

**Revision dated 26 February 2007**

**of**

**Exploration and Production Sharing Agreement dated 4 May 2006**

**- between -**

**Kurdistan Regional Government**

**- and -**

**WesternZagros Limited**

***Kalar-Bawanoor Area***

## TABLE OF CONTENTS

	Page
ARTICLE 1	INTERPRETATION .....2
1.1	Status of this Agreement.....2
1.2	Definitions .....2
1.3	Headings .....10
1.4	Further Interpretation.....10
1.5	Annexes .....11
1.6	Operator .....11
ARTICLE 2	SCOPE AND TERMINATION & WARRANTIES.....12
2.1	Scope .....12
2.2	Conditions Precedent .....12
2.3	Warranties, Indemnity and Undertaking of the Government .....12
2.4	Warranty of Contractor .....13
2.5	Effective Date and Termination.....13
2.6	Grounds for Termination .....14
2.7	Surviving Obligations .....15
ARTICLE 3	MANAGEMENT OF OPERATIONS.....15
3.1	Constitution of Management Committee .....15
3.2	Meetings .....15
ARTICLE 4	WORK PROGRAMS AND BUDGET .....17
4.1	Commitment in Exploration Period.....17
4.2	Exploration Wells during Exploration Period.....18
4.3	Testing of Selected Structures .....19
4.4	Appraisal Program .....19
4.5	Factors Affecting Schedule of Exploration and Appraisal Activities in the Exploration Period.....19
4.6	Commitment in First Extension Period.....20
4.7	Commitment in Second Extension Period .....20
4.8	Extension of Exploration Phase .....21
4.9	Performance of Exploration Work Program and Budget .....22
4.10	Consequences of Non-Performance.....22
4.11	Work Programs and Budgets .....23
4.12	Emergency and Other Expenditures Outside Approved Work Programs and Budgets .....23
4.13	Exploration .....24
4.14	Discovery and Appraisal.....24
4.15	Commercial Discovery .....25
4.16	Market Development Operations Work Program and Budget .....26
4.17	Development Plan.....27
4.18	Multiple Discoveries, Unitisation and Extension of Contract Area.....28
4.19	Development Work Programs and Budgets.....29
4.20	EHS Plan.....29
4.21	Information .....30
ARTICLE 5	CONDUCT OF WORK.....30
5.1	Proper and Workmanlike Manner .....30
5.2	Access to Contract Area .....32
5.3	Goods, Services, Training and Secondment .....32
5.4	Flaring of Natural Gas .....34
5.5	Operator and its Sub-Contractors.....34

**TABLE OF CONTENTS**  
(continued)

		<b>Page</b>
ARTICLE 6	SHARING OF PETROLEUM.....	34
6.1	Petroleum Required for Petroleum Operations.....	34
6.2	Measurement Point.....	35
6.3	Royalty.....	35
6.4	Cost Recovery.....	35
6.5	Calculation of R Factor.....	37
6.6	Estimates and Adjustments.....	37
6.7	Amendment for Non-Commercial Discovery.....	38
6.8	Resurrection of Agreement for Non-Commercial Discovery.....	39
6.9	Option of Government.....	40
6.10	Lifting.....	41
6.11	Title and Risk.....	41
6.12	Downstream Delivery.....	41
6.13	Payment Terms.....	42
6.14	Sharing on a Tax Paid Basis.....	42
ARTICLE 7	SUPPLY OF CRUDE OIL TO KURDISTAN REGION DOMESTIC MARKET.....	42
7.1	Domestic Market Obligation.....	42
7.2	Calculation of Regional Supply Obligation.....	43
7.3	Swap of Regional Supply Volumes for Export Volumes.....	43
ARTICLE 8	VALUATION AND MEASUREMENT OF PETROLEUM.....	44
8.1	Point of Valuation.....	44
8.2	Value of Crude Oil.....	44
8.3	Natural Gas Markets.....	45
8.4	Measurement.....	45
ARTICLE 9	SIGNATURE BONUS AND PAYMENTS.....	46
9.1	Signature Bonus.....	46
9.2	Payment Mechanism.....	46
9.3	Late Payment.....	46
ARTICLE 10	RELINQUISHMENT OF CONTRACT AREA.....	47
10.1	Periodic Relinquishment of Exploration Area.....	47
10.2	Relinquishment of Development Area.....	48
10.3	Termination of Agreement in respect of Relinquished Area.....	48
ARTICLE 11	OBLIGATIONS OF GOVERNMENT.....	48
11.1	Commitments.....	48
11.2	Stability.....	50
11.3	Foreign Exchange.....	52
ARTICLE 12	RECOVERABLE COSTS.....	53
12.1	Generally.....	53
12.2	Recoverable Costs.....	53
12.3	Recoverable Costs Allocation.....	53
12.4	Priority of Recovery of Recoverable Costs.....	54
12.5	Costs Under MoU.....	54
12.6	Costs Prior to Effective Date.....	54
12.7	Financing Costs.....	54

**TABLE OF CONTENTS**  
(continued)

		<b>Page</b>
ARTICLE 13	TITLE TO EQUIPMENT.....	55
13.1	Property .....	55
ARTICLE 14	EXISTING CONDITIONS.....	55
14.1	Base Line Study.....	55
14.2	Limitation .....	56
14.3	Ordinance.....	56
ARTICLE 15	CONSULTATION AND ARBITRATION.....	57
15.1	Dispute Resolution.....	57
15.2	Senior Executive Negotiation of Dispute .....	57
15.3	Arbitration .....	57
15.4	Expert Determination.....	59
15.5	Waiver of Sovereign Immunity .....	59
ARTICLE 16	FINANCIAL AND TECHNICAL DATA, RECORDS AND REPORTS .....	59
16.1	Ownership.....	59
16.2	Records, Storage, Retrieval and Submission .....	60
16.3	Reports.....	60
16.4	Export of Data and Information.....	60
16.5	Use of Data and Information .....	61
16.6	Confidentiality of Data and Information.....	61
16.7	Trade Secrets .....	63
16.8	Public Announcement.....	64
16.9	Effect of Participation.....	64
ARTICLE 17	AUDIT.....	64
17.1	Independent Audit .....	64
17.2	Government Audit .....	64
17.3	Exceptions .....	64
17.4	Contractor to Assist .....	65
17.5	Affiliates .....	65
ARTICLE 18	INDEMNITY AND INSURANCE .....	65
18.1	Indemnity.....	65
18.2	Insurance.....	65
ARTICLE 19	GOVERNMENT PARTICIPATION .....	66
19.1	Option to Participate.....	66
19.2	Several Obligations.....	69
ARTICLE 20	FORCE MAJEURE .....	69
20.1	Force Majeure Relief.....	69
20.2	Procedure.....	70
20.3	Consultation.....	70
20.4	Third Parties .....	70
20.5	Extension of Time.....	70
ARTICLE 21	RESTRICTIONS ON ASSIGNMENT.....	71
21.1	Assignment by Contractor .....	71
21.2	Assignment by Government .....	72

**TABLE OF CONTENTS**  
(continued)

	<b>Page</b>
ARTICLE 22 OTHER PROVISIONS.....	72
22.1 Notice of Default .....	72
22.2 Notices .....	72
22.3 Original EPSA .....	73
22.4 Language .....	73
22.5 Enurement and Third Party Rights .....	74
22.6 Amendments/Modification .....	74
22.7 OECD Convention.....	74
22.8 Severability .....	74
22.9 Entire Agreement.....	74
22.10 Relationship of Parties.....	74
22.11 Further Assurances .....	75
ANNEX A - CONTRACT AREA	
ANNEX B - ACCOUNTING PROCEDURE	
ANNEX C - SAMPLE TABLES AND EXAMPLES OF ROYALTY OIL, COST RECOVERY OIL AND PROFIT OIL	
ANNEX D - GOVERNMENT AUTHORISATION	
ANNEX E - FORM OF NOVATION AGREEMENT	
ANNEX F - KEY TERMS OF JOINT OPERATING AGREEMENT	

## EXPLORATION AND PRODUCTION SHARING AGREEMENT

This Revised Exploration and Production Sharing Agreement is entered into this 26th day of February 2007

### BETWEEN:

**KURDISTAN REGIONAL GOVERNMENT, represented in this Agreement by His Excellency Dr. Ashti A. Hawrami as Minister of Natural Resources of the Kurdistan Regional Government (the "Government")**

- and -

**WESTERNZAGROS LIMITED, a Cyprus corporation, represented in this Agreement by its duly authorised Attorney, M. Simon Hatfield ("Contractor")**

(each referred to individually as a "party" or collectively as the "parties").

### RECITALS:

- A. The development of Petroleum to bring the greatest benefit for the people is a strategic policy of the Government, using the most modern techniques of market principles;
- B. The Government wishes to encourage investment in Petroleum in the Territory, and has the power to enter into Petroleum contracts within the Territory;
- C. The area referred to as the "Kalar-Bawanoor Area" (more specifically defined below as the Contract Area) contains no "current fields" within the meaning of the Constitution of the Republic of Iraq;
- D. The Government has the power to administer Petroleum Operations within the Contract Area;
- E. The Government wishes to promote Petroleum Operations in the Contract Area and Contractor desires to join and assist the Government in exploring for, developing and producing, transporting, processing, marketing and exporting Petroleum from the Contract Area;
- F. The Government proposes to introduce and to enact petroleum legislation within the Territory and to provide that such petroleum legislation is consistent with any petroleum legislation which may in due course be enacted by the federal government of the Republic of Iraq pursuant to the Constitution of the Republic of Iraq;
- G. Pursuant to a Memorandum of Understanding between Contractor and the Government dated November 24, 2004, Contractor has been providing training programs in support of the Government, and conducting geological, geochemical and geophysical surveys in support of exploration in the Contract Area, in anticipation of providing survey results to the Government, and in the expectation of the issuance of this Agreement;

- H. On May 4, 2006, the Kurdistan Regional Government- Iraq/Sulaimany Administration entered into the Exploration and Production Sharing Agreement with Contractor (the "Original EPSA"), and Contractor diligently commenced performance of its obligations thereunder (including the commencement of the Exploration program) pending fulfilment of the conditions precedent set out in Section 2.2.1 of the Original EPSA;
- I. On February 26, 2007, the Parties entered into an Amending Agreement having the effect of amending certain provisions to the Original EPSA;
- J. Contractor, as a wholly-owned subsidiary of Western Oil Sands Inc. that has executed oil projects in Canada, has the financial and management capability, and the technical knowledge and technical ability, to carry out the Petroleum Operations in a manner wholly consistent with this Agreement;
- K. In view of the difficult history of suffering that the people of the Federal Region of Kurdistan have endured and in recognition of the urgent need of the population of the Federal Region of Kurdistan to improve their standard of living, the parties agree to use their best efforts, in accordance with Good Oil Field Practice, to explore for, appraise, develop, produce and export Commercial Discoveries of Petroleum in order to commence commercial production at the earliest possible date; and
- L. The work program laid out in Article 4 for the Exploration Period is planned on the basis of this urgent need of the disadvantaged people of the Federal Region of Kurdistan in order to alleviate their suffering in the most timely manner.

**NOW, THEREFORE**, it is agreed:

## **ARTICLE 1 INTERPRETATION**

### **1.1 Status of this Agreement**

This Agreement shall be read and construed as a revision of the Original EPSA and not as an original legal instrument in its own terms.

### **1.2 Definitions**

In this Agreement and any Annex, except where the context shall not permit:

**"Accounting Records"** has the meaning given in Clause 1.2 of Annex B;

**"Affiliate"** means, in respect of a corporation, a corporation that controls, is controlled by, or is under common control with, that corporation; and for the purposes of this definition, "control" means the ownership directly or indirectly of a sufficient number of the shares or voting rights in a corporation to be able to elect its board of directors;

**"Agreement"** means the Original EPSA, as amended by the Amending Agreement;

**"Amending Agreement"** means the Amending Agreement dated February 26, 2007 between the Parties;

"**Applicable Law**" has the meaning given in Section 2.1.1;

"**Appraisal**" means any appraisal activities, including appraisal wells, the purpose of which at the time such activity is commenced is to appraise and evaluate the extent or the volume of Petroleum reserves and the volume of recoverable oil contained in a Discovery, and all related activities;

"**Appraisal Costs**" has the meaning given in Clause 2.2 of Annex B;

"**Associated Gas**" means any Natural Gas dissolved in Crude Oil under reservoir conditions;

"**Available Crude Oil**" means Crude Oil produced from the Contract Area, excluding that portion of such Crude Oil which is utilized in conducting Petroleum Operations, re-injected in any Reservoir, lost, flared or that cannot be used or sold;

"**Available Natural Gas**" means Natural Gas produced from the Contract Area, excluding that portion of such Natural Gas which is utilized in conducting Petroleum Operations, re-injected in any Reservoir, lost, flared or that cannot be used or sold;

"**Business Day**" means a day which is not a weekend or official public holiday in the Federal Region of Kurdistan or the Republic of Iraq and on which banks are open for business in Calgary, Alberta, Canada and in New York City;

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

"**Capital Expenditures**" means expenditures of a capital nature in accordance with generally accepted accounting principles and standards of the international petroleum industry;

"**Commercial Discovery**" means a discovery of Petroleum that has been declared commercial in accordance with the provisions of this Agreement;

"**Commercial Production**" occurs on the first day of the first period of thirty (30) consecutive days of regular production according to the Development Plan;

"**Contract Area**" means the area specified in Annex A which is in part of the Territory, but not any part of it which has been relinquished under Article 10, and which has been exclusively allocated by the Government to Contractor;

"**Contractor**" means WesternZagros Limited, a wholly owned subsidiary of Western Oil Sands Inc., subject to assignment pursuant to Section 21.1;

"**Contractor Party**" means any corporation (including Contractor) which shall participate in the rights and obligations of Contractor under this Agreement pursuant to an election made by the Government and subject to the provisions of Section 19.1;

"**Contract Year**" means a Calendar Year; provided that the first Contract Year commences at 12:01 a.m. on the Effective Date, and ends at the end of the first full Calendar Year to commence after the Effective Date;

"**Control**" means, in relation to a corporation, the power of another corporation to secure:



- (a) by means of the holding of shares or the possession of voting power in or in relation to the first corporation or any other corporation; or
- (b) by virtue of any power conferred by the articles of association of, or any other document regulating, the first corporation or any other corporation,

that the affairs of the first corporation are conducted in accordance with the wishes or directions of that other corporation;

"**Cost Recovery Gas**" has the meaning given in Section 6.4.1.2;

"**Cost Recovery Oil**" has the meaning given in Section 6.4.1.1;

"**Cost Recovery Statement**" has the meaning given in Clause 7 of Annex B;

"**Crude Oil**" means crude mineral oil and all liquid hydrocarbons in their natural state or obtained from Natural Gas by condensation or extraction; and shall include all other substances produced in association with crude mineral oil and liquid hydrocarbons;

"**Crude Oil Field**" means:

- (a) a single Reservoir; or
- (b) multiple Reservoirs all grouped on, or related to, the same geological structure, or stratigraphic trap, and includes all Reservoirs that may be located above or beneath the geological structure or stratigraphic trap,

from which Crude Oil and Associated Gas may be produced;

"**Current Legislation**" means the Constitution of the Republic of Iraq and laws, legislative acts, and normative documents including (when enacted) the Kurdistan Petroleum Law and the Federal Petroleum Law, for the time being in force and applicable to this Agreement;

"**Delivery Point**" means the point at which Crude Oil produced from the Contract Area is delivered into the regional or federal transportation system, in order to permit its ultimate delivery to an Iraqi Export Point;

"**Development**" means any development, including design, construction, installation, drilling and supporting operations and all related activities;

"**Development Costs**" has the meaning given in Clause 2.3 of Annex B;

"**Development Work Program and Budget**" has the meaning in Section 4.19;

"**Development Area**" has the meaning given in Section 4.15;

"**Development Plan**" has the meaning given in Section 4.17;

