.1(h)(ii) which Contractor may use in lieu of having its own employees. Charges shall reflect the cost of providing their services and shall not include any element of profit and shall be no less favourable than similar charges for other operations carried on by the Contractor and its Affiliates. The chargeout rate shall include all costs incidental to the employment of such personnel. Where the work is performed outside the home office base of such personnel, the daily rate shall be charged from the date on such personnel leave the home office base where they usually work up to their return thereto, including days which are not working days in the location where the work is performed, excluding any holiday entitlements derived by such personnel from their employment at their home office base.

- (2) Scientific or Technical Personnel: cost of scientific or technical personnel services provided by any Affiliate of the Contractor for the direct benefit of Petroleum Operations, which cost shall be charged on a cost of service basis and shall not include any element of profit. Unless the work to be done by such personnel is covered by an approved Work Programme and Budget, the Contractor shall not authorise work by such personnel without approval of the Government.
- (3) Equipment and facilities: use of equipment and facilities owned and furnished by the Contractor's Affiliates, at rates commensurate with the cost of ownership and operation, provided, however, that such rates shall not exceed those currently prevailing for the supply of like equipment and facilities on comparable terms in the area where the Petroleum Operations are being conducted.

(e) Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems including radio and microwave facilities between the Contract Area and the Contractor's nearest base facility.

(f) Office and Miscellaneous Facilities

Net cost to Contractor of establishing, maintaining and operating any office, sub-office, warehouse, housing or other facility directly serving the Petroleum Operations.

If any such facility services a contract area, other than the Agreement Area, the net costs thereof shall be allocated on an equitable basis.

(g) Ecological and Environment

- (i) Costs incurred in the Agreement Area as a result of legislation for archaeological and geophysical surveys relating to identification and protection of cultural sites or resources;
- (ii) Costs incurred in environmental or ecological surveys required by regulatory authorities, including an environmental impact Statement commissioned pursuant to Article 22.7 of the Agreement;
- (iii) Costs to provide or have available pollution containment and removal equipment.
- (iv) Costs of actual control and cleanup of oil spills and of such further responsibilities resulting therefrom as may be required by applicable laws and regulations, unless such oil spills result directly from the negligence or wilful misconduct of the Contractor;
- (v) Costs of restoration of the operating environment incurred pursuant to an approved scheme prepared in accordance with the Agreement.

(h) Material Costs

Costs of materials and supplies, equipment, machines, tools and any other goods of a similar nature used or consumed in Petroleum Operations subject to the following:

- (i) Acquisition - the Contractor shall only supply or purchase materials for use in Petroleum Operations that may be used in the foreseeable future, together with a reasonable level of spare materials. The accumulation of surplus stocks and inventory shall be avoided so far as is reasonably practical and consistent with efficient and economical operations. Inventory levels shall, however, take into account the time lag for replacement, emergency needs, weather conditions affecting operations and similar considerations.
- (ii) Components of costs, arm's length transactions - except as otherwise provided in Clause 3.1(h)(iv) below, material purchased by the Contractor in arm's length transactions in the open market for use in the Petroleum Operations under the Agreement shall be valued to include invoice price less trade and cash discounts (if any), purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, customs duties, consular fees, excise taxes, other items chargeable against imported materials and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site. Where an Affiliate of the Contractor has arranged the purchase, coordinated the forwarding and expediting effort, its costs should not exceed those currently prevailing in normal arm's length transactions on the open market and in any case shall not

exceed a fee equal to five per cent (5%) of the value of the materials added to the cost of the materials purchased.

