

AMENDED AND RESTATED

PRODUCTION SHARING AGREEMENT

BETWEEN

THE KURDISTAN REGIONAL GOVERNMENT

AND

SHAKAL PRODUCTION, LTD.

TRILAX OIL LTD.

AND

PETOIL PETROLEUM AND PETROLEUM PRODUCTS
INTERNATIONAL EXPLORATION AND PRODUCTION INC.

DATED

FEBRUARY 25, 2007

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AMENDED AND RESTATED PRODUCTION SHARING AGREEMENT

BETWEEN

The **KURDISTAN REGIONAL GOVERNMENT OF IRAQ** (hereafter referred to as the "**GOVERNMENT**"), duly represented by the Minister of Natural Resources;

AND

SHAKAL PRODUCTION, LTD., PETOIL PETROLEUM AND PETROLEUM PRODUCTS INTERNATIONAL EXPLORATION AND PRODUCTION INC., and TRILAX OIL LTD.,

WHEREAS,

- (A) The **GOVERNMENT** wishes to develop the petroleum wealth of the Kurdistan Region (as defined in this Contract) in a way that achieves the highest benefit to the people of the Kurdistan Region and all of Iraq, using the most advanced techniques of market principles and encouraging investment, consistent with Article 112 of the Constitution of Iraq;
- (B) In accordance with the Constitution of Iraq, the prevailing law of the Kurdistan Region is the Kurdistan Region Law (as defined in this Contract), except with regard to a matter wholly within the exclusive jurisdiction of the Government of Iraq;
- (C) The **GOVERNMENT** has established, by Act of the Parliament of the Kurdistan Region, a Ministry of Natural Resources in the Kurdistan Region, with responsibility for all natural resources except for water, and forestry;
- (D) The **GOVERNMENT** intends to present to the Parliament of the Kurdistan Region the Kurdistan Region Petroleum Act (as defined in this Contract), to regulate Petroleum Operations (as defined in this Contract), including production sharing contracts;
- (E) **SHAKAL PRODUCTION, LTD., PETOIL PETROLEUM AND PETROLEUM PRODUCTS INTERNATIONAL EXPLORATION AND PRODUCTION INC., and TRILAX OIL LTD.** each is a company,
 - (i) with the financial capability, and the technical knowledge and technical ability, to carry out Petroleum Operations in the Contract Area (as defined in this Contract) under the terms of this Contract;
 - (ii) having a record of compliance with the principles of good corporate citizenship, and

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- (iii) willing to cooperate with the **GOVERNMENT** by entering into this Contract, thereby assisting the **GOVERNMENT** to develop the Kurdistan Region petroleum industry, thereby promoting the economic development of the Kurdistan Region and Iraq and the social welfare of its people;
- (F) The Regional Government of Sulaimaniyah of the Interim Joint Regional Administration of Northern Iraq entered into a production sharing agreement (the "AGREEMENT" or "CONTRACT ") dated January 14, 2003 with PetOil Petroleum and Petroleum Products International Exploration and Production Inc. ("PetOil");
- (G) By a Deed of Assignment and Support Agreement dated of even date and approved by the **GOVERNMENT**, the rights of the **CONTRACTOR** are now owned by Shakal Production, Ltd., Trilax Oil, Ltd., and PetOil;
- (H) The **CONTRACTOR** has held discussions with the **GOVERNMENT** concerning the reduction of the Contract Area and certain changes to the terms of the Contract, including those discussions held in Ankara, Turkey, between April 3rd, 4th, and 5th of 2005;
- (I) the **CONTRACTOR** desires to release, and does hereby release, part of the lands originally covered by the Contract such that the lands covered by the Agreement are only the lands within the Contract Area as herein defined; and
- (J) the Parties desire to amend and restate the Contract in its entirety;

NOW, THEREFORE, THE PARTIES HAVE AGREED AS FOLLOWS

ARTICLE 1 - DEFINITIONS

Capitalised terms and expressions in this Agreement shall have the following meaning, unless otherwise specified:

Abroad means outside of the Kurdistan Region and other parts of Iraq.

Accounting Procedure means the Accounting Procedure attached to this Contract as Annex B and constituting an integral part of this Contract.

Affiliated Company or **Affiliate** means, as regards any of the companies or entities constituting the **CONTRACTOR**, a company or other legal entity which:

- (a) controls an entity constituting the **CONTRACTOR**; or
- (b) is controlled by an entity constituting the **CONTRACTOR**; or
- (c) controls or is controlled by a company or entity which controls an entity constituting the **CONTRACTOR**.

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For the purpose of this definition, "control" means direct or indirect ownership or control of the majority of the voting rights of the applicable entity at its shareholders' meetings or their equivalent.

Appraisal Area means the area defined in Article 12.2.

Appraisal Program is defined in Article 12.2.

Appraisal Report is defined in Article 12.4.

Appraisal Well means a well drilled for the purpose of evaluating the commercial potential of a geological feature or a geological structure in which Petroleum has been discovered.

Arm's-Length Sales means sales of Petroleum in freely convertible currencies between sellers and buyers having no direct or indirect relationship or common interest whatsoever with each other that could reasonably influence the sales price. Such Arm's-Length Sales shall exclude:

- (a) sales between the **CONTRACTOR** and its Affiliates;
- (b) sales involving the **GOVERNMENT** or the Government of Iraq;
- (c) sales involving exchanges and any transactions not relating to normal commercial practices.

Assets means all platforms, pipelines, plant, equipment, machinery, wells, facilities and all other installations and structures and all Materials and Equipment.

Associated Natural Gas means any Natural Gas dissolved in Crude Oil under reservoir conditions.

Available Associated Natural Gas is defined in Article 25.1.

Available Crude Oil is defined in Article 25.1.

Available Non-Associated Natural Gas is defined in Article 25.1.

Available Petroleum is defined in Article 25.1.

Barrel means a quantity of forty-two (42) US gallons as a unit to measure liquids, at a temperature of sixty degrees (60°) Fahrenheit and pressure of fourteen point seven (14.7) psi.

Budgets means any budgets prepared by, or on behalf of, the **CONTRACTOR** pursuant to this Contract and forming part of an Exploration Work Program and Budget and/or an Appraisal Work Program and Budget and/or a Gas Marketing Work Program and Budget and/or a Development Work Program and Budget and/or a Production Work Program and Budget.

Calendar Year means a period of twelve (12) consecutive Months, commencing 1 January and ending on 31 December of the same year.

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Commercial Discovery means a Discovery which is potentially commercial when taking into account all technical, operational, commercial and financial data collected when carrying out appraisal works or similar operations, including but not limited to: recoverable reserves of Petroleum, sustainable regular production levels and other material technical, operational, commercial and financial parameters, all in accordance with standard practices in the international petroleum industry.

Commercial Production means the production of Petroleum from the Production Area in accordance with annual Production Works Program and Budget.

Constitution of Iraq means the permanent constitution of Iraq approved by the people of Iraq in the general referendum of 15 October 2005;

Contract means this production sharing contract, including its Annexes A - B that are an integral part hereof, as well as any extension, renewal, substitution or amendment of this production sharing contract that may be agreed in writing by the Parties.

Contract Area means the area described and defined in Annex A attached to this Contract, and any modifications made to that Annex in accordance with the provisions of this Contract.

Contract Year means a period of twelve (12) consecutive Months starting from the Effective Date or any anniversary of the said Effective Date.

CONTRACTOR means, either jointly or individually, Shakal Production, Ltd., PetOil Petroleum and Petroleum Products International Exploration and Production Inc., and Trilax Oil Ltd, and Affiliates and/or any assignee of all or part of the rights and obligations under this Contract of each in accordance with Article 39 of this Contract and, for the avoidance of doubt, at any time when there is only one entity constituting the **CONTRACTOR**, any reference made in this Contract to "the entities constituting the **CONTRACTOR**" or the "**CONTRACTOR** entities" or similar reference, shall be deemed to mean "the entity constituting the **CONTRACTOR**". Shakal Petroleum, Ltd., PetOil Petroleum and Petroleum Products International Exploration and Production Inc., and Trilax Oil Ltd. own the interest of the Contractor in the following percentages:

Shakal Production, Ltd.	33 1/3 %
PetOil Petroleum and Petroleum Products International Exploration and Production Inc.	33 1/3 %
Trilax Oil Ltd.	33 1/3 %

Crude Oil means all liquid hydrocarbons in their unprocessed state or obtained from Natural Gas by condensation or any other means of extraction.

Decommissioning Costs means all the costs, expenditure, liabilities and obligations incurred by the **CONTRACTOR** when carrying out Decommissioning Operations.

Decommissioning Operations means any works, together with all related and auxiliary activities, for decommissioning and/or removal and/or abandonment and making safe all of the Assets and site restoration related thereto in relation to any Production Area.

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Decommissioning Reserve Fund is defined in Article 38.1 and includes all contributions paid into such fund and all interest accumulated such fund.

Delivery Point means the place after extraction, specified in the Development Plan for a Petroleum Field, at which the Crude Oil, Associated Natural Gas and/or Non-Associated Natural Gas is metered for the purposes of Article 27.7, valued for the purposes of Article 27.1 and ready to be taken and disposed of, consistent with international practice, and at which a Party may acquire title to its share of Petroleum under this Contract or such other point which may be agreed by the Parties.

Development Costs means all the costs, expenditure, liabilities and obligations incurred by the CONTRACTOR when carrying out Development Operations.

Development Operations means all development operations or works conducted in accordance with a Development Plan up to the Delivery Point with a view to developing a Petroleum Field, including but not limited to: drilling of wells; primary and subsequent recovery projects and pressure maintenance; survey, engineering, building and erecting or laying of production plants and facilities (including but not limited to: separators; compressors; generators; pumps and tankage; gathering lines; pipelines and all facilities required to be installed for production, pressure maintenance, and treatment, storage and transportation of Petroleum); obtaining of such materials, equipment, machinery, items and supplies as may be required or expedient for the foregoing activities; and all auxiliary operations and activities required or expedient for the production of Petroleum from the Production Area.

Development Period is defined in Article 6 of this Contract.

Development Plan means a plan for development defined in Article 12.8 of this Contract.

Development Well means any well drilled after the date of approval of the Development Plan for the purpose of producing Petroleum, increasing or accelerating production of Petroleum, including injection wells and dry holes. Any well drilled within a Production Area shall be deemed a Development Well.

Development Work Program and Budget means the development work program and budget prepared pursuant to Article 13.2.

Discovery means a discovery of Petroleum within the limits of the Contract Area resulting from Petroleum Operations carried out under this Contract, provided such Petroleum is recoverable at the surface with a measurable flow utilising techniques used in the international petroleum industry.

Dollar (US\$) means the legal currency (dollar) of the United States of America (USA).

Effective Date means the date on which the conditions referred to in Article 48 of this Contract have been fulfilled.

Equipment and Materials is defined in Article 19.1.

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Exploration Costs means all the costs, expenditure, liabilities and obligations incurred by the **CONTRACTOR** when carrying out Exploration Operations.

Exploration Operations means any and all operations conducted with a view to discovering Petroleum, including but not limited to: any activities necessary to commence operations; any topographical, hydrographical, geological, geophysical, aerial and other surveys and activities (including interpretations, analyses and related studies) to investigate the subsurface for the location of Petroleum; drilling of shot holes, core holes and stratigraphic test holes; spud, drilling, testing, coring, logging and equipping of Exploration Wells or Appraisal Wells; procurement of such services, material, equipment, machinery, items and supplies as may be required or expedient for the foregoing activities; and all auxiliary operations and activities required or expedient for the conduct of the foregoing activities.

Exploration Period is defined in Article 6 of this Contract.

Exploration Well means any well drilled for the purpose of confirming a geological structure or stratigraphic unit in which no Discovery has previously been made by the **CONTRACTOR**.

Exploration Work Program and Budget means the exploration work program and budget prepared pursuant to Article 11.1.

Export Crude Oil is defined in Article 24.2.

Export Non-Associated Natural Gas is defined in Article 24.2.

Export Petroleum is defined in Article 24.2.

First Exploration Well is defined in Article 10.2 (c).

First Production means the moment when Commercial Production of Crude Oil or Non-Associated Natural Gas (as the case may be) first commences, by flowing at the rate forecast in the Development Plan without interruption for a minimum of forty eight (48) hours.

Force Majeure is defined in Article 40.2.

Gas Marketing Costs means all costs, expenditure, liabilities and obligations incurred by the **CONTRACTOR** when carrying out Gas Marketing Operations.

Gas Marketing Operations has means any and all of the activities and operations contemplated by Article 14.6.

Gas Marketing Work Program and Budget means the marketing work program and budget prepared pursuant to Article 14.8.

Government of Iraq means the Federal Government of the Republic of Iraq, which holds office under the Constitution of Iraq.

International Market Price is defined in Article 27.2 of this Contract.

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Joint Operating Agreement means any agreement executed by the entities constituting the **CONTRACTOR** at any time for the purpose of regulating between such entities the terms under which the Petroleum Operations will be conducted, which agreement shall be: (a) consistent with international standards in the petroleum industry; (b) as between such entities, supplementary to this Contract; and (c) consistent with the provisions of the Contract.

Kurdistan Region means the Kurdistan Region of Iraq recognised by the Constitution of Iraq and having the same meaning as in the Kurdistan Region Petroleum Act.

Kurdistan Region Law means all statutes, decrees, edicts, codes, orders, rules, ordinances and regulations of the **GOVERNMENT** or of any other local, municipal, territorial, provincial, or any other duly constituted governmental authority or agency in the Kurdistan Region.

Kurdistan Region Petroleum Act means the draft Kurdistan Region Petroleum Act, to be presented to the Parliament of the Kurdistan Region or, when that Act enters into force, the Act.

Law means all applicable laws including without limitation the following: constitutional law, civil law, common law, international law, equity, treaties, statutes, decrees, edicts, codes, orders, judgements, rules, ordinances and regulations of any local, municipal, territorial, provincial, federated, national or any other duly constituted governmental authority or agency.

LIBOR means the London Inter-Bank Offered Rate at which Dollar deposits for one (1) Month are offered in the inter-bank market in London, as quoted in the Financial Times of London for the day in question. In the event that such rate is not published in the Financial Times, it shall mean the London Inter-bank Offered Rate at which Dollar deposits for one Month are offered for the nearest day as quoted by National Westminster Bank plc.

Management Committee is defined in Article 8 of this Contract.

Minimum Exploration Obligations is defined in Article 10.1 of this Contract.

Month means a calendar month according to the Gregorian calendar.

Natural Gas means all gaseous Petroleum and inerts.

Non-Associated Natural Gas means any Natural Gas which is not dissolved in Crude Oil under reservoir conditions.

Operator means the entity designated by the **CONTRACTOR** pursuant to Article 5 of this Contract which, in the name and on behalf of the **CONTRACTOR**, shall carry out all Petroleum Operations. If at any time there exists more than one (1) Operator under this Contract, any reference herein to the term 'Operator' shall be to each Operator with respect to the parts of the Contract Area in which such Operator conducts Petroleum Operations.

Party or Parties means the **GOVERNMENT** and/or the **CONTRACTOR**.

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Permits means all licences, permits, consents, authorisations or other permissions, as the context requires.

PetOil Petroleum and Petroleum Products International Exploration and Production Inc. means the legal entity so named established in accordance with the laws of the Turkey.

Petroleum means:

- (a) any naturally occurring hydrocarbon in a gaseous or liquid state;
- (b) any mixture of naturally occurring hydrocarbons in a gaseous or liquid state; or
- (c) any Petroleum (as defined in paragraphs (a) and (b) above) that has been returned to a Reservoir.

Petroleum Costs means all costs and expenditure incurred by the **CONTRACTOR** for the Petroleum Operations, and which the **CONTRACTOR** is entitled to recover under this Contract and its Accounting Procedure attached to this Contract as Annex B including those Costs and Expenses incurred the Contractor and its predecessors in interest from January 14, 2003, to the Effective Date.

Petroleum Field means a Reservoir or group of Reservoirs within a common geological structure or stratigraphic unit from which Petroleum may be produced and which has been declared as a Commercial Discovery by the **CONTRACTOR** pursuant to Article 12.6 (a) or Article 14.5 (a).

Petroleum Operations means all Exploration Operations, Gas Marketing Operations, Development Operations, Production Operations and Decommissioning Operations, as well as any other activities or operations directly or indirectly related or connected with the said operations (including but not limited to health, safety and environmental operations and activities) and authorised or contemplated by, or performed in accordance with, this Contract.

Production Area means such areas within the Contract Area designated as a production area in an approved Development Plan prepared pursuant to Article 12 of this Contract. For the avoidance of doubt, all superjacent or subjacent strata of the Reservoir in which a Commercial Discovery is located are automatically included in the relevant Production Area.

Production Costs means all the costs, expenditure, liabilities and obligations incurred by the **CONTRACTOR** in carrying out the Production Operations.

Production Operations means any works, together with all related and auxiliary activities, for the production of Petroleum from the start of Commercial Production, including but not limited to: extraction, injection, stimulation, pumping, treatment, storage, engineering, operating, servicing, repairing, and maintaining any wells, plants, equipment, pipelines, terminals and any other installations and facilities, and any related operations and auxiliary operations, and storage and transportation of Petroleum from the Production Area to the Delivery Point.

Production Work Program and Budget shall mean the production work program and budget prepared pursuant to Article 13.6.

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Profit Crude Oil is defined in Article 26.1.

Profit Natural Gas is defined in Article 26.1.

Profit Petroleum is defined in Article 26.1.

Public Officer means a civil servant, including a member or employee of a public entity, a member of the Parliament or a member of the Government,

Quarter means a period of three (3) consecutive Months starting on the first day of January, April, July or October respectively.

Reservoir means a subsurface rock formation containing an individual and separate natural accumulation of producible Petroleum characterised by a single natural pressure system.

"R" Factor is defined in Article 26.4.

Royalty is defined in Article 24.

Second Exploration Well is defined in Article 10.3 (b).

Semester means a period of six (6) consecutive Months starting from the first day of January or July respectively.

Shakal Production, Ltd. means the legal entity so named established in accordance with the laws of the Cayman Islands.

Subcontractor means any entity of any contracting tier providing services and/or undertaking works relating to the Petroleum Operations under the overall supervision by, and on behalf of, the **CONTRACTOR**.

Sub-Period and **Sub-Periods** are defined in Article 6.2.

Trilax Oil Ltd means the legal entity so named established in accordance with the laws of the Cayman Islands.

Work Program means any work program prepared by, or on behalf of, the **CONTRACTOR** pursuant to this Contract and forming part of an Exploration Work Program and Budget and/or an Appraisal Work Program and Budget and/or a Gas Marketing Work Program and Budget and/or a Development Work Program and Budget and/or a Production Work Program and Budget.

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ARTICLE 2 - SCOPE OF THE CONTRACT

- 2.1 This Contract is a production-sharing arrangement with respect to the Contract Area, whereby the **GOVERNMENT**, and has the right, pursuant to the Constitution of Iraq, to regulate and oversee Petroleum Operations within the Contract Area.

The purpose of this Contract is to define the respective rights and obligations of the Parties and the terms and conditions under which the **CONTRACTOR** shall carry out all the Petroleum Operations.

By entering into this Agreement, the **GOVERNMENT** grants the **CONTRACTOR** the exclusive right and authority to conduct all Petroleum Operations in the Contract Area as detailed in Article 3 below.

- 2.2 Upon the **CONTRACTOR's** request, the **GOVERNMENT** shall provide all required Permits relating to the Petroleum Operations required by the **CONTRACTOR** to fulfil its obligations under this Contract, including those relating to any extension and renewal periods and including those required by the Government of Iraq. The **GOVERNMENT** (i) represents and warrants to the **CONTRACTOR** that it has not done and has not omitted to do anything that would cause the cancellation or suspension of this Contract or any Permit granted pursuant to this Contract; and (ii) covenants that it will not do, or omit to do, anything that would cause the cancellation or suspension of this Contract or any Permit granted pursuant to this Contract.

- 2.3. The **CONTRACTOR** shall conduct all Petroleum Operations within the Contract Area at its sole cost, risk and peril on behalf of the **GOVERNMENT**, pursuant to this Contract, including but not limited to the following operations:

(a) **Technical Services**

Implementation of all technical, human and material resources reasonably required for execution of the Petroleum Operations, in accordance with standard practices prevailing in the international petroleum industry.

(b) **Financial Services**

The responsibility for funding the Exploration Operations and, in the event of a Commercial Discovery, Development, Production and Decommissioning Operations, pursuant to this Contract.

For the funding of Petroleum Operations, each entity constituting the **CONTRACTOR** shall be entitled to have recourse to external financing from either its Affiliated Companies or from any third parties.

(c) **Administrative Services**

Implementation of all appropriate management and administration techniques for execution of the Petroleum Operations under this Contract, in accordance with standard practices prevailing in the international petroleum industry.

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- 2.4. During the term of this Contract, the **CONTRACTOR** shall be responsible to the **GOVERNMENT** for the conduct of Petroleum Operations within the Contract Area pursuant to the terms of this Contract.
- 2.5. Natural resources other than Petroleum shall be excluded from the scope of this Contract, even if the **CONTRACTOR** discovers any such resources when executing its obligations pursuant to this Contract.
- 2.6. The **CONTRACTOR** shall only be entitled to recover Petroleum Costs incurred under this Contract in the event of a Commercial Discovery. Recovery of Petroleum Costs shall occur within the limits provided under Article 25 of this Contract.
- 2.7. During the term of this Contract, Profit Crude Oil and/or Profit Natural Gas produced from Petroleum Operations shall be shared between the Parties in accordance with the provisions of Article 26 of this Contract.
- 2.8. For the said sharing of any Profit Crude Oil and/or Profit Natural Gas, each entity constituting the **CONTRACTOR** shall be treated as a separate entity and shall act for its own account for income tax purposes.
- 2.9. For the execution of Petroleum Operations under this Contract, the **CONTRACTOR** shall have the right to:
- (a) freely access and operate within the Contract Area, as well as any facilities associated with the Petroleum Operations, wherever they may be located;
 - (b) freely use access roads located within the Contract Area and outside the Contract Area for the construction, installation, maintenance and removal of pipelines and other facilities required for the Petroleum Operations;
 - (c) freely use sand, water, electricity and any other natural resources located inside or outside the Contract Area for the Petroleum Operations;
 - (d) use any qualified foreign and local personnel and/or Subcontractors required for the conduct of Petroleum Operations in accordance with Articles 22 and 23 of this Contract. Any foreign personnel working in the Kurdistan Region shall require prior authorisation of the **GOVERNMENT** (such authorisation not to be unreasonably delayed or withheld) and the **GOVERNMENT** shall obtain any authorisation required by the Government of Iraq;
 - (e) import any goods, materials, equipment and/or services required for the Petroleum Operations in accordance with Articles 19, 22 and 30; and
 - (f) freely use land or property belonging to the Kurdistan Region.
- 2.10 The Government hereby unconditionally and irrevocably warrants to and for the benefit of Contractor:
- (a) that the Contract Area is available for the conduct of exclusive Petroleum Operations by Contractor, and that no other non-governmental party has a

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claim or right (antecedent or extant) to conduct Petroleum Operations, or to produce or to receive Petroleum in or from the Contract Area; and

- (b) the Government shall for the duration of this Agreement and, subject to applicable Kurdistan petroleum law at the time, take all appropriate measures to uphold the enforceability of this Agreement in accordance with its terms as a legal and binding instrument throughout the Federal Region of Kurdistan and the Republic of Iraq.

2.11 The Contractor hereby unconditionally and irrevocably represents and warrants to and for the benefit of the Government that it has not, to its knowledge, done and has not omitted to do anything that would cause the cancellation or suspension of this Agreement, and indemnifies and holds the Government harmless from any liability, costs, claims or damages that the Government may suffer as a result of the failure or inaccuracy of any of such warranty.

ARTICLE 3 - CONTRACT AREA

The initial Contract Area covers the area with the geographic location and co-ordinates described in Annex A attached hereto and shown on the map in Annex A attached hereto and extends five hundred twenty eight square kilometres (528 km²), more or less, and is delimited by the following coordinates:

POINTS	X COORD - EAST	Y COORD - NORTH	LAT - NORTH	LON - EAST
A	534031.75	3832686.29	34 38' 08"	45 22' 15"
B	492441.35	3850381.01	34 47' 44"	44 55' 02"
C	485027.95	3847006.24	34 45' 55"	44 50' 12"
D	514676.16	3825161.52	34 34' 04"	45 09' 36"
E	519630.02	3822237.41	34 32' 30"	45 12' 51"
F	523126.47	3825073.21	34 34' 00"	45 15' 07"
G	526768.36	3822338.08	34 32' 33"	45 17' 30"

The **GOVERNMENT**, by execution of this Contract, hereby validates and approves the foregoing co-ordinates of the Contract Area.

The total area of the Contract Area may be reduced only in accordance with the provisions of this Contract.

ARTICLE 4 - GOVERNMENT PARTICIPATING INTEREST

4.1 The **GOVERNMENT** shall have the option of participating in this Contract, in respect of the entire Contract Area, as a **CONTRACTOR** entity, with an undivided interest in the Petroleum Operations and all the other rights, duties, obligations and

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liabilities of the **CONTRACTOR**, under this Contract in respect of the Contract Area, of twenty-five per cent (25%) (the "**Government Interest**"), such option being referred to herein as the "**Option to Participate**". The **GOVERNMENT** shall be entitled to exercise the Option to Participate by notifying the **CONTRACTOR** in writing of such election at any time in the period commencing on the Effective Date and ending one hundred and eighty (180) days after the date on which **CONTRACTOR** declares the first Commercial Discovery in the Contract Area (which date of declaration is referred to herein as the "**First Commercial Declaration Date**"). If the **GOVERNMENT** does not notify the **CONTRACTOR** of such election within such period, it shall be deemed to have waived its right to exercise the Option to Participate and shall have no further rights whatsoever in respect of any such participation.