"**Discovery**" means a discovery of Petroleum in a Reservoir, structure or stratigraphic trap in which Petroleum has not previously been found that is recoverable at the surface in a flow measurable by conventional petroleum industry testing methods;

"**Dollars**" or "**US\$**" mean the lawful currency of the United States of America;

"**Effective Date**" has the meaning given in Section 2.5;

"**EHS Plan**" means the environment, health and safety plan proposed by Contractor and approved by the Management Committee in accordance with Section 4.20;

"**Exploration**" means any exploration activities, including geological, geophysical, geochemical and other surveys, investigations and tests, and the drilling of shot holes, core holes, stratigraphic tests, exploration wells and other drilling and testing operations for the purpose of making a Discovery, and all related activities;

"**Exploration Costs**" has the meaning given in Clause 2.1 of Annex B;

"**Exploration Period**" means a period beginning at the Effective Date and continuing up to, but no longer than, the end of the fifth Contract Year, and comprised of two sub-periods, the first comprising the first three Contract Years and the second comprising the subsequent two Contract Years;

"**Exploration Phase**" means a period of up to seven Contract Years, comprised of the Exploration Period, the First Extension Period and the Second Extension Period, and any subsequent extensions under this Agreement;

"**Exploration Well**" is any well drilled on a previously undrilled structure or stratigraphic trap with no existing proven, probable or possible reserves; a well drilled on a previously drilled structure to evaluate deeper or by-passed shallow reservoir hydrocarbon potential; or any well drilled further than 5 kilometres from an existing wellbore;

"**Exploration Work Program and Budget**" has the meaning given in Sections 4.1, 4.6 and 4.7;

"**Extension Period**" means either or both of the First Extension Period and the Second Extension Period, as the context requires;

"**Federal Authority**" means any Person, having been established pursuant to a Federal Petroleum Law, other than a duly authorised representative of the Government, who or which shall be empowered by the Federal Petroleum Law with any supervisory, reviewing, or administrative authority over the execution or performance of this Agreement by the Government or Contractor or both;

"**Federal Government**" means the government of the Republic of Iraq; and it shall include any minister, ministry, agency, department or other duly constituted organ thereof;

"**Federal Petroleum Law**" means any law governing Petroleum Operations to be enacted in due course in accordance with the Constitution of the Republic of Iraq for application throughout the Republic of Iraq;

"**Field**" means a Gas Field or a Crude Oil Field from which Petroleum may be produced;

"**Field Export Point**" means the point within the Contract Area at which Petroleum produced pursuant to this Agreement, having gone through field level separation, is made ready for sale, further processing or transportation or such other point as designated in an approved Development Plan;

"**Field Price**" has the meaning given in Section 8.1;

"**First Commercial Declaration Date**" has the meaning given in Section 19.1;

"**First Extension Period**" means a period beginning on the first day of the sixth Contract Year and continuing up to, but no longer than, the end of the sixth Contract Year;

"**f.o.b.**" means "free on board";

"**Force Majeure**" has the meaning given in Article 20;

"**Foreign Exchange**" means US\$ and/or other freely convertible foreign currency generally accepted in the international banking community;

"**Gas Field**" means:

- (a) a single Reservoir; or
- (b) multiple Reservoirs grouped on, or related to, the same geological structure, or stratigraphic trap, and includes all Reservoirs that may be located above or beneath the geological structure or stratigraphic trap,

from which Non-Associated Gas may be produced;

"**Good Oil Field Practice**" means such practices and procedures employed in the petroleum industry worldwide by prudent and diligent operators under conditions and circumstances similar to those experienced in connection with the relevant aspect or aspects of the Petroleum Operations, including, without limitation, API, ASTM, IADC, ISO, IAD and ADI standards and practices, as applicable, and other standards and practices as approved by the Management Committee, principally aimed at ensuring:

- (a) conservation of petroleum and gas resources, which implies the utilization of adequate methods and processes to maximize the recovery percentage of hydrocarbons in a technically and economically sustainable manner, and to minimize losses at the surface;
- (b) operational safety, which entails the use of methods and processes that promote occupational health and the prevention of accidents, and includes making facilities and personnel secure from threats and actions of hostile interests;
- (c) environmental protection, that calls for the adoption of methods and processes which minimise the impact of the Petroleum Operations on the environment; and
- (d) decommissioning of equipment and property at the end of production, which entails efforts to abandon, decommission, transfer, remove and/or dispose of structures, facilities, installations, equipment and other property, and other works, used in Petroleum Operations in the area, to make the area safe and to protect the environment, and to remediate and reclaim the area such that the ability of the area to support various land uses after the remediation and

reclamation is similar to the ability that existed prior to the Petroleum Operations being conducted on the area;

**"Government"** means the Kurdistan Regional Government, responsible (inter alia) for the administration of Petroleum activities in the Territory and any duly constituted successor body thereto; and it shall include any minister, ministry, agency, department or other duly constituted organ thereof including, without limitation, the two antecedent administrations which were merged by the Federal Region of Kurdistan Unification Agreement of 21 January 2006;

**"Government Authorisation"** means an executed letter from His Excellency the Prime Minister of the Government to Contractor as set out in Annex D;

**"Government Interest"** has the meaning given in Section 19.1;

**"Heavy Oil"** means Crude Oil having a low API gravity which, in Contractor's reasonable opinion, renders it non-commercially exploitable under current technology, prices and costs;

**"Ineligible Costs"** has the meaning given in Clause 2.7 of Annex B;

**"Iraqi Export Point"** means either the point at the inlet flange of the receiving tank ship at the loading terminal in the eastern Mediterranean or the point at the inlet flange of the receiving tank ship at the loading terminal in the Arabian Gulf;

**"Joint Operating Agreement"** means, if there is more than one corporation comprising Contractor, the agreement among all of such corporations with respect to their respective rights or obligations under the Agreement, as such agreement or contract may be amended or supplemented from time to time, and which will be agreed upon by the Persons comprising Contractor, and shall be substantially the same form as and include the key terms described in Annex F;

**"Kurdistan Petroleum Law"** means the petroleum law to be enacted in the Federal Region of Kurdistan, and after its initial enactment, as amended from time to time;

**"LIBOR"** means the London Interbank Offer Rate for Dollar deposits, as published in London by the Financial Times or, if not so published, then as published in New York by The Wall Street Journal;

**"Loan Facility"** means any overdraft, loan or other financial facility or accommodation (including any acceptance credit, bond, note, bill of exchange or commercial paper, finance lease, hire purchase agreement, trade bill, forward sale or purchase agreement, or conditional sale agreement, or other transaction having the commercial effect of a borrowing);

**"Management Committee"** has the meaning given in Section 3.1;

**"Market Development Operations"** means any activity relating to the marketing of Non-Associated Gas, Heavy Oil or Non-Commercial Petroleum, including but not limited to any evaluation to find a commercial market for such Non-Associated Gas, Heavy Oil or Non-Commercial Petroleum or to find a commercially viable technical means of extraction of such Non-Associated Gas, Heavy Oil or Non-Commercial Petroleum, and may include activities related to evaluating the quantities of Non-Associated Gas, Heavy Oil or Non-Commercial Petroleum 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 Gas, Heavy Oil or Non-Commercial Petroleum from the Delivery Point to the relevant market;

**"Miscellaneous Receipts"** has the meaning given in Clause 2.6 of Annex B;

**"Natural Gas"** means all gaseous hydrocarbons, including wet mineral gas, dry mineral gas, casing head gas and residue gas remaining after the extraction of liquid hydrocarbons from wet gas, but not Crude Oil; and shall include all other substances produced in association with gaseous hydrocarbons;

**"Net Available Crude Oil"** for a Development Area means Available Crude Oil produced from the Development Area less the quantity of Royalty determined for that Development Area;

**"Net Available Natural Gas"** for a Development Area means Available Natural Gas that is Associated Gas produced from the Development Area, plus (a) Available Natural Gas that is Non-Associated Gas produced from the Development Area, less (b) the quantity of Royalty applicable to Non-Associated Gas;

**"Non-Associated Gas"** means Natural Gas which is not Associated Gas;

**"Non-Commercial Petroleum"** means Petroleum encountered in a quantity which, in Contractor's reasonable opinion, is not commercially exploitable under current technology, prices and costs;

**"Novation Agreement"** means a legal instrument to be entered into between the parties and the Government or a Public Company in the form set out in Annex E;

**"Operating Costs"** has the meaning given in Clause 2.4 of Annex B;

**"Operator"** means Contractor, or where there is more than one corporation comprising Contractor, the corporation appointed from time to time to organize and supervise Petroleum Operations;

**"Option to Participate"** has the meaning given in Section 19.1;

**"Ordinance"** has the meaning given in Section 11.1.8;

**"Original EPSA"** means the Exploration and Production Sharing Agreement dated May 4, 2006 between the Kurdistan Regional Government- Iraq/Sulaimany Administration and Contractor;

**"Person"** means any natural or juristic person including any minister, ministry, agency, department or other duly constituted organ of either the Government or of the Federal Government, which shall have been constituted and established by legislation enacted in either the Territory or the Republic of Iraq;

**"Petroleum"** means:

- (a) any naturally occurring hydrocarbon, whether in a gaseous, liquid, or solid state;

- (b) any mixture of naturally occurring hydrocarbons, whether in a gaseous, liquid or solid state; or
- (c) any mixture of one or more naturally occurring hydrocarbons, whether in a gaseous, liquid or solid state, as well as other substances produced in association with such hydrocarbons;

**"Petroleum Operations"** means any activity authorised by the Government hereunder, and includes:

- (a) exploring for, appraising, developing, producing, transporting, processing, marketing and exporting Petroleum produced from the Contract Area, and exporting from the Republic of Iraq; and
- (b) the construction, installation, operation and decommissioning of structures, facilities, installations, equipment and other property, and the carrying out of other works, necessary for the purposes mentioned in Section (a) above;

**"Production"** means any production, transportation, processing, marketing or export activities, but not Development;

**"Production Statement"** has the meaning given in Clause 5.1 of Annex B;

**"Profit Gas"** has the meaning given in Section 6.4.5;

**"Profit Oil"** has the meaning given in Section 6.4.4;

**"Public Company"** has the meaning given in Section 19.1.4;

**"Quarter"** means a period of three months beginning on January 1, April 1, July 1 or October 1 of each Calendar Year;

**"R Factor"** means, for any month, the ratio factor at the end of the immediately preceding Semester in respect of a particular Development Area, expressed to five significant digits, calculated as follows:

$$R \text{ Factor} = \frac{\text{Cumulative Revenues}}{\text{Cumulative Costs}}$$

where:

**"Cumulative Revenues"** means the total amount of revenue actually received by Contractor for recovery of Recoverable Costs allocated to the Development Area and Contractor's share of Profit Oil and Profit Gas for the Development Area from the commencement of this Agreement until immediately prior to the end of such Semester; and

**"Cumulative Costs"** means the total amount of Recoverable Costs incurred by Contractor and allocated to the Development Area from the commencement of this Agreement until immediately prior to the end of such Semester.

For clarity, Royalty is a component neither of Cumulative Revenues nor of Cumulative Costs.

**"Recoverable Costs"** has the meaning given in Article 12;

**"Reservoir"** means a porous and permeable underground formation containing an individual and separate natural accumulation of producible hydrocarbons (Crude Oil or Natural Gas or both) that is confined by impermeable rock and/or water barriers and is characterized by an initial single natural pressure system;

**"Royalty"**, **"Royalty Gas"** and **"Royalty Oil"** have the meanings given in Section 6.3;

**"Seconded"** means an employee of the Government who is seconded to Contractor pursuant to Section 5.3.4 to provide services under a secondment agreement to be negotiated and entered into between Contractor and the Government;

**"Second Extension Period"** means a period beginning on the first day of the seventh Contract Year and continuing up to, but no longer than, the end of the seventh Contract Year;

**"Semester"** means a period of six months beginning on January 1 or July 1 of each Calendar Year;

**"Territory"** means, for purposes of this Agreement, the area of the Federal Region of Kurdistan administered by the Government;

**"U.S. Consumer Price Index"** means the consumer price index published by the US Bureau of Labor Statistics;

**"Value of Production and Pricing Statement"** has the meaning given in Clause 6.1 of Annex B; and

**"Work Program and Budget"** means a work program for Petroleum Operations and budget therefor approved in accordance with this Agreement.

### 1.3 Headings

As used herein, headings are for convenience and do not form a part of, and shall not affect the interpretation of, this Agreement.

### 1.4 Further Interpretation

In this Agreement, unless the context otherwise requires:

- 1.4.1 the words "including" and "in particular" shall be construed as being by way of illustration or emphasis only, and shall not be construed as, nor shall they take effect as, limiting the generality of any preceding words;
- 1.4.2 a reference to an Article, Section, or to an Annex, is to an Article, Section, of or to an Annex to, this Agreement;

- 1.4.3 a reference to an agreement (including this Agreement) or instrument, is to the same as amended, varied, novated, modified or replaced from time to time, according to this Agreement and as approved by the parties;
- 1.4.4 the singular includes the plural, and vice versa;
- 1.4.5 any gender includes the other;
- 1.4.6 an agreement includes an arrangement, whether or not having the force of law;
- 1.4.7 a reference to the consent or approval of the Government means the consent or approval, in writing, of the Government and in accordance with the conditions of that consent or approval;
- 1.4.8 "contiguous area" means a geographic area, or a number of areas each having a point in common with another such area; and
- 1.4.9 where a word or expression is defined, cognate words and expressions shall be construed accordingly;

and this Agreement shall enure to the benefit and burden of the parties, their respective successors and permitted assigns.

## 1.5 Annexes

If there is a conflict, the main body of this Agreement prevails over an Annex.

## 1.6 Operator

- 1.6.1 WesternZagros Limited and its successors is appointed as the Operator.
- 1.6.2 If at some future time there is more than one Person who is a Contractor Party, then:
  - 1.6.2.1 the Joint Operating Agreement shall apply between or among the Contractor Parties;
  - 1.6.2.2 one of the Contractor Parties shall be appointed as the Operator pursuant to the terms of the Joint Operating Agreement, with WesternZagros Limited (or its successor) being the initial Operator; and
  - 1.6.2.3 any change of an Operator shall require the agreement of both Contractor and the Government, and neither party shall unreasonably withhold or delay its approval of such an agreement.
- 1.6.3 For all purposes of this Agreement, the Operator shall represent Contractor, and the Government may deal with and rely on the Operator. The obligations, liabilities, acts and omissions of the Operator are, additionally, the obligations, liabilities, acts and omissions of Contractor.
- 1.6.4 The Operator shall operate under this Agreement from an office located in the Territory.



- 1.6.5 If there is more than one Person who is a Contractor Party, then subject to Sections 19.1.2.7, 19.1.5 and 19.2, each Contractor Party comprising Contractor shall be jointly and severally liable for the obligations of Contractor under this Agreement.

## **ARTICLE 2 SCOPE AND TERMINATION & WARRANTIES**

### **2.1 Scope**

- 2.1.1 The law applicable to this Agreement is the Law of Iraq as applied and administered for the time being in the Federal Region of Kurdistan, to the extent consistent with international law, as defined in Article 38 of the Statute of the International Court of Justice ("Applicable Law"). Contractor shall, at all times and in regard to all Petroleum Operations, comply with its obligations under Applicable Law.
- 2.1.2 Subject to this Agreement, Contractor shall:
- 2.1.2.1 have the exclusive right to carry on Petroleum Operations in the Contract Area at its sole cost, risk and expense according to an approved Work Program and Budget, subject to the provisions of Article 19;
  - 2.1.2.2 provide all human, financial and technical resources for Petroleum Operations; and
  - 2.1.2.3 share in Petroleum from the Contract Area.
- 2.1.3 Contractor is not authorised to carry on Petroleum Operations in any part of Territory outside the Contract Area, except to the extent that such Petroleum Operations or other activities are necessary or desirable for the exploration, development, processing, transportation, marketing or export of Petroleum produced from the Contract Area.
- 2.1.4 It is acknowledged that Contractor's activities under Section 2.1.3 are to be included in Work Programs and Budgets approved pursuant to Article 3.