- (iii) Accounting - such material costs shall be charged to the accounting records and books in accordance with the "First in, First Out" (FIFO) method;
- (iv) Material purchased from or sold to Affiliates of the Contractor or transferred from other activities of the Contractor to or from Petroleum Operations under this Agreement shall be valued and charged or credited at the prices specified in Clause 3.1(h)(iv)(1), 3.1(h)(iv)(2) and 3.1(h)(iv)(3) hereof:
 - (1) New material, including used new material moved from inventory (Condition "A"), shall be valued at the current international net price which shall not exceed the price prevailing in normal arm's length transactions in the open market.
 - (2) Used material (Conditions "B", "C" and "D");
 - (A) Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classified as Condition "B" and priced at seventy five per cent (75%) of the current price of new material defined in Clause 3.1(h)(iv)(1);
 - (B) Material which cannot be classified as Condition "B" but which after reconditioning will be further serviceable for its original function shall be classified as Condition "C" and priced at not more than fifty per cent (50%) of the current price of new material as defined in 3.1(h)(iv)(1) above. The cost of reconditioning shall be charged to the reconditioned material provided that the value of Condition "C" material plus the cost of reconditioning do not exceed the value of Condition "B" material;
 - (C) Material which cannot be classified as Condition "B" or Condition "C") shall be classified as Condition "D" and priced at a value commensurate with its use by Contractor. If material is not fit for use by the Contractor it shall be disposed of as junk.
 - (3) Material involving erection of costs shall be charged at the applicable condition percentage of the current knocked-down price of new material as defined in Clause 3.1(h)(iv)(1) above.
 - (4) When the use of material is temporary and its service to the Petroleum Operations under the Agreement does not justify the reduction in price as provided for in Clause 3.1(h)(iv)(2)(B)

hereof, such material shall be priced on a basis that will result in a net charge to the accounts under the Agreement consistent with the value of the service rendered.

- (5) Premium prices - whenever material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Contractor has no control, the Contractor may charge Petroleum Operations for the required material at the Contractor's actual cost incurred in providing such material, in making it suitable for use, and in moving it to the Contract Area; provided notice in writing is furnished to the Government of the proposed charge prior to charging Petroleum Operations for such material and the Government shall have the right to challenge the transaction on audit.
- (6) Warranty of material furnished by the Contractor - the Contractor does not warrant the material furnished. In case of defective material, credit shall not be passed to Petroleum Operations until adjustment has been received by the Contractor from the manufacturers of the material or their agents.

(i) Rentals, Duties and Other Assessments

All rentals, taxes, levies, charges, fees, contributions and any other assessments and charges of every kind and nature levied by any governmental or taxing authority in connection with the Contractor's activities under the Agreement and paid directly by the Contractor (save where the contrary is expressly provided in the Agreement) with the exception of taxes upon the income or profits of the Contractor or any Contractor Party, and payments made under Article 10.

(j) Insurance and Losses

Insurance premiums and costs incurred for insurance provided that such insurance is customary, affords prudent protection against risk and is at a premium no higher than that charged on a competitive basis by insurance companies which are not Affiliated Companies of the Contractor. Except in cases of failure to insure where insurance coverage is required pursuant to the Agreement, actual costs and losses incurred shall be recoverable to the extent not made good by insurance unless such losses result solely from an act of wilful misconduct by the Contractor. Such costs may include, but are not limited to, repair and replacement of property in the Agreement Area resulting from damages or losses incurred by fire, flood, storm, theft, accident or such other cause.

(k) Legal Expenses

All reasonable costs and expenses resulting from the handling, investigating, asserting, defending, or settling of any claim or legal action necessary or

expedient for the procuring, perfecting, retention and protection of the Agreement Area, and in defending or prosecuting lawsuits involving the Agreement Area or any Third Party claim arising out of the Petroleum Operations under the Agreement, or sums paid in respect of legal services necessary for the protection of the joint interest of the Government and the Contractor shall be recoverable. Such expenditures shall include, without limitation, attorney's fees, court costs, costs of investigation, and procurement of evidence and amounts paid in settlement or satisfaction of any such litigation and claims provided such costs are not covered elsewhere in the Annex. Where legal services are rendered in such matters by salaried or regularly retained lawyers of the Contractor or an Affiliated Company of the Contractor, such compensation shall be included instead under Clause 3.1(b) or 3.1(d)(ii) above as applicable.

(l) Claims

Expenditures made in the settlement or satisfaction of any loss, claim, damage, judgment or other expense arising out of or relating to Petroleum Operations, except as may otherwise be covered elsewhere in the Annex.