4.2 If the **GOVERNMENT** exercises the Option to Participate in accordance with Article 4.1:

- (a) the effective date of such participation shall be the date of the notice by which the **GOVERNMENT** exercises its Option to Participate or the First Commercial Declaration Date, whichever is the earlier;
- (b) the **GOVERNMENT** shall participate as a **CONTRACTOR** entity under this Contract from such effective date, with all its rights, duties, obligations and liabilities under this Contract, save as provided in and subject to the provisions of this Article 4;
- (c) the **GOVERNMENT** shall not have any liability to the other **CONTRACTOR** entities to contribute its Government Interest share of all Petroleum Costs incurred before the First Commercial Declaration Date and its Government Interest share of such Petroleum Costs shall be the responsibility of the other **CONTRACTOR** entities, provided always that such other **CONTRACTOR** entities shall be entitled to recover all such Petroleum Costs in accordance with Article 25;
- (d) if, pursuant to the terms of the Joint Operating Agreement, the **GOVERNMENT** participates in the development of the Commercial Discovery, it shall be liable to the other **CONTRACTOR** entities to contribute its Government Interest share of all Petroleum Costs incurred on or after the First Commercial Declaration Date, with the exception of the production bonuses referred to in Article 32 and shall be entitled to recover all such Petroleum Costs in accordance with Article 25, including the Petroleum Costs which it has reimbursed pursuant to Article 4.2 (e);
- (e) if such Option to Participate is exercised on or after the First Commercial Declaration Date, the **GOVERNMENT** shall, within thirty (30) days of the date of so notifying the **CONTRACTOR** of its election, reimburse the other **CONTRACTOR** entities for all Petroleum Costs for which it is liable pursuant to Article 4.2 (d) and which have been incurred by such other **CONTRACTOR** entities on or after the First Commercial Declaration Date but prior to and including the date of the notice pursuant to which it exercises

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its Option to Participate. From the date of such notice, the **GOVERNMENT** shall pay the Government Interest share of such Petroleum Costs directly;

- (f) the provisions of Article 16.13 shall apply in respect of any Government Interest when held by the **GOVERNMENT** and the **GOVERNMENT** will be individually and separately liable (and not jointly and severally liable with the other **CONTRACTOR** entities) to the **GOVERNMENT** for its obligations, duties and liabilities under this Contract as a **CONTRACTOR** entity and the provisions of Article 4.4 shall apply.

- 4.3 The **GOVERNMENT** may, at its discretion, assign part or all of its Government Interest to a third party or parties which is a public company regulated by the **GOVERNMENT** under the Kurdistan Region Petroleum Act (a "**Public Company**"), provided that in the event of a transfer of part of the Government Interest, such Government Interest will not be less than five per cent (5%).

In the event of such an assignment to a Public Company, for the purposes of Article 39 of the Kurdistan Region Petroleum Act, the Government Interest so assigned shall deemed to be held by the **GOVERNMENT** and in accordance with the principle in Article 16.13 of this Contract, the Public Company to which such Government Interest is transferred will be individually and separately liable (and not jointly and severally liable with the other **CONTRACTOR** entities) to the **GOVERNMENT** for its obligations, duties and liabilities under this Contract as a **CONTRACTOR** entity and the provisions of Article 4.4 shall apply.

- 4.4 Any failure by the **GOVERNMENT** and/or a Public Company to perform any of its or their obligations or to satisfy any of its or their duties or liabilities under this Contract as a **CONTRACTOR** entity shall not be considered as a default of the other **CONTRACTOR** entities and shall in no case be invoked by the **GOVERNMENT** to terminate this Contract.

The capacity of the **GOVERNMENT** and/or a Public Company as a **CONTRACTOR** entity, as it may arise pursuant to the provisions of this Contract, shall in no event cancel or affect the rights of the other **CONTRACTOR** entities to seek to settle a dispute or to refer such dispute to arbitration or expert determination in accordance with the provisions of Article 42.

- 4.5 The **GOVERNMENT** and/or a Public Company may assign part or all of its Government Interest to a third party or parties (not being a Public Company), subject to the provisions of Article 4.6 (and for the avoidance of doubt the provisions of Articles 39.1, 39.2 and 39.3 shall not apply).

For the avoidance of doubt, following any assignment by the **GOVERNMENT** and/or a Public Company of all or part or all of a Government Interest to a third party which is not a Public Company, in accordance with the provisions of this Article 4, the provisions of Articles 39.1, 39.2 and 39.3 shall apply to any subsequent assignment of such interest.

- 4.6 Where a Joint Operating Agreement has been executed by the **CONTRACTOR** entities prior to any exercise of the Option to Participate pursuant to this Article 4, the

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GOVERNMENT shall become a party to such agreement, with any amendments necessary to be consistent with the principles of this Article 4. Where a Joint Operating Agreement is not in place prior to the exercise of the Option to Participate pursuant to this Article 4, the **GOVERNMENT** and the other **CONTRACTOR** entities shall, within a reasonable period of time, negotiate in good faith and enter into a Joint Operating Agreement and shall during the period between the exercising of the Option to Participate and the execution of the Joint Operating Agreement, comply with paragraphs (a) and (b) inclusive of Article 4.7 as if they were provisions of this Contract.

4.7 Any Joint Operating Agreement entered into in relation to this Contract shall be consistent with the principles of this Article 4 and shall provide as follows:

- (a) all decisions of any operating committee established under such Joint Operating Agreement shall require the affirmative vote of an agreed percentage of participating interests held thereunder, which in any event shall not more than sixty-five percent;
- (b) in the event of a proposed transfer by any **CONTRACTOR** entity of part of a participating interest under such Joint Operating Agreement, including but not limited to any Government Interest:
 - (i) the interest to be transferred will not be less than five per cent (5%);
 - (ii) the proposed third party assignee demonstrates to the reasonable satisfaction of each of the entities constituting the **CONTRACTOR** that it has the financial capability to perform its payment obligations under the Contract and under the Joint Operating Agreement, and
 - (iii) the proposed third party assignee shall enter into an instrument reasonably satisfactory to each of the entities constituting the **CONTRACTOR** to perform the obligations of the transferor.

4.8 For the avoidance of doubt, there shall be no right of assignment in respect of the Option to Participate.

ARTICLE 5 - OPERATOR

5.1 Within thirty (30) days of the Effective Date, the **CONTRACTOR** shall notify the **GOVERNMENT** of the party to act as Operator. Should the parties fail to so notify the **GOVERNMENT**, the **GOVERNMENT** shall select one of the parties holding an interest in the Contract as Operator. The selection of Operator shall require the approval of the **GOVERNMENT**, which approval shall not be unreasonably denied. The **CONTRACTOR** shall at any time have the right to appoint another entity as the Operator subject to **GOVERNMENT** approval as aforesaid.

5.2 The **CONTRACTOR** shall submit to the **GOVERNMENT** for comment any agreement regarding or regulating the Operator's appointment and its conduct

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of Petroleum Operations on behalf of the **CONTRACTOR** pursuant to this Contract prior to execution of such agreement.

- 5.3 In the event of the occurrence of any of the following, the **GOVERNMENT** may require the **CONTRACTOR** to appoint another entity as Operator as soon as is reasonably practicable:
- (a) if an order has been passed in court declaring the bankruptcy, liquidation, or dissolution of the Operator;
 - (b) if the Operator terminates its activities under this Contract or a material proportion thereof, and, as a result **CONTRACTOR** fails to fulfil its obligations under the Contract.

ARTICLE 6 - TERM OF THE CONTRACT

- 6.1 This Contract comprises an Exploration Period and a Development Period, as defined below:

Exploration Period

- 6.2 The Exploration Period shall be for an initial term of five (5) Contract Years, extendable on a yearly basis (as provided in Article 6.5 and 6.6) up to a maximum period of seven (7) Contract Years, starting from the Effective Date. The initial term of five (5) years shall be subdivided in two (2) sub-periods as follows:
- (a) an initial sub-period of three (3) Contract Years ("First Sub-Period");
 - (b) a second sub-period of two (2) Contract Years ("Second Sub-Period"),
- each a "**Sub-Period**" and collectively "**Sub-Periods**".

It is understood that the right of the **CONTRACTOR** to accede to the next Sub-Period shall be subject to fulfilment of the Minimum Exploration Obligations applicable to the previous Sub-Period.

- 6.3 During the Exploration Period, the **CONTRACTOR** shall pay to the **GOVERNMENT**, in arrears, an annual surface rental for the Contract Area, as may be reduced by relinquishment from time to time pursuant to Article 7, of ten Dollars (US\$ 10) per square kilometre per Contract Year ("**Exploration Rental**"). Such Exploration Rental shall be considered as a Petroleum Cost and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 6.4 If the **CONTRACTOR** decides not to enter into the Second Sub-Period, it shall notify the **GOVERNMENT** at least thirty (30) days prior to the expiry of the First Sub-Period and, provided that the data from the First Exploration Well demonstrates that there is no reasonable technical case for drilling the Second Exploration Well in the Contract Area, the Exploration Period shall expire at the end of the First Sub-Period, unless the First Sub-Period has been extended pursuant to Article 6.5 and/or Article 6.6.

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- 6.5 If the **CONTRACTOR** has fulfilled its Minimum Exploration Obligations for a Sub-Period of the Exploration Period but considers that additional work is required prior:
- (a) to deciding to submit an Appraisal Program as provided under Article 12.2 of this Contract in respect of a Discovery, or
 - (b) to deciding to declare a Discovery as a Commercial Discovery in accordance with Article 12.6 (a) or 14.5 (a), which additional work may include the preparation and/or execution of an Appraisal Program as provided under Article 12.2 of this Contract and/or Gas Marketing Operations,

the **CONTRACTOR** will automatically be entitled to extensions, each of one (1) Contract Year, of the then current Sub-Period, up to the end of the maximum Exploration Period of seven (7) Contract Years, (as provided in Article 6.2). The **CONTRACTOR**'s notification of such extension and its duration shall be submitted in writing to the **GOVERNMENT** at least thirty (30) days prior to the end of the then current Sub-Period or the end of the then current extension (as the case may be).

- 6.6 Without prejudice to Article 6.5, upon expiry of the initial term of the Exploration Period, if it considers it has not completed its exploration evaluation of the Contract Area, the **CONTRACTOR** shall be entitled to an extension of the Second Sub-Period, provided it so requests the **GOVERNMENT** in writing at least thirty (30) days prior to the end of such Sub-Period, together with a proposal for a minimum work obligation for such extension. Any such extension shall not exceed one (1) Contract Year. Upon the expiry of such extension, if it considers it has still not completed its evaluation of the Contract Area, the **CONTRACTOR** shall be entitled to a further extension of one (1) Contract Year provided that it so requests the **GOVERNMENT** in writing at least thirty (30) days prior to the end of the original extension.
- 6.7 Subject to Article 6.4, at any time during the Exploration Period, upon thirty (30) days prior notice to the **GOVERNMENT**, the **CONTRACTOR** shall have the right to withdraw from this Contract provided that the outstanding Minimum Exploration Obligations relating to the then current Sub-Period have been completed in accordance with the Contract, or it has paid to the **GOVERNMENT** the amounts specified in Article 10.2 or Article 10.3 of this Contract, whichever is applicable to the then current Sub-Period.
- 6.8 If no Commercial Discovery has been made within the Contract Area at the end of the Exploration Period (including any extensions thereof) this Contract shall terminate.
- 6.9 If a Discovery is made within the maximum Exploration Period of seven (7) Contract Years (as provided in Article 6.2), and if the **CONTRACTOR** considers it has not had time to complete sufficient Gas Marketing Operations to declare the Discovery a Commercial Discovery pursuant to Article 12.6 (a) or 14.5 (a), the **CONTRACTOR** shall be entitled to request an extension of the Exploration Period (notwithstanding the maximum period provided in Article 6.2), provided it so requests the **GOVERNMENT** in writing at least thirty (30) days prior to the end of the maximum Exploration Period, together with a proposal for Gas Marketing Operations to be undertaken during such extension. If granted by the **GOVERNMENT**, any such

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extension shall not exceed two (2) Contract Years. Upon the expiry of such extension, if it considers it has still not completed its Gas Marketing Operations relating to such Discovery, the **CONTRACTOR** shall be entitled to request a further extension of two (2) Contract Years provided that it so requests the **GOVERNMENT** in writing at least thirty (30) days prior to the end of the original extension, together with a proposal for Gas Marketing Operations to be undertaken during such extension.

Development Period

- 6.10 If the **CONTRACTOR** considers that a Discovery of Crude Oil and any Associated Natural Gas is a Commercial Discovery, the **CONTRACTOR** shall have the exclusive right to develop and produce such Commercial Discovery, pursuant to the terms of this Contract. The Development Period for a Commercial Discovery of Crude Oil and any Associated Natural Gas shall be twenty (20) years commencing on the declaration of such Commercial Discovery by **CONTRACTOR**, in accordance with Article 12.6 (a) of this Contract, with an automatic right to a five (5) year extension.
- 6.11 If the **CONTRACTOR** considers that a Discovery of Non-Associated Natural Gas is a Commercial Discovery, the **CONTRACTOR** shall have the exclusive right to develop and produce such Commercial Discovery, pursuant to the terms of this Contract. The Development Period for a Commercial Discovery of Non-Associated Natural Gas shall be twenty (20) years, commencing on the declaration of such Commercial Discovery by **CONTRACTOR**, in accordance with Article 12.6 (a) or Article 14.5 (a) of this Contract, with an automatic right to a five (5) year extension.
- 6.12 If Commercial Production from a Production Area is still possible at the end of its Development Period as defined in Articles 6.10 or 6.11 above then, upon its request, the **CONTRACTOR** shall be entitled to an extension of such Development Period under the same terms as those provided in this Contract. Such request shall be made in writing by the **CONTRACTOR** at least six (6) Months before the end of the said Development Period.

The term of any such extension of the Development Period shall be:

- (a) five (5) Years for Crude Oil and any Associated Natural Gas, and/or
 - (b) five (5) Years for Non-Associated Natural Gas.
- 6.13 The **CONTRACTOR** shall have the right to terminate Production Operations for any Production Area at any time during the term of this Contract, subject to giving notice to the **GOVERNMENT** of at least ninety (90) days. This Contract shall terminate on the expiry date of the last Production Area or when Production Operations for all Production Areas have terminated.

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ARTICLE 7 - RELINQUISHMENTS

- 7.1 Subject to the provisions of Articles 7.2 and 7.3, the **CONTRACTOR** shall surrender portions of the Contract Area as follows:
- (a) twenty percent (25%) of the initial Contract Area, excluding any Production Areas, at the end of the initial term of the Exploration Period referred to in Article 6.2; and
 - (b) an additional twenty five percent (25%) of that part of the Contract Area, excluding any Production Areas, remaining at the end of each extension period entered into under this Contract at the end of the initial term of the Exploration Period referred to in Article 6.2.
- 7.2 For the application of Article 7.1:
- (a) any areas already relinquished pursuant to Article 7.4 below shall be deducted from areas to be surrendered;
 - (b) the **CONTRACTOR** shall have the right to determine the area, shape and location of the Contract Area to be kept; and
 - (c) areas relinquished under Article 7.1(a) shall be contiguous and areas relinquished under Article 7.1(b) shall be contiguous.
- 7.3 If the relinquishment referred to in Article 7.1 can only be achieved by including part of the area of a Discovery, these percentages shall be reduced to exclude the Discovery area.
- 7.4 During the Exploration Period, the **CONTRACTOR** may at the end of each Contract Year surrender all or any part of the Contract Area by written notice sent to the **GOVERNMENT** at least thirty (30) days in advance of the proposed date of surrender, subject to the provisions of this Article 7.4. Such voluntary surrenders during the Exploration Period shall be deemed equal to the obligatory relinquishments referred to under Article 7.1. This Contract shall terminate in the event of total surrender of the Contract Area.
- 7.5 No surrender provided under Article 7.4 shall exempt the **CONTRACTOR** from its outstanding obligations under this Contract. In the event the **CONTRACTOR** elects to surrender the entire Contract Area without having fulfilled the Minimum Exploration Obligations relating to the then current Sub-Period as provided in Article 10.2 or Article 10.3, the **CONTRACTOR** shall pay to the **GOVERNMENT** the relevant outstanding amount as detailed in Article 10.2 or Article 10.3, as the case may be.
- 7.6 The boundaries of the portion of the Contract Area to be relinquished by the **CONTRACTOR** shall be communicated to the **GOVERNMENT** by written notice at least thirty (30) days in advance of the relevant date for relinquishment, pursuant to Article 7.1.

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ARTICLE 8 - MANAGEMENT COMMITTEE

- 8.1 A Management Committee shall be established within thirty (30) days following the Effective Date for the purpose of providing orderly direction of all matters pertaining to the Petroleum Operations and Work Program.

The Management Committee shall comprise an equal number of members designated by each Party: two (2) members designated by the **GOVERNMENT** and two (2) members designated by the **CONTRACTOR**.

Upon ten (10) days notice, each Party may substitute any of its members of the Management Committee. The chairman of the Management Committee shall be one of the members designated by the **GOVERNMENT** (the "**Chairman**"). The vice-chairman of the Management Committee shall be one of the members designated by the **CONTRACTOR** (the "**Vice-Chairman**"). In the absence of the Chairman, the Vice-Chairman shall chair the meeting.

Each Party shall have the right to invite a reasonable number of observers as deemed necessary to attend the meetings of the Management Committee in a non-voting capacity.

- 8.2 The Management Committee shall review, deliberate, decide and give advice, suggestions and recommendations to the Parties regarding the following subject matters:
- (a) Work Programs and Budgets;
 - (b) the **CONTRACTOR's** activity reports;
 - (c) production levels submitted by the **CONTRACTOR**, based on generally accepted practice in the international petroleum industry;
 - (d) accounts of Petroleum Costs;
 - (e) procurement procedures for potential Subcontractors, with an estimated sub-contract value in excess of ten million Dollars (\$10,000,000), submitted by the **CONTRACTOR** in accordance with Article 19.3;
 - (f) Development Plan and Budget for each Petroleum Field;
 - (g) any matter having a material adverse affect on Petroleum Operations;
 - (h) any other subject matter of a material nature that the Parties are willing to consider.
- 8.3 Each Party shall have one (1) vote in the Management Committee. The Management Committee cannot validly deliberate unless each Party is represented by at least one (1) of its members or its deputy.

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The Management Committee shall attempt to reach unanimous agreement on any subject matter being submitted. In the event the Management Committee cannot reach unanimous agreement, a second meeting shall be held within fourteen (14) days to discuss the same subject matter and attempt to reach a unanimous decision.

Except as provided for in Article 8.4 and Article 8.5, in the event that no agreement is reached at the second meeting, the Chairman shall have the tie-breaking vote.

- 8.4 In the event that, during the Exploration Period, no agreement is reached at the second meeting of the Management Committee, as provided for in Article 8.3, or unanimous approval is not obtained, as required pursuant to Article 8.5, the proposal made by the **CONTRACTOR** shall be deemed adopted by the Management Committee.
- 8.5 Notwithstanding the provisions of Article 8.3, unanimous approval of the Management Committee shall be required for:
- (a) approval of, and any material revision to, any Exploration Work Program and Budget prepared after the first Commercial Discovery in the Production Area relating to such Commercial Discovery (unless such Exploration Work Program and Budget has been deemed approved by the Management Committee in accordance with Article 11.4);
 - (b) approval of, and any material revision to, the Development Plan, the production schedule, lifting schedule and Development and Production Work Programs and Budgets (unless such Development Plan has been deemed approved by the Management Committee in accordance with Article 12.9 or Article 12.10);
 - (d) establishment of rules of procedure for the Management Committee;
 - (e) approval of, and any material revision to, procurement procedures for goods and/or services, submitted by the **CONTRACTOR** in accordance with Article 19.3 (unless such procedures have been deemed approved by the Management Committee in accordance with Article 19.3);
 - (f) approval of, and any material revision to, any proposed pipeline project, submitted by **CONTRACTOR** in accordance with Article 33.3;
 - (g) approval of a first rate bank in which to place the Decommissioning Reserve Fund, in accordance with Article 38.1
 - (h) approval of, and any material revision to, any proposed decommissioning and site restoration plan;
 - (i) any terms of reference which are required to be prepared and agreed for the purposes of expert determination, pursuant to Article 42.3; and
 - (j) any matter having a material adverse affect on Petroleum Operations.
- 8.6 Ordinary meetings of the Management Committee shall take place in the Kurdistan Region, alternately at the offices of the **GOVERNMENT** and those of the

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CONTRACTOR, or at any other location agreed between Parties, at least twice a Contract Year prior to the date of the first Commercial Discovery and three times a Contract Year thereafter.

- 8.7 Either Party may call an extraordinary meeting of the Management Committee to discuss important issues or developments related to Petroleum Operations, subject to giving reasonable prior notice, specifying the matters to be discussed at the meeting, to the other Party. The Management Committee may from time to time make decisions by correspondence provided all the members have indicated their approval of such decisions in such correspondence.
- 8.8 Unless at least one (1) member or its deputy of each Party is present, the Management Committee shall be adjourned for a period not to exceed eight (8) days. The Party being present shall then notify the other Party of the new date, time and location for the meeting.
- 8.9 The agenda for meetings of the Management Committee shall be prepared by the Operator in accordance with instructions of the Chairman and communicated to the Parties at least fifteen (15) days prior to the date of the meeting. The agenda shall include any subject matter proposed by either Party. The Operator shall be responsible for preparing and keeping minutes of the meetings and decisions. Copies of such minutes shall be forwarded to each Party for review and approval. Each Party shall review and approve such minutes within ten (10) days of receipt of the draft minutes. A Party who fails to notify in writing its approval or disapproval of such minutes within such ten (10) days shall be deemed to have approved the minutes.
- 8.10 If required, the Management Committee may request the creation of a technical sub-committee or any other sub-committee to assist it. Any such sub-committee shall be composed of a reasonable number of experts from the **GOVERNMENT** and the **CONTRACTOR**. After each meeting, the technical sub-committee or any other sub-committee shall deliver a written report to the Management Committee.
- 8.11 Any costs and expenditure incurred by the **CONTRACTOR** for meetings of the Management Committee or any technical sub-committee or any other sub-committee shall be considered as Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

ARTICLE 9 - GUARANTEES

- 9.1 Each entity constituting the **CONTRACTOR** shall provide the **GOVERNMENT**, if so required by the latter pursuant to written notice received by the **CONTRACTOR** entity within thirty (30) days of the Effective Date, with a corporate guarantee in a form as shall be agreed in good faith between the **GOVERNMENT** and each **CONTRACTOR** entity not later than ninety (90) days after the Effective Date, provided that such corporate guarantee shall be given only in respect of the Minimum Exploration Obligations for the First Sub-Period up to the total amount of the minimum financial commitment for the Minimum Exploration Obligations for the First Sub-Period (as such details are provided in Article 10.2) and shall expire automatically upon completion of the performance of

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such Minimum Exploration Obligations or expenditure of such minimum financial commitment, whichever is the earlier.

- 9.2 Not later than sixty (60) days after the commencement of the Second Sub-Period, each entity constituting the **CONTRACTOR** shall provide the **GOVERNMENT**, if so required by the latter pursuant to written notice received by the **CONTRACTOR** entity within thirty (30) days of such commencement date, with a corporate guarantee in the form substantially agreed between the **GOVERNMENT** and each **CONTRACTOR** entity for the First Sub-Period, subject to making the changes necessary in order for the corporate guarantee to apply only to the Second Period Minimum Exploration Obligations up to the total amount of the minimum financial commitment for the Minimum Exploration Obligations for the Second Sub-Period (as such details are provided in Article 10.3), and provided that such corporate guarantee shall expire automatically upon completion of the performance of such Minimum Exploration Obligations or expenditure of such minimum financial commitment, whichever is the earlier.
- 9.3 In the event of an assignment by a **CONTRACTOR** entity in accordance with Article 39, the relevant third party assignee shall provide the **GOVERNMENT**, if so required by the latter pursuant to written notice given to such assignee within thirty (30) days of the Effective Date, with a corporate guarantee in the form agreed pursuant to Article 9.1 or 9.2, as applicable to the then current Sub-Period or, in the absence of any such agreed form of corporate guarantee, in a form as shall be agreed in good faith between the **GOVERNMENT** and such assignee not later than ninety (90) days after the effective date of the assignment, provided that such corporate guarantee shall be given only in respect of the Minimum Exploration Obligations for the then current Sub-Period up to the total amount of the minimum financial commitment for the Minimum Exploration Obligations for such Sub-Period (as such details are provided in Article 10.2 or Article 10.3, as the case may be), and shall expire automatically upon completion of the performance of such Minimum Exploration Obligations or expenditure of such minimum financial commitment, whichever is the earlier.

ARTICLE 10 - MINIMUM EXPLORATION WORK OBLIGATIONS

- 10.1 The **CONTRACTOR** shall start Exploration Operations within thirty (30) days of Management Committee approval of the Exploration Work Program and Budget in accordance with Article 8 of this Contract. The **CONTRACTOR** shall perform geological, geophysical and/or drilling works as provided under Articles 10.2 to 10.3 below (the "**Minimum Exploration Obligations**"). If applicable, the said Minimum Exploration Obligations shall be performed during each Sub-Period in accordance with good and prudent international oilfield practice.
- 10.2 During the First Sub-Period, the **CONTRACTOR** shall:
- (a) carry out geological and geophysical studies, comprising the following:
 - (i) the compilation of a technical database;
 - (ii) the performance of a remote sensing study;

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- (iii) a field visit to verify initial geological and geophysical work and remote sensing results and plan for two dimensional seismic acquisition; and
- (b) carry out a data search for existing data specific to this Contract Area, comprising the following:
 - (i) well data, if available, for example, electric logs;
 - (ii) seismic data and gravity data, if available; and
 - (iii) reprocess seismic data, if available.
- (c) perform field work comprising structural, stratigraphic and lithologic mapping and sampling;
- (d) acquire, process and interpret three hundred (300) line kilometres of two dimensional seismic data, committing for this purpose a minimum financial amount of three million Dollars (US\$3,000,000); and
- (e) drill one (1) Exploration Well (the "**First Exploration Well**"), committing for this purpose a minimum financial amount of seven and one half million Dollars (US\$7,500,000) including testing and coring as appropriate.