### **2.2 Conditions Precedent**

Implementation of the provisions of this Agreement is conditional upon the following:

- 2.2.1 delivery of the Government Authorisation by the Government to Contractor within ten (10) days of the date of the Amending Agreement; and
- 2.2.2 approval and ratification of the terms and conditions of this Agreement by the board of directors of Contractor within ten (10) days of the date of the Amending Agreement.

### **2.3 Warranties, Indemnity and Undertaking of the Government**

- 2.3.1 The Government hereby unconditionally and irrevocably warrants to and for the benefit of Contractor that the draft of the Kurdistan Petroleum Law (currently under consideration by the Government prior to review by the Federal Region of

Kurdistan Council of Ministers for submission to the Kurdistan Parliament for enactment into law) contains and will contain when submitted to the Kurdistan Parliament confirmation that the Government will ratify, uphold, enforce and be bound by all the terms and conditions of all production sharing agreements entered into by the Government prior to the enactment of the Petroleum Law, provided that the terms of such production sharing agreements shall have been reviewed and approved by the Government prior to the enactment of the Petroleum Law.

- 2.3.2 The Government hereby unconditionally warrants to and for the benefit of Contractor that the terms of this Agreement (as executed) have been reviewed and approved by the Government and that the Government will uphold, enforce and be bound by each and all of the terms and conditions of this Agreement and will procure and confirm the ratification of this Agreement upon enactment of the Kurdistan Petroleum Law.
- 2.3.3 The Government hereby unconditionally and irrevocably represents and warrants to and for the benefit of Contractor, at the same time indemnifying and holding harmless Contractor from any liability, costs, claims or damages that Contractor may suffer as a result of the failure or inaccuracy of any of such warranties, that the Contract Area is available for the conduct of exclusive Petroleum Operations by Contractor, and that no other Person has a claim or right to conduct Petroleum Operations, or to produce or to receive Petroleum in or from the Contract Area which right would have or cause a detrimental effect on Contractor's rights and/or entitlements under this Agreement.
- 2.3.4 The Government shall for the duration of this Agreement and, subject to Current Legislation, 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.

## 2.4 Warranty of Contractor

Contractor:

- 2.4.1 hereby unconditionally and irrevocably represents and warrants to and for the benefit of the Government that Contractor has not done and has not omitted to do anything that would cause the cancellation or suspension of this Agreement, and
- 2.4.2 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.

## 2.5 Effective Date and Termination

- 2.5.1 The effective date of this Agreement ("Effective Date") shall be the date on which each of the conditions precedent set out in Section 2.2 has been satisfied..
- 2.5.2 This Agreement shall terminate on the first to occur of:
- 2.5.2.1 all of the Contract Area being relinquished pursuant to Article 10;

- 2.5.2.2 the parties so agreeing; or
- 2.5.2.3 termination pursuant to Section 2.6.

## 2.6 Grounds for Termination

The Government may terminate this Agreement:

2.6.1 forthwith, if:

- 2.6.1.1 Contractor is insolvent, is adjudged bankrupt or makes any assignment for the benefit of its creditors, or is adjudged to be unable to pay its debts as the same fall due;
- 2.6.1.2 a petition is filed in a court having jurisdiction or an order is made, or an effective resolution is passed, for the dissolution, liquidation or winding up of Contractor;
- 2.6.1.3 a receiver is appointed or an encumbrancer takes possession of a majority of the assets or undertaking of Contractor; or
- 2.6.1.4 Contractor ceases or threatens to cease to carry on its business or execution is forced against all or a majority of Contractor's property and is not discharged within fourteen (14) days.

If there is more than one corporation comprising Contractor, and only one of those corporations is bankrupt or otherwise affected as in Section 2.6.1, then this Agreement shall not terminate if the other corporation(s) comprising Contractor provide a written commitment that they will assume and be liable for the obligations of the bankrupt or otherwise affected corporation;

- 2.6.2 on thirty (30) days written notice to Contractor if Contractor is in material default under this Agreement in respect of a matter involving deliberate and intentional default by Contractor and where Contractor's performance is not affected by circumstances beyond its control, and Contractor does not, within that thirty (30) days, commence steps to remedy the default, and proceed continuously to remedy the default; provided that if Contractor gives written notice to the Government during that thirty (30) day period that it will require an additional thirty (30) days in order to commence to remedy the default, together with justification for this additional period, then the Government has the right to grant an extension to sixty (60) days from the date of written notice, which extension shall not be unreasonably withheld by the Government. The time period for remedy of a default shall be suspended during periods of Force Majeure, and during any period when Contractor is disputing the occurrence of the default and such dispute is being dealt with pursuant to Article 15;
- 2.6.3 on sixty (60) days written notice to Contractor if Contractor is in material default under this Agreement and does not, within that sixty (60) days, commence steps to remedy the default, and proceed continuously to remedy the default to the satisfaction of the Government; provided that if Contractor gives written notice to the Government during that sixty (60) day period that it will require an additional

thirty (30) days in order to commence to remedy the default, together with justification for this additional period, then the Government has the right to grant an extension to ninety (90) days from the date of written notice, which extension shall not be unreasonably withheld by the Government. The time period for remedy of a default shall be suspended during periods of Force Majeure, and during any period when Contractor is disputing the occurrence of the default and such dispute is being dealt with pursuant to Article 15; or

- 2.6.4 if Contractor or any of its past, present and future Affiliates, shareholders, partners, agents, directors, officers, employees, representatives, advisors, attorneys, successors, heirs, executors, administrators and assigns takes any measures whatsoever or threatens to take any such measures to pursue any legal or other action or claim against either the Government in relation to any claim that Contractor is entitled to conduct Petroleum Operations on areas outside of the Contract Area as defined in this Agreement as a result of any agreement made with the Government prior to the Effective Date.

## 2.7 Surviving Obligations

Termination of this Agreement for any reason, in whole or in part, shall be without prejudice to rights and obligations expressed in this Agreement to survive termination, or to rights and obligations accrued under this Agreement prior to termination, and all provisions of this Agreement reasonably necessary for the full enjoyment and enforcement of those rights and obligations shall survive termination for the period so necessary. For greater certainty, the following provisions of this Agreement shall survive termination: Section 6.8; Article 9; Article 13; Section 14.1.1, Section 14.2; Article 15; Section 16.2; Section 16.5; Section 16.6; Section 16.7; Article 17; and Section 18.1.

## ARTICLE 3 MANAGEMENT OF OPERATIONS

### 3.1 Constitution of Management Committee

For the purpose of this Agreement there will be a committee (the "Management Committee") consisting of two representatives from the Government, and two representatives from Operator, as nominated by the Government and Contractor, respectively. The representatives of Operator shall include at least one person who is an executive officer of Operator. For each of its representatives, the Government and Operator may nominate an alternate to act in the absence of the representative. The Government shall appoint one of its representatives as the Chairman of the Management Committee, and Operator shall appoint one of its representatives as the Vice-Chairman. If the Chairman is absent at a meeting of the Management Committee, the Vice-Chairman shall serve as chairman for that meeting. The Management Committee shall be formed within thirty (30) days after the Effective Date.

### 3.2 Meetings

- 3.2.1 The Management Committee will meet on a regular basis and at least once every two months, in secure, reasonably accessible locations as the parties may agree. Any member of the Management Committee may participate in a meeting by conference telephone such that all members of the meeting can be heard; provided that, at least one meeting each Quarter shall occur with all members attending in

person. A quorum for a meeting of the Management Committee shall require all of the representatives of the Government and the Operator. During the first six months following the Effective Date, the Management Committee will meet as often as necessary. The Management Committee's duties are the following:

- 3.2.1.1 examining and approving the Work Programs and Budgets for the following year which Contractor is required to submit under Article 4;
- 3.2.1.2 reviewing and approving any amendments to a Work Program and Budget proposed or agreed by either party;
- 3.2.1.3 reviewing the progress of Petroleum Operations under the current Work Programs and Budgets;
- 3.2.1.4 upon application by Contractor, to declare that a Discovery is a Commercial Discovery, except for the first Declaration of Commercial Discovery, which shall be made by Contractor;
- 3.2.1.5 examining and approving any Development Plan submitted by Contractor under Article 4, or any amendment to a Development Plan proposed or agreed by either party;
- 3.2.1.6 retaining external independent consultants and experts where the parties agree that independent verification is necessary;
- 3.2.1.7 establishing appropriate subcommittees to meet from time to time which will report to the Management Committee, and reviewing such subcommittees annually for necessary changes to the procedures and representatives of the subcommittees;
- 3.2.1.8 reviewing Contractor's proposed details of a marketing policy consistent with the marketing provisions of Article 6 and Article 7 and all Development Plans;
- 3.2.1.9 approving the purchase of any individual item within an approved Work Program and Budget if its price is higher than Five Hundred Thousand (US\$500,000) Dollars or a group of identical items purchased simultaneously if the total price is higher than One Million (US\$1,000,000) Dollars;
- 3.2.1.10 approving the renting or leasing of any equipment, or any engineering or other service contract within a Work Program and Budget if its annual price is higher than Five Hundred Thousand (US\$500,000) Dollars;
- 3.2.1.11 approving the renting or leasing of any equipment for a period of three years or more;
- 3.2.1.12 establishing the internal policies and procedures of the Management Committee, and reviewing the policies, procedures and representatives of the Management Committee for necessary changes;

- 3.2.1.13 discussing the compliance of the Government and Contractor with their respective obligations under this Agreement;
  - 3.2.1.14 reviewing the proposed insurance program of Contractor under Section 18.2; and
  - 3.2.1.15 discussing any other matter relating to Petroleum Operations as delegated to Management Committee under this Agreement.
- 3.2.2 Operator or the Government may request a meeting of the Management Committee at any time by giving written notice to the chairman. Such notice shall include a full description of the purpose of the meeting. The chairman shall thereupon call such meeting by giving fifteen (15) days notice thereof. During the first six months following the Effective Date, this notice period is reduced to forty-eight (48) hours for meetings that are conducted by conference telephone.
- 3.2.3 Decisions of the Management Committee shall be made by a single vote cast by the Government's representatives and a single vote cast by Operator's representatives. All decisions of the Management Committee require that both votes be cast in favour. If the Management Committee fails to approve:
- 3.2.3.1 Contractor's request to declare a Discovery to be a Commercial Discovery;
  - 3.2.3.2 a Work Program and Budget or a proposed amendment thereto;
  - 3.2.3.3 a Development Plan or a proposed or agreed amendment thereto,
  - 3.2.3.4 Contractor's request to approve the purchase of any individual item or a group of identical items purchased simultaneously pursuant to Section 3.2.1.9, or
  - 3.2.3.5 Contractor's request to rent or lease of any equipment, or any engineering or other service contract pursuant to Section 3.2.1.10,

then either party shall be entitled to refer the matter for senior management negotiations pursuant to the provisions of Section 15.2.

#### **ARTICLE 4 WORK PROGRAMS AND BUDGET**

##### **4.1 Commitment in Exploration Period**

During the Exploration Period, Contractor shall carry out an Exploration Work Program and Budget which shall include at least the following work to be completed during the first sub-period ending at the end of the third Contract Year:

- 4.1.1 acquisition of not less than 1150 km of 2D seismic data within two (2) years of the Effective Date, acquired with a grid of average spacing of three kilometres, or as determined to be suitable by the Management Committee, and a minimum of 120 trace recording and record length of not less than six seconds (two way time TWT);

- 4.1.2 such other geological, geophysical and geochemical studies (including without limitation 3D seismic) as determined to be suitable by Contractor; and
- 4.1.3 the drilling of not less than two Exploration Wells.

If Contractor does not relinquish the Contract Area in its entirety (other than any Discovery or Development Area) on or before the end of the first sub-period, then Contractor shall carry out an Exploration Work Program and Budget which shall include at least the following work to be completed during the second sub-period ending at the end of the fifth Contract Year:

- 4.1.4 acquisition of 575 km of 2D seismic data or an equivalent amount of 3D seismic data as determined to be suitable by the Management Committee, acquired with a minimum of 120 trace recording and record length of not less than six seconds (two way time TWT);
- 4.1.5 such other geological, geophysical and geochemical studies (including without limitation 3D seismic) as determined to be suitable by Contractor; and
- 4.1.6 the drilling of two Exploration Wells, if Contractor determines there is sufficient technical information to support the drilling of such Exploration Wells.

The intention of this Exploration work program is to make Discoveries as early as possible and appraise such Discoveries as expeditiously as possible in order to establish Commercial Discoveries, resulting in early production and export of Petroleum from the Contract Area.

#### 4.2 Exploration Wells during Exploration Period

The drilling of Exploration Wells during the Exploration Period shall occur in accordance with the most aggressive schedule allowed by the employment of qualified personnel and availability of suitable equipment, and the operating conditions in the Territory and the Contract Area. Contractor shall comply with the following schedule:

- 4.2.1 Contractor will commence to identify and mobilize a drilling rig and crew and all associated supporting equipment and services immediately after the Effective Date in order to commence work on the first Exploration Well at the earliest possible date, but not later than twelve months after the Effective Date;
- 4.2.2 commence drilling of the second Exploration Well not later than twelve months following rig release of the first Exploration Well;
- 4.2.3 if the second Exploration Well is a Discovery, Contractor will comply with the provisions of Section 4.4, and advise the Government not later than three months after rig release from the second Exploration Well whether it intends to conduct the drilling of further Exploration Wells; and
- 4.2.4 if the second Exploration Well is not a Discovery, advise the Government not later than three months after rig release from the second Exploration Well whether it intends to conduct the drilling of further Exploration Wells.

### 4.3 Testing of Selected Structures

If Management Committee determines that there is sufficient technical information supporting the drilling of Exploration Wells on the Kalar and/or Daquq-Bawanoor structural trends, then subject to approval of the Exploration Work Program and Budget by the Management Committee, the Exploratory Wells to be drilled pursuant to Section 4.1 will be performed so as to result in:

- 4.3.1 the drilling of one Exploration Well into a structure identified by Contractor in the Kalar structural trend; and
- 4.3.2 the drilling of one Exploration Well into a structure identified by Contractor in the Daquq-Bowanoor structural trend.

All Exploratory Wells targeting these structural trends will be at locations of Contractor's choice.

### 4.4 Appraisal Program

If during the Exploration Period an Exploratory Well results in a Discovery, then subject to approval of the Appraisal Work Program and Budget by the Management Committee, Contractor shall commence to appraise the Discovery. The Appraisal Work Program and Budget shall be pursued in a manner that reflects prompt appraisal of the Discovery with a view to determining whether a Discovery is a Commercial Discovery on an expeditious basis, subject to the factors described in Section 4.5.

Depending on the results of any Appraisal Well or 2D or 3D seismic surveys, Contractor may:

- 4.4.1 request that the Management Committee declare a Discovery to be a Commercial Discovery; provided that, in respect of any Discovery that Contractor considers to be the first Commercial Discovery, to unilaterally declare it to be a Commercial Discovery; or
- 4.4.2 cease drilling Appraisal Wells and conducting other geological, geochemical and geophysical surveys if Contractor determines that Discovery is not a Commercial Discovery; or
- 4.4.3 continue drilling additional Appraisal Wells and conducting other geological, geochemical and geophysical surveys until Contractor is satisfied or not that the Discovery is a Commercial Discovery.

### 4.5 Factors Affecting Schedule of Exploration and Appraisal Activities in the Exploration Period

Neither party shall introduce any unnecessary delays that will hinder the performance of the Exploration and Appraisal activities described in Sections 4.2 and 4.4, and will direct their representatives on the Management Committee to reflect the intent of Sections 4.2 and 4.4 in the approvals and decisions coming before the Management Committee.