(m) Training Costs

All costs and expenses incurred by the Contractor in the training of its Kurdistan Regional employees engaged in Petroleum Operations under the Agreement.

(n) General and Administrative Costs

The costs described in Clause 2.6(a) and the charge described in Clause 2.6(b) of this Annex.

(o) Other Expenditures

Other reasonable expenditures not covered or dealt with in the foregoing provisions of Clause 3 herein which are necessarily incurred by the Contractor for the proper, economical and efficient conduct of Petroleum Operations.

(p) Finance Costs

All Finance Costs incurred by the Contractor Parties in connection with Petroleum Operations.

3.2 Credit Under the Agreement

The proceeds, other than the proceeds from the sale of Petroleum, received from Petroleum Operations under the Agreement, including but not limited to the items listed below shall be credited to the accounts under the Agreement for the purposes of Article 11 of the Agreement:

- (a) The proceeds of any insurance or claim or judicial awards in connection with the Petroleum Operations under the Agreement or any assets charged to the

accounts under the Agreement where such operations or assets have been insured and the premia charged to the accounts under the Agreement.

- (b) Legal costs charged to the accounts under Paragraph 3.1(k) of this Annex and subsequently recovered by the Contractor.
- (c) Revenue received from Third Parties for the use of property or assets the cost of which has been charged to the accounts under the Agreement.
- (d) Any adjustment received by the Contractor from the suppliers/manufacturers or their agents in connection with a defective material the cost of which was previously charged by the Contractor to the accounts under the Agreement.
- (e) Rentals, refunds, including refunds of taxes paid, or other credits received by the Contractor which apply to any charge which has been made to the accounts under the Agreement, but excluding any award granted to the Contractor under arbitration or sole expert proceedings referred to in the Agreement.
- (f) Prices originally charged to the accounts under the Agreement for materials subsequently exported from the Kurdistan Region without being used in Petroleum Operations under the Agreement.
- (g) Proceeds from the sale or exchange by the Contractor of plant or facilities used in Petroleum Operations the acquisition costs of which have been charged to the accounts under the Agreement.
- (h) Proceeds derived from the sale or license of any intellectual property the development costs of which were incurred pursuant to the Agreement.
- (i) Proceeds derived from the sale, exchange, lease, hire, transfer or disposal in any manner whatsoever of any other item the costs of which have been charged to Petroleum Operations.

3.3 Duplication of Charges and Credits

Notwithstanding any provision to the contrary in this Accounting Procedure, there shall be no duplication of charges or credits to the accounts under the Agreement.

4. COSTS AND EXPENSES NOT TO BE TREATED AS RECOVERABLE

The following costs and expenditures shall not be included in the Costs and Expenses recoverable under Article 10:

- (a) taxes on income or profit paid to any governmental authority;
- (b) any payment made to the Government by reason of the failure of the Contractor to fulfil its minimum Costs and Expenses under the Agreement.
- (c) the cost of any letter of guarantee, if any, required under the Agreement;

- (d) attorney's fees and other costs of proceedings in connection with arbitration under Article 29 of the Agreement or internationally recognised independent expert determination as provided in the Agreement or this Accounting Procedure; and
- (e) fines and penalties imposed under Current Legislation.

5. RECORDS AND VALUATION OF ASSETS

5.1 Records

The Contractor shall maintain detailed records of property in use for Petroleum Operations under the Agreement in accordance with normal practice in exploration and production activities of the international petroleum industry.

5.2 Inventories

Inventories of property in use in Petroleum Operations shall be taken at reasonable intervals but at least once a year with respect to movable assets and once every three (3) years with respect to immovable assets. The Contractor shall give the Government at least thirty (30) days written notice of its intention to take such inventory and the Government shall have the right to be represented when such inventory is taken. The Contractor shall clearly inform Government the principles upon which valuation of the inventory has been based. The Contractor shall make every effort to provide to the Government a full report on such inventory within thirty (30) days of the taking of the inventory. When an assignment of rights under the Agreement takes place the Contractor may, at the request of the assignee, take a special inventory provided that the costs of such inventory are borne by the assignee.