10.3 During the Second Sub-Period, the **CONTRACTOR** shall:

- (a) acquire, process and interpret further seismic data (being either two dimensional or three dimensional), if the **CONTRACTOR** considers that the results from the First Exploration Well justify the acquisition of further seismic data; and
- (b) drill one (1) Exploration Well (the "**Second Exploration Well**") committing for this purpose a minimum financial amount of five million Dollars (US\$5,000,000) including testing and coring as appropriate, unless the data from the First Exploration Well demonstrates that there is not a reasonable technical case for drilling the Second Exploration Well in the Contract Area.

10.4 Notwithstanding the provisions in Articles 10.2 to 10.3 above, for the execution of the Minimum Exploration Obligations under Articles 10.2 to 10.3 above, it is agreed as follows:

- (a) Minimum Exploration Obligations in the Second Sub-Period shall only apply in the event the **CONTRACTOR** has not elected to notify the **GOVERNMENT** that it will not enter into the Second Sub-Period, in accordance with and subject to Article 6.4.
- (b) Subject to Article 10.4 (a), the **CONTRACTOR** shall be required to meet its Minimum Exploration Obligations for the applicable Sub-Period, even if this entails exceeding the minimum financial amount for such Sub-Period. If the **CONTRACTOR** has satisfied its Minimum Exploration Obligations without having spent the total minimum financial amount for such Sub-Period, it shall be deemed to have satisfied its Minimum Exploration Obligations for such Sub-Period.

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- (c) Each Exploration Well shall be drilled to the depth agreed by the Management Committee unless:
- (i) the formation is encountered at a lesser depth than originally anticipated;
 - (ii) basement is encountered at a lesser depth than originally anticipated;
 - (iii) in the **CONTRACTOR**'s sole opinion continued drilling of the relevant Exploration Well presents a hazard due to the presence of abnormal or unforeseen conditions;
 - (iv) rock formations are encountered rendering it impractical to continue drilling with standard equipment;
 - (v) petroleum formations are encountered whose penetration requires laying protective casing that does not enable the depth agreed by the Management Committee to be reached.

If drilling is stopped for any of the foregoing reasons, the Exploration Well shall be deemed to have been drilled to the depth agreed by the Management Committee and the **CONTRACTOR** shall be deemed to have satisfied its Minimum Exploration Obligations in respect of the Exploration Well.

- (d) Any geological or geophysical work carried out or any seismic data acquired, processed or interpreted or any Exploration Well drilled or any other work performed in excess of the Minimum Exploration Obligations and/or any amounts spent in excess of the total minimum financial amount in any given Sub-Period, shall be carried forward to the next Sub-Period and shall be taken into account to satisfy the Minimum Exploration Obligations and/or the total minimum financial amount for such subsequent Sub-Period.

For the avoidance of doubt, if (i) in the First Sub-Period, **CONTRACTOR** performs any of the Minimum Exploration Obligations prescribed for the Second Sub-Period in Article 10.3; and (ii) **CONTRACTOR** has not elected to notify the **GOVERNMENT** that it will not enter into the Second Sub-Period (in accordance with and subject to Article 6.4), the performance of such Minimum Exploration Obligations shall be deemed to satisfy the same Minimum Exploration Obligations for the Second Sub-Period.

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ARTICLE 11 - EXPLORATION WORK PROGRAMS AND BUDGETS

- 11.1 Within forty-five (45) days following the Effective Date, the **CONTRACTOR** shall submit to the Management Committee a proposed work program and budget relating to Exploration Operations (the "**Exploration Work Program and Budget**") for the remainder of the Calendar Year. Thereafter, no later than 1 October in each Calendar Year, the **CONTRACTOR** shall submit a proposed Exploration Work Program and Budget to the Management Committee for the following Calendar Year.
- 11.2 Each Exploration Work Program and Budget shall include details of, but not be limited to, the following:
- (a) work to be undertaken;
 - (b) materials, goods and equipment to be acquired;
 - (c) cost estimate of services to be provided, including services by third parties and/or Affiliated Companies of any entity constituting **CONTRACTOR**;
 - (d) estimated expenditures, broken down by cost centre in accordance with the Accounting Procedure.
- 11.3 The Management Committee shall meet within sixty (60) days following its receipt of **CONTRACTOR's** proposal to examine and, unless already deemed approved pursuant to the provisions of Article 11.4 below, approve the Exploration Work Program and Budget.
- 11.4 Any modification to the Exploration Work Program and Budget requested by the **GOVERNMENT** shall be submitted to the **CONTRACTOR** within thirty (30) days following receipt of the proposed Exploration Work Program and Budget by the Management Committee, accompanied by all the documents justifying such request. If the **GOVERNMENT** does not request any modifications to the Exploration Work Program and Budget within the above set timeframe, the Exploration Work Program and Budget shall be deemed approved by the Management Committee. If the **GOVERNMENT** does request any modifications to the Exploration Work Program and Budget, the **CONTRACTOR** shall communicate its comments on any such requested modifications to the **GOVERNMENT** at the meeting of the Management Committee or in writing prior to such meeting.
- 11.5 The **CONTRACTOR** shall be authorised to make expenditures not budgeted in an approved Exploration Work Program and Budget provided that the aggregate amount of such expenditures shall not exceed ten percent (10%) of the approved Exploration Work Program and Budget in any Calendar Year and provided further that such excess expenditures shall be reported as soon as is reasonably practicable to the Management Committee. For the avoidance of doubt, such excess expenditures shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 11.7 In cases of emergency, the **CONTRACTOR** may incur such additional expenditures as it deems necessary to protect life, environment or property. Such additional

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expenditures shall be reported promptly to the Management Committee. For the avoidance of doubt, such additional expenditure shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

ARTICLE 12 - DISCOVERY AND DEVELOPMENT

- 12.1 If the drilling of an Exploration Well results in a Discovery, the **CONTRACTOR** shall notify the **GOVERNMENT** within forty-eight (48) hours of completing tests confirming the presumed existence of such Discovery or within such longer period as **CONTRACTOR** reasonably requires to determine whether or not there is a Discovery. Within thirty (30) days following notification of the said Discovery, the **CONTRACTOR** shall present to the Management Committee all technical data then available together with its opinion on the commercial potential of the said Discovery (the "**Discovery Report**"). The **CONTRACTOR** shall provide in a timely manner such other information relating to the Discovery as the **GOVERNMENT** may reasonably request.

Appraisal Program

- 12.2 If, pursuant to Article 12.1 above, the **CONTRACTOR** considers that the Discovery has commercial potential it shall, within ninety (90) days following notification to the **GOVERNMENT** of the Discovery, submit an appraisal program in respect of the Discovery (the "**Appraisal Program**") to the Management Committee. The Management Committee shall examine the Appraisal Program within thirty (30) days of its receipt. The Appraisal Program shall be deemed approved by the Management Committee if it has not provided the **CONTRACTOR** with its objections accompanied by all the documents justifying such objection within thirty (30) days following receipt of the said Appraisal Program. If any such objection is made, the Management Committee shall meet to discuss the Appraisal Program and such objections thereto within sixty (60) days from its receipt of the proposed Appraisal Program. The **CONTRACTOR** shall communicate its comments on any such objections to the **GOVERNMENT** at the meeting of the Management Committee or in writing prior to such meeting.

The Appraisal Program shall include but not be limited to the following:

- (a) an appraisal works program and budget;
 - (b) an estimated time-frame for completion of appraisal works;
 - (c) the delimitation of the area to be evaluated, the surface of which shall not exceed twice (2 x) the surface of the geological structure or prospect to be appraised (the "**Appraisal Area**").
- 12.3 If, following a Discovery, a rig acceptable to **CONTRACTOR** is available to drill a well, the **CONTRACTOR** may drill any additional Exploration Well or any Appraisal Well deemed necessary by the **CONTRACTOR** before or during the

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Management Committee's review of the Discovery Report provided in accordance with Article 12.1 or its review of the Appraisal Program.

Appraisal Report

- 12.4 The **CONTRACTOR** shall submit a detailed report relating to the Discovery (the "**Appraisal Report**") to the Management Committee within ninety (90) days following completion of the Appraisal Program.
- 12.5 The Appraisal Report shall include but not be limited to the following:
- (a) geological conditions;
 - (b) physical properties of any liquids;
 - (c) sulphur, sediment and water content;
 - (d) type of substances obtained;
 - (e) Natural Gas composition;
 - (f) production forecast per well; and
 - (g) a preliminary estimate of recoverable reserves.

Declaration of Commercial Discovery

- 12.6 Together with its Appraisal Report, the **CONTRACTOR** shall submit a written statement to the Management Committee specifying that:
- (a) the **CONTRACTOR** has determined that the Discovery is a Commercial Discovery; or
 - (b) the **CONTRACTOR** has determined that the Discovery is not a Commercial Discovery; or
 - (c) the **CONTRACTOR** has determined that the Discovery is a significant Discovery, which may become a Commercial Discovery subject to additional exploration and/or appraisal works within or outside of the Appraisal Area; or
 - (d) the **CONTRACTOR** has determined that the Discovery is a significant Discovery of Non-Associated Natural Gas, which may become a Commercial Discovery subject to Gas Marketing Operations, in accordance with Article 14.5.
- 12.7 In case the statement of the **CONTRACTOR** corresponds to Article 12.6(c), the **CONTRACTOR** shall submit a Work Program and Budget to the Management Committee within thirty (30) days following such statement. Any well drilled to evaluate the said significant Discovery shall be considered an Exploration Well.

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Development Plan

- 12.8 If the Discovery has been declared a Commercial Discovery by the **CONTRACTOR** pursuant to Article 12.6 (a) or Article 14.5 (a), the **CONTRACTOR** shall submit a proposed Development Plan to the Management Committee within one hundred eighty (180) days following the said declaration. Such Development Plan shall include details of, but not be limited to, the following:
- (a) the delimitation of the Production Area, taking into account the results of the Appraisal Report regarding the importance of the Petroleum Field to be developed within the Appraisal Area;
 - (b) drilling and completion of Development Wells;
 - (c) drilling and completion of water or Natural Gas injection wells;
 - (d) laying of gathering pipelines;
 - (e) installation of separators, tanks, pumps and any other associated production and injection facilities for the production;
 - (f) treatment and transportation of Petroleum to the processing and storage facilities onshore or offshore;
 - (g) laying of export pipelines inside or outside the Contract Area to the storage facility or Delivery Point;
 - (h) construction of storage facilities for Petroleum;
 - (i) plan for the utilisation of Associated Natural Gas;
 - (j) training commitment in accordance with Article 23 of this Contract;
 - (k) a preliminary decommissioning and site restoration plan; and
 - (l) any other operations not expressly provided for in this Contract but reasonably necessary for Development Operations, Production Operations and delivery of Petroleum produced, in accordance with generally accepted practice in the international petroleum industry.
- 12.9 The Development Plan shall be deemed approved by the Management Committee if the **GOVERNMENT**, through its representatives on the Management Committee, has not requested any modifications thereto within sixty (60) days after receipt of the said Development Plan by the Management Committee.
- 12.10 If the **GOVERNMENT** requests any modifications to the Development Plan, then the Parties shall meet within sixty (60) days of receipt by the **CONTRACTOR** of the **GOVERNMENT**'s written notification of requested modifications accompanied by all the documents justifying such request, and shall discuss such request. The

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CONTRACTOR shall communicate its comments on any such requested modifications to the **GOVERNMENT** at such meeting or in writing prior to such meeting. Any modification approved by the Management Committee at such meeting or within a further period of thirty (30) days from the date of such meeting shall be incorporated into the Development Plan which shall then be deemed approved and adopted.

- 12.11 If the **CONTRACTOR** makes several Commercial Discoveries within the Contract Area each such Commercial Discovery will have a separate Production Area. The **CONTRACTOR** shall be entitled to develop and to produce each Commercial Discovery and the **GOVERNMENT** shall provide the appropriate Permits covering the Production Area. In case the area covered by the Commercial Discovery extends beyond the boundaries of the Contract Area, and to the extent such area outside the Contract Area is not the subject of a Petroleum Contract (as defined in the Kurdistan Region Petroleum Act) with a third party, the provisions of Article 34.2 shall apply.

ARTICLE 13 - DEVELOPMENT AND

PRODUCTION WORK PROGRAMS AND BUDGET

- 13.1 Upon the approval of the Development Plan by the Management Committee, the **CONTRACTOR** shall start the Development Operations for the Commercial Discovery in accordance with the Development Plan and the practices generally accepted in the international petroleum industry.

Approval of Annual Development Works Programs and Budget

- 13.2 Within ninety (90) days following approval of the Development Plan by the Management Committee, the **CONTRACTOR** shall prepare and submit to the Management Committee a proposed work program and budget for Development Operations (the "**Development Work Program and Budget**") to be carried out in the Production Area during the following Calendar Year. Thereafter, no later than 1 October in each Calendar Year, the **CONTRACTOR** shall submit to the Management Committee its Development Work Program and Budget for the following Calendar Year. To enable the Management Committee to forecast expenditures, each Development Work Program and Budget shall include details of, but not be limited to, the following:
- (a) works to be carried out;
 - (b) material and equipment to be acquired by main categories;
 - (c) type of services to be provided, distinguishing between third parties and Affiliated Companies of any entity constituting **CONTRACTOR**; and
 - (d) categories of general and administrative expenditure.

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- 13.3 If the **GOVERNMENT** has not requested any modifications to the Development Work Program and Budget through its representatives in the Management Committee within thirty (30) days from receipt of such proposal, the Development Work Program and Budget shall be deemed approved by the Management Committee.

Any modification to the Development Work Program and Budget requested by the **GOVERNMENT** shall be submitted to the **CONTRACTOR** within thirty (30) days following receipt of the proposed Development Work Program and Budget by the Management Committee, accompanied by all the documents justifying such request.

If any such modification is proposed, the Management Committee shall meet to discuss the Development Work Program and Budget and proposed modifications thereto within sixty (60) days from its receipt of the proposed Development Work Program and Budget. The **CONTRACTOR** shall communicate its comments on any such requested modifications to the **GOVERNMENT** at the meeting of the Management Committee or in writing prior to such meeting.

- 13.4 The **CONTRACTOR** shall be authorised to incur expenditures not budgeted in an approved Development Work Program and Budget provided that the aggregate amount of such expenditures shall not exceed ten percent (10%) of the approved Development Work Program and Budget in any Calendar Year and provided further that such excess expenditures shall be reported as soon as is reasonably practicable to the Management Committee. For the avoidance of doubt, such excess expenditure shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 13.5 In cases of emergency, the **CONTRACTOR** may incur such additional expenditures as it deems necessary to protect life, environment or property. Such additional expenditures shall be reported promptly to the Management Committee. For the avoidance of doubt, such additional expenditure shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

Approval of Annual Production Works Programs and Budget

- 13.6 No later than 1 October of the Calendar Year preceding the estimated commencement of production pursuant to an approved Development Plan and thereafter no later than 1 October in each Calendar Year, the **CONTRACTOR** shall submit to the Management Committee a proposed work program and budget for Production Operations (the "**Production Work Program and Budget**") for the following Calendar Year. To enable the Management Committee to forecast expenditures, the Production Work Program and Budget shall include details of, but not be limited to, the following:
- (a) works to be carried out;
 - (b) material and equipment to be acquired by main categories;

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- (c) type of services to be provided, distinguishing between third parties and Affiliated Companies of any entity constituting **CONTRACTOR**; and
- (d) categories of general and administrative expenditure.

13.7 If the **GOVERNMENT** has not requested any modifications to the Production Work Program and Budget through its representatives in the Management Committee within thirty (30) days from receipt of such proposal, the Production Work Program and Budget shall be deemed approved by the Management Committee.

Any modification to the Production Work Program and Budget requested by the **GOVERNMENT** shall be submitted to the **CONTRACTOR** within thirty (30) days following receipt of the proposed Production Work Program and Budget by the Management Committee, accompanied by all the documents justifying such request.

If any such modification is proposed, the Management Committee shall meet to discuss the Production Work Program and Budget and proposed modifications thereto within sixty (60) days from its receipt of the proposed Production Work Program and Budget. The **CONTRACTOR** shall communicate its comments on any such requested modifications to the **GOVERNMENT** at the meeting of the Management Committee or in writing prior to such meeting.

13.8 The **CONTRACTOR** shall be authorised to incur expenditures not budgeted in an approved Production Work Program and Budget provided that the aggregate amount of such expenditures shall not exceed ten percent (10%) of the approved Production Work Program and Budget in any Calendar Year and provided further that such excess expenditures shall be reported as soon as reasonably practicable to the Management Committee. For the avoidance of doubt, such excess expenditure shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

13.9 In cases of emergency, the **CONTRACTOR** may incur such additional expenditure as it deems necessary to protect life, environment or property. Such additional expenditures shall be reported promptly to the Management Committee. For the avoidance of doubt, such additional expenditure shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

13.10 After the commencement of Commercial Production the **CONTRACTOR** shall pay to the **GOVERNMENT**, in arrears, an annual surface rental for the Production Area, of ten Dollars (US\$10) per square kilometre per Contract Year ("**Production Rental**"). Such Production Rental shall be considered as a Petroleum Cost and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

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ARTICLE 14 - NATURAL GAS

Use for the Petroleum Operations

- 14.1 To take account of specific conditions relating to Natural Gas and to promote its development in the Kurdistan Region, the **GOVERNMENT** will grant specific benefits to the **CONTRACTOR** on principles materially similar to those contained in this Contract, including, consistent with the Kurdistan Region Petroleum Act, more generous provisions in respect of the recovery of Petroleum Costs and the sharing of Profit Petroleum.
- 14.2 The **CONTRACTOR** may freely use any Natural Gas required for the Petroleum Operations. If technically and economically justified, the **CONTRACTOR** shall in priority use any Natural Gas for the purpose of enhancing recovery of Crude Oil in accordance with standard practices in the international petroleum industry as follows.

Associated Natural Gas

- 14.3 Any excess Associated Natural Gas produced that is neither used in the Petroleum Operations nor developed and sold by the **CONTRACTOR** shall, upon the **GOVERNMENT's** written request, be transferred at a delivery point to be agreed between the Parties free of charge to the **GOVERNMENT**. In such case, the **GOVERNMENT** shall be solely responsible for collecting, treating, compressing and transporting such Natural Gas from such agreed delivery point and shall be solely liable for any additional direct and indirect costs associated therewith. The construction and operation of required facilities as well as the offtake of such excess Associated Natural Gas shall occur in accordance with best practice in the international petroleum industry and shall not interfere with the production, lifting and transportation of the Crude Oil by the **CONTRACTOR**. For the avoidance of doubt, all expenditure incurred by the **CONTRACTOR** up to such agreed delivery point shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

In the event the **GOVERNMENT** finds a market for Associated Natural Gas, it shall promptly give written notice to the **CONTRACTOR**, and the **CONTRACTOR** may elect to participate in supplying such Associated Natural Gas within ninety (90) days following notification thereof by the **GOVERNMENT**. If the **CONTRACTOR** elects to participate in supplying Associated Natural Gas to such market, all expenditures associated with any necessary facilities shall be paid for by the **CONTRACTOR**. For the avoidance of doubt, such expenditure incurred shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

Non Associated Natural Gas

- 14.4 The **CONTRACTOR** shall be entitled at any time during the Exploration Period and the Development Period to carry out Gas Marketing Operations.
- 14.5 If, pursuant to Article 12.6 (d), the **CONTRACTOR** has determined that the Discovery is a significant Discovery of Non-Associated Natural Gas, which may

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become a Commercial Discovery subject to Gas Marketing Operations, it shall carry out Gas Marketing Operations, at the end of which it shall submit a written statement to the Management Committee specifying that:

- (a) the **CONTRACTOR** has determined that the Discovery is a Commercial Discovery, or
 - (b) the **CONTRACTOR** has determined that the Discovery is not a Commercial Discovery.
- 14.6 For the purpose of this Agreement, "**Gas Marketing Operations**" means any activity relating to the marketing of Non-Associated Natural Gas, including but not limited to any evaluation to find a commercial market for such Non-Associated Natural Gas and/or to find a commercially viable technical means of extraction of such Non-Associated Natural Gas and may include activities related to evaluating the quantities of Non-Associated Natural Gas to be sold, its quality, the geographic location of potential markets to be supplied as well as evaluating the costs of production, transportation and distribution of the Non-Associated Natural Gas from the Delivery Point to the relevant market.
- 14.7 All costs and expenditure incurred by the **CONTRACTOR** in the performance of the activities in relation to the Gas Marketing Operations shall be considered Petroleum Costs.
- 14.8 No later than 1 October of the Calendar Year preceding the Calendar Year in which any Gas Marketing Operations are due to occur, the **CONTRACTOR** shall submit to the Management Committee its Gas Marketing Work Program and Budget for the following Calendar Year. To enable the Management Committee to forecast expenditures, the Gas Marketing Work Program and Budget shall include but not be limited to the following:
- (a) works to be carried out;
 - (b) type of services to be provided, distinguishing between third parties and Affiliated companies of any entity constituting **CONTRACTOR**;
 - (c) categories of general and administrative expenditure.

If the **GOVERNMENT** has not requested any modifications to the Gas Marketing Work Program and Budget through its representatives in the Management Committee within thirty (30) days from receipt of such proposal, the Gas Marketing Work Program and Budget shall be deemed approved by the Management Committee.

Any modification to the Gas Marketing Work Program and Budget requested by the **GOVERNMENT** shall be submitted to the **CONTRACTOR** within thirty (30) days following receipt of the proposed Gas Marketing Work Program and Budget by the Management Committee, accompanied by all the documents justifying such request.

If any such modification is proposed, the Management Committee shall meet to discuss the Gas Marketing Work Program and Budget and proposed modifications thereto within sixty (60) days from its receipt of the proposed Gas Marketing Work Program and Budget. The **CONTRACTOR** shall communicate its comments on any

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such requested modifications to the **GOVERNMENT** at the meeting of the Management Committee or in writing prior to such meeting.

- 14.9 The **CONTRACTOR** shall be authorised to incur expenditures not budgeted in an approved Gas Marketing Work Program and Budget provided that the aggregate amount of such expenditure shall not exceed ten percent (10%) of the approved Budget in any Calendar Year and provided further that such excess expenditures shall be reported as soon as reasonably practicable to the Management Committee. For the avoidance of doubt, such excess expenditure shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 14.10 If any Non-Associated Natural Gas is discovered within the Contract Area, and the **CONTRACTOR** reasonably considers that the Non-Associated Natural Gas Discovery will only be a Commercial Discovery if certain terms of this Contract are amended, it shall be entitled to request an amendment to this Contract, with its reasons. The **GOVERNMENT** shall in good faith give reasonable consideration to the **CONTRACTOR**'s proposed amendment and reasons. If the **GOVERNMENT** rejects such request, and the Exploration Period expires without the **CONTRACTOR** having declared such Discovery to be a Commercial Discovery in accordance with Article 12.6 (a) or Article 14.5 (a), and subsequently within a period of ten (10) years from the end of such Exploration Period, the **GOVERNMENT** reaches agreement with any third party to develop such Discovery, (the "Gas Development") then the following provisions shall apply:
- (a) either before or upon agreement having been reached (and whether or not such agreement is recorded in a fully termed production sharing and/or operating or other like agreement) in relation to the Gas Development (the "**Proposed Contract**") (subject only to the rights of the **CONTRACTOR** entities to preempt such Proposed Contract pursuant to Article 14.10(b) below and such conditions as may be applicable) then the **GOVERNMENT** shall, as soon as reasonably practicable after the occurrence of such circumstances, serve on each of the **CONTRACTOR** entities, a notice to that effect and shall with such notice provide such information and main terms of such agreement (the "**Agreed Terms**") and including:
 - (i) the identity of such third party; and
 - (ii) the effective date of the Proposed Contract; and
 - (iii) the applicable commercial terms, including but not limited to bonuses, royalties, cost recovery, profit sharing, taxation and any other similar terms; and
 - (iv) all and any material conditions to which the Proposed Contract is subject.
 - (b) Within one hundred and eighty days (180) days after receipt of a notice under Article 14.10 (a) in relation to a Proposed Contract each of the **CONTRACTOR** entities shall elect either:

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- (i) to enter into the Proposed Contract on the same or substantially similar terms to the Agreed Terms, with the right to cost recover all Petroleum Costs incurred under this Contract against all Petroleum revenues received under the Proposed Contract, up to any cost recovery limits set out therein; or
- (ii) to waive the aforesaid right of pre-emption in relation to the Proposed Contract;

and shall serve notice accordingly upon the **GOVERNMENT** and all the **CONTRACTOR** entities and in default of receipt by the **GOVERNMENT** of any such notice within such period of one hundred and eighty (180) days such **CONTRACTOR** entity shall be deemed conclusively to have served a notice electing to waive its aforesaid right of pre-emption in relation to the Proposed Contract.