The parties acknowledge that circumstances may affect the ability of Contractor to meet the desired schedule of Exploration and Appraisal activities as contemplated by Sections 4.2 and 4.4. These circumstances include:

- 4.5.1 the availability of qualified personnel for Contractor or its subcontractors to perform Exploration work;
- 4.5.2 the availability of seismic crews and equipment for the conduct of Exploration work in the Contract Area;
- 4.5.3 the availability of drilling crews and rigs suitable to the conditions of the Contract Area and the expected depths, pressure conditions and other circumstances involved in drilling to the structural trends described in Section 4.3, and meeting the health, safety and environment standards of Contractor and the Government;
- 4.5.4 the availability and schedule for delivery of drill pipe, drill bits, drilling mud and other drilling services, including well logging;
- 4.5.5 the operating conditions in the Territory and the Contract Area;
- 4.5.6 the ability to mobilize crews, equipment and materials to the Contract Area and within the Contract Area; and
- 4.5.7 any other circumstances that result in delays to the schedule of Exploration and Appraisal work and that is outside of the reasonable control of Contractor.

If there is a delay for any of the above reasons that affect the ability of Contractor to meet the desired schedule of Exploration and Appraisal activities as contemplated by Sections 4.2 and 4.4, then there will be an extension to the performance time for such activities by a number of days equal to the duration of the delay caused by such reasons, without the need to declare the occurrence of an event of Force Majeure.

#### **4.6 Commitment in First Extension Period**

If Contractor has fulfilled its obligations under Section 4.1 during the Exploration Period, then by written notice to the Government, Contractor may elect to extend the Exploration Phase for the First Extension Period. During the First Extension Period, Contractor shall carry out an Exploration Work Program and Budget which shall include at least the following work:

- 4.6.1 the drilling of one Exploration Well; and
- 4.6.2 such other geological, geophysical and geochemical studies (including without limitation 3D seismic) as determined to be suitable by Contractor.

#### **4.7 Commitment in Second Extension Period**

If Contractor has fulfilled its obligations under Section 4.1 during the Exploration Period and Section 4.6 for the First Extension Period, then by written notice to the Government, Contractor may elect to extend the Exploration Phase for the Second Extension Period. During the Second Extension Period, Contractor shall carry out an Exploration Work Program and Budget which shall include at least the following work:

- 4.7.1 the drilling of one Exploration Well; and
- 4.7.2 such other geological, geophysical and geochemical studies (including without limitation 3D seismic) as determined to be suitable by Contractor.

#### 4.8 Extension of Exploration Phase

- 4.8.1 If Contractor has commenced the drilling of an Exploration Well which it is obliged to drill during the Exploration Period or the First Extension Period or Second Extension Period, and such well has not completed drilling by the end of such period, the Exploration Period or relevant Extension Period shall be extended by the number of days necessary to complete the drilling of such Well, where "complete the drilling" meaning forty-eight (48) hours after rig release.
- 4.8.2 If a Discovery is made during the Exploration Phase and if Contractor considers it has not had time to complete sufficient Market Development Operations to declare the Discovery a Commercial Discovery, Contractor shall be entitled to an extension of the Exploration Period, First Extension Period or Second Extension Period, as the case may be, provided it so requests the Government in writing at least thirty (30) days prior to the end of the Exploration Period, First Extension Period or Second Extension Period, as the case may be, together with a proposal for Market Development Operations to be undertaken during such extension. Any such extension shall not exceed one (1) Contract Year. Upon the expiry of such extension, if it considers that it has still not completed its Market Development Operations relating to such Discovery, 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, together with a proposal for Market Development Operations to be undertaken during such extension.
- 4.8.3 Contractor shall be entitled at any time during the term of this Agreement to carry out Market Development Operations. If Contractor has determined that the Discovery is a significant Discovery of Non-Associated Gas, Heavy Oil or Non-Commercial Petroleum which may become a Commercial Discovery subject to Market Development Operations, it shall carry out Market Development Operations. Upon completion by Contractor of the Market Development Operations, it shall submit a written statement to the Management Committee specifying that:
  - 4.8.3.1 Contractor has determined that the Discovery is a Commercial Discovery; or
  - 4.8.3.2 Contractor has determined that the Discovery is not a Commercial Discovery.
- 4.8.4 All costs and expenditure incurred by Contractor in the performance of the activities in relation to the Market Development Operations shall be considered Recoverable Costs.

#### 4.9 Performance of Exploration Work Program and Budget

4.9.1 If any well forming part of the Exploration Work Program and Budget provided for in this Article 4 is abandoned for any reason other than a reason specified in Section 4.9.2 before reaching the defined objectives of such well, Contractor is permitted to drill a substitute well. In this event, the Exploration Period, the First Extension Period or the Second Extension Period, as the case may be, shall be extended by a period of time equal in length to the time spent in preparing for and drilling the substitute well, including mobilisation and demobilisation of the drilling rig, if applicable. The time of commencement of a substitute well will be treated as the time of commencement of the well that it replaces.

4.9.2 Any well which forms part of the Exploration Work Program and Budget provided for in this Article 4 shall be drilled to such depth as is necessary for the evaluation of the structural trend established by the available data and which Good Oil Field Practices and Contractor's reasonable judgement would require Contractor to attain, unless before reaching such depth:

- 4.9.2.1 a formation stratigraphically older than the deepest target formation is encountered; or
- 4.9.2.2 repeated stratigraphic formations typical in a geological fold and thrust belt are encountered so as to indicate to Contractor that the well is unable to reach its target horizon; or
- 4.9.2.3 further drilling would present an obvious danger, such as but not limited to the presence of abnormal pressure or excessive losses of drilling mud (recognizing that Contractor needs to be prepared with a drilling assembly and drilling mud system to contain well pressures of up to 10,000 psi for the first Exploration Well, and also be prepared for lost circulation zones expected to be encountered in the shallow drilling section); or
- 4.9.2.4 impenetrable formations or formations of unexpected hardness as to render them functionally impenetrable are encountered; or
- 4.9.2.5 Petroleum-bearing formations are encountered which require protection by running casing or liner, thereby preventing planned depths from being reached; or
- 4.9.2.6 Contractor and the Government agree to terminate the drilling operation; or
- 4.9.2.7 the Government confirms that the drilling obligation has been fulfilled.

In such circumstances the drilling of any such well may be terminated at a lesser depth and shall be deemed to have satisfied Contractor's obligations in respect of that well.

#### 4.10 Consequences of Non-Performance

4.10.1 If Contractor carries out less Exploration activity than it intended to conduct under the Exploration Work Program and Budget for that Contract Year, the shortfall

shall be added to the Exploration Work Program and Budget to be carried out in the next Contract Year; provided that, if Contractor performs less Exploration activity than it is required to perform in any Exploration Period, this Section 4.10.1 shall not have the effect of relieving Contractor of its obligation to perform the required amount of Exploration in such Exploration Period without the written consent of the Government.

- 4.10.2 If Contractor carries out more Exploration activity than is required of it in any sub-period of the Exploration Period or in the First Extension Period, the excess shall be credited against Exploration activity to be carried out in the following sub-period and, to the extent in excess of that Exploration activity, shall be further carried forward, including to a subsequent Extension Period.
- 4.10.3 For the purposes of the foregoing provisions of this Article 4 and Annex B, and except with the consent of the Government, no work in a Development Area will be regarded as Exploration except in respect of a Reservoir in which no Discovery has been made.

#### 4.11 Work Programs and Budgets

Subject to Section 4.12, Contractor shall carry out Petroleum Operations substantially in accordance with Work Programs and Budgets approved by the Management Committee. Such an approval by the Management Committee is without prejudice to any other obligations or liabilities of Contractor under this Agreement. Contractor will prepare Work Programs and Budgets in accordance with Good Oil Field Practice and reflecting prevailing conditions in the industry.

#### 4.12 Emergency and Other Expenditures Outside Approved Work Programs and Budgets

- 4.12.1 Without further approval by Management Committee, the total of all over-expenditures under any Work Program and Budget for any of the first four Contract Years shall not exceed twenty percent (20%) of the total expenditures in that Work Program and Budget, and for any subsequent Contract Year shall not exceed ten percent (10%) of the total expenditures in that Work Program and Budget.
- 4.12.2 Contractor shall promptly inform the Management Committee if it anticipates (or should reasonably anticipate) that any such limit in Section 4.12.1 will be exceeded and seek, in the manner provided in this Article 4, an amendment to the appropriate Work Program and Budget.
- 4.12.3 In determining whether to approve the over-expenditures contemplated in Section 4.12.1, the Management Committee shall consider whether such increases are necessary to complete the program of works, provided that such increase is not the result of any failure of Contractor to fulfil its obligations under this Agreement.
- 4.12.4 Nothing in Section 4.11 or Section 4.12.1 precludes or excuses Contractor from taking all necessary and proper measures for the protection of life, health, the environment and property if in Contractor's sole opinion there is an emergency or substantial risk of an emergency (including a fire, explosion, Petroleum release, or

sabotage; incident involving loss of life, serious injury or substantial risk of loss of life or serious injury to an employee, contractor or third party, or serious property damage; strikes and riots; or evacuation of the Operator's personnel). As soon as reasonably practicable, the Operator will inform the Government of the details of the emergency and of the actions it has taken and intends to take.

- 4.12.5 Both parties recognize that it is not possible practically to determine conditions for all the emergency situations which may arise during the term of this Agreement and they admit their mutual intention to exert all the proper efforts to overcome any emergency requirements wherever there is no provision specifically addressing the situation in this Agreement.

#### 4.13 Exploration

- 4.13.1 Contractor shall submit annually, for the approval of the Management Committee, at least sixty (60) days before the beginning of the following Contract Year, the Exploration Work Programs and Budgets required by Sections 4.1, 4.6 and 4.7 for each Contract Year.
- 4.13.2 From time to time, Contractor may submit, for the approval of the Management Committee, amendments to the Exploration Work Program and Budget.
- 4.13.3 Contractor is not obliged to carry out more Exploration in the Exploration Period or any Extension Period than is required by Sections 4.1, 4.6 and 4.7. Contractor's obligations to perform Exploration during the Exploration Phase shall be treated as having been fulfilled at the earlier of: (i) Contractor having acquired 1150 km of 2D seismic data and drilled two Exploration Wells; or (ii) Contractor having expended in the aggregate US\$30,000,000 on acquisition of 2D seismic data, conduct of geological, geophysical and geochemical studies (including without limitation 3D seismic) and the drilling of Exploration Wells. After the end of the Exploration Period, if Contractor has relinquished all of the lands in the Contract Area other than such parts thereof as are comprised in a Development Area, then Contractor shall not be required to carry out any further Exploration, and the Exploration Phase shall end.

#### 4.14 Discovery and Appraisal

- 4.14.1 If the drilling of an Exploration Well results in a Discovery, Contractor shall notify the Government within 24 hours of completing tests confirming the presumed existence of such Discovery. Within 30 days following notification of the said Discovery, 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"). Contractor shall provide in a timely manner such other information relating to the Discovery as the Government may request.
- 4.14.2 If, pursuant to Section 4.14.1 above, Contractor considers that the Discovery has commercial potential it shall, within 90 days following notification to the Government submit an appraisal program (the "Appraisal Program") to the Management Committee. The Management Committee shall examine the Appraisal Program within 30 days of its receipt. The Appraisal Program shall be

deemed approved by the Management Committee if it has not provided Contractor with its objections within 30 days following receipt of the said Appraisal Program. From time to time Contractor may submit, for the approval of the Management Committee, amendments to the Appraisal Program.

- 4.14.3 The Appraisal Program shall include but not be limited to the following:
- 4.14.3.1 a detailed work program and budget;
  - 4.14.3.2 an estimated time-frame for completion of appraisal work;
  - 4.14.3.3 the limits of the area to be evaluated, which shall not exceed twice the surface area of the vertical projection to the surface of the geological structure or prospect to be appraised (the "Appraisal Area").
- 4.14.4 If following a Discovery a rig is available to drill a well, Contractor may drill any additional well deemed necessary by Contractor before or during the Management Committee's review of the technical data provided in accordance with Section 4.14.1 above or its review of the Appraisal Program. Any well drilled to appraise a Discovery shall be deemed an Exploration Well for the purposes of determining Contractor's performance of its Exploration work obligations under this Agreement.
- 4.14.5 Contractor shall submit a detailed report relating to the Discovery (the "Appraisal Report") to the Management Committee within 90 days following completion of the Appraisal Program.
- 4.14.6 The Appraisal Report shall include but not be limited to the following:
- 4.14.6.1 geological conditions;
  - 4.14.6.2 physical properties of any liquids;
  - 4.14.6.3 sulphur, sediment and water content;
  - 4.14.6.4 type of substances obtained;
  - 4.14.6.5 Natural Gas composition;
  - 4.14.6.6 production forecast per well; and
  - 4.14.6.7 a preliminary estimate of recoverable reserves.
- 4.15 **Commercial Discovery**
- 4.15.1 Contractor may, at any time and having regard to Section 4.15.2, propose that the Management Committee declare that a Commercial Discovery has been made; provided that in respect of any Discovery that Contractor considers to be the first Commercial Discovery, Contractor has the right to unilaterally declare it to be a Commercial Discovery.

- 4.15.2 The proposal or unilateral declaration, as the case may be, is to be made in such manner, and be accompanied by such comprehensive data and information, as is in accordance with Good Oilfield Practice, including Contractor's proposal as to that part of the Contract Area to be declared a "Development Area". Contractor's proposal or unilateral declaration, as the case may be, for the Development Area will be a single contiguous area encompassing the Field in which the Discovery has been made, plus a reserve margin sufficient to cover the probable and possible extent of it, in accordance with Good Oil Field Practice.
- 4.15.3 Except in respect of the first Commercial Discovery declared by Contractor, the Management Committee shall within thirty (30) days confirm declaration of a Commercial Discovery and the Development Area proposed by Contractor, or propose its revision to the areas, having regard to the requirement to encompass the Field in which the Commercial Discovery has been made, plus a reserve margin sufficient to cover the probable and possible extent of it, in accordance with Good Oil Field Practice. If, after the first Commercial Discovery declared by Contractor, the Management Committee does not approve the declaration of a Commercial Discovery or the boundaries of the Development Area, then within thirty (30) days either party may request that the matter be resolved by senior management negotiations pursuant to the provisions of Section 15.2.
- 4.15.4 Contractor may request, and the Management Committee approve, at any time and from time to time, an increase of a Development Area as may be required to ensure that it encompasses the Field concerned. The process of increasing the Development Area shall follow the same steps as in Sections 4.15.2 and 4.15.3 above.

#### 4.16 Market Development Operations Work Program and Budget

- 4.16.1 At least sixty (60) days before the beginning of a Contract Year in which any Market Development Operations are due to occur, Contractor shall submit to the Management Committee its Market Development Operations Work Program and Budget for the following Contract Year. To enable the Management Committee to forecast expenditures, the Market Development Operations Work Program and Budget shall include but not be limited to the following:
- 4.16.1.1 works to be carried out;
  - 4.16.1.2 type of services to be provided, distinguishing between third parties; and
  - 4.16.1.3 categories of general and administrative expenditure.
- 4.16.2 If the Government has not requested any modifications to the Market Development Operations Work Program and Budget through its representatives in the Management Committee within thirty (30) days from receipt of such proposal, the Market Development Operations Work Program and Budget shall be deemed approved by the Management Committee. Any modification to the Market Development Operations Work Program and Budget requested by the Government shall be submitted to Contractor within thirty (30) days following receipt of the proposed Market Development Operations 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 Market Development Operations Work Program and Budget and proposed modifications thereto within sixty (60) days from its receipt of the proposed Market Development Operations Work Program and Budget. 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.

- 4.16.3 Contractor shall be authorised to incur expenditures not budgeted in an approved Market Development Operations 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 Recoverable Costs.