6. PRODUCTION STATEMENT

6.1 Production Information

From the date of Commencement of Commercial Production from the Agreement Area the Contractor shall submit a monthly production statement to the Government showing the following information separately for each producing Development Area and in aggregate for the Agreement Area.

- (a) The quantity of Crude Oil produced and saved.
- (b) The quality characteristics of such Crude Oil produced and saved.
- (c) The quantity of Natural Gas produced and saved.
- (d) The quality characteristics of such Natural Gas produced and saved.
- (e) The quantities of Crude Oil and Natural Gas used for the purposes of carrying on drilling and production operations and pumping to field storage.
- (f) The quantities of Crude Oil and Natural Gas unavoidably lost.
- (g) The quantities of Natural Gas flared and vented.

- (h) The size of Petroleum stocks held at the beginning of the calendar month in question.
- (i) The size of Petroleum stocks held at the end of the calendar month in question.
- (j) The quantities of Natural Gas reinjected into the petroleum reservoir.
- (k) In respect of the Agreement Area as a whole, the quantities of Petroleum transferred at the Measurement Point. All quantities shown in this Statement shall be expressed in both volumetric terms (barrels of oil and cubic meters of gas) and in weight (metric tonnes).

6.2 Submission of Production Statement

The Production Statement for each calendar month shall be submitted to the Government no later than ten (10) days after the end of such calendar month.

7. VALUE OF PRODUCTION AND PRICING STATEMENT

7.1 Value of Production and Pricing Statement Information

The Contractor shall, for the purposes of Article 11 of the Agreement, prepare a statement providing calculations of the value of Crude Oil produced and saved during each Quarter.

This Statement shall contain the following information:

- (a) The quantities and prices realised therefore by the Contractor in respect of sales of Natural Gas and Crude Oil delivered to Third Parties made during the Quarter in question.
- (b) The quantities and prices realised therefore by the Contractor in respect of sales of Natural Gas and Crude Oil delivered during the Quarter in question, other than to Third Parties.

7.2 Submission of Value of Production and Pricing Statement

The Value of Production and Pricing Statement for each Quarter shall be submitted to the Government not later than twenty-one (21) days after the end of such Quarter.

8. COSTS RECOVERY AND SHARE ACCOUNT STATEMENT

8.1 Cost Recovery Statement

The Contractor shall prepare with respect of each Quarter a Cost Recovery Petroleum statement containing the following information:

- (a) Recoverable Costs and Expenses carried forward from the previous Quarter, if any.
- (b) Recoverable Costs and Expenses for the Quarter in question.
- (c) Credits under the Agreement for the Quarter in question.

- (d) Total Recoverable Costs and Expenses for the Quarter in question (subparagraph 8.1(a) plus subparagraph 8.1(b) above, net of subparagraph 8.1(c) above).
- (e) Quantity and value of Cost Recovery Petroleum taken by the Contractor for the Quarter in question.
- (f) Amount of recoverable Costs and Expenses to be carried forward into the next Quarter (subparagraph 8.1(d) net of subparagraph 8.1(e) above).

8.2 Cumulative Production Statement

The Contractor shall prepare with respect to each Quarter a cumulative production statement containing the following information:

- (a) The cumulative production position at the end of the Quarter preceding the Quarter in question.
- (b) Production of Crude Oil for the Quarter in question.
- (c) The cumulative production position at the end of the Quarter in question.
- (d) The amount of Profit Oil taken by the Government and by the Contractor, respectively, during the Quarter in question.
- (e) The share of Profit Oil due to the Government and to the Contractor, respectively, for the next succeeding Quarter.

8.3 Preparation and Submission of Cost Recovery Petroleum and Cumulative Production Statements

- (a) Provisional Cost Recovery Petroleum and cumulative production statements containing estimated information where necessary, shall be submitted by the Contractor on the last day of each Quarter for the purposes of Article 10 of the Agreement.
- (b) Final quarterly Cost Recovery Petroleum and cumulative production statements shall be submitted within thirty (30) days of the end of the Quarter in question.