- (c) In the event that more than one of the **CONTRACTOR** entities exercises its rights under Article 14.10 (b) (i) in relation to the Proposed Contract, then the **GOVERNMENT** shall transfer the relevant interest upon the Agreed Terms (in accordance with 14.10 (b) (i)) to each of such **CONTRACTOR** entities so exercising their rights, in the proportions in which their respective percentage interests bear to the aggregate of their respective percentage interests under the relevant Joint Operating Agreement (as it applied at the end of the Exploration Period) or in such other proportions as such **CONTRACTOR** entities shall agree between them.
- (d) In the event that one of the **CONTRACTOR** entities exercises its rights under Article 14.10 (b) (i) in relation to the Proposed Contract then the **GOVERNMENT** shall transfer the whole of the relevant interest upon the Agreed Terms (in accordance with 14.10 (b) (i)) to such **CONTRACTOR** entity.
- (e) In the event that none of the **CONTRACTOR** entities exercises its rights under Article 14.10 (b) (i) then the aforesaid rights of pre-emption shall thereupon cease to apply in relation to the Proposed Contract.
- (f) The provisions of this Article 14.10 shall survive any termination of this Contract.

14.11 If the pre-emption rights in Article 14.10 are not exercised and the **GOVERNMENT** enters into the Proposed Contract with the third party concerned, the **GOVERNMENT** will use its best endeavours to avoid any effect which may hamper the Petroleum Operations of the **CONTRACTOR** while producing Petroleum.

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Flaring

- 14.12 In the course of activities provided for under this Contract, flaring of Natural Gas, except short-term flaring necessary for testing or other operational reasons in accordance with practice generally accepted in the international petroleum industry (which shall include the flaring of Associated Natural Gas to the extent the **CONTRACTOR** considers that re-injecting Associated Natural Gas is not justified technically and economically and provided the **GOVERNMENT** decides not to take such Associated Natural Gas), is prohibited, except on prior authorisation of the **GOVERNMENT**, such authorisation not to be unreasonably withheld or delayed. The **CONTRACTOR** shall submit such request to the **GOVERNMENT**, which shall include an evaluation of reasonable alternatives to flaring that have been considered along with information on the amount and quality of Natural Gas involved and the duration of the requested flaring.

ARTICLE 15 - ACCOUNTING AND AUDITS

- 15.1 The **CONTRACTOR** shall keep in its offices in the Kurdistan Region copies of all books and accounts relating to the Petroleum Operations (hereinafter the "**Accounts**"), except during the Exploration Period, when the **CONTRACTOR** shall be entitled to keep the Accounts at its headquarters. The Accounts shall reflect in detail expenditure incurred in function of the quantities and value of Petroleum produced. All books and accounts which are made available to the **GOVERNMENT** in accordance with the provisions of this Contract shall be prepared in the English language. The Accounts shall be kept in accordance with generally accepted practice and procedures in the international petroleum industry and in accordance with the provisions of the Accounting Procedure (attached hereto as Annex B). The Accounts shall be kept in Dollars, which shall be the reference currency for the purposes of Articles 25, 26, 27 and 31 of this Contract.
- 15.2 Within ninety (90) days following the end of each Calendar Year, the **CONTRACTOR** shall submit to the **GOVERNMENT** a summary statement of all Petroleum Costs incurred during the said Calendar Year. The report shall also include a profit calculation pursuant to the provisions of Article 26 of this Contract. The right of the **GOVERNMENT** to examine, verify and audit the said statements of Petroleum Costs shall be exercised within a period of four (4) Calendar Years following the end of the said Calendar Year, failing which no adjustments shall be made later. Subject to the said timeframe, the **GOVERNMENT**, acting reasonably and in accordance with generally accepted international petroleum industry practice, may request in writing all reasonably available information and justifications for its audit of Petroleum Costs.

Should the **GOVERNMENT** consider, on the basis of data and information available, that the **CONTRACTOR** made a material mistake or there is any irregularity and considers that any corrections, adjustments or amendments should be made, the **GOVERNMENT** shall notify the **CONTRACTOR** in writing within the said required timeframe. The **CONTRACTOR** shall then have sixty (60) days to make necessary corrections, adjustments or amendments or to present its comments in writing or request a meeting with the **GOVERNMENT**. The **GOVERNMENT**

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shall within thirty (30) days of **CONTRACTOR's** response, notify the **CONTRACTOR** in writing of its position on the corrections, adjustments, amendments or comments. If thereafter there still exists a disagreement between the **GOVERNMENT** and the **CONTRACTOR**, the dispute will be settled in accordance with Article 15.4 of this Contract.

- 15.3 In addition to the annual statements of Petroleum Costs as provided in Article 15.2 above, the **CONTRACTOR** shall provide the **GOVERNMENT** with such production statements and reports, as required pursuant to Article 16.3.
- 15.4 Any dispute between the Parties under this Article 15 that cannot be settled amicably may be submitted to an expert in accordance with the provisions of Article 42.3 of this Contract. Notwithstanding the provisions of Article 42, in this specific instance the decision of the expert shall not necessarily be final and either Party may decide to submit the matter to arbitration in accordance with the provisions of Article 42.1 of this Contract.

ARTICLE 16 - CONTRACTOR'S RIGHTS AND OBLIGATIONS

16.1 Permanent Representative

If not done already, within ninety (90) days following the Effective Date, the **CONTRACTOR** shall open an office and appoint a permanent representative in the Kurdistan Region, who may be contacted by the **GOVERNMENT** with regard to any matter relating to this Contract and will be entitled to receive any correspondence addressed to the **CONTRACTOR**.

16.2 Conduct of Petroleum Operations

The **CONTRACTOR** shall carry out all Petroleum Operations in accordance with the provisions of this Contract, generally accepted practice in the international petroleum industry and applicable Kurdistan Region Law.

The **CONTRACTOR** shall be responsible for the conduct, management, control and administration of Petroleum Operations and shall be entitled to conduct Petroleum Operations in accordance with the provisions of this Contract. In conducting its Petroleum Operations, the **CONTRACTOR** shall have the right to use any Affiliate of each entity constituting **CONTRACTOR**, its and their Subcontractors, and the employees, consultants, and agents of each of the foregoing. The **CONTRACTOR** and all such persons shall at all times have free access to the Contract Area and any Production Areas for the purpose of carrying out Petroleum Operations.

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16.3 Information and Reports

The **CONTRACTOR** shall provide the **GOVERNMENT** with periodic data and activity reports relating to Petroleum Operations. Said reports shall include details of, but not be limited to, the following:

- (a) information and data regarding all Exploration Operations, Development Operations and Production Operations (as applicable) performed during the Calendar Year, including any quantities of Petroleum produced and sold;
- (b) data and information regarding any transportation facilities built and operated by the **CONTRACTOR**;
- (c) a statement specifying the number of personnel, their title, their nationality as well as a report on any medical services and equipment made available to such personnel; and
- (d) a descriptive statement of all capital assets acquired for the Petroleum Operations, indicating the date and price or cost of their acquisition.

16.4 Requirement for Petroleum Operations

The **CONTRACTOR** may freely use any Petroleum produced within the Contract Area for the Petroleum Operations.

16.5 Supervision by the GOVERNMENT

The **CONTRACTOR** shall at all times provide reasonable assistance as may reasonably be requested by the **GOVERNMENT** during its review and verification of records and of any other information relating to Petroleum Operations at the offices, worksites or any other facilities of the **CONTRACTOR**.

Upon giving reasonable prior notice to the **CONTRACTOR**, the **GOVERNMENT** may send a reasonable number of representatives to the work-sites or any other facilities of the **CONTRACTOR** in the Kurdistan Region to perform such reviews and verifications. The representatives of the **GOVERNMENT** shall at all times comply with any safety regulations imposed by the **CONTRACTOR** and such reviews and verifications shall not hinder the smooth progress of the Petroleum Operations.

16.6 Access to Facilities

For the performance of the Petroleum Operations, the **CONTRACTOR**, any Affiliate of each entity constituting the **CONTRACTOR**, its and their Subcontractors and the employees, consultants and agents if each of the foregoing shall at all times be granted free access to the Contract Area and to any facilities for the Petroleum Operations located within or outside of the Contract Area or within or outside the Production Area, for the purpose of carrying out the Petroleum Operations.

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16.7 **Use of Facilities**

The **CONTRACTOR** shall make available to representatives of the **GOVERNMENT** those facilities which are necessary to enable them to perform their tasks including, in case of works to be performed on work sites, transportation, accommodation and board, under the same conditions as those provided by the **CONTRACTOR** for its own personnel.

16.8 **Loss or Damage**

The **CONTRACTOR** shall be responsible for any loss or damage caused to third parties by its or its Subcontractors personnel solely and directly resulting from their negligence, errors or omissions in accordance with applicable Kurdistan Region Law.

16.9 **Intellectual Property Rights**

In its Petroleum Operations, the **CONTRACTOR** shall respect any patents belonging to third parties.

16.10 **Litigation**

The **CONTRACTOR** shall as soon as reasonably practicable inform the **GOVERNMENT** of any material litigation relating to this Contract.

16.11 **Safety**

The **CONTRACTOR** shall implement a health, safety and environment program and take necessary measures to ensure hygiene, health and safety of its personnel carrying out Petroleum Operations in accordance with generally accepted practice in the international petroleum industry.

Said measures shall include but not be limited to the following:

- (a) supplying first aid and safety equipment for each work area and maintaining a healthy environment for personnel;
- (b) reporting to the **GOVERNMENT** within seventy-two (72) hours any accident where personnel has been injured while engaged in Petroleum Operations and resulting in such personnel being unable to return to work;
- (c) implementing a permit-to-work procedure around hazardous equipment and installations;
- (d) providing safe storage areas for explosives, detonators and any other dangerous products used in the operations;
- (e) supplying fire-extinguishing equipment in each work area;

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- (f) for the purpose of taking control of any blow out or fire which could damage the environment or Petroleum Field, in accordance with generally accepted practice in the international petroleum industry;
- (g) for the purpose of preventing any involuntary injection of fluids in petroleum formations and production of Crude Oil and Natural Gas at rates that do not conform to generally accepted practice in the international petroleum industry.

16.12 **Production Rates**

Subject to Article 43.2 of this Contract, in the event the production rate of the individual wells and Reservoir of a Petroleum Field is to be set below the Maximum Efficient Rate (MER) for the Reservoir as provided for in the Development Plan as a consequence of a decision by the **GOVERNMENT** or any federal or international regulatory body, the **GOVERNMENT** undertakes to allocate any such reduction fairly and equitably among the various operators (including the **GOVERNMENT**) then producing in the Kurdistan Region, pro rata their respective production rates. In such event the **GOVERNMENT** shall grant an extension of the Development Period of any Production Area so affected for a reasonable period of time in order to produce the Petroleum which would otherwise have already been produced, had the MER for the individual wells and Reservoir of the Petroleum Field been maintained.

16.13 **Legal Status**

The respective rights, duties, obligations and liabilities of the **CONTRACTOR** and the **GOVERNMENT** under this Contract are to be understood as being separate and individual and not joint and several. The Parties agree that this Contract shall not create and shall not be deemed to have created a partnership or other form of association between them.

16.14 **Lifting**

The **GOVERNMENT** and each entity constituting the **CONTRACTOR** shall have the right and the obligation to take in kind and separately sell or otherwise dispose of their respective shares of Petroleum. Upon approval of the Development Plan, the Parties shall meet as soon as practicable to reach a detailed agreement governing the lifting of Petroleum by each such entity constituting the **CONTRACTOR**. Such lifting agreement shall include, inter alia, the following:

- (a) the obligation of the **GOVERNMENT** and each entity constituting the **CONTRACTOR** to lift, regularly throughout each Calendar Year, their share of Petroleum produced from the Production Area;
- (b) notification procedures by the Operator to the **GOVERNMENT** and each entity constituting the **CONTRACTOR** regarding entitlements and availability of Petroleum for lifting by each Party during each lifting period and nominations by each Party;
- (c) the right of the Parties to lift any available Petroleum not scheduled for lifting and/or not lifted by the other Party during each such lifting period.

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16.15 **Kurdistan Region Consumption Requirements**

The **CONTRACTOR** shall sell and transfer to the **GOVERNMENT**, upon written request of the Ministry, any amounts of Crude Oil that the **GOVERNMENT** shall deem necessary to meet Kurdistan Region internal consumption requirements. The sales price of such Crude Oil shall be the International Market Price. The **GOVERNMENT** shall provide the **CONTRACTOR** with not less than six (6) months' advance written notice of its intention to buy such Crude Oil.

Payments shall be made in US Dollars and otherwise on terms consistent with international standards in the petroleum industry. The **CONTRACTOR**'s obligation to sell Crude Oil to the **GOVERNMENT** shall be no greater than the obligation that applies to another contractor, or other contractors in the Kurdistan Region.

The provisions of this Article 16.15 shall not apply to Non-Associated Natural Gas.

ARTICLE 17 - USE OF LAND AND EXISTING INFRASTRUCTURE

- 17.1 The **GOVERNMENT** shall make available to the **CONTRACTOR** any land or property in the Kurdistan Region required for the Petroleum Operations provided, however, the **CONTRACTOR** shall not request to use any such land unless there is a real need for it. The **CONTRACTOR** shall have the right to build and maintain, above and below ground, any facilities required for the Petroleum Operations.
- 17.2 If it becomes necessary for conduct of the Petroleum Operations to occupy and use any land or property in the Kurdistan Region belonging to third parties, the **CONTRACTOR** shall endeavour to reach amicable agreement with the owners of such land. If such amicable agreement cannot be reached, the **CONTRACTOR** shall notify the **GOVERNMENT**; on receipt of such notification the **GOVERNMENT** shall determine the amount of compensation to be paid by the **CONTRACTOR** to the owner if occupation will be for a short duration or the **GOVERNMENT** shall expropriate the land or property in accordance with applicable Kurdistan Region Law if such occupation will be long lasting or makes it henceforth impossible to resume original usage of such land or property. The amount of such compensation shall be fair and reasonable, in accordance with Article 37, Section 1 (a) (iii) of the Kurdistan Region Petroleum Act, and shall take into account the rights of the owner and any effective use of the land or property by its owner at the time of occupation by the **CONTRACTOR**. Any property rights shall be acquired by and recorded in the name of the **GOVERNMENT** but the **CONTRACTOR** shall be entitled free use of the land or property for the Petroleum Operations for the entire duration of this Contract. All reasonable costs, expenditure and fair and reasonable compensation (as required pursuant to Article 37, Section 1 (a) (iii) of the Kurdistan Region Petroleum Act) which results from such expropriation shall be borne by the **CONTRACTOR**. For the avoidance of doubt, such costs, expenses and compensation incurred by the **CONTRACTOR** shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

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- 17.3 For its Petroleum Operations, the **CONTRACTOR** shall have the right in Iraq to use, subject to applicable Law, any railway, tramway, road, airport, landing field, canal, river, bridge or waterway, any telecommunications network and any existing pipelines or transportation infrastructure, on terms no less favourable than those offered to other entities and, unless generally in force, to be mutually agreed.
- 17.4 Under national emergencies due to environmental catastrophe or disaster, or internal or external war, the **GOVERNMENT** shall have the right to request to use any transportation and communication facilities installed by the **CONTRACTOR**. In such cases, the request shall originate from the Minister for Natural Resources. For the avoidance of doubt, such costs, expenses or liabilities incurred by the **CONTRACTOR** hereunder shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 17.5 For its Petroleum Operations, the **CONTRACTOR** shall have the right in the Kurdistan Region to clear land, excavate, drill, bore, construct, erect, place, procure, operate, manage and maintain ditches, tanks, wells, trenches, access roads, excavations, dams, canals, water mains, plants, reservoirs, basins, storage facilities, primary distillation units, extraction and processing units, separation units, sulphur plants and any other facilities or installations for the Petroleum Operations, in addition to pipelines, pumping stations, generators, power plants, high voltage lines, telephone, radio and any other telecommunications systems, as well as warehouses, offices, sheds, houses for personnel, hospitals, schools, premises, dikes, vehicles, railways, roads, bridges, airlines, airports and any other transportation facilities, garages, hangars, workshops, foundries, repair shops and any other auxiliary facilities for the Petroleum Operations and, generally, everything which is required for its performance of the Petroleum Operations. The **CONTRACTOR** shall have the right to select the location for these facilities.
- 17.6 For its Petroleum Operations, the **CONTRACTOR** shall have the right in the Kurdistan Region, subject to compliance with applicable Kurdistan Region Law, to remove and use the topsoil, fully-grown timber, clay, sand, lime, gypsum, stones (other than precious stones) and other similar substances as required for its Petroleum Operations.

The **CONTRACTOR** shall have the right in the Kurdistan Region to take or use any water necessary for the Petroleum Operations provided it does not damage any existing irrigation or navigation systems and that land, houses or watering points belonging to third parties are not deprived of their use.

- 17.7 The **GOVERNMENT** shall have the right in the Kurdistan Region to build, operate and maintain roads, railways, airports, landing strips, canals, bridges, protection dams, police stations, military installations, pipelines and telecommunications networks in the Contract Area, provided this does not increase the costs, or compromise or have an adverse material effect on the performance of the Petroleum Operations. If the construction, operation and maintenance of such facilities by the **GOVERNMENT** results in increased cost or expense for the **CONTRACTOR** then, for the avoidance of doubt, such cost and expense shall be considered Petroleum

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Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

- 17.8 Upon request of the **CONTRACTOR**, the **GOVERNMENT** shall prohibit the construction of residential or commercial buildings in the vicinity of facilities used for the Petroleum Operations that may be declared dangerous due to the Petroleum Operations and to prohibit any interference with the use of any facilities required for the Petroleum Operations.
- 17.9 Access to the Contract Area may be granted pursuant to an Access Authorisation, as defined in, and consistent with, the Kurdistan Region Petroleum Act, to authorised third parties on reasonable terms and conditions (including coordination), including persons authorised to construct, install and operate structures, facilities and installations, and to carry out other works, provided that nothing in the Access Authorisation or in this Article 17.9 authorises the holder to drill a Well or to perform any Petroleum Operations in Contract Area.

The **GOVERNMENT** shall not grant an Access Authorisation in respect of the Contract Area until it has taken into account any submissions made by the **CONTRACTOR** in such a way that there is no undue interference with the rights of **CONTRACTOR**.

ARTICLE 18 - ASSISTANCE FROM THE GOVERNMENT

- 18.1 To the extent allowed by Kurdistan Region Law and Iraqi law and at the specific request of the **CONTRACTOR**, the **GOVERNMENT** shall take all necessary steps to assist the **CONTRACTOR** in, but not limited to, the following areas:
- (a) securing any necessary Permits for the use and installation of means of transportation and communications;
 - (b) securing regulatory Permits in matters of customs or import/export;
 - (c) securing entry and exit visas, work and residence permits as well as any other administrative Permits for **CONTRACTOR's** and its Subcontractors' foreign personnel (including their family members) working in the Kurdistan Region and any other part of Iraq during the implementation of this Contract;
 - (d) securing any necessary Permits to send Abroad documents, data or samples for analysis or processing for the Petroleum Operations;
 - (e) relations with federal and local authorities and administrations, including for the purposes of the remainder of this Article 18.1;
 - (f) securing any necessary environmental Permits;
 - (g) obtaining any other Permits requested by the **CONTRACTOR** for the Petroleum Operations;

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- (h) access to any existing data and information, including data and information relating to the Contract Area held by previous operators or contractors; and
 - (i) providing all reasonably necessary security for Petroleum Operations.
- 18.2 Within the scope of services to be provided under this Article 18, reasonable and duly justified expenses incurred by the **GOVERNMENT** or paid to third parties shall be charged to the **CONTRACTOR** and shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** as Petroleum Costs in accordance with the provisions of Articles 1 and 25.

ARTICLE 19 - EQUIPMENT AND MATERIALS

- 19.1 The **CONTRACTOR** shall supply, or procure the supply of, all materials, equipment, machinery, tools, spare parts and any other items or goods required for the Petroleum Operations ("Equipment and Materials").
- 19.2 Said Equipment and Materials shall be provided by the **CONTRACTOR** in accordance with the relevant Work Programs and Budgets.
- 19.3 As soon as possible after the Effective Date, the **CONTRACTOR** shall provide the Management Committee with a copy of its procedures for procurement of Equipment and Materials and/or services for the Petroleum Operations as required by the provisions of Article 8.2 (e), including the criteria for tender evaluation, which procedures and criteria shall be in accordance with generally accepted standards in the international petroleum industry. If the Management Committee does not request any modifications to the procurement procedures within thirty (30) days, the procedures shall be deemed approved by the Management Committee.
- 19.4 The **CONTRACTOR** shall give priority to Equipment and Materials that are readily available in the Kurdistan Region and other parts of Iraq to the extent their price, grade, quality, quantity, specifications, purchase, delivery and other commercial and technical terms are comparable in all material respects with those generally available in the international petroleum industry.

ARTICLE 20 - TITLE TO ASSETS

- 20.1 During the Exploration Period, any Assets acquired by the **CONTRACTOR** for the Petroleum Operations shall remain the property of the **CONTRACTOR** or its Subcontractors, as the case may be.
- 20.2 During the Development Period, subject to Article 21, all Assets acquired by the **CONTRACTOR** for the Petroleum Operations shall become the property of the **GOVERNMENT** upon the completion of the recovery of their cost by the **CONTRACTOR**, or the end of the Contract, whichever is the earlier.

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- 20.3 The provisions of this Article 20.2 shall not apply to any Assets leased by the **CONTRACTOR** or belonging to an Affiliated Company of a **CONTRACTOR** entity or belonging to its or their Subcontractors or its or their employees.

ARTICLE 21 - USE OF THE ASSETS

- 21.1 Each entity constituting the **CONTRACTOR** shall have the exclusive right to use, free of any charge, all Assets described in Article 20 for the Petroleum Operations, as well as for any petroleum operations under other agreements in the Kurdistan Region to which it or any of its Affiliates is a party, provided that the Petroleum Operations take priority. The **GOVERNMENT** agrees not to transfer or otherwise dispose of any of such Assets without the **CONTRACTOR's** prior written approval.
- 21.2 The **CONTRACTOR** may freely move to the Contract Area any Assets from any relinquished portion of the Contract Area, or from any other area in the Kurdistan Region.

ARTICLE 22 - SUBCONTRACTING

- 22.1 The **CONTRACTOR** shall ensure that any Subcontractors it engages have all the requisite experience and qualifications.
- 22.2 The **CONTRACTOR** shall give priority to Subcontractors from the Kurdistan Region and other parts of Iraq to the extent their competence, rates, experience, reputation, qualifications, specialties, credit rating and terms of availability, delivery and other commercial terms are, in the **CONTRACTOR's** sole opinion, comparable in all material respects with those provided by foreign companies operating in the international petroleum industry. Subcontractors must be bona fide Kurdistan companies not related to any Public Officer, directly or indirectly, and must have all necessary resources and capacity.
- 22.3 Selection of Subcontractors shall take place in accordance with the procurement procedures submitted by the **CONTRACTOR** to the Management Committee in accordance with Article 19.3 and approved by the Management Committee.
- 22.4 The **CONTRACTOR** shall provide the **GOVERNMENT** with copies of agreements entered into with Subcontractors, where their amount exceeds the limit set by the Management Committee from time to time.

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ARTICLE 23 - PERSONNEL AND TRAINING

Personnel

- 23.1 For the Petroleum Operations, the **CONTRACTOR** shall give, and shall require its Subcontractors to give, preference to personnel from the Kurdistan Region and other parts of Iraq to the extent such personnel have, in the sole opinion of the **CONTRACTOR** or the Subcontractor (as the case may be), the technical capability, qualifications, competence and experience required to perform the work.
- 23.2 The **CONTRACTOR** shall give due consideration to the secondment of **GOVERNMENT** personnel to the **CONTRACTOR** and of **CONTRACTOR** personnel to the **GOVERNMENT** during the various phases of the Petroleum Operations. Terms and conditions for such secondment shall be mutually agreed by the Parties and any costs associated therewith shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 23.3 The **CONTRACTOR** and its Subcontractors shall have the right to hire foreign personnel whenever the personnel from the Kurdistan Region and other parts of Iraq do not have the requisite technical capability, qualifications or experience for positions to be filled as required pursuant to Article 23.1. In the event any such foreign personnel and/or a member of their family engage in activities or commit acts which breach Kurdistan Region Law, the **CONTRACTOR** shall, at the request of the **MANAGEMENT COMMITTEE**, take the necessary steps to repatriate such individual(s).

Training

- 23.4 In a planned way, in accordance with the provisions of this Article 23.4 and Articles 23.5 and 23.6, the **CONTRACTOR** shall train all its personnel from the Kurdistan Region and other parts of Iraq directly or indirectly involved in the Petroleum Operations for the purpose of improving their knowledge and professional qualifications in order that such personnel gradually reach the level of knowledge and professional qualification held by the **CONTRACTOR**'s foreign workers with an equivalent résumé. Such training shall also include the transfer of knowledge of petroleum technology and the necessary management experience so as to enable the personnel from the Kurdistan Region and other parts of Iraq to apply advanced and appropriate technology in use in the Petroleum Operations, to the extent permitted by applicable Law and agreements with third parties, and subject to appropriate confidentiality agreements.
- 23.5 In addition to the requirements of Article 23. 1, the recruitment, integration and training of the **CONTRACTOR**'s personnel from the Kurdistan Region and other parts of Iraq shall be planned, which plans shall be submitted to the Management Committee for its approval. The training plan shall take into consideration the requirements of Article 23.4 and may include training for **GOVERNMENT** personnel, depending on the extent to which the amount allocated to the training plan, as prescribed by Article 23.6, is available after taking into consideration the training of the **CONTRACTOR**'S Kurdistan and other Iraqi personnel.

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Within ninety (90) days of the Effective Date, the **CONTRACTOR** shall submit to the Management Committee a proposed training plan for the remainder of the Calendar Year. Thereafter, no later than 1 October in each Calendar Year, the **CONTRACTOR** shall submit a proposed training plan to the Management Committee for the following Calendar Year.