#### 4.17 Development Plan

- 4.17.1 As soon as practically possible, but not later than nine (9) months after the declaration of a Development Area, and in the manner required by the Government, Contractor shall submit, for the approval of the Management Committee, a plan (the "Development Plan") for the Development Area.
- 4.17.2 From time to time, and in like manner, Contractor may submit, for the approval of the Management Committee, amendments to the Development Plan.
- 4.17.3 A Development Plan will be such as would be undertaken by a corporation seeking diligently to develop and exploit (in accordance with this Agreement and Good Oil Field Practice) the Petroleum in the Development Area in the long term, best interests of the parties.
- 4.17.4 Except with the consent of the Management Committee, and without prejudice to the generality of Section 4.17.1, a Development Plan shall include:
- 4.17.4.1 a description of the proposed reservoir development and management program;
  - 4.17.4.2 details of:
    - 4.17.4.2.1 the geological and the reservoir work performed, reserve assessment, and the production profiles simulated, in order to reach the best development alternative;
    - 4.17.4.2.2 the production, treatment, transportation and export facilities to be located in the Territory or outside of the Territory;
    - 4.17.4.2.3 facilities for transporting the Petroleum from the Contract Area and the Territory; and
    - 4.17.4.2.4 facilities, wherever located, which are connected to any such facilities as aforesaid and which (or the operation of



which) might affect the integrity, management or operation thereof;

- 4.17.4.3 the production profiles for all hydrocarbon products, including possible injections for the life of the Development, the commencement of Production and the specific rates of Petroleum production, and the level of production and of deliveries which Contractor submit, should constitute the start of Commercial Production;
  - 4.17.4.4 a marketing and lifting plan, including provisions for joint marketing;
  - 4.17.4.5 an environmental impact statement, and proposals for environmental management covering the life of the Development;
  - 4.17.4.6 Contractor's proposals for ensuring the safety, health and welfare of individuals in or about the proposed Petroleum Operations;
  - 4.17.4.7 Contractor's proposals for:
    - 4.17.4.7.1 the use of local goods and services;
    - 4.17.4.7.2 training and employment of nationals resident in the Territory; and
    - 4.17.4.7.3 processing Petroleum in the Territory;
  - 4.17.4.8 the estimated capital expenditure covering the feasibility, fabrication, installation, commissioning and pre-production stages of the Development;
  - 4.17.4.9 an evaluation of the commerciality of the Development, including a full economic evaluation;
  - 4.17.4.10 Contractor's proposal for financing of the Development;
  - 4.17.4.11 such other data and information (including in respect of insurance to be obtained by Contractor, and buyers and shippers of Petroleum) as Good Oil Field Practice requires.
- 4.17.5 The Management Committee shall approve or recommend revisions to the Development Plan proposed by Contractor within 90 days after receipt. If the Management Committee does not approve the Development Plan, the matter shall be referred for senior management negotiations pursuant to the provisions of Section 15.2.

#### 4.18 Multiple Discoveries, Unitisation and Extension of Contract Area

- 4.18.1 If Contractor makes several Commercial Discoveries within the Contract Area, each such Commercial Discovery will entail a separate exploitation authorization corresponding to a separate Development Area. Contractor shall be entitled to develop and to produce each Commercial Discovery and the Government shall provide the appropriate authorizations covering each Development Area.

- 4.18.2 If a Reservoir extends beyond the boundaries of the Contract Area into an adjacent area which is not the subject of a production sharing or other arrangement with another contractor, the Government shall, upon 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 Contractor offers to the Government a competitive minimum work program for such adjacent area. Where the Contract Area is so extended, the Development Area for the Commercial Discovery will include the extended portion of the Contract Area.
- 4.18.3 If a Reservoir extends beyond the Contract Area into an adjacent area which is the subject of a production sharing or other arrangement with another contractor (an "Adjacent Contract Area"), or if a Reservoir of an Adjacent Contract Area extends into the Contract Area, the provisions of the proposed Article 58, Section 3 of the Kurdistan Petroleum Law shall apply and the Government shall require 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. If the Minister decides the unitisation pursuant to the proposed Article 58, Section 3 (b) of the Kurdistan Petroleum Law, and if Contractor does not agree with the Minister's decision, Contractor shall be entitled to arbitration pursuant to the provisions of Article 15.

#### 4.19 Development Work Programs and Budgets

- 4.19.1 Contractor shall submit, for the approval of the Management Committee, a "Development Work Program and Budget" for each Development Area for each Contract Year. At any time and from time to time, Contractor may submit, for approval, amendments to it.
- 4.19.2 A Development Work Program and Budget for a Contract Year shall be substantially in accordance with the Development Plan for the Development Area.

#### 4.20 EHS Plan

- 4.20.1 Within three (3) months of the Effective Date, Contractor shall prepare and submit to the Management Committee for its approval, its plans for managing the environment, health and safety relating to Petroleum Operations (the "EHS Plan").
- 4.20.2 The EHS Plan shall describe the procedures to be adopted by Contractor with respect to:
- 4.20.2.1 the protection of the environment (including air, land and water and all organic and inorganic matter and living organisms); and
  - 4.20.2.2 health, safety and welfare of persons in or affected by Petroleum Operations.
- 4.20.3 The procedures contained in the EHS Plan shall include such standards, practices, methods and procedures, and shall require Contractor to do (and refrain from

doing) all such other things, which are the most appropriate of such standards, practices, methods, procedures and things as:

- 4.20.3.1 are employed by others exploring for, developing or exploiting Petroleum in the Territory, with due and proper consideration for special circumstances;
- 4.20.3.2 are employed by Contractor or any of its Affiliates in a comparable place in comparable circumstances, with due and proper consideration for special circumstances; and
- 4.20.3.3 are otherwise required by Applicable Law or this Agreement;
- 4.20.4 in order to reduce the risks to persons and the environment by Petroleum Operations as much as reasonably practicable.
- 4.20.5 The EHS Plan shall be reviewed annually and amended by Contractor from time to time as may be necessary to ensure its continuing compliance with Section 4.20.3, but not so that any standard, practice, method, procedure or thing shall thereby become less protective to persons and the environment without the consent of the Management Committee.

#### 4.21 Information

In connection with any geological, geophysical or geochemical surveys, seismic surveys and the drilling of any Exploratory Well, Appraisal Well or Development Well, Contractor shall provide the Government with all original field and processed data and Contractor's interpretation and report on its final conclusion thereof, including interpretation and processing methods, within 60 days of receipt by Contractor.

### ARTICLE 5 CONDUCT OF WORK

#### 5.1 Proper and Workmanlike Manner

- 5.1.1 Contractor shall carry out Petroleum Operations, and shall ensure that they are carried on, in a proper, efficient and workmanlike manner, and in accordance with this Agreement and Good Oil Field Practice and such practices and procedures employed in the petroleum industry worldwide by prudent and diligent operators in similar circumstances.
- 5.1.2 In particular, Contractor shall carry on Petroleum Operations, and endeavour that they are carried out, in such a manner as is required by Section 5.1.1 to:
  - 5.1.2.1 protect the environment (including the atmosphere and the prevention of pollution) and ensure that Petroleum Operations result in minimum ecological damage or destruction, in accordance with the approved EHS Plan;
  - 5.1.2.2 ensure the safety, health and welfare of individuals in or affected by Petroleum Operations, in accordance with the approved EHS Plan;

- 5.1.2.3 manage the resources in a way which has long-term benefits to the Federal Region of Kurdistan and Contractor;
- 5.1.2.4 maintain in safe and good condition and repair, the Contract Area and all structures, facilities, installations, equipment and other property, and other works, used or to be used in Petroleum Operations;
- 5.1.2.5 comply with maximum axle bearing capacities of roads leading to and within the Contract Area; and generate sufficient electrical power as required for Petroleum Operations without putting load on regional or national power network;
- 5.1.2.6 abandon, decommission, remove or dispose of the property and other works mentioned in Section 5.1.2.4, clean up the Contract Area to the conditions as of the Effective Date and make it good and safe, and protect and restore the environment, on the earlier of:
  - 5.1.2.6.1 termination of this Agreement, unless the Government specifically requests that the existing remaining property in part or all of the Contract Area is required for ongoing Petroleum Operations to be conducted by the Government, in which case the Government shall assume all costs, expenses, risks and liabilities associated with future Petroleum Operations and Contractor shall be released from all obligations and liabilities for the portions of the Contract Area which are taken over by the Government, including without limitation all liability for abandonment of and decommissioning of such portions of the Contract Area; and
  - 5.1.2.6.2 when no longer required for Petroleum Operations;
- 5.1.2.7 control the flow and prevent the waste or escape of Petroleum, water or any product used in or derived by processing Petroleum;
- 5.1.2.8 prevent the escape of any mixture of water or drilling fluid with Petroleum
- 5.1.2.9 treat and re-use drilling fluids to the maximum extent practical;
- 5.1.2.10 prevent damage to Petroleum-bearing strata in or outside the Contract Area;
- 5.1.2.11 keep separate:
  - 5.1.2.11.1 each Reservoir discovered in the Contract Area, provided that production from Reservoirs of same pressure system and similar oil qualities may be commingled; and
  - 5.1.2.11.2 such of the sources of water discovered in the Contract Area as the Government directs;

except with the consent of the Government;

- 5.1.2.12 prevent water or any other matter entering any Reservoir through wells in the Contract Area, except when required by, and in accordance with, the Development Plan and Good Oil Field Practice;
- 5.1.2.13 minimise interference with pre-existing rights and activities; and
- 5.1.2.14 to remedy in a timely fashion any damage caused to the environment.

## 5.2 Access to Contract Area

5.2.1 Subject to law and to this Agreement, Contractor may:

- 5.2.1.1 enter and leave the Contract Area at any time for the purposes of Petroleum Operations; and
- 5.2.1.2 enter and leave those additional lands which are outside of the Contract Area at any time for the purposes of Petroleum Operations, provided that Contractor shall use commercially reasonable efforts to avoid any interference in Petroleum Operations conducted by other Persons on such lands.

Contractor will provide the Government with the notifications required by Applicable Law so as to permit access to the Contract Area, and the Government will assist in providing any required permits, approvals or other authorizations required.

- 5.2.2 Except with the consent of the Government, Contractor shall ensure that individuals, equipment and goods do not enter the Contract Area without meeting the entry requirements of the Applicable Law, and shall notify the Government of all individuals, vessels, aircraft, vehicles and structures entering or leaving the Contract Area for the purposes of Petroleum Operations.

## 5.3 Goods, Services, Training and Secondment

5.3.1 Contractor shall:

- 5.3.1.1 give preference to the acquisition of goods and services from individuals based in the Federal Region of Kurdistan, provided they are offered on competitive terms and conditions, having regard to quality, price, safety and time of delivery; and
- 5.3.1.2 with due regard to occupational health and safety requirements give preference in employment in Petroleum Operations to qualified nationals residing in the Federal Region of Kurdistan.

- 5.3.2 Except with the consent of the Government, Contractor shall draw to the attention of suppliers based in the Federal Region of Kurdistan, in accordance with Government policy, all opportunities for the provision of locally-available goods and services for Petroleum Operations.

- 5.3.3 Operator shall plan and implement training programs for such local personnel as are appointed by the Government. The cost of such training programs shall be considered as Recoverable Costs. Contractor's proposed training program for each

Contract Year shall be subject to the approval of the Management Committee. During the first Contract Year, Contractor's expenditures on training shall be 1.5% of the Work Program & Budget for the Contract Year, and in each subsequent Contract Year, the training expenditure shall be the greater of US\$1,500,000 and 1.5% of the Work Program & Budget for the Contract Year. In each Calendar Year, the training program shall include five academic scholarships for masters or doctorate programs at universities in Canada. If in any Calendar Year, Contractor does not make training expenditures in an amount required for that Calendar Year, any shortfall shall be carried forward and added to the required training expenditures for the following Calendar Year.

- 5.3.4 Contractor shall offer to the Government the opportunity to nominate Secondees to Contractor's organization for the purposes of training Secondees or assisting in the conduct of Petroleum Operations, in accordance with the following provisions:
- 5.3.4.1 The Government acknowledges that Contractor shall engage or retain only such Secondees as are reasonably necessary to conduct Petroleum Operations.
- 5.3.4.2 Contractor shall determine the number of Secondees, their hours of work, the designated purpose and scope of such persons, minimum expertise, qualifications and experience required and, subject to the secondment provisions below, the selection of such persons, and the compensation to be paid to all such persons in connection with operations. The compensation package of Secondees shall be in accordance with the existing human resources policies and procedures of Contractor, provided that such compensation package of Secondees shall not exceed that of other locally recruited employees of Contractor of similar rank and experience.
- 5.3.4.3 Either party may propose secondment for a designated purpose. Any proposal for secondment must include the: designated purpose and scope of secondment, including duties, responsibilities, and deliverables; duration of the secondment; number of Secondees; work location and position within Contractor's organization of each Secondee; and estimated costs of the secondment.
- 5.3.4.4 If such secondment position is approved by Management Committee, Contractor shall request the Government to nominate, by a specified date, qualified personnel to be the Secondee for such position. The Government has the right (but not the obligation) to nominate for each secondment position one or more proposed Secondees who the Government considers qualified to fulfil the designated purpose and scope of such secondment. Although each Secondee shall report to and be directed by Contractor, each Secondee shall remain at all times the employee of the Government.
- 5.3.4.5 It is recognized that the number of potential Secondee positions shall vary with the amount of activity involved in performing the Petroleum Operations. Secondees shall be added as appropriate as operations expand during the Exploration Phase and for any Development.

- 5.3.4.6 Subject to the foregoing provisions regarding the number of potential Seconded positions and the requirement that the Government nominate suitably qualified employees, it is Contractor's intention that during each Contract Year after the approval of a Development Plan, the Work Program and Budget shall include US\$500,000 for the total costs of Contractor (for salaries, benefits, travel and expenses) for Seconded. The Management Committee shall approve the line item in Contractor's Work Program and Budget for Seconded in accordance with this provision. Nothing in this Agreement shall require Contractor to expend in any Contract Year an amount in excess of US\$500,000 for salaries, benefits, travel and expenses for Seconded. Contractor's costs for Seconded shall be a Recoverable Cost.
- 5.3.4.7 Contractor and the Government will negotiate in good faith the secondment agreement(s) required to give effect to this Section 5.3.4. If the parties cannot agree on a suitable secondment agreement, the matter shall be referred for senior management negotiations pursuant to the provisions of Section 15.2.

#### 5.4 Flaring of Natural Gas

Except with the consent of the Government, such consent not to be unreasonably withheld or delayed, or in an emergency, Contractor shall not flare Natural Gas. However, Contractor shall be entitled to flare Natural Gas where it is necessary to do so for testing or in order to conduct Petroleum Operations for the recovery of Crude Oil, in accordance with Good Oil Field Practice, and such practices and procedures employed in the petroleum industry worldwide by prudent and diligent operators in similar circumstances. If there exists an alternative use for gas which is commercial having regard to required capital and operating costs, Contractor shall use commercially reasonable efforts to utilize Natural Gas for such alternative purpose, and the costs of doing so shall be Recoverable Costs.

#### 5.5 Operator and its Sub-Contractors

- 5.5.1 The Operator may carry out Petroleum Operations using its own resources and staff, or those of its agents and sub-contractors. However, the Operator may not subcontract the performance of the entire Work Program to a single subcontractor without the prior written consent of the Management Committee.
- 5.5.2 This Section 5.5 does not relieve Contractor of any obligation or liability under this Agreement, and the carrying out of Petroleum Operations by its agents or sub-contractors who have been subcontracted in accordance with Section 5.5.1 does not relieve the Operator of any obligation or liability under this Agreement.

### ARTICLE 6 SHARING OF PETROLEUM

#### 6.1 Petroleum Required for Petroleum Operations

Contractor shall have the right to use free of charge Petroleum produced from the Contract Area to the extent reasonably required for Petroleum Operations.

## 6.2 Measurement Point

All Available Crude Oil and Available Natural Gas shall be measured at the applicable Field Export Point(s) in the manner described in Section 8.4 and allocated as set forth in this Section 6.2.

## 6.3 Royalty

6.3.1 The Government shall be entitled to a royalty ("Royalty") equal to ten (10%) percent of:

6.3.1.1 any Available Crude Oil; and

6.3.1.2 Available Natural Gas which is Non-Associated Gas,

produced from the Contract Area, as provided below.