8.4 Annual Statement

For the purposes of Article 10 of the Agreement, an annual Cost Recovery Petroleum and cumulative production statement shall be submitted within ninety (90) days of the end of each Year. The Annual Statement shall contain the categories of information listed in subparagraphs 8.1 and 8.2 for the Year in question, separated into the Quarters of the Year in question and showing the cumulative positions at the end of the Year in question with respect to cumulative unrecovered Costs and Expenses and cumulative production.

9. STATEMENT OF COSTS AND EXPENSES AND RECEIPTS FROM COST RECOVERY PETROLEUM

9.1 The Contractor shall prepare with respect to each Calendar Quarter a Statement of Costs and Expenses and Receipts from sales of Cost Recovery Petroleum ("Receipts") under the Agreement. The Statement will distinguish between Exploration, Development and Production Costs and Expenses and Operation Expenses and will identify major items of expenditures within these categories. The Statement will show the following:

- (a) Actual Costs and Expenses and Receipts for the Quarter in question.
- (b) Cumulative Costs and Expenses and Receipts for the budget Year in question.
- (c) Latest forecast cumulative Costs and Expenses at the Year end.
- (d) Variations between budget forecast and latest forecast and explanations thereof.

9.2 The Statement of Costs and Expenses and Receipts of each Calendar Quarter shall be submitted to the Government no later than fifteen (15) days after the end of such Quarter.

10. FINAL END-OF-YEAR STATEMENT

The Contractor will prepare a Final End-of-Year Statement. The Statement will contain information as provided in the Production Statement, Value of Production and Pricing Statement, Cost Recovery Petroleum and cumulative production statements and statement of Costs and Expenses and Receipts but will be based on actual quantities of Petroleum produced and expenses incurred. This Statement will be used to make any adjustments that are necessary to the payments made by the Contractor under the Agreement. The Final End-of-Year Statement of each Calendar Year shall be submitted to the Government within ninety (90) days of the end of such Calendar Year.

11. ANNUAL WORK PROGRAMME BUDGET

11.1 In accordance with Article 6 of the Agreement, the Contractor shall prepare an Annual Work Programme Budget. This will distinguish between budgeted Exploration and Development Costs and Expenses and Operation Expenses and will show the following:

- (a) Forecast Costs and Expenses for the budget Year in question including a quarterly classification of such expenditures.
- (b) Cumulative Costs and Expenses to the end of said budget Year.
- (c) A schedule showing the most important individual items of Development Costs and Expenses for said budget Year.

11.2 The Annual Work Programme Budget shall be submitted to the Government with respect to each budget Year no less than thirty (30) days before the start of such year.

ANNEX C

MINIMUM WORK COMMITMENT WORK PROGRAMME AND BUDGET FOR 'AGREEMENT AREA'

1. Work Programme (Minimum Work Commitment)

The Agreement Area has three Exploration periods. There will be a 25% relinquishment after Exploration period 1, a 25% relinquishment after Exploration period 2 and a 100% relinquishment after Exploration Period 3, unless a Development Area is defined.

Work programme (Minimum Work Commitment) for each of the Agreement Areas are:

First Exploration Period (48 months)

First 6 months	-	100km of 2D seismic
Second 6 months	-	drill one exploration well
Remaining 36 months	-	100km of 2D seismic drill one exploration well

Second Exploration Period (36 months) - 100km of 2D seismic
- drill one exploration well

Third Exploration Period (36 months) - drill one exploration well

2. Expenditures/Budget

Unit rate assumptions;

- Seismic – 2D: \$20,000/km
- Exploration well: \$2.0 mill (exclusive of testing)

Summary of Minimum Financial Commitments for the Agreement Area:

Exploration Period	Months	Minimum Financial Commitment
First	48	\$8.0 mill
Second	36	\$4.0 mill
Third	36	\$2.0 mill
Total		\$14.0 mill.