- 23.6 The training plan referred to in Article 23.5 shall provide for the allocation of the amount of seventy five thousand Dollars (US\$75,000) for each Contract Year during the Exploration Period and one hundred fifty thousand Dollars (US\$150,000) for each Contract Year during the Production Period.
- 23.7 The **CONTRACTOR** shall be responsible for the training costs which **CONTRACTOR** may incur in respect the personnel it employs from the Kurdistan Region and other parts of Iraq. All such costs shall be considered as Petroleum Costs and shall be recovered in accordance with the provisions of Articles 1 and 25. Costs incurred by the **CONTRACTOR** for training programs for **GOVERNMENT** personnel shall be borne by **CONTRACTOR** only to the extent that they are included in the **CONTRACTOR'S** training plan, pursuant to Article 23.5 and shall also be considered as Petroleum Costs and shall be recovered in accordance with the provisions of Articles 1 and 25. The cost of all other training programs for **GOVERNMENT** personnel shall be the **GOVERNMENT'S** responsibility.

The Environment Fund

- 23.8 From the date of First Production from the Contract Area, the **CONTRACTOR** shall contribute the amount of fifty thousand Dollars (US\$50,000) each Contract Year during the Exploration Period and seventy five thousand Dollars (US\$75,000) during the Development Period into the Environment Fund established by the **GOVERNMENT** for the benefit of the natural environment of the Kurdistan Region, pursuant to the Kurdistan Region Petroleum Act. Such amount shall be deemed to be a Petroleum Cost and shall be recovered in accordance with Articles 1 and 25.
- 23.8 Any expenditure incurred by the **CONTRACTOR** under this Article 23 shall be considered Petroleum Costs and shall be recovered in accordance with Articles 1 and 25.

ARTICLE 24 – ROYALTY

- 24.1 The **CONTRACTOR** shall pay to the **GOVERNMENT** a portion of Petroleum produced and saved from the Contract Area, as provided in this Article 24 (the "**Royalty**").
- 24.2 The **Royalty** shall be applied on all Petroleum produced and saved from the Contract Area which is Crude Oil or Non-Associated Natural Gas, except for Petroleum used in Petroleum Operations, re-injected in the Petroleum Field, lost, flared or for Petroleum that cannot be used or sold and such Crude Oil and Non-Associated Natural Gas (excluding the excepted Petroleum) shall be referred to collectively as "**Export Petroleum**" and separately and respectively as "**Export Crude Oil**" and "**Export Non-Associated**

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- 24.3 If payable in cash, the amount of the Royalty calculated by applying the Royalty rates provided under Article 24.4 shall be paid by the **CONTRACTOR** as directed by the **GOVERNMENT**, in accordance with Article 24.7.

If payable in kind, the quantity of Export Petroleum corresponding to the Royalty and calculated by applying the Royalty rates provided under Article 24.4 below, shall be delivered in kind by the **CONTRACTOR** to the **GOVERNMENT** at the Delivery Point. Title and risk of loss of the Royalty paid in kind shall be transferred at the Delivery Point.

Unless the **GOVERNMENT** requires the Royalty to be paid in kind, by giving the **CONTRACTOR** not less than ninety (90) days prior written notice prior to the commencement of the relevant Quarter, the **GOVERNMENT** shall be deemed to have elected to receive the Royalty in full and in cash for the relevant Quarter.

- 24.4 The Royalty due on any Export Petroleum produced and saved in the Contract Area shall be determined daily by applying the following relevant Royalty rate, to the Export Crude Oil or to the Export Non-Associated Natural Gas (as the case may be) produced and saved on that day:

(a) **For Export Crude Oil:**

The Royalty rate for Export Crude Oil shall be ten percent (10%), which, for the avoidance of doubt, shall apply regardless of the gravity of the oil.

(b) **For Export Non-Associated Natural Gas**

The Royalty rate for Export Non-Associated Natural Gas shall be ten percent (10%).

- 24.5 Associated Natural Gas and any other Petroleum shall be exempt from any Royalty.
- 24.6 If, pursuant to Article 24.3, the **GOVERNMENT** receives the Royalty in kind, and pursuant to Article 28, the **GOVERNMENT** requests assistance for the sale of all or part of the Royalty received in kind, the **CONTRACTOR** shall assist the **GOVERNMENT** in selling all or part of such Royalty received in kind (belonging to the **GOVERNMENT**) in consideration of a commission per barrel payable to the **CONTRACTOR**, in accordance with Article 28.
- 24.7 If, pursuant to Article 24.3, the **GOVERNMENT** receives the Royalty in cash:
- (a) any Export Crude Oil shall be valued at the International Market Price obtained at the Delivery Point, as defined in Article 27.2;
 - (b) any Export Non-Associated Natural Gas shall be valued at the actual price obtained at the Delivery Point, as provided in Article 27.3;
 - (c) the **CONTRACTOR** shall pay such Royalty each Quarter, in arrears, within thirty (30) days of the end of each Quarter, and shall calculate the payment

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due for the relevant Quarter, by reference to the price for the Export Petroleum at the Delivery Point, determined in accordance with paragraphs (a) and (b) above, and the Royalty due on the Export Petroleum, determined in accordance with Article 24.4, for the said Quarter, and

- (d) the **CONTRACTOR** shall be entitled to export freely the Royalty due on the Export Petroleum determined in accordance with Article 24.4 for the purpose of paying the Royalty in cash.

ARTICLE 25 - RECOVERY OF PETROLEUM COSTS

- 25.1 All Export Crude Oil produced and saved from the Contract Area shall, after deduction of any quantities of Export Crude Oil due for Royalty pursuant to Article 24 of this Contract, be considered as "**Available Crude Oil**".

All Associated Natural Gas produced and saved from the Contract Area, except for Associated Natural Gas which is used in Petroleum Operations, re-injected in the Petroleum Field, lost, flared or cannot be used or sold, shall be considered as "**Available Associated Natural Gas**".

All Export Non-Associated Natural Gas produced and saved from the Contract Area shall, after deduction of any quantities of Export Non-Associated Natural Gas due for Royalty pursuant to Article 24 of this Contract, be considered as "**Available Non-Associated Natural Gas**".

"**Available Petroleum**" means Available Crude Oil, Available Associated Natural Gas and Available Non-Associated Natural Gas.

- 25.2 For the purpose of this Article 25:

- (a) any Available Crude Oil shall be valued at the International Market Price obtained at the Delivery Point, as defined in Article 27.2; and
- (b) any Available Associated Natural Gas and any Available Non-Associated Natural Gas shall be valued at the actual price obtained at the Delivery Point, as provided in Article 27.3.

- 25.3 Subject to the provisions of this Contract, from the First Production in the Contract Area, the **CONTRACTOR** shall at all times be entitled to recover all Petroleum Costs incurred under this Contract, of forty percent (40%) of Available Crude Oil (which, for the avoidance of doubt, shall apply regardless of the gravity of the oil) and Available Associated Natural Gas, produced and saved within any Calendar Year.

- 25.4 Subject to the provisions of this Contract, from First Production in the Contract Area, the **CONTRACTOR** shall at all times be entitled to recover all Petroleum Costs incurred under this Contract of the greater of fifty-five percent (55%) or the maximum cost recovery percentage for Natural Gas permitted by the Kurdistan Region Petroleum Law produced and saved within any Calendar Year.

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25.5 For the application of Article 25.3 and 25.4 of this Contract, the **CONTRACTOR** shall keep a detailed account of Petroleum Costs in accordance with the provisions detailed in the Accounting Procedure attached to this Contract as Annex B. Recovery of Petroleum Costs shall occur in the following order:

- (a) Production Costs,
- (b) Exploration Costs (including appraisal costs and further exploration within the Contract Area);
- (c) Gas Marketing Costs;
- (d) Development Costs;
- (e) Decommissioning Contributions.

it being agreed that priority within each category listed above will be given to capital assets in the order of their acquisition ('first in, first out').

25.6 Total recovery of Petroleum Costs during any Calendar Year, expressed in quantities of Petroleum, shall not exceed the relevant percentages indicated in Articles 25.3 and 25.4. If in any Calendar Year, the Available Crude Oil and/or Available Non-Associated Natural Gas do not allow the **CONTRACTOR** to recover all its Petroleum Costs pursuant to this Article 25, the amount of un-recovered Petroleum Costs in such Calendar Year shall be carried forward indefinitely to the subsequent Calendar Years until all Petroleum Costs are fully recovered, but, save as provided in Article 14.10, in no other case after the termination of the Contract.

25.7 The provisions of Articles 27.7 and 27.8 shall be applied to determine the quantities of Available Crude Oil and/or Available Non-Associated Natural Gas due to the **CONTRACTOR** for the recovery of its Petroleum Costs.

25.8 The quantities of Petroleum corresponding to the share of Available Petroleum due to the **CONTRACTOR** for the recovery of its Petroleum Costs shall be delivered to the **CONTRACTOR** at the Delivery Point. Title and risk of loss of such Available Petroleum shall be transferred at the Delivery Point.

25.9 The **CONTRACTOR** shall be entitled to receive, take in kind and to export freely all Available Petroleum to which it is entitled for recovery of its Petroleum Costs in accordance with the provisions of this Contract and to retain Abroad any proceeds from the sale of all such Available Petroleum.

25.10* For the avoidance of any doubt, the **CONTRACTOR** shall be entitled to fully recover under this Contract any costs incurred prior to the Effective Date for any work and operations relating to the Contract Area undertaken in respect of this Contract, from the date of signature of this Contract.

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ARTICLE 26 - SHARING OF PROFIT PETROLEUM

- 26.1 Under this Contract,
- (a) **"Profit Petroleum"** means Profit Crude Oil and Profit Natural Gas;
 - (b) **"Profit Crude Oil"** means the quantities of Available Crude Oil and Available Associated Natural Gas produced from the Contract Area, after the recovery of Petroleum Costs, in accordance with Articles 1 and 25; and
 - (c) **"Profit Natural Gas"** means the quantities of Available Non-Associated Natural Gas produced from the Contract Area, after the recovery of Petroleum Costs in accordance with Articles 1 and 25.
- 26.2 From First Production and as and when Petroleum is being produced, the **CONTRACTOR** shall be entitled to take a percentage share of Profit Crude Oil and/or Profit Natural Gas, in consideration for its investment in the Petroleum Operations, which percentage share shall be determined in accordance with Article 26.5.
- 26.3 To determine the percentage share of Profit Crude Oil and/or Profit Natural Gas to which the **CONTRACTOR** is entitled, the "R" Factor shall be calculated in accordance with Article 26.4 and shall be applied to the Contract Area.
- 26.4 The "R" Factor shall be calculated as follows:

$$R = X/Y$$

where:

X: is equal to Cumulative Revenues actually received by the **CONTRACTOR**,

Y: is equal to Cumulative Costs actually incurred by the **CONTRACTOR**,

from the date of the signature of this Contract.

For the purpose of this Article 26.4:

Cumulative Revenues means total Revenues, as defined below, received by the **CONTRACTOR** until the end of the relevant Quarter, determined in accordance with Article 26.7.

Revenues means the total amount actually received by the **CONTRACTOR** for recovery of its Petroleum Costs and its share of Profit Petroleum in the Contract Area.

Cumulative Costs means all Petroleum Costs in the Contract Area, actually incurred by the **CONTRACTOR** until the end of the relevant Quarter, determined in accordance with Article 26.7.

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Notwithstanding the foregoing provisions of this Article 26.4, for the period from First Production until the end of the Calendar Year in which First Production occurs, the "R" factor shall be deemed to be less than one (n1 in the case of oil, or n3 in the case of gas).

26.5 The share of Profit Petroleum to which the **CONTRACTOR** shall be entitled from First Production is:

- (a) for Profit Crude Oil, equal to the quantities of Petroleum resulting from the application of the relevant percentage as indicated below to the daily volume of production of Profit Crude Oil within the Contract Area at the corresponding Delivery Point:

"R" Factor	CONTRACTOR'S % Share of Profit Crude Oil
"R" Factor	CONTRACTOR's % Share of Profit Petroleum
$0 < R < 1.0000$	30.0%
$1.0000 < R < 2.0000$	$30\% - ((30\% - 15\%) \times (R - 1.0000))$
$2.0000 < R$	15.0%

and

- (b) for Profit Natural Gas, equal to the quantities of Non-Associated Natural Gas resulting from the application of the relevant percentage as indicated below to the daily volume of production of Profit Natural Gas within the Contract Area at the corresponding Delivery Point:

"R" Factor	CONTRACTOR'S % Share of Profit Natural Gas
"R" Factor	CONTRACTOR's % Share of Profit Petroleum
$0 < R < 1.0000$	40.0%
$1.0000 < R < 2.0000$	$40\% - ((40\% - 20\%) \times (R - 1.0000))$
$2.0000 < R$	20.0%

26.6 The **CONTRACTOR's** accounting shall account separately for all components for the calculation of "X" and "Y" values in the formula provided in Article 26.4 above.

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- 26.7 For each Quarter, starting from the 1st of January of the Calendar Year following the Calendar Year in which First Production occurs, the **CONTRACTOR** shall calculate the "R" factor applicable to the relevant Quarter within thirty (30) days of the beginning of such Quarter. The "R" Factor to be applied during a Quarter shall be that determined by applying the Cumulative Revenues actually received and the Cumulative Costs actually incurred up to and including the last day of the preceding Quarter.
- 26.8 If at any time an error occurs in the calculation of the "R" factor, resulting in a change in the **CONTRACTOR**'s percentage share of Profit Crude Oil and/or Profit Natural Gas, the necessary correction shall be made and any adjustments shall apply from the Quarter in which the error occurred. The Party having benefited from a surplus of Profit Petroleum shall surrender such surplus to the other Party, beginning from the first day of the Quarter following the Quarter in which the error was recognised. However, each lifting of Petroleum relating to such error shall not exceed twenty-five percent (25%) of the share of Profit Petroleum to which such surrendering Party is entitled. For the avoidance of doubt, if at any time an error occurs in the calculation of the "R" factor, which does not result in a change in the **CONTRACTOR**'s percentage share of Profit Crude Oil and/or Profit Natural Gas, no correction shall be made.

- 26.9 The quantities of Profit Petroleum due to the **CONTRACTOR** shall be delivered to the **CONTRACTOR** at the Delivery Point. Title and risk of loss of such Profit Petroleum shall be transferred to the **CONTRACTOR** at the Delivery Point.

The **CONTRACTOR** shall be entitled to receive, take in kind and to export freely its share of Profit Petroleum in accordance with the provisions of this Contract and to retain Abroad any proceeds from the sale of all such Profit Petroleum.

- 26.10 The share of the Profit Petroleum to which the **GOVERNMENT** is entitled in any Calendar Year in accordance with Article 26.5 of this Contract shall, be deemed to include a portion representing the corporate income tax imposed upon and due by each entity constituting the **CONTRACTOR**, and which will be paid directly by the **GOVERNMENT** on behalf of each such entity representing the **CONTRACTOR** to the appropriate tax authorities in accordance with Article 31.2 of this Contract. The **GOVERNMENT** shall provide the **CONTRACTOR** with all written documentation and evidence reasonably required by the **CONTRACTOR** to confirm that such corporate income tax has been paid by the **GOVERNMENT**.

- 26.11 The quantities of Profit Petroleum due to the **GOVERNMENT** shall be delivered to the **GOVERNMENT** at the Delivery Point. Title and risk of loss of such Profit Petroleum shall be transferred at the Delivery Point.

- 26.12 At the latest twenty-one (21) days prior to **CONTRACTOR**'s estimated date of First Production and, subsequently, thirty (30) days prior to the beginning of each Quarter, the **CONTRACTOR** shall prepare and deliver to the **GOVERNMENT** a production program comprising the production forecast for the next Quarter and the forecast of the quantities of Crude Oil and Natural Gas to which each Party shall be entitled during the said Quarter.

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- 26.13 Within ninety (90) days following the end of each Calendar Year, the **CONTRACTOR** shall deliver an annual production report to the **GOVERNMENT**, stating the quantities of Crude Oil and Natural Gas to which each Party is entitled, the quantities of Crude Oil and Natural Gas lifted by each Party and the resulting over-lift or under-lift position of each Party, pursuant to the lifting agreement entered into pursuant to Article 16.14.

Any costs or expenditure incurred by the **CONTRACTOR**, its Subcontractors or suppliers relating to the lifting of the **GOVERNMENT**'s share of Petroleum by the **CONTRACTOR** shall not be considered Petroleum Costs and shall be charged to the **GOVERNMENT** according to terms to be mutually agreed between the **CONTRACTOR** and the **GOVERNMENT**.

ARTICLE 27

VALUATION AND METERING OF CRUDE OIL AND NATURAL GAS

Valuation

- 27.1 For the purpose of this Contract, any Crude Oil produced in the Contract Area shall be valued at the end of each Quarter at the Delivery Point based on the International Market Price, as defined in Article 27.2.
- 27.2 The "International Market Price" referred to in Article 27.1 shall be the average FOB price per barrel, expressed in Dollars, obtained by the **CONTRACTOR** at the Delivery Point during the Quarter ending on the date of valuation for Arm's Length Sales of Crude Oil.

It is deemed that the **CONTRACTOR** will sell any Crude Oil on an Arm's Length Sale If the **GOVERNMENT** considers that any such sale of Crude Oil is not on the basis of an Arm's Length Sale then the **GOVERNMENT** has the right to refer the matter to an expert pursuant to Article 42.3.

In the event that there is no lifting of Crude Oil in the relevant Quarter, the applicable "International Market Price" for such Quarter shall be the average FOB price per barrel obtained during that Quarter from Arm's Length Sales of Crude Oil of the same gravity and quality from other production areas sold in markets competing with Crude Oil produced from the Contract Area.

To determine such price, the Parties shall, prior to the commencement of Production, agree on a basket of Crude Oil comparable to those produced in the Contract Area and sold in the international market. Prices obtained shall be adjusted to account for any variations such as quality, specific gravity, sulphur content, transportation costs, product yield, seasonal variations in price and demand, general market trends and other terms of sale.

- 27.3 The price of Natural Gas shall be the actual price obtained at the Delivery Point, (which may take into account quantities to be sold, quality, geographic location of

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markets to be supplied as well as costs of production, transportation and distribution of Natural Gas from the Delivery Point to the relevant market, in accordance with standard practice in the international gas industry).

Accounting Statement

- 27.4 In accordance with this Article 27.4, the **GOVERNMENT** and the **CONTRACTOR** shall establish a statement showing calculations of the value of Crude Oil produced and sold from the Contract Area. Such statement shall include following information:
- (a) quantities of Crude Oil sold by the **CONTRACTOR** during the preceding Month constituting Arm's Length Sales together with corresponding sale prices;
 - (b) quantities of Crude Oil sold by the **CONTRACTOR** during the preceding Month that do not fall in the category referred to in paragraph (a) above, together with sale prices applied during such Month;
 - (c) inventory in storage belonging to the **CONTRACTOR** at the beginning and at the end of the Month; and
 - (d) quantities of Natural Gas sold by the **CONTRACTOR** and the **GOVERNMENT** together with sale prices realised.

Metering

- 27.7 All Export Petroleum shall be metered at the Delivery Point in accordance with generally accepted practice in the international petroleum industry and such meters shall be to fiscal meter standards. All metering equipment shall be installed and operated by the **CONTRACTOR**. The **GOVERNMENT** shall, on receipt by the **CONTRACTOR** of reasonable prior written notice, have the right to inspect any such metering equipment installed by the **CONTRACTOR**, as well as all relevant documents and supporting information reasonably necessary to validate the accuracy of such metering. All metering equipment shall be subject to periodic technical inspections in accordance with standard practice in the international petroleum industry.
- 27.8 If any metering equipment is defective, the **CONTRACTOR** shall use all reasonable endeavours to repair it within fifteen (15) days or, if deemed necessary by the **CONTRACTOR**, replace it as soon as reasonably practicable from the date the defect became known. Such defect shall be deemed to have occurred in the middle of the period between last calibration of the equipment that led to normal results and the calibration evidencing the defect.
- 27.9 Any disputes arising under this Article 27 shall be settled by expert determination in accordance with the provisions of Article 42.3 of this Contract.

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ARTICLE 28 –DOMESTIC MARKET - SALE OF GOVERNMENT SHARE

Upon the **GOVERNMENT's** prior written notice of at least ninety (90) days, the **CONTRACTOR** shall provide all reasonably necessary assistance to the **GOVERNMENT** for the sale of all or part of the quantities of Crude Oil to which the **GOVERNMENT** is entitled, in consideration of a sales commission per barrel to be established with reference to standard practice in the international petroleum business and to be mutually agreed upon between the Parties.

ARTICLE 29 - FINANCIAL PROVISIONS

- 29.1 Any payment to be made by the **CONTRACTOR** to the **GOVERNMENT** pursuant to this Contract shall be in Dollars and paid into the bank account duly designated by the **GOVERNMENT** in writing. The **GOVERNMENT** may, at its sole discretion, direct the **CONTRACTOR** to forward the Royalty and/or proceeds of the sale of quantities of Profit Petroleum due to the **GOVERNMENT** under this Contract to a fund for revenue sharing with the Government of Iraq and other regions and governorates in Iraq. Nothing in this Article shall be understood as implying a contractual or other relationship between the **CONTRACTOR** and the Government of Iraq.
- 29.2 Any currency conversion to be made under this Contract shall be at the exchange rate of the Central Bank of Iraq, provided such exchange rate applied to the **CONTRACTOR** shall not be less favourable than the rate offered by other private, commercial or industrial banks in the international market. In the absence of the Central Bank of Iraq or in the event that the Central Bank of Iraq is unable to provide the relevant exchange rate, any currency conversion to be made under this Contract shall be at the exchange rate of a reputable commercial bank carrying on business in the international market and approved by the Parties. The **CONTRACTOR** shall not realise any gain or loss due to exchange rate fluctuations and, consequently, any gain or loss resulting from exchange rate fluctuations shall be either debited or credited to the Petroleum Costs.
- 29.3 Any payment due by the **GOVERNMENT** to the **CONTRACTOR** shall be paid in Dollars to the bank account designated by the **CONTRACTOR** within thirty (30) days of the date of invoice, after which interest at the rate of LIBOR plus two (2) percentage points shall be applied.
- 29.4 The **CONTRACTOR** shall at all times be entitled to freely convert into Dollars or any other foreign currency any Iraqi dinars received in the framework of the Petroleum Operations and to freely transfer the same Abroad. The conversion rate shall be as provided under Article 29.2.
- 29.5 The **CONTRACTOR** shall have the right to be paid, receive, keep, transfer and use Abroad, without any restrictions, all proceeds of its share of Petroleum.

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- 29.6 The **CONTRACTOR** and its Subcontractors shall have the right to freely open and maintain bank accounts for Petroleum Operations within or outside the Kurdistan Region and other parts of Iraq.
- 29.7 The **CONTRACTOR** shall have the right to pay in any freely convertible currency all its financial requirements for the Petroleum Operations and to convert these currencies to Iraqi dinars in any bank in the Kurdistan Region or other parts of Iraq, at the same exchange rate as provided under Article 29.2.
- 29.8 The **CONTRACTOR** shall have the right, without any restrictions, to freely repatriate Abroad and to freely dispose of:
- (a) any proceeds received in the Kurdistan Region or other parts of Iraq from the sale of Petroleum;
 - (b) any proceeds received from other operations and activities carried out under this Contract in the Kurdistan Region or other parts of Iraq.
- 29.9 The **CONTRACTOR** shall have the right to pay in any foreign currency its Subcontractors and its expatriate personnel, either in the Kurdistan Region, other parts of Iraq, or Abroad. Said Subcontractors and expatriate personnel shall be obliged to transfer to the Kurdistan Region the amount of foreign currency required for their local needs and they shall have the right to repatriate the proceeds of the sale of their belongings in accordance with the regulations in force in the Kurdistan Region.
- 29.10 The **CONTRACTOR**'s Subcontractors and their personnel shall equally benefit from the same rights as the **CONTRACTOR** and its personnel as regards this Article 29.
- 29.11 For the financing of Petroleum Operations, the **CONTRACTOR** shall have the right to have recourse to external financing from third parties or from its Affiliated Companies on an arm's length basis. Any interests, costs and financial charges, as well as any exchange losses associated with such financing, shall not be considered Petroleum Costs and shall not be recoverable in accordance with the provisions of Articles 25.

ARTICLE 30 - CUSTOMS PROVISIONS

- 30.1 All services, material, equipment, goods, consumables and products imported into Kurdistan and other parts of Iraq by the **CONTRACTOR** or its Subcontractors for use or consumption in the Petroleum Operations shall be admitted free and exempt from any and all customs or other duties, import taxes and any other charges or impositions on import. The **CONTRACTOR** and its Subcontractors shall have the right to re-export from Kurdistan and other parts of Iraq free from all export taxes, customs or other duties or any other charges or impositions on export any material, equipment, goods, consumables and products that are no longer required for the Petroleum Operations.

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- 30.2 The **CONTRACTOR** and its Subcontractors and their personnel shall have the right to freely import into the Kurdistan Region and other parts of Iraq and re-export from the Kurdistan Region and other parts of Iraq any personal belongings and furniture free and exempt from any customs or other duties, import and export taxes and any other charges or impositions on import or export. The sale in the Kurdistan Region and other parts of Iraq of personal belongings and furniture of expatriate personnel shall comply with Kurdistan Region Law.
- 30.3 Each entity constituting the **CONTRACTOR** shall be entitled to freely export from the Kurdistan Region and other parts of Iraq, free of any taxes, customs or other duties and other impositions or charges whatsoever, any Petroleum to which it is entitled pursuant to the provisions of this Contract.
- 30.4 The **GOVERNMENT** shall indemnify the **CONTRACTOR** for any customs duties referred to in Articles 30.1, 30.2 or 30.3 that may be levied by the Kurdistan Region or Government of Iraq or any other government body or court with jurisdiction in any part of Iraq.