6.3.2 For the purpose of this Section, any Crude Oil or Non-Associated Gas produced and saved shall be valued at the Field Export Point in accordance with Article 8.

6.3.3 Unless the Government elects to receive the Royalty in kind, the Government shall receive the Royalty in full and in cash for the relevant Quarter. If the Government receives the Royalty in cash, Contractor shall pay such Royalty each Quarter, in arrears, within thirty (30) days of the end of each Quarter, and the amount of the Royalty shall be paid by Contractor as directed by the Government.

6.3.4 If the Government elects to receive the Royalty in kind as contemplated by Section 6.9.3, the quantity of Crude Oil corresponding to the Royalty ("Royalty Oil") and Non-Associated Gas corresponding to the Royalty ("Royalty Gas") shall be delivered in kind to the Government at the Field Export Point. Title and risk of loss of the Royalty paid in kind shall be transferred at the Field Export Point.

6.3.5 Associated Natural Gas and any other Petroleum shall be exempt from any Royalty.

## 6.4 Cost Recovery

6.4.1 Contractor shall recover its Recoverable Costs to the extent of and out of the following maximum limits per month of all Net Available Crude Oil produced from each Development Area ("Cost Recovery Oil") and Net Available Natural Gas produced from each Development Area ("Cost Recovery Gas").

### 6.4.1.1 *Cost Recovery Oil*

The maximum amount of Cost Recovery Oil in each month shall be the product of:  
(a) Net Available Crude Oil in that month, and (b) 45%.

### 6.4.1.2 *Cost Recovery Gas*

The maximum amount of Cost Recovery Gas in each month shall be the product of:  
(a) Net Available Natural Gas in that month, and (b) the greater of (i) 55%, and (ii)



the maximum cost gas percentage permitted for the time being by the Kurdistan Petroleum Law.

#### 6.4.2 *Allocation of Cost Recovery Oil and Gas*

- 6.4.2.1 Each month Contractor shall have the right to take and dispose of that quantity of Cost Recovery Oil and Cost Recovery Gas produced from each Development Area which, when valued at the Field Price for that month, equals the amount of total Recoverable Costs incurred in such month and allocated to the Development Area plus those Recoverable Costs which have not been recovered in prior months and have been allocated to the Development Area.
- 6.4.2.2 The Field Price for the month shall be the average of the Field Price on each day in that month, weighted for the daily production of Net Available Crude Oil and Net Available Natural Gas in the month.
- 6.4.2.3 Any Recoverable Costs which are not recovered in a month shall be carried forward and shall be recoverable out of Cost Recovery Oil and Cost Recovery Gas in subsequent months until fully recovered, but not after termination of this Agreement.
- 6.4.2.4 Where there is both Net Available Crude Oil and Net Available Natural Gas produced in such a month from a Development Area, recovery of Recoverable Costs allocated to the Development Area shall occur on a pro rata basis with respect to the revenues from Net Available Crude Oil and Net Available Natural Gas.

#### 6.4.3 *Excess Cost Recovery Oil and Gas*

If Contractor recovers all of its Recoverable Costs allocated to a Development Area out of Cost Recovery Oil and Cost Recovery Gas in a month, then any excess of Cost Recovery Oil and Cost Recovery Gas in that month shall be included as Profit Oil or Profit Gas in that month, and allocated in accordance with Sections 6.4.4 and 6.4.5.

#### 6.4.4 *Profit Oil*

Net Available Crude Oil produced and sold from each Development Area in a month which is not Cost Recovery Oil shall be referred to as "Profit Oil". Profit Oil from each Development Area in a month shall be allocated between Contractor and the Government as the product of the total amount of Profit Oil available in a month and proportions determined according to the following table, applying the R Factor applicable to that Development Area determined at the end of the most recently completed Semester:

R Factor	Government Share of Profit Oil	Contractor Share of Profit Oil
≤ 1.0000	65%	35%
> 1.0000 and ≤ 2.0000	$65\% + ((84\% - 65\%) \times (R - 1.0000))$	$35\% - ((35\% - 16\%) \times (R - 1.0000))$
> 2.0000	84%	16%

where "R" means the R Factor for the Development Area determined at the end of the most recently completed Semester.

A sample calculation of Profit Oil is attached as Annex C under the heading "Profit Oil". If there is a conflict between the Profit Oil determination in accordance with the table above and the example in Annex C, the Profit Oil calculation above will prevail.

#### 6.4.5 Profit Gas

Net Available Natural Gas produced and sold from each Development Area in a month which is not Cost Recovery Gas shall be referred to as "Profit Gas". Profit Gas from each Development Area in a month shall be allocated between Contractor and the Government as the product of the total amount of Profit Gas available in a month and proportions determined according to the following table, applying the R Factor applicable to that Development Area determined at the end of the most recently completed Semester:

R Factor	Government Share of Profit Gas	Contractor Share of Profit Gas
$\leq 1.0000$	60%	40%
$> 1.0000$ and $\leq 3.0000$	$60\% + \left( (80\% - 60\%) \times \frac{(R - 1.0000)}{2} \right)$	$40\% - \left( (40\% - 20\%) \times \frac{(R - 1.0000)}{2} \right)$
$> 3.0000$	80%	20%

where "R" means the R Factor for the Development Area determined at the end of the most recently completed Semester.

#### 6.5 Calculation of R Factor

6.5.1 For each Semester, starting from the 1st of January of the Contract Year following the Contract Year in which the first production of Petroleum occurs for a specific Development Area, Contractor shall calculate the R Factor applicable to the relevant Semester for the Development Area within thirty (30) days of the beginning of such Semester. If at any time an error occurs in the calculation of the R Factor, resulting in a change in Contractor's percentage share of Profit Oil or Profit Gas or both, the necessary correction shall be made in accordance with Section 6.6. 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 Contractor's percentage share of Profit Oil or Profit Gas, no correction shall be made.

6.5.2 For the period from the first date of production of Petroleum from the Development Area until the end of the Contract Year in which such production occurs, the R Factor for the Development Area shall be deemed to be less than one.

#### 6.6 Estimates and Adjustments

Each day Operator shall estimate the Net Available Crude Oil, Net Available Natural Gas, Royalty Oil, Royalty Gas, Profit Oil and Profit Gas quantities for that month and allocate them as between the Government and Contractor as contemplated by this Agreement. Following each month, Contractor shall adjust the estimates to reflect the actual allocations as required by this Agreement. If at any time the estimates used by Operator to allocate each

Party's share of Petroleum require an adjustment to reflect the actual allocations, the necessary correction shall be made. The Party having benefited from a surplus of Net Available Crude Oil, Net Available Natural Gas, Royalty Oil, Royalty Gas, Profit Oil or Profit Gas shall surrender such surplus to the other Party, beginning from the first day of the month following the month 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 Net Available Crude Oil, Net Available Natural Gas, Royalty Oil, Royalty Gas, Profit Oil or Profit Gas to which such surrendering Party is entitled.

## 6.7 Amendment for Non-Commercial Discovery

- 6.7.1 If any Non-Associated Gas, Heavy Oil or other Non-Commercial Petroleum is discovered within the Contract Area, and Contractor reasonably considers that the Discovery of Non-Associated Gas, Heavy Oil or other Non-Commercial Petroleum will only be a Commercial Discovery if certain terms of this Agreement are amended, it shall be entitled to request an amendment to this Agreement, with its reasons. The Government shall in good faith give reasonable consideration to Contractor's proposed amendment and reasons. If the Government rejects such request, and the Exploration Phase expires without Contractor having declared such Discovery to be a Commercial Discovery, and subsequently within a period of ten (10) years from the end of such Exploration Phase, the Government reaches agreement with any third party to develop such Discovery (the "New Development"), then the following provisions shall apply:
- 6.7.1.1 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 New Development (the "Proposed Contract") (subject only to the rights of Contractor entities to pre-empt such Proposed Contract pursuant to Section 6.7.1.2 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 Contractor Party a notice to that effect and shall with such notice provide such information and main terms of such agreement (the "Agreed Terms") and including:
- 6.7.1.1.1 the identity of such third party;
  - 6.7.1.1.2 the effective date of the Proposed Contract;
  - 6.7.1.1.3 the applicable commercial terms, including but not limited to bonuses, royalties, cost recovery, profit sharing, taxation and any other similar terms; and
  - 6.7.1.1.4 all and any material conditions to which the Proposed Contract is subject.
- 6.7.1.2 Within one hundred and eighty days (180) days after receipt of a notice under Section 6.7.1.1 in relation to a Proposed Contract each Contractor Party shall elect either:

6.7.1.2.1 to enter into the Proposed Contract on the same or substantially similar terms to the Agreed Terms, with the right to cost recover all Recoverable Costs incurred under this Agreement against all Petroleum revenues received under the Proposed Contract, up to any cost recovery limits set out therein; or

6.7.1.2.2 to waive the aforesaid right of pre-emption in relation to the Proposed Contract;

and shall serve notice accordingly upon the Government and each Contractor entity 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.

6.7.1.3 In the event that more than one Contractor Party exercises its rights under Section 6.7.1.2 in relation to the Proposed Contract, then the Government shall transfer the relevant interest upon the Agreed Terms (in accordance with Section 6.7.1.2) to each of such Contractor Party so exercising its 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 or in such other proportions as such Contractor Parties shall agree between them.

6.7.1.4 In the event that one of Contractor Parties exercises its rights under Section 6.7.1.2 in relation to the Proposed Contract then the Government shall transfer the whole of the relevant interest upon the Agreed Terms (in accordance with Section 6.7.1.1) to such Contractor Party.

6.7.1.5 In the event that no Contractor Party exercises its rights under Section 6.7.1.2 then the aforesaid rights of pre-emption shall thereupon cease to apply in relation to the Proposed Contract.

6.7.1.6 The provisions of this Section 6.7 shall survive any termination of this Agreement.

6.7.2 If the pre-emption rights in Section 6.7 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 Contractor while producing Petroleum.

## 6.8 Resurrection of Agreement for Non-Commercial Discovery

6.8.1 If:

6.8.1.1 any Non-Associated Gas, Heavy Oil or other Non-Commercial Petroleum is discovered within the Contract Area;

- 6.8.1.2 Contractor reasonably considers that the Discovery of Non-Associated Gas, Heavy Oil or other Non-Commercial Petroleum will only be a Commercial Discovery if certain terms of this Agreement are amended, and the Government rejects a request by Contractor to amend the terms of this Agreement;
- 6.8.1.3 the Exploration Phase expires without Contractor having declared such Discovery to be a Commercial Discovery and the portion of the Contract Area relating to such Discovery is relinquished; and
- 6.8.1.4 subsequently within a period of ten (10) years from the end of such Exploration Phase, Contractor is prepared to declare the Discovery of Non-Associated Gas, Heavy Oil or other Non-Commercial Petroleum to be a Commercial Discovery, and the portion of the Contract Area relating to the Discovery has not been made the subject of a petroleum agreement between the Government and a Person other than a Contractor Party,

then the following provisions shall apply:

- 6.8.1.5 the Government shall issue to Contractor a new petroleum agreement substantially in the form of this Agreement, but relating only to the portion of the Contract Area that relates to the Discovery of Non-Associated Gas, Heavy Oil or other Non-Commercial Petroleum, with such changes as are necessary to give effect to such agreement as though it related only to a Commercial Discovery of Non-Associated Gas, Heavy Oil or other Non-Commercial Petroleum.

6.8.2 The provisions of this Section 6.8 shall survive any termination of this Agreement.

## 6.9 Option of Government

- 6.9.1 The Government's share of Petroleum is the quantity of Royalty Oil and Royalty Gas plus the Government share of Profit Oil and Profit Gas.
- 6.9.2 Unless the Government elects otherwise pursuant to Section 6.9.3, the Government authorises Contractor, and Contractor shall take possession of and dispose of, in common stream with its own share and on terms no less favourable to the Government than Contractor receives for its own share, all of Government's share of Petroleum.
- 6.9.3 The Government may make an election to take and separately dispose of Government's share of Petroleum as provided for under Section 6.9. Unless Contractor otherwise agrees, which agreement will not be unreasonably withheld, the Government may not so elect other than:
  - 6.9.3.1 in respect of all, or the same percentage of all, of Government's shares of Crude Oil, Royalty Oil and Royalty Gas for and throughout each Calendar Year, on not less than six (6) months prior written notice to Contractor before the start of the Calendar Year concerned, and

- 6.9.3.2 in respect of Government's share of Natural Gas, in connection with its approval of the Development Plan.

#### 6.10 Lifting

- 6.10.1 Subject to this Agreement, and in accordance with the approved marketing and lifting plan as contemplated by Section 4.17.4.4, Contractor may lift, transport, dispose of and export from the Federal Region of Kurdistan and the Republic of Iraq its share of Petroleum and retain the proceeds from the sale or other disposition of that share.
- 6.10.2 Upon an election by the Government to take its share separately, Contractor and the Government shall, from time to time, make such agreements between them as are reasonably necessary, in accordance with Good Oil Field Practice and the commercial practices of the international petroleum industry, for the separate lifting of their shares of Petroleum.

#### 6.11 Title and Risk

- 6.11.1 Petroleum shall be at the risk of Contractor until it reaches the Field Export Point.
- 6.11.2 Title in Contractor's share of Petroleum shall pass to it at the Field Export Point, and then immediately be transferred to the Government for the purposes of transporting Contractor's share of Petroleum to the Iraqi Export Point. Title to Contractor's share of Petroleum shall be transferred back to Contractor when (and risk therein shall remain with Contractor after) a quantity of Petroleum having equivalent value (less transportation cost between the Field Export Point and the Iraqi Export Point) is delivered at the Iraqi Export Point.
- 6.11.3 Title in the Government's share of Petroleum taken by Contractor shall pass to Contractor when (and risk therein shall remain with Contractor after) a quantity of Petroleum having equivalent value (less transportation cost between the Field Export Point and the Iraqi Export Point) is delivered at the Iraqi Export Point, except for that share of Petroleum which Government has elected to take in kind pursuant to Section 6.3.
- 6.11.4 The foregoing provisions respecting the relative positions of Contractor and the Government respecting title and risk are subject to the provisions of Article 19 which grants to the Government an option to participate as a Contractor Party.

#### 6.12 Downstream Delivery

The Government will arrange for all required transportation for delivery of Crude Oil produced from the Contract Area between the Delivery Point and the Iraqi Export Point, with such assistance and cooperation of the Ministry of Oil, Baghdad as may be necessary. Contractor retains the right to establish required transportation for delivery of Crude Oil produced from the Contract Area between the Field Export Point and the Delivery Point. Contractor will receive Crude Oil produced from the Contract Area at the Iraqi Export Point. The Government may elect to receive all or any portion of Crude Oil produced from the Contract Area (other than Contractor's share) at:

- 6.12.1.1 the Iraqi Export Point;
- 6.12.1.2 the Field Export Point; or
- 6.12.1.3 the Delivery Point.

Crude Oil (other than Contractor's share) shall be at the risk of the Government or any agency or department of the Government once it is delivered at one of the point(s) described above.

Contractor's share of Crude Oil received by Contractor at the Iraqi Export Point may have been blended with other crude oil production and transported to the Iraqi Export Point. At the Iraqi Export Point, the Government or agency or department of the Government shall deliver to Contractor a quantity of Crude Oil equivalent in value to the Crude Oil delivered at the Delivery Point.

### 6.13 Payment Terms

Unless the Government has made an election under Section 6.9.3, Contractor shall pay to the Government an amount equal to the proceeds of the Government's share of Petroleum within ten (10) Business Days after Contractor has received payment from the buyer of such Petroleum.

### 6.14 Sharing on a Tax Paid Basis

The parties acknowledge that the basis for the sharing of Petroleum between the Government and Contractor in this Article 6 is that the Government share of Petroleum is compensation for all federal, regional and municipal taxes, fees (including stamp fees and any export fees), levies, customs and duty obligations of Contractor related to its activities in performing the Petroleum Operations. Therefore, Contractor has no liability for the payments of any taxes under the Applicable Law, or for any other federal, regional and municipal taxes on income, profit or gain, or other fees, levies, customs and duty in relation to the conduct of the Petroleum Operations imposed by any federal, regional or municipal government in the Republic of Iraq. The Government shall indemnify Contractor and hold Contractor harmless from any liability, costs, claims or damages that Contractor may suffer in the Federal Region of Kurdistan or the Republic of Iraq in relation to federal, regional and municipal taxes, fees, levies, customs and duty obligations of Contractor related to its activities in performing the Petroleum Operations. In addition, the stability provisions of Section 11.2.2 shall apply to ensure that the fiscal sharing reflected in this Agreement shall be enforceable for the term of this Agreement.

## ARTICLE 7

### SUPPLY OF CRUDE OIL TO KURDISTAN REGION DOMESTIC MARKET

#### 7.1 Domestic Market Obligation

- 7.1.1 Notwithstanding Section 6.9.1, if, in the event of essential regional demand declared by the Government, it is necessary to limit exports of Crude Oil, the Government may, with six (6) months advance written notice, require Contractor to meet the needs of the local market with Crude Oil that it has produced and received pursuant to this Agreement. Before the Government declares an event of

essential regional demand, the Government's share of Crude Oil shall be applied to meet regional demand.

## 7.2 Calculation of Regional Supply Obligation

7.2.1 Contractor's obligation to supply Crude Oil for domestic purposes shall be calculated for each month as the lower of:

7.2.1.1 the total quantity of Crude Oil produced from the Contract Area in the previous month multiplied by a fraction the numerator of which is the total quantity of Crude Oil to be supplied pursuant to Section 7.1 and the denominator is the entire production in the Territory of Crude Oil from all Contract Areas in the previous month; and

7.2.1.2 twenty (20) percent of the total quantity of Crude Oil produced from the Contract Area.

The lower quantity computed under either Sections 7.2.1.1 or 7.2.1.2 is multiplied by the percentage of production from the Contract Area to which Contractor is entitled as provided under Article 6 of this Agreement.

For the purposes of determining the entire production in the Territory of Crude Oil from all Contract Areas in a month, the Government shall provide to Contractor a report on total Crude Oil production, approved by an independent party.

7.2.2 The quantity of Crude Oil computed under Section 7.2.1 shall be the maximum quantity to be supplied by Contractor in any month pursuant to this Article. Deficiencies, if any, shall not be carried forward to any subsequent month. If in any Calendar Year, Recoverable Costs exceed the difference of total sales proceeds from Crude Oil produced and saved hereunder, Contractor shall be relieved from this supply obligation for such Calendar Year.

7.2.3 The price at which such Crude Oil shall be delivered and sold under this Article 7 shall be the price as determined under Section 8.2, unless Contractor makes the election to swap regional supply volumes for export volumes pursuant to Section 7.3.

7.2.4 Contractor shall not be obliged to transport such Crude Oil beyond the Field Export Point, but upon request by the Government, Contractor shall assist in arranging transportation and such assistance shall be without cost or risk to Contractor.

## 7.3 Swap of Regional Supply Volumes for Export Volumes

Crude Oil delivered by Contractor to the Government or any agency or department of the Government pursuant to Section 7.1 or 7.2 may, at Contractor's option, be exchanged for an equivalent quality adjusted quantity of Crude Oil at an Iraqi export point. Where Contractor elects to receive an equivalent quality adjusted quantity of Crude Oil at an Iraqi Export Point, the following procedure shall apply:

7.3.1 Contractor shall deliver a notice indicating its election to take Crude Oil at an export point, such notice to indicate the Iraqi export point or points where



Contractor is willing to accept an equivalent quality adjusted quantity of Crude Oil, and Contractor's assessment of quality and quantity adjustment mechanism or formula required so that Contractor's deliveries pursuant to Section 7.1 or 7.2 will be equivalent at the export point or points, and failing agreement on the mechanism or formula, the matter shall be referred for senior management negotiations pursuant to the provisions of Section 15.2;

- 7.3.2 if Contractor has offered more than one possible export point, the Government may select one or more points at which it will provide equivalent quality adjusted quantity of Crude Oil; and the Government will confirm its acceptance of Contractor's mechanism or formula, or propose revisions to it as it believes are appropriate, to which Contractor shall either accept or propose its own revisions; and failing agreement on the mechanism or formula, the matter shall be resolved by an expert pursuant to Section 15.4;
- 7.3.3 each month, Contractor shall deliver a written notice advising the Government of the quantity of Crude Oil delivered by Contractor pursuant to Section 7.1 or 7.2, and the equivalent quality adjusted quantity of Crude Oil to be delivered by the Government at an Iraqi export point as determined by the agreed mechanism or formula;
- 7.3.4 the Government shall deliver to Contractor the equivalent quality adjusted quantity of Crude Oil at an Iraqi Export Point promptly following Contractor's notice; and
- 7.3.5 either the Government or Contractor may request an adjustment of the mechanism or formula agreed under Section 7.3.1 and 7.3.2 not more frequently than twice in any Calendar Year, and following such request, the process for proposing and agreeing on the mechanism or formula under Sections 7.3.1 and 7.3.2 shall be utilized.

## ARTICLE 8 VALUATION AND MEASUREMENT OF PETROLEUM

### 8.1 Point of Valuation

Petroleum is valued f.o.b., or equivalent, at the Field Export Point. The value of Petroleum calculated in the manner described in this Article 8 is the "Field Price". In any place in this Agreement where the Field Price of Crude Oil in a month is referenced, it shall be calculated as the weighted average of the Field Price of Crude Oil on each day in that month, expressed in Dollars.

### 8.2 Value of Crude Oil

The value of Crude Oil from a Development Area,

- 8.2.1 sold f.o.b. (or equivalent) at the Field Export Point in an arm's length transaction is the price payable for it; or
- 8.2.2 sold other than f.o.b., or equivalent, at the Field Export Point in an arm's length transaction is the price payable for it, less such fair and reasonable proportion of

such price that relates to the transportation and delivery of the Petroleum downstream of the Field Export Point; or

- 8.2.3 sold other than as mentioned in Sections 8.2.1 and 8.2.2 is based on the weighted average netback value or f.o.b. value of either:
- 8.2.3.1 a basket of at least three light crude oil types entering the Mediterranean and/or Black Sea;
  - 8.2.3.2 a basket of at least three medium sour crude oil types entering the Mediterranean and/or Black Sea; or
  - 8.2.3.3 a basket of at least three heavy crude oil types entering the Mediterranean and/or Black Sea,

whichever basket is most representative of Crude Oil produced from the Development Area, and then adjusted for quality, less the actual transportation charge from the Field Export Point to the Iraqi Export Point to a maximum charge according to prevailing tariffs generally applicable in the Republic of Iraq, not to exceed US\$3.75 per barrel. For the purposes of determining the value of a basket of crude oil, the average prices quoted by Platt's Oilgram for the relevant month shall be used.

### 8.3 Natural Gas Markets

- 8.3.1 Natural Gas which can be marketed commercially shall be sold at the Field Export Point for a price which takes due account of (1) the commercial value of Natural Gas in markets considered reasonably accessible to Natural Gas from Contractor's Field and (2) the prevailing tariffs generally applicable in the Republic of Iraq.
- 8.3.2 The price in Section 8.3.1 shall be adjusted from time to time to reflect changes in competitive market conditions.
- 8.3.3 The Government may purchase Natural Gas from Contractor at the Field Export Point at the price in Section 8.3.1 for domestic use in Kurdistan.

### 8.4 Measurement

The volume and quality of the Available Crude Oil and Available Natural Gas produced from each Field will be measured at or upstream of the Field Export Point, at the responsibility and cost of Contractor, with the use of the metering methods, equipment and instruments contemplated in the respective Development Plan, and applying standards and methods accepted by the oil industry, including without limitation the following:

- 8.4.1 Available Crude Oil shall be the actual quantity delivered at the Field Export Point, minus bottom sediment and water, adjusted to 60 degrees Fahrenheit. Quantity adjustment from observed temperature to 60 degrees Fahrenheit shall be made according to the methods and tables described in ASTM Designation D1250. API Gravity shall be determined using the test described in ASTM Designation D287. The amount of water and sediment to be subtracted in calculating the quantity of Oil sold shall be determined according to the method described in ASTM Designation D1796 or D473.

- 8.4.2 Available Natural Gas shall be the actual quantity delivered at the Field Export Point at standard reference conditions of a temperature of sixty degrees (60°) Fahrenheit and a pressure of fourteen and sixty-five hundredths (14.65) PSIA. Adjustment from observed conditions to standard reference conditions shall be made according to the methods and tables described in ASTM Designation D3588.
- 8.4.3 Samples of Crude Oil shall be taken from the tanks in the Contract Area, or from the delivery pipelines when line sampling devices are available. Tests to determine quality shall be made from such samples and shall be made in accordance with the appropriate tests or procedures in the most recent edition of the Annual Book of ASTM Standards published by the American Society for Testing Materials.
- 8.4.4 In performing its several obligations under this Article 8 Contractor shall adhere strictly to Good Oil Field Practice.
- 8.4.5 As used herein "ASTM" refers to the specifically designated test or procedure in edition of the Annual Book of ASTM Standards published by the American Society for Testing Materials.

## ARTICLE 9 SIGNATURE BONUS AND PAYMENTS

### 9.1 Signature Bonus

Within thirty (30) days of the Effective Date Contractor shall pay the Government a signature bonus of US\$5,000,000, to be paid to the account of the Government by way of delivery to the Government's offices in Erbil of a banker's draft payable to "Kurdistan Regional Government", for which payment the Government shall issue to Contractor a written acknowledgement of receipt.

### 9.2 Payment Mechanism

All payments due from Contractor to the Government under this Agreement and any payments which may fall due from the Government to Contractor pursuant, without limitation and by way of illustration, to any indemnification provided in this Agreement by the Government to Contractor or in connection with the purchase of Natural Gas by the Government from Contractor pursuant to Section 8.3, shall be made in Dollars, unless otherwise agreed, and except as provided in Section 6.13, within thirty (30) days after the end of the month in which the obligation to make the payment is incurred to a bank specified by the party to whom the payment is due.

### 9.3 Late Payment

Any amount not paid in full when due shall bear interest, at a rate per annum equal to the one (1) month term for LIBOR current from day to day, plus, to the extent that the same shall be permitted by Applicable Law, five (5) percentage points, on and from the due date for payment until the amount, together with interest thereon, is paid in full.

**ARTICLE 10**  
**RELINQUISHMENT OF CONTRACT AREA**

**10.1 Periodic Relinquishment of Exploration Area**

10.1.1 Contractor shall relinquish:

10.1.1.1 twenty-five percent (25%) of the initial Contract Area, excluding any Development Areas, at the end of the initial term of the Exploration Period; and

10.1.1.2 an additional twenty-five percent (25%) of that part of the Contract Area, excluding any Development Areas, remaining at the end of each Extension Period entered into under this Agreement at the end of the initial term of the Exploration Period.

10.1.2 For the application of Section 10.1.1:

10.1.2.1 any areas already relinquished pursuant to Section 10.1.4 below shall be deducted from areas to be surrendered; and

10.1.2.2 Contractor shall have the right to determine the area, shape and location of the Contract Area to be retained. At the time of the first relinquishment, the area to be relinquished shall be a single contiguous area. Each subsequent relinquishment shall also be of a single contiguous area unless the effect of earlier relinquishments creates a Contract Area that is not a single contiguous area, in which case, such subsequent relinquishment shall be of not more than two contiguous areas. It is the intent of the Parties not to require the relinquishment of any prospective area.

10.1.3 If the relinquishment referred to in Section 10.1.1 can only be achieved by including part of an area which is prospective of being a Development Area (a "Prospective Development Area") based on a Discovery made by Contractor, these percentages shall be reduced to exclude the Prospective Discovery Area.

10.1.4 During the Exploration Period, 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 Section 10.1.1. Such voluntary surrenders during the Exploration Period shall qualify to reduce the obligatory relinquishments referred to under Section 10.1.1. This Agreement shall terminate in the event of total surrender of the Contract Area.

10.1.5 No surrender provided under Section 10.1.1 shall exempt Contractor from its outstanding obligations under this Contract.

10.1.6 The boundaries of the portion of the Contract Area to be relinquished by 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 Section 10.1.1.

## 10.2 Relinquishment of Development Area

- 10.2.1 Except with the consent of the Government, a Development Area shall be deemed to be relinquished on the first to occur of:
- 10.2.1.1 production from the Development Area ceasing permanently (as determined by Management Committee) or for a continuous period of thirty six (36) months (excluding any months during which there is an event of Force Majeure); and
  - 10.2.1.2 the twentieth (20th) anniversary of the date of the declaration by Contractor of the first Commercial Discovery in regard to a Development Area, plus a number of months equal to the total number of months during that twenty (20) year period during which there was an event of Force Majeure, plus any extensions pursuant to Section 10.2.2 or Section 10.2.3.
- 10.2.2 Within twelve (12) months prior to the end of the period in Section 10.2.1.2, Contractor may give notice to the Government of its desire to extend the term of this Agreement as it relates to any Development Area for an additional period of five (5) years, and upon such notice being given, the term of this Agreement as it relates to such Development Area shall be automatically so extended.
- 10.2.3 Within twelve (12) months prior to the end of any extended term pursuant to Section 10.2.2, Contractor may give notice to the Government of its desire to extend the term of this Agreement as it relates to any Development Area for a further period of five (5) years, any such extension being subject to the approval of the Government, which shall not be unreasonably withheld and which approval shall be deemed to have been given if the Government shall not, within three (3) months of the Government having received notice of Contractor's desire to extend the term, have notified Contractor of its intention to withhold its approval of the further extension of the term.

## 10.3 Termination of Agreement in respect of Relinquished Area

This Agreement shall terminate in respect of a part of the Contract Area which is relinquished.