ARTICLE 31 - TAX PROVISIONS

- 31.1 Except as expressly provided for in this Article 31, the **CONTRACTOR** shall be exempt from all other taxes and impositions generally applicable to all other industries or otherwise in the Kurdistan Region.
- 31.2 Each entity constituting the **CONTRACTOR** shall be subject to income tax as provided in Article 31.3 below, which shall be deemed to be inclusive and in full and total discharge of any corporate income tax, any taxes on income from movable capital, any taxes on capital gains, any fixed taxes on transfers, any taxes on windfall profits or additional profits as well as all other current or future Kurdistan Region and Iraqi taxes based or assessed on income of any kind (whether State, provincial, religious, tribal or local) ("Tax"). Apart from the said Tax, no other taxes, levies, charges, impositions or withholdings that are based or assessed on income shall be due by the entities constituting the **CONTRACTOR**, its Subcontractors, their representatives, agents or employees to the **GOVERNMENT** or the Government of Iraq or any of the subdivisions or administrations of either such government as a result of their activities under this Contract. Payment of the said Tax shall be made directly to the appropriate Kurdistan Region and, if applicable, Iraqi tax authorities by the **GOVERNMENT**, for the account of each entity constituting the **CONTRACTOR**, from its share of the Profit Petroleum received pursuant to Article 26 of this Contract. The **GOVERNMENT** shall, within ninety (90) days after the end of each tax year, provide the appropriate tax receipts to each entity constituting the **CONTRACTOR** certifying the payment of its Tax and that it has met all its fiscal obligations in the preceding tax year.
- 31.3 For the purposes of Article 31.2:

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- (a) The rate of corporate income tax to be applied to each entity constituting the **CONTRACTOR** shall be the applicable rate prescribed in the Law of Taxation, Law No. 4 of 1999, passed by the parliament of the Kurdistan Region, as may be amended from time to time or substituted in respect of Petroleum Operations (as defined under the Kurdistan Region Petroleum Act) by a Petroleum Operations Taxation Act (as defined under the Kurdistan Region Petroleum Act).
- (b) The **GOVERNMENT** and the **CONTRACTOR** agree that corporate income tax shall be calculated for each entity constituting the **CONTRACTOR** on its net taxable profits under the Contract, as calculated in accordance with the provisions relating thereto in the Accounting Procedure.
- 31.4 Each entity constituting the **CONTRACTOR** shall be exempt from payment of any income tax, duties and other impositions on constitutive and modifying acts of corporations for the entire duration of this Contract.
- 31.5 The **CONTRACTOR** as well as its Subcontractors shall be exempt from any withholding tax applicable on any payments made to them or by them to or from Affiliates or third parties, whether inside or outside Kurdistan and/or Iraq.
- 31.6 The **CONTRACTOR** shall be exempt from Windfall Profits Taxes and Additional Profits Tax, as referred to in Article 44 of the Kurdistan Region Petroleum Act
- 31.7 The **CONTRACTOR** shall be exempt from Surface Tax as referred to in Article 44 of the Kurdistan Region Petroleum Act.
- 31.8 Each entity constituting the **CONTRACTOR** and any Subcontractor shall be subject to the payment of the personal income tax and social security contributions for which such entity or Subcontractor is liable to pay in respect of its employees, pursuant to the Law of Taxation, Law No. 4 of 1999, passed by the parliament of the Kurdistan Region, in the same manner as generally applied to all other industries.
- 31.9 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 expatriate employees in accordance with the provisions of such Double Tax Treaties, but shall not impose an additional burden of taxation.
- 31.10 The **CONTRACTOR** has the right to offset any value added tax ("VAT") or other tax not settled by the **GOVERNMENT** against any liability to tax under Article 31.

ARTICLE 32 - BONUSES

Signature Bonus and local community/capacity building fund

- 32.1 A signature bonus of five million Dollars (US\$5,000,000) ("Signature Bonus") shall be deemed to have been paid to the **GOVERNMENT** by the **CONTRACTOR** in recognition of the costs Contractor incurred prior to the Effective Date.

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32.2 A local capacity building fund ("Capacity Building Fund") of two million Dollars (US\$2,000,000) shall be payable to the **GOVERNMENT** by the **CONTRACTOR** in two (2) instalments, the first instalment payable thirty (30) days from the date the Contract is signed by the **CONTRACTOR** and the **GOVERNMENT** to coincide with the Contract ratification by the **GOVERNMENT**, and the second instalment payable thirty (30) days after the review period under Article 47.2. The payments due pursuant to this Article 32.2 shall be deemed to be a Petroleum Cost.

Production Bonuses

32.3 In the event of a Crude Oil Commercial Discovery, the **CONTRACTOR** shall pay the following relevant Crude Oil production bonus to the **GOVERNMENT** within thirty (30) days of the following relevant occurrence:

- (a) One million Dollars (US\$1,000,000) when First Production of Crude Oil from the Contract Area commences;
- (b) Two and one half million Dollars (US \$2,500,000) when production of Crude Oil from the Contract Area reaches a cumulative amount of ten million barrels of Crude Oil (10 mmbo);
- (c) Five million Dollars (US \$5,000,000) when production of Crude Oil from the Contract Area reaches a cumulative amount of twenty five million barrels of Crude Oil (25 mmbo); and
- (d) Ten million Dollars (US \$10,000,000) when production of Crude Oil from the Contract Area reaches a cumulative amount of fifty million barrels of Crude Oil (50 mmbo).

32.4 In the event of a Non-Associated Natural Gas Commercial Discovery, the **CONTRACTOR** shall pay the following relevant Non-Associated Natural Gas production bonus to the **GOVERNMENT** within thirty (30) days of the following relevant occurrence:

- (a) One million Dollars (US\$1,000,000) when First Production of Non-Associated Natural Gas from the Contract Area commences;
- (b) Two and one half million Dollars (US \$2,500,000) when production of Non-Associated Natural Gas from the Contract Area reaches a cumulative amount of ten million barrels of Crude Oil (10 mmbo) equivalent;
- (c) Five million Dollars (US \$5,000,000) when production of Non-Associated Natural Gas from the Contract Area reaches a cumulative amount of twenty five million barrels of Crude Oil (25 mmbo) equivalent; and
- (d) Ten million Dollars (US \$10,000,000) when production of Non-Associated Natural Gas from the Contract Area reaches a cumulative amount of fifty million barrels of Crude Oil (50 mmbo) equivalent.

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CONTRACTOR to be either a Crude Oil Commercial Discovery or a Non-Associated Gas Commercial Discovery and under no circumstances shall a production bonus be due in respect of both Crude Oil and Non-Associated Natural Gas for the same Commercial Discovery.

- 32.6 No production bonus due pursuant to Article 32.3 or Article 32.4 shall be deemed to be a Petroleum Cost.

ARTICLE 33 - PIPELINES

- 33.1 The **GOVERNMENT** shall obtain any required Permits for the transportation of Petroleum in the Kurdistan Region and in Iraq, as well as any necessary Permits and easement rights for the construction of any pipelines and related facilities required for the Petroleum Operations, as provided in Article 33.2.
- 33.2 The **GOVERNMENT** undertakes to transfer to the **CONTRACTOR** its rights for transportation of Petroleum by pipeline. The **CONTRACTOR** shall have the right to design, construct, operate and maintain pipelines and any related facilities for the transportation of Petroleum produced under this Contract.
- 33.3 Prior to the construction of any pipeline and related facilities as provided in Article 33.2, the **CONTRACTOR** shall submit following information to the Management Committee:
- (a) proposed pipeline route and related facilities;
 - (b) forecasted pipeline flow rate and capacity;
 - (c) estimate of financial investment and operating costs of the pipeline and related facilities;
 - (d) proposed financing schedule;
 - (e) construction schedule;
 - (f) general technical description of the pipeline and related facilities;
 - (g) construction plans and tests;
 - (h) preventive measures for damage to the environment and third parties; and
 - (i) proposed Delivery Point and any other information relating to the pipeline project.

The Management Committee shall examine all the above information and shall within ninety (90) days, approve the proposed pipeline project in accordance with the provisions of Article 8.5 of this Contract.

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- 33.4 Subject to spare capacity being available and to their Petroleum being compatible, third parties shall be entitled to transport their Petroleum through any pipeline constructed by the **CONTRACTOR** in accordance with this Article 33 on terms to be agreed between the **CONTRACTOR** and such third party. Those terms shall be reasonable commercial terms and shall not discriminate among third party users. The **CONTRACTOR** shall always have priority of access to such pipelines.
- 33.5 Any costs associated with the design, construction, operation and maintenance of the pipelines and related facilities by **CONTRACTOR** under this Article 33, including financing costs ("**Pipeline Costs**") shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 33.6 The **CONTRACTOR** shall have the absolute right, without any exceptions and for the entire duration of this Contract, to use, free of charge, any pipeline and related facilities constructed by **CONTRACTOR** under this Article 33 and to transport Petroleum produced from any Production Area and to operate and maintain any pipeline and its related facilities, freely and without any additional costs.
- 33.7 Any tariffs received from third parties for use of any pipeline and related facilities by **CONTRACTOR** under this Article 33 shall be applied to the recovery of Petroleum Costs until all Pipeline Costs have been fully recovered by the **CONTRACTOR** pursuant to the provisions of Articles 1 and 25 of this Contract. The **GOVERNMENT** shall be entitled to receive any tariffs from third parties for their use of such pipeline and related facilities when the said Pipeline Costs have been fully recovered by the **CONTRACTOR**. The costs associated with providing such transportation services for third parties shall be considered Pipeline Costs and therefore Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 33.8 Upon recovery by the **CONTRACTOR** of all the Pipeline Costs of the pipeline and related facilities, the operating and maintenance costs of any pipeline and its related facilities shall be borne by the **CONTRACTOR** and shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.
- 33.9 The **GOVERNMENT** shall have the same rights as the **CONTRACTOR** for use, free of charge, of any pipeline and related facilities constructed by **CONTRACTOR** under this Article 33 for the transportation of the share of Petroleum to which the **GOVERNMENT** is entitled under this Contract, provided that where the **GOVERNMENT** is participating in its capacity as a **CONTRACTOR** entity pursuant to Article 4, it shall be liable for its share of Petroleum Costs.
- 33.10 The **CONTRACTOR** shall bear the custody and maintenance of any pipeline and related facilities constructed by **CONTRACTOR** under this Article 33 and all risks of accidental loss or damage to such pipeline and related facilities while they are required for Petroleum Operations.

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ARTICLE 34 - UNITISATION

- 34.1 In the event a Reservoir extends beyond the Contract Area into an adjacent area which is the subject of another Petroleum Contract (as defined by the Kurdistan Region Petroleum Act) (an "**Adjacent Contract Area**"), or in the event a Reservoir of an Adjacent Contract Area extends into the Contract Area, the provisions of Article 58, Section 3 of the Kurdistan Region Petroleum Act shall apply and the **GOVERNMENT** shall require the **CONTRACTOR** and the Contractor of the Adjacent Contract Area to agree upon a schedule for reaching agreement of the terms of the unitisation of the Reservoir, which terms shall be based on reliable technical, operational and economical parameters, all in accordance with standard practice in the international petroleum industry. In the event that the Minister decides the unitisation pursuant to Article 58, Section 3 (b) of the Kurdistan Petroleum Act, and if the **CONTRACTOR** does not agree with the Minister's decision, the **CONTRACTOR** shall be entitled to arbitration pursuant to the provisions of Article 42.1.
- 34.2 In the event that a Reservoir extends beyond the boundaries of the Contract Area into adjacent an area which is not the subject of another Petroleum Contract (as defined by the Kurdistan Region Petroleum Act), the **GOVERNMENT** shall, upon the **CONTRACTOR**'s request, take the necessary steps to extend the boundaries of Contract Area so as to include the entire Reservoir within the Contract Area, provided that the **CONTRACTOR** can offer the **GOVERNMENT** a competitive minimum work program for such adjacent area.

ARTICLE 35 - LIABILITY AND INSURANCE

Liability

- 35.1 Subject to the other provisions of this Contract, the **CONTRACTOR**, in its capacity as the entity responsible for the execution of the Petroleum Operations within the Contract Area, shall be liable to third parties to the extent provided under applicable Law for any losses and damage it may cause to them in conducting the Petroleum Operations, and shall defend, indemnify and hold harmless the **GOVERNMENT** with respect to all claims for such loss or damage.
- 35.2 The **CONTRACTOR** shall not be liable to the **GOVERNMENT** for any damage or loss or claims of any kind resulting from its conduct of the Petroleum Operations unless such damage or loss is the result of wilful misconduct or a material failure to conduct Petroleum Operations in accordance with the terms of this Contract; provided, however, that such liability cannot result in the event of any omissions, errors or mistakes committed in good faith by the **CONTRACTOR** in the exercise of the powers and authorisations conferred upon the **CONTRACTOR** by virtue of this Contract, and further provided that in no event shall the **CONTRACTOR** be liable for any indirect or consequential loss or damage whatsoever or any loss, damages, costs, expenses or liabilities caused (directly or

indirectly) by any of the following arising out of, relating to, or connected with this Contract or the Petroleum Operations carried out under this Contract: (i) reservoir or formation damage; (ii) inability to produce, use or dispose of Petroleum; (iii) loss or deferment of income; (iv) special or punitive damages; or (v) other indirect damages or losses whether or not similar to the foregoing.

- 35.3 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 of any Subcontractor or by any 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 Contract regardless of the fault or negligence in whole or in party of any entity or individual.
- 35.4 Notwithstanding Article 35.1, the **GOVERNMENT** shall indemnify and hold harmless the **CONTRACTOR** against all losses, damages and liability arising under any claim, demand, action or proceeding brought or instituted against the **CONTRACTOR** by any employee of the **GOVERNMENT** or of any Public Company or of any subcontractor of the foregoing or by any dependent of any such employee, 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 Contract regardless of the fault or negligence in whole or in party of any entity or individual.
- 35.5 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.
- 35.6 In the event of emergency situations as set out in Article 35.4 above, at the request of the **CONTRACTOR**, the **GOVERNMENT**, without prejudice and in addition to any indemnification obligations the **GOVERNMENT** may have, 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 Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25 of this Contract.

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Insurance

- 35.7 In accordance with standard practice in the international petroleum industry, the **CONTRACTOR** shall maintain any insurance required by applicable Kurdistan Region Law, as well as any insurance approved by the Management Committee.

Such insurance policies may cover:

- (a) loss of and damage to material and equipment used in the Petroleum Operations;
- (b) personal injury, damage to third parties and risks of pollution associated with Petroleum Operations for reasonable amounts,

within the limits approved by the Management Committee.

- 35.8 Any insurance policy relating to this Contract shall name the **GOVERNMENT** as an additional insured party and shall include a waiver of subrogation protecting the **GOVERNMENT** against any claim, loss and damage resulting from any Petroleum Operation conducted by or on behalf of the **CONTRACTOR** under this Contract, to the extent that the **CONTRACTOR** is liable for such claim, loss or damage under this Contract. The **CONTRACTOR** shall not be liable for and shall not purchase insurance cover for any claims arising from negligence or wilful misconduct of the **GOVERNMENT** or of any Public Company or of any of its or their subcontractors or of any personnel of any of the foregoing.
- 35.9 Upon its written request, the **GOVERNMENT** shall be provided with insurance certificates, including necessary details, for any insurance policy maintained by the **CONTRACTOR** which relates to this Contract.
- 35.10 The **CONTRACTOR** shall be responsible for the filing of all claims made under any insurance policy maintained by **CONTRACTOR** which relates to this Contract. Any premiums and payments relating to such insurance policies shall be considered Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25 of this Contract.
- 35.11 In any insurance policy maintained by the **CONTRACTOR** which relates to this Contract, 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 a Petroleum Cost and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1.1 and 25 of this Contract.

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ARTICLE 36 - INFORMATION AND CONFIDENTIALITY

- 36.1 The **CONTRACTOR** shall keep all records, data and information relating to the Petroleum Operations in accordance with the Kurdistan Region Petroleum Act and standard practice in the international petroleum industry. In addition, it shall provide the **GOVERNMENT** with such information and data as it is obliged to provide under this Contract.
- 36.2 Upon the **GOVERNMENT's** written request, the **CONTRACTOR** shall provide the **GOVERNMENT** with samples of any rocks or any other items extracted during the Petroleum Operations.
- 36.3 The **GOVERNMENT** shall have title to all data and information, whether raw, derived, processed, interpreted or analysed, obtained pursuant to a Contract.
- 36.4 The **CONTRACTOR** shall have the right, without any limitation, to send Abroad copies of all reports and technical data, magnetic tapes and other data relating to the Petroleum Operations. Magnetic tapes or other data, the original of which must be analysed and processed Abroad, may be transported out of the Kurdistan Region.
- 36.5 Any representatives authorised by the **GOVERNMENT** and notified to the **CONTRACTOR** shall, upon reasonable prior written notice, have reasonable access to any information and data relating to the Contract Area in the possession of the **CONTRACTOR** which the **CONTRACTOR** is obliged to provide to the **GOVERNMENT** pursuant to this Contract. It is understood that, when exercising such right, the **GOVERNMENT** shall ensure it does not unduly interfere with or hinder **CONTRACTOR's** activities.
- 36.6 The **CONTRACTOR** shall provide the **GOVERNMENT** upon the **GOVERNMENT's** written request with analysis information, reports, tapes or other data (geological, geophysical, logs, interpretations, drilling reports, etc.) related to the Petroleum Operations. All available originals shall be transferred to the **GOVERNMENT** at the end of this Contract.
- 36.7 Apart from the exceptions stated in this Article 36, the Parties undertake to keep all data and information relating to this Contract and the Petroleum Operations confidential during the entire term of this Contract and not to divulge or disclose such data or information to third parties without the specific consent of the other Party, such consent not to be unreasonably withheld or delayed. The foregoing confidentiality obligation shall not apply to information or data which:
- (a) is or, through no fault of either Party, becomes part of the public domain;
 - (b) is known to the receiving Party at the date of disclosure; or
 - (c) is required to be furnished in compliance with any applicable Law, by a government agency having jurisdiction over the entity constituting the **CONTRACTOR**, by a court order or any other legal proceedings; or

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- (d) is required to be disclosed pursuant to the rules or regulations of any government or recognised stock exchange having jurisdiction over the entity constituting the **CONTRACTOR**.

36.8 Notwithstanding the foregoing in Article 36.7, in accordance with standard practice in the international petroleum industry, such data and information may be disclosed to:

- (a) Affiliates of each entity constituting **CONTRACTOR**;
- (b) employees, officers and directors of each entity constituting the **CONTRACTOR** and their respective Affiliated Companies for the purpose of the Petroleum Operations, subject to each such entity taking customary precautions to ensure such information is kept confidential;
- (c) consultants or agents retained by any entity constituting the **CONTRACTOR** or its Affiliate for the purpose of analysing or evaluating information or data;
- (d) banks or financial institutions retained by any entity constituting the **CONTRACTOR** with a view to financing Petroleum Operations, including any professional consultants retained by such bank or financial institution;
- (e) *bona fide* prospective assignees of a participating interest under this Contract (including any entity with whom an entity constituting **CONTRACTOR** and/or its Affiliates are conducting *bona fide* negotiations directed towards a merger, consolidation or the sale of a majority of its or an Affiliates shares);
- (f) prospective or actual Subcontractors and suppliers engaged by a Party where disclosure of such information is essential to such Subcontractor's or supplier's work for such Party, and
- (g) any other person or entity, upon the prior written approval of the non-disclosing Party,

provided that disclosure shall not be made pursuant to paragraphs (c), (d), (e) and (f), unless such third party has entered into a confidentiality undertaking

36.9 Any data and information relating to relinquished or surrendered areas under this Contract shall become the exclusive property of the **GOVERNMENT**, who shall have the right to use same for any purpose, in particular for the purpose of promoting said areas. The **CONTRACTOR** shall be entitled to keep copies of such data and information and to use such data and information for any purpose.

36.10 Subject to the provisions of this Article 36, the **CONTRACTOR** may not sell nor exchange any data related to the Petroleum Operations without the approval of the **GOVERNMENT**, which approval shall not be unreasonably withheld or delayed where, in **CONTRACTOR**'s reasonable opinion, such sale or exchange would benefit the Petroleum Operations.

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ARTICLE 37 - ENVIRONMENTAL PROVISIONS

- 37.1 During the performance of the Petroleum Operations, the **CONTRACTOR** shall take necessary measures to ensure that it, the Operator, its Subcontractors and agents attend to the protection of the environment and prevention of pollution, in accordance with standard practice in the international petroleum industry and any applicable Kurdistan Region Law.
- 37.2 Prior to surrendering a portion of the Contract Area, the **CONTRACTOR** shall take reasonable measures to clean the area to be surrendered in accordance with standard practice in the international petroleum industry. Such measures shall include, *inter alia*, removal of facilities, material and equipment together with reasonable measures necessary for the preservation of fauna, flora and ecosystems, all in accordance with generally accepted practice in the international petroleum industry. The **CONTRACTOR** shall only be responsible for site restoration or environmental damage to the extent the same pertains solely and directly to Petroleum Operations pursuant to this Contract.
- 37.3 The **CONTRACTOR** shall take reasonable precautions and measures to prevent any pollution which may arise directly as a result of the Petroleum Operations and to protect the environment (fauna and flora), water sources and any other natural resources when carrying out Petroleum Operations.
- 37.4 The **CONTRACTOR** shall respect the preservation of property, agricultural areas, and fisheries, when carrying out Petroleum Operations.
- 37.5 Before starting Exploration Operations within the Contract Area, the **CONTRACTOR** shall conduct and submit an environmental impact assessment.

National Parks and Nature Reserve Areas

- 37.6 The **CONTRACTOR** shall take all reasonable measures to minimise any adverse material impact on national parks and nature reserves which may arise directly as a result of the Petroleum Operations, in accordance with generally accepted environmental practices in the international petroleum industry.
- 37.7 The **GOVERNMENT**: (i) represents and warrants that, on the Effective Date, there are no national parks, nature reserves or other protected areas located in whole or in part within the Contract Area where the **CONTRACTOR** shall not be entitled to carry out Petroleum Operations and (ii) covenants that during the term of this Contract will not designate or create or permit the creation of any national parks, nature reserves or other protected areas, located in whole or in part within the Contract Area, where the **CONTRACTOR** is entitled to carry out Petroleum Operations.

Expenditures

- 37.8 Any expenditure incurred by the **CONTRACTOR** in relation with this Article 37 shall be deemed Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

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ARTICLE 38 - DECOMMISSIONING

- 38.1 To enable the **CONTRACTOR** to recover the costs associated with future Petroleum Field decommissioning and site restoration and any other similar expenditure to be borne by the **CONTRACTOR** under this Contract, the **CONTRACTOR** shall have the right to establish a reserve fund for future decommissioning and site restoration (a "**Decommissioning Reserve Fund**"). The Decommissioning Reserve Fund may be established at any time during the final ten (10) Calendar Years of the term of the Production Operations of a Petroleum Field but, upon the reasonable request by the **CONTRACTOR**, the **GOVERNMENT** shall allow the **CONTRACTOR** to establish such fund over a longer period. Once established, the **CONTRACTOR** shall make regular contributions to the Decommissioning Reserve Fund based upon estimated Petroleum Field decommissioning and site restoration costs in accordance with standard principles and technical norms generally accepted in the international petroleum industry. Any contributions by the **CONTRACTOR** to the Decommissioning Reserve Fund shall be made in Dollars and shall be deemed Petroleum Costs and tax deductible, in each case when paid into the reserve fund, and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25. Contributions to the Decommissioning Reserve Fund shall be placed with a first rate bank approved by the Management Committee in accordance with Article 8.5.
- 38.2 If, at the end of the term of the Production Operations of the Petroleum Field, the **GOVERNMENT** decides to take over production operations in the Petroleum Field:
- (i) the **GOVERNMENT** shall become liable for its future decommissioning and site restoration;
 - (ii) the contributions and any interest accumulated in the Decommissioning Reserve Fund, to the extent that such contributions have been recovered as Petroleum Costs, shall be paid to the **GOVERNMENT**; and
 - (iii) the **GOVERNMENT** shall release the **CONTRACTOR** from any obligations relating to decommissioning and site restoration and shall indemnify the **CONTRACTOR** for any costs, liabilities, expenses, claims or obligations associated therewith.
- 38.3 If the **CONTRACTOR** undertakes the Petroleum Field decommissioning and site restoration works, the contributions and any interest accumulated in the Decommissioning Reserve Fund shall be paid to the **CONTRACTOR** and shall be used for the Petroleum Field Decommissioning Operations. The **CONTRACTOR** shall undertake any such Decommissioning Operations in accordance with standard practice in the international petroleum industry.
- 38.4 If that the Decommissioning Reserve Fund paid to the **CONTRACTOR** is not sufficient to cover all Decommissioning Costs for the Petroleum Field, the balance shall be paid by the **CONTRACTOR** and may be recovered as Petroleum Costs from any other Production Areas or, if applicable, from any other area which is the subject

of another Petroleum Contract (as defined by the Kurdistan Region Petroleum Act) of the **CONTRACTOR** or any of its Affiliates anywhere in the Kurdistan Region and, to the extent the balance is not recoverable as aforesaid, such remaining balance shall be paid by the **GOVERNMENT**.

- 38.5 If that the Decommissioning Reserve Fund paid to the **CONTRACTOR** exceeds all Decommissioning Costs for the Petroleum Field, the balance shall be allocated as follows:
- (a) to the extent that it has been recovered as Petroleum Costs, that amount shall be transferred to the **GOVERNMENT**; and
 - (b) to the extent that it has not been recovered as Petroleum Costs, that amount shall be re-paid to the **CONTRACTOR**.
- 38.6 Any expenditure incurred by the **CONTRACTOR** in relation with this Article 38, including but not limited to any contributions to the Decommissioning Reserve Fund, shall be deemed Petroleum Costs and shall be recovered by the **CONTRACTOR** in accordance with the provisions of Articles 1 and 25.

ARTICLE 39 – ASSIGNMENT and CHANGE OF CONTROL

Assignment to Affiliates

- 39.1 Each entity constituting the **CONTRACTOR** shall be free to sell, assign, transfer or otherwise dispose of all or part of its rights, obligations and interests under this Contract to an Affiliated Company or to another entity constituting the **CONTRACTOR** with the prior consent of **GOVERNMENT**, which consent shall not be unreasonably delayed or withheld. Such consent shall be deemed having been received if, after thirty (30) days from the date of such request, the **GOVERNMENT** has not made any objections in writing

Assignment to Third Parties

- 39.2 Each entity constituting the **CONTRACTOR** shall have the right to sell, assign, transfer or otherwise dispose of all or part of its rights and interests under this Contract to any third party (not being an Affiliated Company or another entity constituting **CONTRACTOR**) with the prior consent of **GOVERNMENT**, which consent shall not be unreasonably delayed or withheld. Any entity constituting **CONTRACTOR** proposing to sell, assign, transfer or otherwise dispose of all or part of its rights and interests under this Contract to any such third party shall request such consent in writing, which request shall be accompanied by reasonable evidence of the technical and financial capability of the proposed third party assignee. Such consent shall be deemed having been received if, after thirty (30) days from the date of such request the **GOVERNMENT** has not made any objections in writing.
- 39.3 To be effective, any deed of sale, assignment, transfer or other disposal as provided under Articles 39.1 or 39.2, the Parties shall enter into a deed of assignment, which

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shall include an undertaking by such third party to fulfil any obligations under this Contract.

- 39.4 In the event an entity constituting the **CONTRACTOR** assigns or in any other way transfers its rights and interests under this Contract, whether in whole or in part, such assignment or transfer shall not give rise to any tax, imposition or payment whatsoever in the Kurdistan Region, whether currently existing or which may become applicable in future.
- 39.5 The **GOVERNMENT** may not at any time transfer all its rights and obligations under this Contract to a Public Company or any other company or entity one hundred percent (100%) owned by the **GOVERNMENT** or otherwise, except in respect of its Government Share (upon exercise of its Option to Participate) in accordance with Article 4.

Change of Control

- 39.6 "Change of Control" for the purpose of this Article 39.6 means any direct or indirect change of Control of an entity constituting **CONTRACTOR** (whether through merger, sale of shares or of other equity interests, or otherwise) through a single transaction or series of transactions, from one or more transferors to one or more transferees, in which the market value of such entity's participating interest in this Contract (which shall be as specified in the Joint Operating Agreement relating to this Contract, or where there is only one entity constituting **CONTRACTOR**, one hundred (100%) percent) represents more than seventy five percent (100%-xx% initial Government Interest) of the aggregate market value of the assets of such entity and its Affiliates that are subject to the change in Control. For the purpose of this definition: "Control" means the means direct or indirect ownership or control of the majority of the voting rights of the applicable entity at its shareholders' meetings or their equivalent; and "market value" shall be determined based upon the amount in cash a willing buyer would pay a willing seller in an arm's length transaction.

Each entity constituting the **CONTRACTOR** which is subject to a Change in Control other than to an Affiliated Company or an entity constituting **CONTRACTOR** must obtain the prior consent of **GOVERNMENT**, which consent shall not be unreasonably delayed or withheld. Such consent shall be deemed having been received if, after thirty (30) days from the date of such request, the **GOVERNMENT** has not made any objections in writing.

A Change in Control shall not give rise to any tax, imposition or payment whatsoever in the Kurdistan Region, whether currently existing or which may become applicable in future.

ARTICLE 40 - FORCE MAJEURE

- 40.1 No delay, default, breach or omission of the **CONTRACTOR** in the execution of any of its obligations under this Contract shall be considered a failure to perform this Contract or be the subject of a dispute if such delay, default, breach or omission is due

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to a case of Force Majeure. In such event the **CONTRACTOR** shall promptly notify the **GOVERNMENT** in writing and take all reasonably appropriate measures to perform its obligations under this Contract to the extent possible. The time resulting from any such delay or curtailment in the execution of such obligations, increased by the time necessary to repair any damage resulting from or occurred during such delay or curtailment, shall be added to any time period provided under this Contract (including without limitation the Exploration Period and any extension thereto, any Sub-Period and any extension thereto and any Development Period and any extension thereto). The Parties shall meet as soon as possible after the notification of Force Majeure with a view to using reasonable endeavours to mitigate the effects thereof.

40.2 For the purpose of this Contract, "**Force Majeure**" means any event that is unforeseeable, insurmountable and irresistible, not due to any error or omission by the **CONTRACTOR** but due to circumstances beyond its control, which prevents execution of all or part of its obligations under this Contract. Such events shall include but not be limited to following:

- (a) war, whether declared or not, civil war, insurrection, riots, civil commotion, terrorism, any other hostile acts, whether internal or external;
- (b) strikes or other labour conflicts;
- (c) accidents or blowouts;
- (d) quarantine restrictions or epidemics;
- (e) any act, event, happening or occurrence due to natural causes, in particular floods, storms, cyclones, fires, lightning, or earthquakes;
- (f) environmental restrictions, which the **GOVERNMENT** has not notified to the **CONTRACTOR**, and
- (g) any acts or order of **GOVERNMENT**.

The intention of the Parties is that Force Majeure shall receive the interpretation that complies most with general principles and practice prevailing in the international petroleum industry. Force Majeure affecting an Affiliated Company of an entity constituting the **CONTRACTOR** shall be deemed Force Majeure affecting such entity constituting the **CONTRACTOR** if the consequence of such Force Majeure prevents the performance of any of **CONTRACTOR**'s obligations under this Contract.

ARTICLE 41 – WAIVER OF SOVEREIGN IMMUNITY

The **GOVERNMENT** and any Public Company which may be an entity constituting **CONTRACTOR** at any time hereby fully and irrevocably waives any claim to immunity for itself or any of its assets.

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This waiver includes any claim to immunity from:

- (a) any expert determination, mediation, or arbitration proceedings commenced pursuant to Article 42 this Contract,
- (b) any judicial, administrative or other proceedings to aid the expert determination, mediation, or arbitration proceedings commenced pursuant to Article 42 of this Contract,
- (c) any effort to confirm, enforce or execute any decision, settlement, award, judgment, service of process, execution order or attachment (including pre-judgment attachment) that results from an expert determination, mediation, arbitration or any judicial, administrative or other proceedings commenced pursuant to this Contract.

ARTICLE 42 - ARBITRATION AND EXPERT DETERMINATION

Negotiation, Mediation and Arbitration

42.1 For the purpose of this Article 42.1, "**Dispute**" shall mean any dispute, controversy or claim (of any and every kind or type, whether based on contract, tort, statute, regulation or otherwise) arising out of, relating to, or connected with this Contract or the operations carried out under this Contract, including without limitation any dispute as the construction, existence, validity, interpretation, enforceability, breach or termination of this Contract, which arises between the Parties (or between any one or more entities constituting the **CONTRACTOR** and the **GOVERNMENT**).

Subject to the provisions of Article 42.3 of this Contract, a Party who desires to submit a Dispute for resolution shall commence the dispute resolution process by providing the other parties to the Dispute written notice of the Dispute ("**Notice of Dispute**"). The Notice of Dispute shall identify the parties to the Dispute, shall contain a brief statement of the nature of the Dispute and the relief requested and shall request negotiations among Senior Representatives.

- (a) In the event that any Notice of Dispute is given in accordance with Article 42.2, the parties to the Dispute shall first seek settlement of the dispute by negotiation between Senior Representatives. "**Senior Representative**" means any individual who has authority to negotiate the settlement of the Dispute for a party to the Dispute. Within thirty (30) days after the date of the receipt by each party to the Dispute of the Notice of Dispute, the Senior Representatives representing the parties to the Dispute shall meet at a mutually acceptable date, time and place to exchange relevant information in an attempt to resolve the Dispute. If a Senior Representative intends to be accompanied at the meeting by a legal adviser, each other party shall be given written notice of such intention and its Senior Representative may also be accompanied at the meeting by a legal adviser.

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- (b) If the Dispute cannot be resolved by negotiation in accordance with Article 42.3 within sixty (60) days after the date of the receipt by each party to the Dispute of the Notice of Dispute or such further period as the parties to the Dispute may agree in writing, any party to the Dispute may seek settlement of the dispute by mediation in accordance with the London Court of International Arbitration (LCIA) Mediation Procedure, which Procedure shall be deemed to be incorporated by reference into this Article, and the parties to such Dispute shall submit to such mediation procedure.
- (c) If the Dispute is not settled by mediation within sixty (60) days of the appointment of the mediator, or such further period as the parties to the Dispute may otherwise agree in writing, any party to the Dispute may refer the Dispute to, and seek final resolution by, arbitration under the LCIA Rules, which Rules shall be deemed to be incorporated by reference into this Article.
- (i) Any arbitration shall be conducted by three (3) arbitrators.
 - (ii) If the parties to the Dispute are the **GOVERNMENT** and all the entities constituting the **CONTRACTOR**, the **GOVERNMENT** and the **CONTRACTOR** shall each appoint one (1) arbitrator. If the parties to the Dispute are the **GOVERNMENT** and more than one, but not all the entities constituting the **CONTRACTOR**, the **GOVERNMENT** shall appoint one (1) arbitrator and such **CONTRACTOR** entities shall appoint one (1) arbitrator. If the parties to the Dispute are the **GOVERNMENT** and one entity constituting the **CONTRACTOR**, the **GOVERNMENT** and such **CONTRACTOR** entity shall each appoint one (1) arbitrator.
 - (iii) In any event, the two arbitrators so appointed shall, in good faith, use all reasonable endeavours to agree on the appointment of the third arbitrator, who will chair the arbitral tribunal. In case of failure to appoint an arbitrator or to agree on the appointment of the third arbitrator, Rules of the LCIA shall apply.
 - (vi) Arbitration shall take place in London, England. The language to be used in any prior negotiation, mediation and in the arbitration shall be English. During the arbitration procedure and until the arbitral decision, no Party or **CONTRACTOR** entity shall act in a manner that may affect the rights of the other Party or other **CONTRACTOR** entities under this Contract. The arbitral award may be enforced by any court of competent jurisdiction, including the Kurdistan Region. Any award shall be expressed in Dollars.
 - (v) The Parties agree that the arbitral award shall be final and not subject to any appeal.

42.2 No negotiation, mediation, arbitration or expert determination procedure under this Article 42 shall exempt the Parties from fulfilling their respective legal and/or contractual obligations.

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Expert Determination

- 42.3 Any disagreement between the Parties relating to Articles 15.4, 27.2 and 27.9 of this Contract, as well as any disagreement the Parties agree to refer to an expert, shall be submitted to an expert. The Management Committee shall prepare and agree appropriate terms of reference relating to the disagreement to be submitted to the expert, in accordance with Article 8.5 ("**Terms of Reference**").
- (a) The disagreement shall be submitted to an expert appointed by mutual agreement of the Parties within thirty (30) days following the date of preparation and agreement of the terms of reference mentioned in Article 42.10 by the Management Committee. If the Parties cannot agree on the choice of the expert within such thirty (30) day period, at the request of either Party, the expert shall be appointed by the President of the Energy Institute in London, England. Any expert appointed must have the necessary qualifications for reviewing and deciding on the subject matter of the disagreement.
 - (b) The duties of the expert shall be stated in the terms of reference prepared and agreed by the Management Committee. The Management Committee shall promptly provide the expert with the agreed terms of reference relating to the disagreement. Each Party shall have the right to give to the expert in writing any information which it considers useful. The expert shall have the right to review and verify any information he deems useful to assist him in his review of the disagreement.
 - (c) The expert shall render his decision within forty-five (45) days of his receipt of the terms of reference and the information referred to in Article 42.12. Subject to the provisions of Article 15.4 of this Contract, any decision of the expert shall be final and shall not be subject to any appeal, except in the case of manifest error, fraud or malpractice. Any costs and expenses associated with the expert determination shall be shared equally between the Parties.

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ARTICLE 43 - GOVERNING LAW, FISCAL STABILITY AND AMENDMENTS

Governing Law

- 43.1 This Contract, including any dispute arising therefrom, thereunder or in relation thereto, shall be governed by English law (except any rule of English law which would refer the matter to another jurisdiction), together with any relevant rules, customs and practices of international law, as well as by principles and practice generally accepted in petroleum producing countries and in the international petroleum industry.

Fiscal Stability

- 43.2 The obligations of the **CONTRACTOR** resulting from this Contract shall not be aggravated by the **GOVERNMENT** and the general and overall equilibrium between the Parties under this Contract shall not be affected in a substantial and lasting manner.
- 43.3 The **GOVERNMENT** guarantees to the **CONTRACTOR**, for the entire duration of this Contract, that it will maintain the stability of the fiscal and economic conditions of this Contract, as they result from this Contract and as they result from the laws and regulations in force on the date of signature of this Contract. The **CONTRACTOR** has entered into this Contract on the basis of the legal, fiscal and economic framework prevailing at the Effective Date. If, at any time after the Effective Date, there is any change in the legal, fiscal and/or economic framework under the Kurdistan Region Law or other Law applicable in the Kurdistan Region which detrimentally affects the **CONTRACTOR**, the terms and conditions of the Contract shall be altered so as to restore the **CONTRACTOR** to the same overall economic position as that which **CONTRACTOR** would have been in, had no such change in the legal, fiscal and/or economic framework occurred.
- 43.4 If the **CONTRACTOR** believes that its economic position has been detrimentally affected as provided in Article 43.3, upon the **CONTRACTOR**'s written request, the Parties shall meet to agree on any necessary measures or making any appropriate amendments to the terms of this Contract with a view to re-establishing the economic equilibrium between the Parties and restoring the **CONTRACTOR** to the position it was in prior to the occurrence of the change having such detrimental effect. Should the Parties be unable to agree on the merit of amending this Contract and/or on any amendments to be made to this Contract within ninety (90) days of **CONTRACTOR**'s request (or such other period as may be agreed by the Parties), the **CONTRACTOR** may refer the matter in dispute to arbitration as provided in Article 42.1.
- 43.5 Without prejudice to the generality of the foregoing, the **CONTRACTOR** shall be entitled to request the benefit of any future changes to the petroleum legislation or any other legislation complementing, amending or replacing it.

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43.6 The Parties agree to cooperate in all possible ways with a view to fully achieving the objectives of this Contract. The **GOVERNMENT** shall facilitate the performance of the Petroleum Operations by promptly granting to the **CONTRACTOR** any necessary authorisation, permit, licence or access right and making available any existing facilities and services with a view to the Parties obtaining maximum mutual benefit from the Contract.

Amendments

43.7 Except as provided in Article 47, any amendment to this Contract shall be the subject of a formal amendment, duly approved in writing by the Parties and subject to the same conditions of validity as this Contract.

43.8 This Contract constitutes the entire agreement of the Parties and supersedes any and all prior understandings or agreements in respect of the subject matter of this Contract.

43.9 Unless otherwise expressly stated elsewhere in this Contract, no failure or delay of any Party to exercise any right, power or remedy under this Contract shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or future exercise thereof or the exercise of any other right, power or remedy.

Validity

43.10 As signatory to this Contract for and on behalf of the **GOVERNMENT**, the Ministry of Natural Resources in the Kurdistan Region hereby represents that it approves this Contract for the purposes of the Kurdistan Region Petroleum Act, when it enters into force.

ARTICLE 44 - NOTICES

44.1 To be valid, any correspondence, written communication or notice between the Parties shall be in writing and may be delivered by hand or transmitted by electronic mail or fax, at sender's option and expense, and (unless delivered by hand or acknowledged or otherwise agreed by the receiving Party) shall be confirmed by registered mail with acknowledgement of receipt and shall become effective once received by the first of these means of transmission. These communications shall be addressed as follows:

For the **GOVERNMENT**:

Attention: Ashti A. Hawrami
Minister
Address: Council of Ministers
Kurdistan Regional Government
Erbil, Kurdistan - Iraq
Email: ashti.hawrami@krg.org

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For the **CONTRACTOR**:

Shakal Production, Ltd.
Address: 2500 City West Blvd.
Suite 1750
Houston, TX 77042, USA
Phone: +1 713-953 3210
Facsimile: +1 713-953 3200
E-mail: randerson@primeuri.com
Contact person: W. Richard Anderson

**PetOil Petroleum and Petroleum
Products International Exploration and
Production Inc.**
Address: Koza Sokak No:43, GOP
06700 Ankara, Turkey
Phone: +90 312 4408482
Facsimile: +90 312 441 6026 / 441 6027
E-mail: ak@petoil.com.tr
Contact person: M. Ali Ak, General Manager

Trilax Oil Ltd
Address: 15322 Chinaberry Street
North Potomac, MD 20578
Phone: +1 757 945-9203
Facsimile: +1 202 478-5216
E-mail: jrmcguire1919@earthlink.net
Contact person: John R. McGuire, Director

- 44.2 The above address and/or designated representative of any of the Parties may be changed on giving ten (10) days prior notice to the other Party

ARTICLE 45 - TERMINATION

- 45.1 Subject to the provisions of Article 45.5, the **GOVERNMENT** shall have the right to terminate this Contract in the event the **CONTRACTOR**:
- (a) fails to meet a material financial obligation expressly stated in this Contract; or
 - (b) during the First Sub-Period does not carry out drilling and seismic acquisition, as detailed in Article 10.2 or, during the Second Sub-Period (or earlier), does not carry out drilling and seismic acquisition, as detailed in Article 10.3; or

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- (c) interrupts Production for a period of more than ninety (90) consecutive days with no cause or justification acceptable in accordance with this Contract (including Force Majeure) or under normal international petroleum industry practice; or
- (d) intentionally extracts or produces any mineral which is not covered by the object of this Contract, unless such extraction or production is expressly authorised or unavoidable as a result of operations carried out in accordance with accepted international petroleum industry practice; or
- (e) if the **CONTRACTOR** comprises solely one entity, is declared bankrupt in accordance with applicable Law; or
- (f) wilfully refuses to abide by negotiation, mediation, arbitration or expert decision under Article 42 of this Contract.

45.2 The **GOVERNMENT** may also terminate the Contract only in respect of one **CONTRACTOR** entity if such entity is subject to a Change of Control which has been completed without having obtained the prior required authorisation from the **GOVERNMENT** (deemed or otherwise) in accordance with Article 39.6.

45.3 At any time prior to the Development Period, the **CONTRACTOR** shall have the right to terminate this Contract by surrendering the entire Contract Area in accordance with the provisions of Article 7 of this Contract.

45.4 During the Development Period, the **CONTRACTOR** shall have the right to terminate this Contract at any time by surrendering all Production Areas, provided its then current obligations have been satisfied in accordance with this Contract.

45.5 If the **GOVERNMENT** intends to exercise its right to terminate this Contract pursuant to Article 45.1, it shall first comply with the following provisions:

- (a) The **GOVERNMENT** shall notify the **CONTRACTOR** of its intention to terminate this Contract stating the reasons for such termination and requesting the latter:
 - (i) to remedy the default within three (3) months; or
 - (ii) to propose acceptable compensation.
- (b) If, by then end of the said three (3) month period referred to in Article 45.4 (a), the **GOVERNMENT** is not satisfied, it shall notify the **CONTRACTOR** in writing that the Contract shall be terminated from the termination date detailed in such notice. This Contract shall terminate on such termination date unless the **CONTRACTOR** issues a notice of dispute as provided under Article 41 of this Contract, in which case this Contract shall remain in force until a final settlement of the dispute has been reached in accordance with the dispute resolution provisions of Article 41 of this Contract.

The foregoing provisions of this Article 45.4 are subject to the proviso that, in case of a dispute where there has been breach of this Contract which has been submitted to

arbitration pursuant to Article 41 of this Contract, the **GOVERNMENT** shall not be entitled to exercise its right to terminate this Contract prior to a decision regarding the dispute having been rendered by the arbitration tribunal.

- 45.6 If the **GOVERNMENT** terminates this Contract pursuant to the provisions of Articles 45.1 and 45.5, the **CONTRACTOR** shall lose all its rights and interests under this Contract.

ARTICLE 46 - APPLICATION OF CORRUPTION LAWS

- 46.1 If this Contract is reasonably proven to have been obtained in violation of Kurdistan Region Law concerning corruption, this Contract is void *ab initio*.
- 46.2 If the **CONTRACTOR** is at any time reasonably proven to be in breach of Kurdistan Region Law concerning corruption, the **CONTRACTOR** may lose this Contract or part of the Contract.

ARTICLE 47 - GOVERNMENT REVIEW

- 47.1 This Contract may be reviewed by the **GOVERNMENT** and amended by the **GOVERNMENT** to the extent necessary to ensure that there is no material inconsistency between this Contract and such reasonable criteria of probity and commerciality which the **GOVERNMENT** may agree, in any petroleum law or other instrument, shall apply to the existing petroleum contracts in the Kurdistan Region.
- 47.2 Such review may take place within six months of the entry into force of any new applicable petroleum law or instrument establishing those criteria. Such review will be done only one time and shall be with respect to the applicable petroleum law under discussion on the Effective Date.
- 47.3 The **CONTRACTOR** may, within thirty (30) days of receiving such a notification, respond to the proposed amendments. The **GOVERNMENT** shall consider any such response and shall, within sixty (60) days of the notification, further notify the **CONTRACTOR** in writing of any decision to amend the contract or decision not to amend. This Contract shall be deemed to have been so amended on the date of notification of the **GOVERNMENT's** decision to amend the Contract.

ARTICLE 48 - EFFECTIVE DATE

This Contract shall become effective and be binding on the Parties when both of the following conditions have been satisfied:

- (a) upon its signature by the duly authorised representatives of the **GOVERNMENT** and the **CONTRACTOR**;

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(b) upon payment of the first instalment of the Capacity Building Fund payment by **CONTRACTOR** under Article 32.2

Entered into in three (3) originals in Erbil, Kurdistan Region of Iraq, on February 25, 2007.

For Government

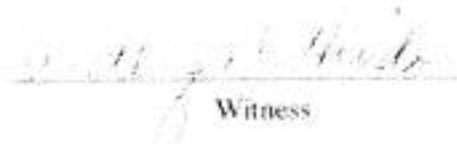
Ministry of Natural Resources



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Ashri A. Hawrami
Minister



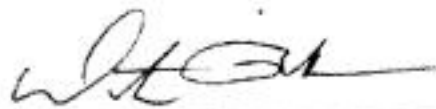
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For Contractor

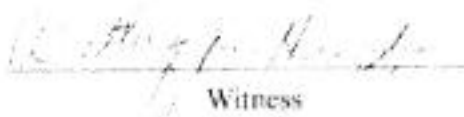
Shakal Production, Ltd.



Witness



W. Richard Anderson
Director



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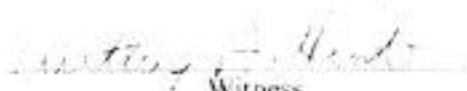


For Contractor

PetOil Petroleum and Petroleum
Products International Exploration
and Production Inc.



Witness


H. Gurekin Koksai, Chairman



Witness

For Contractor

Trilax Oil Ltd


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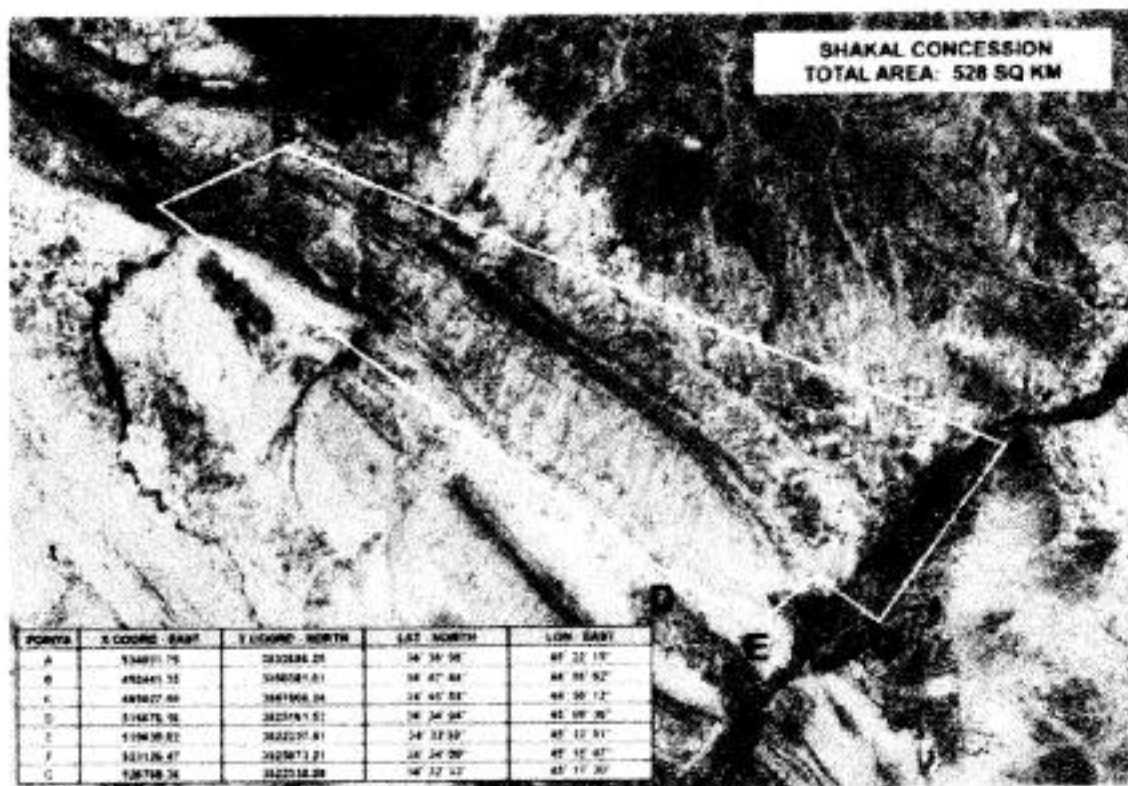

David Manners
Director


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**ANNEX A
CONTRACT AREA**



Projection: UTM Zone: 38N Datum: WGS84

POINTS	X COORD - EAST	Y COORD - NORTH	LAT - NORTH	LON - EAST
A	534031.75	3832686.29	34 38' 08"	45 22' 15"
B	492441.35	3850381.01	34 47' 44"	44 55' 02"
C	485027.95	3847006.24	34 45' 55"	44 50' 12"
D	514676.16	3825161.52	34 34' 04"	45 09' 36"
E	519630.02	3822237.41	34 32' 30"	45 12' 51"
F	523126.47	3825073.21	34 34' 00"	45 15' 07"
G	526768.36	3822338.08	34 32' 33"	45 17' 30"

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[Handwritten signature]

ANNEX "B"

ACCOUNTING PROCEDURE

Attached to and made part of the Amended and Restated Production Sharing Agreement, hereinafter called the "**Agreement**," effective February 25, 2007, by and between the Kurdistan Regional Government and Shakal Production, Ltd., PetOil Petroleum and Petroleum Products International Exploration and Production Inc., and Trilax Oil Ltd

SECTION I

GENERAL PROVISIONS

1.1 Purpose

1.1.1 The purpose of this Accounting Procedure is to establish equitable methods for determining charges and credits applicable to operations under the Agreement which reflect the costs of Petroleum Operations to the end that no Party shall gain or lose in relation to other Parties.

It is intended that approval of the Work Program and Budget as provided in the Agreement shall constitute approval of the rates and allocation methods used therein to currently charge the Petroleum Operations Account, but subject to verification by audit at a later date as provided in the Accounting Procedure.

1.1.2 The Parties agree, however, that if the methods prove unfair or inequitable to Operator or Non-Operators, the Parties shall meet and in good faith endeavour to agree on changes in methods deemed necessary to correct any unfairness or inequity.

1.2 Conflict with Agreement. In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the Agreement to which this Accounting Procedure is attached, the provisions of the Agreement shall prevail.

1.3 Definitions. The definitions contained in Article I of the Agreement to which this Accounting Procedure is attached shall apply to this Accounting Procedure and have the same meanings when used herein. Certain terms used herein are defined as follows:

"Country of Operations" shall mean Iraq.

"Material" shall mean personal property (including, but not limited to, equipment and supplies) acquired and held for use in Petroleum Operations.

1.4 Petroleum Operations Account Records and Currency Exchange.

1.4.1 Operator shall at all times maintain and keep true and correct records of the production and disposition of all Petroleum, and of all costs and expenditures under the Agreement, as well as other data necessary or proper for the settlement of accounts between the Parties hereto in connection with their

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rights and obligations under the Agreement and to enable Parties to comply with their respective applicable income tax and other laws.

- 1.4.2 Operator shall maintain accounting records pertaining to Petroleum Operations in accordance with generally accepted accounting practices used in the international petroleum industry and any applicable statutory obligations of the Country of Operations as well as the provisions of the Agreement.
- 1.4.3 Petroleum Operations Account records shall be maintained by Operator in the English language and in United States of America ("US") currency and in such other language and currency as may be required by the laws of the Country of Operations. Conversions of currency shall be recorded at the rate actually experienced in that conversion. Currency translations for expenditures and receipts shall be recorded at the arithmetic average buying and selling exchange rates for the New Iraqi Diner, and the United States Dollars of the preceding month as determined by the local market.
- 1.4.4 Any currency exchange gain or losses shall be credited or charged to the Petroleum Operations Account, except as otherwise specified in this Accounting Procedure.
- 1.4.5 The accrual basis for accounting shall be used in preparing accounts concerning the Petroleum Operations. If a "cash" basis for accounting is used, Operator shall show accruals as memorandum items.

1.5 Statements and Billings

- 1.5.1 Unless otherwise agreed by the Parties, Operator shall submit monthly to each Party, on or before the 10th Day of each month, statements of the costs and expenditures incurred during the prior month, indicating by appropriate classification the nature thereof, the corresponding budget category, and the portion of such costs charged to each of the Parties.

These statements, as a minimum, shall contain the following information:

- advances of funds setting forth the currencies received from each Party
 - the share of each Party in total expenditures
 - summary of costs, credits, and expenditures on a current month, year-to-date, and inception-to-date basis or other periodic basis, as agreed by Parties
 - details of unusual charges and credits in excess of US dollars \$10,000 (US\$ ten thousand).
- 1.5.2 Operator shall, upon request, furnish a description of the accounting classifications used by it.
- 1.5.3 Amounts included in the statements and billings shall be expressed in US currency and reconciled to the currencies advanced.

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- 1.5.4 Each Party shall be responsible for preparing its own accounting and tax reports to meet the requirements of the Country of Operations and of all other countries to which it may be subject. Operator, to the extent that the information is reasonably available from the Petroleum Operations Account records, shall provide Non-Operators in a timely manner with the necessary statements to facilitate the discharge of such responsibility.
- 1.6 **Payments and Advances.** Upon approval of any Work Program and Budget, the Contractor will provide all required estimated cash requirements for the succeeding month's operations.
- 1.7 **Audits**
- 1.7.1 A Non-Operator, upon at least sixty (60) Days advance notice in writing to Operator and all other Non-Operators, shall have the right to audit the Petroleum Operations Accounts and records of Operator relating to the accounting hereunder for any Calendar Year within the twenty-four (24) month period following the end of such Calendar Year. The cost of each such audit shall be borne by Non-Operators conducting the audit. It is provided, however, that Non-Operators must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner, which will result in a minimum of inconvenience to the Operator. Operator and Non-Operators shall make every effort to resolve any claim resulting from an audit within a reasonable period of time.
- A Non-Operator may audit the records of an Affiliate of Operator relating to that Affiliate's charges. The provisions of this Accounting Procedure shall apply *mutatis mutandis* to such audits.
- 1.7.2 Any information obtained by a Non-Operator under the provisions of this Section 1.8 which does not relate directly to the Petroleum Operations shall be kept confidential and shall not be disclosed to any party, except as would otherwise be permitted by the Agreement.
- 1.7.3 In the event that the Operator is required by law to employ a public accounting firm to audit the Petroleum Operations Account and records of Operator relating to the accounting hereunder, the cost thereof shall be a charge against the Petroleum Operations Account, and a copy of the audit shall be furnished to each Party.
- 1.8 **Allocations.** If it becomes necessary to allocate any costs or expenditures to or between Petroleum Operations and any other operations, such allocation shall be made on an equitable basis. Upon request, Operator shall furnish a description of its allocation procedures pertaining to these costs and expenditures.

SECTION II

DIRECT CHARGES

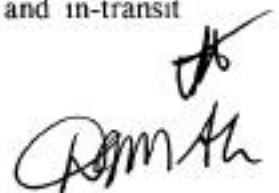
Operator shall charge the Petroleum Operations Account with all costs and expenditures incurred in connection with Petroleum Operations. It is also understood that charges for services normally provided by an operator such as those contemplated in Section 2.7.2 which are provided by Operator's Affiliates shall reflect the cost to the Affiliate, excluding profit, for performing such services, except as otherwise provided in Section 2.6, Section 2.7.1, and Section 2.5.1 if selected.

The costs and expenditures shall be recorded as required for the settlement of accounts between the Parties hereto in connection with the rights and obligations under this Agreement and for purposes of complying with the tax laws of the Country of Operations and of such other countries to which any of the Parties may be subject. Without in any way limiting the generality of the foregoing, chargeable costs and expenditures shall include:

- 2.1 **Licenses, Permits, Etc.** All costs, if any, attributable to the acquisition, maintenance, renewal or relinquishment of licenses, permits, contractual and/or surface rights acquired for Petroleum Operations when paid by Operator in accordance with the provisions of the Agreement.
- 2.2 **Salaries, Wages and Related Costs.**
 - 2.2.1 The employees of Operator and its Affiliates in the Country of Operations directly engaged in Petroleum Operations whether temporarily or permanently assigned.
 - 2.2.2 The employees of Operator and its Affiliates outside the Country of Operations directly engaged in Petroleum Operations whether temporarily or permanently assigned, and not otherwise covered in Section 2.7.2.
 - 2.2.3 Salaries and wages, including everything constituting the employees' total compensation. To the extent not included in salaries and wages, the Petroleum Operations Account shall also be charged with the cost to Operator of holiday, vacation, sickness, disability benefits, living and housing allowances, travel time, bonuses, and other customary allowances applicable to the salaries and wages chargeable hereunder, as well as costs to Operator for employee benefits, including but not limited to employee group life insurance, group medical insurance, hospitalization, retirement, and other benefit plans of a like nature applicable to labor costs of Operator. Operator's employees participating in Country of Operations benefit plans may be charged at a percentage rate to reflect payments or accruals made by Operator applicable to such employees. Such accruals for Country of Operations benefit plans shall not be paid by Non-Operators, unless otherwise approved by the Co-ordination Committee, until the same are due and payable to the employee, upon withdrawal of a Party pursuant to the Agreement, or upon termination of the Agreement, whichever occurs first.

- 2.2.4 Expenditures or contributions made pursuant to assessments imposed by governmental authority for payments with respect thereto or on account of such employees.
- 2.2.5 Salaries and wages charged in accordance with Operator's usual practice, when and as paid or accrued, or on a basis of the Operator's average cost per employee for each job category; and the rates to be charged shall be reviewed at least annually. In determining the average cost per employee for each job category, expatriate and national employee salaries and wages shall be calculated separately. During a given period of time it is understood that some costs for salaries and wages may be charged on an actual basis while the remaining -costs for salaries and wages are charged at a rate based upon the above described average cost.
- 2.2.6 Reasonable expenses (including related travel costs) of those employees whose salaries and wages are chargeable to the Petroleum Operations Account under Sections 2.2.1 and 2.2.2 of this Section II and for which expenses the employees are reimbursed under the usual practice of Operator.
- 2.2.7 If employees are engaged in other activities in addition to the Petroleum Operations, the cost of such employees shall be allocated on an equitable basis.
- 2.3 Employee Relocation Costs**
- 2.3.1 Except as provided in Section 2.3.3, Operators cost of employees' relocation to or from the Agreement Area vicinity or location where the employees will reside or work, whether permanently or temporarily assigned to the Petroleum Operations. If such employee works on other activities in addition to Petroleum Operations, such relocation costs shall be allocated on an equitable basis.
- 2.3.2 Such relocation costs shall include transportation of employees, families, personal and household effects of the employee and family, transit expenses, and all other related costs in accordance with Operator's usual practice.
- 2.3.3 Relocation costs from the vicinity of the Agreement Area to another location classified as a foreign location by Operator shall not be chargeable to the Petroleum Operations Account unless such foreign location is the point of origin of the employee.
- 2.4 Offices, Camps, and Miscellaneous Facilities.** Cost of maintaining any offices, sub-offices, camps, warehouses, housing, and other facilities of the Operator and/or Affiliates directly serving the Petroleum Operations. If such facilities serve operations in addition to the Petroleum Operations the costs shall be allocated to the properties served on an equitable basis.
- 2.5 Material.** Cost, net of discounts taken by Operator, of Material purchased or furnished by Operator. Such costs shall include, but are not limited to, export brokers' fees, transportation charges, loading, unloading fees, export and import duties and license fees associated with the procurement of Material and in-transit

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losses, if any, not covered by insurance. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for, and the cost thereof charged to, the Petroleum Operations Account as may be required for immediate use.

2.5.1 Purchasing Fee When economical to do so, and required for the benefit of the Petroleum Operations, Operator may request its Affiliates to provide purchasing, expediting and traffic coordination services. Charges to the Petroleum Operations Account for the provision of these purchasing services shall be based on the Affiliate's standard purchasing fee currently set at 6% on the amount of each purchase order.

The fee shall be reviewed periodically by Operator's Affiliates, and future changes shall be made upward or downward as indicated by the Affiliate's cost experience for the provision of these purchasing services. Any changes affecting the charges to the Petroleum Operations Account shall be subject to notification by Operator and approval by the Co-ordination Committee. Such charges shall be in lieu of any charges for the same or similar services provided herein.

2.6 Exclusively Owned Equipment and Facilities of Operator and Affiliates.

Charges for exclusively owned equipment, facilities, and utilities of Operator and its Affiliates at rates not to exceed the average commercial rates of non-affiliated third parties then prevailing for like equipment, facilities, and utilities for use in the area where the same are used hereunder. On request, Operator shall furnish Non-Operators a list of rates and the basis of application. Such rates shall be revised from time to time if found to be either excessive or insufficient, but not more than once every six months.

Drilling tools and other equipment lost in the hole or damaged beyond repair may be charged at replacement cost less depreciation plus transportation costs to deliver like equipment to the location where used.

2.7 Services.

2.7.1 The cost of services provided by third parties including Affiliates of Operator other than those services covered by Section 2.7.2. Such charges for services by Operator's Affiliates shall not exceed those currently prevailing if performed by non-affiliated third parties, considering quality and availability of services.

2.7.2 The cost of services performed by Operator's Affiliates technical and professional staffs not located within the Country of Operation.

2.7.3 The charges for such services shall not exceed those currently prevailing if performed by non-affiliated third parties, considering the quality and availability of such services.

Examples of such services include, but are not limited to, the following:

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Geologic Studies and Interpretation

Seismic Data Processing

Well Log Analysis, Correlation and Interpretation

Laboratory Services

Well Site Geology

Project Engineering

Source Rock Analysis

Petrophysical Analysis

Geochemical Analysis

Drilling Supervision

Development Evaluation

Accounting and Professional Services

Other Data Processing

Costs shall include salaries and wages of such technical and professional personnel, lost time, governmental assessments, employee benefits, and reasonable expenses. Costs shall also include all support costs necessary for such technical and professional personnel to perform such services, such as, but not limited to, rent, utilities, support staff, drafting, telephone and other communications expenses, computer support, supplies, and depreciation.

2.8 Insurance. Premiums paid for insurance required by law or the Agreement to be carried for the benefit of the Petroleum Operations.

2.9 Damages and Losses to Property.

2.9.1 All costs or expenditures necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause. Operator shall furnish Non-Operators written notice of damages or losses incurred in excess of Twenty Five thousand US dollars (US \$ 25,000) as soon as practical after report of the same has been received by Operator. All losses in excess of ten thousand US dollars (US \$ 10,000) shall be listed separately in the monthly statement of costs and expenditures.

2.9.2 Credits for settlements received from insurance carried for the benefit of Petroleum Operations and from others for losses or damages to Joint Property or Materials. Each Party shall be credited with its Participating Interest share thereof except where such receipts are derived from insurance purchased by Operator for less than all Parties in which event such proceeds shall be

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credited to those Parties for whom the insurance was purchased in the proportion of their respective contributions toward the insurance coverage.

2.9.3 Expenditures incurred in the settlement of all losses, claims, damages, judgments, and other expenses for the account of Petroleum Operations.

2.10 **Litigation and Legal Expenses.** The costs and expenses of litigation and legal services necessary for the protection of the Petroleum Operations under this Agreement as follows:

2.10.1 Legal services necessary or expedient for the protection of the Petroleum Operations, and all costs and expenses of litigation, arbitration or other alternative dispute resolution procedure, including reasonable attorneys' fees and expenses, together with all judgments obtained against the Parties or any of them arising from the Petroleum Operations.

2.10.2 If the Parties hereunder shall so agree, actions or claims affecting the Petroleum Operations hereunder may be handled by the legal staff of one or any of the Parties hereto; and a charge commensurate with the reasonable costs of providing and furnishing such services rendered may be made by the Party providing such service to Operator for the Petroleum Operations Account, but no such charges shall be made until approved by the Parties.

2.11 **Taxes and Duties.** All taxes, duties, assessments and governmental charges, of every kind and nature, assessed or levied upon or in connection with the Petroleum Operations, other than any that are measured by or based upon the revenues, income and net worth of a Party.

If Operator or an Affiliate is subject to income or withholding tax as a result of services performed at cost for the operations under the Agreement, its charges for such services may be increased by the amount of such taxes incurred (grossed up).

2.12 **Other Expenditures.** Any other costs and expenditures incurred by Operator for the necessary and proper conduct of the Petroleum Operations in accordance with approved Work Programs and Budgets and not covered in this Section II or in Section III.

SECTION III

INDIRECT CHARGES

3.1 **Purpose.** Operator shall charge the Petroleum Operations Account monthly for the cost of indirect services and related office costs of Operator and its Affiliates not otherwise provided in this Accounting Procedure. Indirect costs chargeable under this Section III represent the cost of general counselling and support services provided to Operator by its Affiliate. These costs are such that it is not practical to identify or associate them with specific projects but are for services which provide Operator with needed and necessary resources which Operator requires and provide a real benefit to Petroleum Operations. No cost or expenditure included under Section II shall be included or duplicated under this Section III.

- 3.2 **Amount.** The charge for the period beginning with the Calendar Year through the end of the period covered by Operator's invoice ("**Year-to-Date**") under Section 3.1 above shall be a percentage of the Year-to-Date expenditures, calculated on the following scale (US Dollars):

Annual Expenditures

\$0 to \$1,000,000 of expenditures = 4%

Next \$5,000,000 of expenditures = 3 %

Excess above \$ 5,000,000 of expenditures = 2 %

- 3.3 **Exclusions.** The expenditures used to calculate the monthly indirect charge shall not include the indirect charge (calculated either as a percentage of expenditures or as a minimum monthly charge), rentals on surface rights acquired and maintained for the Petroleum Operations Account, guarantee deposits, pipeline tariffs, concession acquisition costs and Taxes paid under the Agreement, expenditures associated with major construction projects for which a separate indirect charge is established hereunder, payments to third parties in settlement of claims, and other similar items.

Credits arising from any government subsidy payments, disposition of Material, and receipts from third parties for settlement of claims shall not be deducted from total expenditures in determining such indirect charge.

- 3.4 **Indirect Charge for Projects.** As to major construction projects (such as, but not limited to, pipelines, gas reprocessing and processing plants, and final loading and terminalling facilities) when the estimated cost of each project amounts to more than US \$ 15,000,000, a separate indirect charge for such project shall be set by the Co-ordination Committee at the time of approval of the project.

SECTION IV

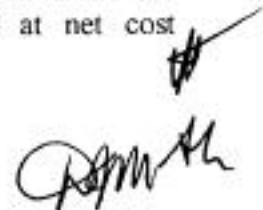
ACQUISITION OF MATERIAL

- 4.1 **Acquisitions.** Materials purchased for the Petroleum Operations Account shall be charged at net cost paid by the Operator. The price of Materials purchased shall include, but shall not be limited to export broker's fees, insurance, transportation charges, loading and unloading fees, import duties, license fees, and demurrage (retention charges) associated with the procurement of Materials, and applicable taxes, less all discounts taken.

- 4.2 **Materials Furnished by Operator.** Materials required for operations shall be purchased for direct charge to the Petroleum Operations Account whenever practicable, except the Operator may furnish such Materials from its stock under the following conditions:

- 4.2.1 **New Materials (Condition "1")** New Materials transferred from the warehouse or other properties of Operator shall be priced at net cost

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determined in accordance with Section 4.1 above, as if Operator had purchased such new Material just prior to its transfer.

Such net costs shall in no event exceed the then current market price.

4.2.2 Used Materials (Conditions "2" and "3")

4.2.2.1 Material which is in sound and serviceable condition and suitable for use without repair or reconditioning shall be classed as Condition "2" and priced at seventy-five percent (75%) of such new purchase net cost at the time of transfer.

4.2.2.2 Materials not meeting the requirements of Section 4.2.2.1 above, but which can be made suitable for use after being repaired or reconditioned, shall be classed as Condition "3" and priced at fifty percent (50%) of such new purchase net cost at the time of transfer. The cost of reconditioning shall also be charged to the Petroleum Operations Account provided the Condition "3" price, plus cost of reconditioning, does not exceed the Condition "2" price; and provided that Material so classified meet the requirements for Condition "2" Material upon being repaired or reconditioned.

4.2.2.3 Material which cannot be classified as Condition "2" or Condition "3", shall be priced at a value commensurate with its use.

4.2.2.4 Tanks, derricks, buildings, and other items of Material involving erection costs, if transferred in knocked-down condition, shall be graded as to condition as provided in this Section 4.2.2 of Section IV.

4.2.2.5 Material including drill pipe, casing and tubing, which is no longer useable for its original purpose but is useable for some other purpose, shall be graded as to condition as provided in this Section 4.2.2 of Section IV. Such Material shall be priced on the basis of the current price of items normally used for such other purpose if sold to third parties.

4.3 Premium Prices. Whenever Material is not readily obtainable at prices specified in Sections 4.1 and 4.2 of this Section IV because of national emergencies, strikes or other unusual causes over which Operator has no control, Operator may charge the Petroleum Operations Account for the required Material at Operator's actual cost incurred procuring such Material, in making it suitable for use, and moving it to the Agreement Area, provided that notice in writing, including a detailed description of the Material required and the required delivery date, is furnished to Non-Operators of the proposed charge at least 15 Days (or such shorter period as may be specified by Operator) before the Material is projected to be needed for operations and prior to billing Non-Operators for such Material the cost of which exceeds One Hundred thousand US dollars (US \$ 100,000). Each Non-Operator shall have the right, by so electing and notifying Operator within 10 Days (or such shorter period as may be specified by Operator) after receiving notice from Operator, to furnish in kind all or

part of his share of such Material per the terms of the notice which is suitable for use and acceptable to Operator both as to quality and time of delivery. Such acceptance by Operator shall not be unreasonably withheld. If Material furnished is deemed unsuitable for use by Operator, all costs incurred in disposing of such Material or returning Material to owner shall be borne by the Non-Operator furnishing the same unless otherwise agreed by the Parties. If a Non-Operator fails to properly submit an election notification within the designated period, Operator is not required to accept Material furnished in kind by that Non-Operator. If Operator fails to submit proper notification prior to billing Non-Operators for such Material, Operator shall only charge the Petroleum Operations Account on the basis of the price allowed during a "normal" pricing period in effect at time of movement.

- 4.4 **Warranty of Material Furnished by Operator.** Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Petroleum Operations Account until adjustment has been received by Operator from the manufacturers or their agents.

SECTION V

DISPOSAL OF MATERIALS

- 5.1 **Disposal.** Operator shall be under no obligation to purchase the interest of Non-Operators in new or used surplus Materials. Operator shall have the right to dispose of Materials but shall advise and secure prior agreement of the Co-ordination Committee of any proposed disposition of Materials having an original cost to the Petroleum Operations Account either individually or in the aggregate of One Hundred Thousand US Dollars (US \$100,000) or more. When Petroleum Operations are relieved of Material charged to the Petroleum Operations Account, Operator shall advise each Non-Operator of the original cost of such Material to the Petroleum Operations Account so that the Parties may eliminate such costs from their asset records. Credits for Material sold by Operator shall be made to the Petroleum Operations Account in the month in which payment is received for the Material. Any Material sold or disposed of under this Section shall be on an "as is, where is" basis without guarantees or warranties of any kind or nature. Costs and expenditures incurred by Operator in the disposition of Materials shall be charged to the Petroleum Operations Account.
- 5.2 **Material Purchased by a Party or Affiliate.** Material purchased from the Joint Property by a Party or an Affiliate thereof shall be credited by Operator to the Petroleum Operations Account, with new Material valued in the same manner as new Material under Section 4.2.1 and used Material valued in the same manner as used Material under Section 4.2.2, unless otherwise agreed by the Co-ordination Committee.
- 5.3 **Division In Kind.** Division of Material in kind, if made between the Parties, shall be in proportion to their respective interests in such Material. Each Party will thereupon be charged individually with the value (determined in accordance with the procedure set forth in Section 5.2) of the Material received or receivable by it.

- 5.4 **Sales to Third Parties.** Material purchased from the Joint Property by third parties shall be credited by Operator to the Petroleum Operations Account at the net amount collected by Operator from the buyer. If the sales price is less than that determined in accordance with the procedure set forth in Section 5.2, then approval by the Co-ordination Committee shall be required prior to the sale. Any claims by the buyer for defective materials or otherwise shall be charged back to the Petroleum Operations Account if and when paid by Operator.

SECTION VI

INVENTORIES

- 6.1 **Periodic Inventories - Notice and Representation.** At reasonable intervals, but at least annually, inventories shall be taken by Operator of all Material on which detailed accounting records are normally maintained. The expense of conducting periodic inventories shall be charged to the Petroleum Operations Account. Operator shall give Non-Operators written notice at least thirty Days (30) in advance of its intention to take inventory, and Non-Operators, at their sole cost and expense, shall each be entitled to have a representative present. The failure of any Non-Operator to be represented at such inventory shall bind such Non-Operator to accept the inventory taken by Operator, who shall in that event furnish each Non-Operator with a reconciliation of overages and shortages. Inventory adjustments to the Petroleum Operations Account shall be made for overages and shortages. Any adjustment equivalent to Fifty Thousand US Dollars (US\$ 50,000) or more shall be brought to the attention of the Co-ordination Committee.
- 6.2 **Special Inventories.** Whenever there is a sale or change of interest in the Agreement, a special inventory may be taken by the Operator provided the seller and/or purchaser of such interest agrees to bear all of the expense thereof. In such cases, both the seller and the purchaser shall be entitled to be represented and shall be governed by the inventory so taken.

SECTION VII

NON-RECOVERABLE COSTS

7. **Non-Recoverable costs.** Except as specifically provided in the Agreement, the following costs shall not be recoverable by the Contractor as Petroleum Costs:

- 7.1.1 Interest
- 7.1.2 Depreciation and amortization
- 7.1.3 Dividends, repayment of equity or repayment of inter-company loans
- 7.1.4 Decommissioning costs actually paid in excess of decommissioning fund balance
- 7.1.5 Unless specifically provided in an approved Budget or otherwise specifically approved by the Government, costs relating to leasing and hiring of structures or facilities.

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