## ARTICLE 11 OBLIGATIONS OF GOVERNMENT

### 11.1 Commitments

The Government shall:

- 11.1.1 within thirty (30) days after the Effective Date, provide Contractor with the current and historical technical data pertaining to the Contract Area, including seismic and well data available to the Government from areas adjacent to the Contract Area to assist Contractor with seismic interpretation of the Contract Area, to be used by Contractor exclusively for Petroleum Operations;

- 11.1.2 the Government shall, upon request by Contractor, such request to be supported by a suitable map or plan, make available to Contractor such land as may reasonably be required for the conduct of Petroleum Operations. Contractor shall pay a reasonable compensation to the owner/user of such land. Such compensation shall be treated as Recoverable Costs;
- 11.1.3 permit free access for Contractor to the Contract Area and to structures, facilities, installations, equipment and other property within the Contract Area and existing roads and bridges leading to it;
- 11.1.4 permit use of raw water available within and in the vicinity of the Contract Area for the purpose of Petroleum Operations free of charge (however, all installations for off-take, treatment and distribution of water shall be the responsibility of Contractor); and to allow usage of all other utilities at the same charges payable by other citizens of the Federal Region of Kurdistan;
- 11.1.5 allow use of Petroleum produced by Contractor from the Field for Petroleum Operations free of charge;
- 11.1.6 permit use of existing wells and facilities within the Contract Area for Petroleum Operations in accordance with the approved Development Plan;
- 11.1.7 assist Contractor in the development of a security plan and the implementation of private security services for all of its operations in the Territory related to this Agreement; ensure the safety and security of Contractor's property and personnel in the Contract Area and protect them from loss, injury and damage resulting from war (declared or undeclared), civil conflict, sabotage, blockade, riot, terrorism, unlawful commercial extortion, or organized crime. Notwithstanding anything to the contrary contained herein, Contractor acknowledges and agrees that the obligations undertaken by the Government hereunder are no greater than the general obligations of the Government towards citizens of the Territory in respect to the perils named above;
- 11.1.8 continuously provide current information on known or potential environment, health and safety threats including location of conventional, chemical, biological or nuclear ordnance or residue thereof (collectively, "Ordnance");
- 11.1.9 assist Contractor in obtaining all permits, visas, approvals, consents, customs clearances, authorizations, rights of way, easements, licenses and renewals thereof from any government agencies in the Federal Region of Kurdistan, and from any other government administration in the Republic of Iraq;
- 11.1.10 ensure Contractor has the unrestricted right to import all equipment, supplies and materials necessary or desirable for the conduct of Petroleum Operations, and the unrestricted right to export all such equipment, supplies and materials which were imported on a temporary basis with all such imports and exports exempt from import and export duties, fees and taxes; provided that any equipment, supplies and materials that were imported and not leased or rented by Contractor may only be exported with the approval of the Management Committee, and if such approval is given, with an appropriate credit to Recoverable Costs for the remaining value of such equipment, supplies and materials;

- 11.1.11 ensure Contractor has the unrestricted right to hire and grant entry into Iraq and the Federal Region of Kurdistan persons who are nationals from foreign countries to assist in the conduct of Petroleum Operations, provided that such foreign nationals abide by the provisions of Applicable Law; such persons to be exempt from taxes and fees for entry and exit;
- 11.1.12 grant to Contractor the full right to take the benefit of any future laws or amendments to laws which would represent an improvement in Contractor's rights compared to the provisions contemplated by this Agreement, provided that such benefits shall apply prospectively and not retrospectively from the date of implementation;
- 11.1.13 allow unrestricted access to transportation downstream of the Field Export Point for Petroleum produced from the Contract Area; grant all approvals as may be necessary or desirable to permit Contractor to construct pipelines and facilities downstream of the Field Export Point so as to permit production from the Contract Area to be delivered to the national or regional pipeline network in order to have access to export markets; to use best efforts to assist Contractor to obtain approvals from the Federal Government and any relevant regional or other governments or governmental agencies in the Republic of Iraq whose approval may be needed for the construction, ownership and operation of any such pipelines and facilities; and allow unrestricted access to present and future transportation systems downstream of the Field Export Point to allow marketing of Petroleum from the Contract Area;
- 11.1.14 support and represent Contractor in regard to all matters in which any Federal Authority may be empowered in regard to the execution and/or performance of this Agreement; and the Government will ensure that Contractor is at all times consulted, informed, apprised and (as needed) protected in regard to all issues affecting this Agreement which may involve any Federal Authority or any dispensation or directives issued by the Federal Government;
- 11.1.15 arrange for foreign exchange to be converted in accordance with the principles set out in this Agreement; and
- 11.1.16 not apply any export quotas to Petroleum produced from the Contract Area until at least 100,000 bopd is being produced; and in respect of production in excess of that daily rate, any export restrictions shall be applied proportionately to all production in the Territory.

## 11.2 Stability

- 11.2.1 The Government constitutes the government of the Territory. The Federal Region of Kurdistan is constituted as a region by the Constitution of the Republic of Iraq. Pursuant to a Unification Agreement of 23 January 2006 the Government was constituted as the single government of the Federal Region of Kurdistan and in consequence thereof:
  - 11.2.1.1 the parties acknowledge that this Agreement is entered into by the parties at a time when the Government is the proper authority and government of the Territory, with full power and authority to enter into this Agreement;

- 11.2.1.2 this Agreement is binding on any successor government of the Federal Region of Kurdistan having authority over the Contract Area, and the Government shall cause this Agreement to be recognized and adopted by such successor government.
- 11.2.2 The Government shall take no action and shall exercise its best endeavours to procure that the Federal Government takes no action which prevents or impedes the due exercise and performance of rights and obligations of the parties.
- 11.2.3 The Government guarantees to Contractor, for the entire duration of this Agreement, that it will maintain the stability of the fiscal and economic conditions of this Agreement, as they result from this Agreement and as they result from the laws and regulations in force on the date of signature of this Agreement. Contractor has entered into this Agreement 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 Applicable Law which detrimentally affects Contractor, either: (i) the terms and conditions of the Agreement shall be altered; or (ii) necessary measures will be taken to compensate Contractor, so as to restore 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.

If a tax, income tax, duty, levy or other charge, whether imposed by the federal government of the Republic of Iraq or by the Government, becomes applicable to Contractor or to Petroleum Operations, the Government shall assume, pay and discharge, in the name and on behalf of Contractor, Contractor's obligations in relation to such tax, duty, levy or charge out of Royalty Oil or Royalty Gas, or Government's share of the Available Petroleum or the Government Interest in Article 19. The Government acknowledges that payment by Contractor of the Government's share of Petroleum (or, if the Government has elected to take its share in kind, delivery by Contractor of the Government's share of Available Petroleum at the Field Export Point) or the Government Interest share of Available Petroleum constitutes payment of Contractor's such taxes, duties, levies or charges. Whenever the provisions of this Section apply, the Government shall furnish to Contractor the proper official receipts evidencing the payment of Contractor's taxes, duties, levies or charges. Such receipts shall be issued by the proper authorities and shall state the amount and other particulars customary for such receipts.

However, should such altered terms and conditions of the Agreement or altered legal, fiscal and/or economic framework negatively affect the economic balance of this Agreement so radically as to constitute effective expropriation of this Agreement, Contractor's rights under the compensation provisions of this Section 11.2.3 shall apply.

- 11.2.4 If Contractor believes that its economic position has been detrimentally affected as provided in Section 11.2.3, upon Contractor's written request, the Parties shall meet to agree on any necessary measures or making any appropriate amendments to the terms of this Agreement with a view to re-establishing the economic equilibrium between the Parties and restoring 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 Agreement within ninety (90) days of Contractor's request (or such other period as may be agreed by the Parties), Contractor may refer the matter in dispute to arbitration as provided in Article 15.

### 11.3 Foreign Exchange

- 11.3.1 Contractor shall have the right to open, maintain, and operate Foreign Exchange bank accounts both in and outside of the Federal Region of Kurdistan and the Republic of Iraq and local currency bank accounts inside the Federal Region of Kurdistan and the Republic of Iraq.
- 11.3.2 Contractor shall have the right to transfer all funds received in and converted to Foreign Exchange in the Federal Region of Kurdistan and the Republic of Iraq to bank accounts outside the Federal Region of Kurdistan and the Republic of Iraq, subject only to the payment of taxes, fees, duties or imposts of general application in the Federal Region of Kurdistan and the Republic of Iraq.
- 11.3.3 Contractor shall have the right to hold, receive and retain outside the Federal Region of Kurdistan and the Republic of Iraq and freely use all funds received and derived from Petroleum Operations without any obligation to repatriate or return the funds to the Federal Region of Kurdistan or the Republic of Iraq, including but not limited to all payments received from export sales of Contractor's share of Petroleum and any sales proceeds from an assignment of their interest in this Agreement.
- 11.3.4 Contractor shall have the right to import into the Federal Region of Kurdistan and the Republic of Iraq funds required for Petroleum Operations in Foreign Exchange and to export freely any funds held in the Federal Region of Kurdistan and the Republic of Iraq to outside bank accounts.
- 11.3.5 Contractor shall have the right to pay outside of the Republic of Iraq for goods, works and services of whatever nature in connection with the conduct of Petroleum Operations without having first to transfer to the Federal Region of Kurdistan or the Republic of Iraq the funds for such payments.
- 11.3.6 Whenever such a need arises Contractor shall be entitled to purchase local currency with Foreign Exchange and convert local currency into Foreign Exchange, according to prevailing rules.
- 11.3.7 Contractor and its Affiliates and foreign subcontractors shall have the right to pay outside the Federal Region of Kurdistan and the Republic of Iraq the principal and interest on loans used for funding Petroleum Operations without having to first transfer to the Federal Region of Kurdistan or the Republic of Iraq the funds for such payment.
- 11.3.8 Contractor shall have the right to pay wages, salaries, allowances and benefits of Foreign Employees working in the Federal Region of Kurdistan in Foreign Exchange partly or wholly outside of the Federal Region of Kurdistan and the Republic of Iraq. .

**ARTICLE 12  
RECOVERABLE COSTS**

**12.1 Generally**

- 12.1.1 Contractor's accounts shall be prepared and maintained in accordance with Annex B.
- 12.1.2 Only costs and expenses incurred by Contractor in carrying on Petroleum Operations are Recoverable Costs, but without prejudice to any other provision of this Agreement which would result in any such cost or expense being or not being a Recoverable Cost.

**12.2 Recoverable Costs**

Recoverable Costs are, subject as further provided in Annex B, the sum of those of the following that are not Ineligible Costs:

- 12.2.1 the sum of:
- 12.2.1.1 Exploration Costs;
  - 12.2.1.2 Development Costs;
  - 12.2.1.3 Operating Costs;
  - 12.2.1.4 costs of Market Development Operations;
  - 12.2.1.5 financing costs referred to in Section 12.7; and
  - 12.2.1.6 costs to Contractor of providing training pursuant to Section 5.3.3 and Seconddees.

less Miscellaneous Receipts.

Any federal or regional customs, taxes, duties and other fees shall be Recoverable Costs in such category as is appropriate for the activities to which they relate.

**12.3 Recoverable Costs Allocation**

Where there is more than one Development Area:

- 12.3.1 recovery of Exploration Costs incurred anywhere in the Contract Area can be made from Available Crude Oil and Available Natural Gas from any Development Area; and
- 12.3.2 those Recoverable Costs which are in the nature of general and administrative costs, infrastructure costs and common facility costs will be allocated for Cost Recovery Oil and Cost Recovery Gas purposes among the Development Areas pro rata on the basis of the barrels of oil equivalent produced from each Development Area. For the purposes of this allocation, 6 mcf of Natural Gas shall be equivalent to one barrel of Crude Oil.

## 12.4 Priority of Recovery of Recoverable Costs

Recovery of Recoverable Costs shall occur in the following order:

- 12.4.1 Operating Costs;
- 12.4.2 Recoverable Carried Costs, as defined in Section 19.1.2.3;
- 12.4.3 Exploration Costs;
- 12.4.4 costs of Market Development Operations;
- 12.4.5 costs to Contractor of providing training pursuant to Section 5.3.3 and Secondees,
- 12.4.6 financing costs referred to in Section 12.7; and
- 12.4.7 Development Costs.

Priority of recovery of costs within each category listed above will be given to costs in the order of their acquisition ('first in, first out').

## 12.5 Costs Under MoU

The costs incurred by Contractor and its Affiliates in acquiring geological, geophysical and geochemical data in the study area of the Memorandum of Understanding between Contractor and the Government dated November 24, 2004, and a Memorandum of Understanding between Contractor and the Ministry of Oil, Baghdad dated March 23, 2005 shall be Recoverable Costs under this Agreement, notwithstanding Clause 2.7.19 of Annex B. Such costs shall be treated as Exploration Costs.

## 12.6 Costs Prior to Effective Date

Costs for the conduct of Petroleum Operations incurred by Contractor after May 4, 2006 and prior to the Effective Date shall be treated as Exploration Costs and accordingly are Recoverable Costs. These costs shall include costs incurred by Contractor in relation to the area comprised in the Contract Area between May 4, 2006 and the Effective Date.

## 12.7 Financing Costs

For the financing of Petroleum Operations, Contractor shall have the right to have recourse to external financing from third parties or from Affiliates on an arm's length basis. Any interest, costs and financial charges, as well as any exchange losses associated with such financing, shall be Recoverable Costs, provided that such financing relates only to Development Costs and is limited in its duration to the moment when such Development Costs are cost recovered.

**ARTICLE 13  
TITLE TO EQUIPMENT**

**13.1 Property**

- 13.1.1 All structures, facilities, installations, equipment and other property, and other works, used or to be used in Petroleum Operations, shall be and remain the property of Contractor while so used or held for use, and shall become the property of the Government once the Recoverable Costs charged by Contractor in respect of such structures, facilities, installations, equipment, property and works have been recovered by Contractor. Once such structures, facilities, installations, equipment, property, and works have become the property of the Government, Contractor shall continue to have full and free use of such property in any part of the Contract Area, together with the continued right to move such property wherever it is needed for Petroleum Operations, and Contractor shall have no obligation to maintain except as required in accordance with Good Oil Field Practice for property and equipment required for Petroleum Operations.
- 13.1.2 Section 13.1.1 does not apply to property leased or rented to Contractor, or leased or rented by or belonging to third parties providing services.

**ARTICLE 14  
EXISTING CONDITIONS**

**14.1 Base Line Study**

- 14.1.1 Contractor shall not be responsible for any environmental damage and conditions existing in the Contract Area on the Effective Date, and the Government shall indemnify Contractor from and against any liability, loss, costs, claims or damages, including obligations to remediate or decommission any facilities or surface damage in effect at the Effective Date.
- 14.1.2 In order to determine the environmental damage and conditions on such date, Contractor shall carry out a baseline environmental study to be conducted by an independent environmental firm mutually acceptable to the Government and Contractor identifying the environmental conditions of the Contract Area and its installations and wells on the Effective Date.
- 14.1.3 Contractor and the Government shall jointly review and approve this report if the independent environmental firm has properly complied with its obligations. The Government shall undertake and pay for any remedial measures recommended for immediate action in the approved report as well as for any future environmental costs related to conditions existing at the Effective Date.
- 14.1.4 Contractor shall be responsible for any environmental liabilities in the Contract Area arising after the Effective Date and resulting from Petroleum Operations. The approved base line study shall be used for the purpose of determining the environmental damage occurring after the Effective Date as a result of Petroleum Operations.

- 14.1.5 Contractor shall pay for the cost of the environmental baseline study. Such cost shall be a Recoverable Cost.

## 14.2 Limitation

Contractor shall not be liable for any loss or damage, including but not limited to spillage, explosion, contamination or similar environmental damage, in respect of any storage facilities, pipelines or means of transportation which are not under the direct possession and control of Contractor or its Affiliates or its subcontractors or the Operator. In addition to the foregoing, Contractor shall not be liable for any damage whatsoever in respect of the Government share of Petroleum, storage or transportation thereof once the Government has taken custody of the Government share of Petroleum.

## 14.3 Ordnance

- 14.3.1 Contractor acknowledges that Ordnance may exist in the Contract Area and surrounding areas. Contractor further acknowledges that due to sand coverage and possible reintroduction of Ordnance due to winds and subsequent movement of sand, undetected Ordnance dangerous to life, health and equipment may be within the Contract Area or be reintroduced into such areas and that there are potential dangers concerning the discovery of and making safe such newly discovered items of Ordnance. It shall be Contractor's responsibility to exercise care during the performance of the Petroleum Operations, and Contractor shall all times be vigilant in ensuring its personnel takes care during the performance of Petroleum Operations.
- 14.3.2 Contractor shall include as part of its personnel orientation program for Petroleum Operations a program for the recognition, precautionary measures and action upon discovery for Ordnance. Such program shall be:
- 14.3.2.1 mandatory for all personnel involved in the performance of Petroleum Operations, including but not limited to employees of subcontractors;
  - 14.3.2.2 conducted prior to the performance of Petroleum Operations and deployment to the Contract Area of any Person involved in the performance of Petroleum Operations; and
  - 14.3.2.3 conducted in a language to ensure understanding by the personnel participating in the program and subsequently to be employed related to Petroleum Operations.
- 14.3.3 If Contractor discovers Ordnance, Contractor shall immediately implement the necessary safety procedures to secure the area and shall immediately notify the Government, who shall arrange the disposal of the Ordnance.
- 14.3.4 The Government acknowledges that the existence of Ordnance requires due allowance for costs and delay of Petroleum Operations.

**ARTICLE 15**  
**CONSULTATION AND ARBITRATION**

**15.1 Dispute Resolution**

A party who desires to submit a dispute between the parties arising in, out of, or relating to this Agreement, or to the breach, termination or validity thereof (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 contain a brief statement of the nature of the Dispute and the relief requested.

**15.2 Senior Executive Negotiation of Dispute**

The parties to a Dispute shall initially seek to resolve any Dispute by negotiations among Senior Executives. A "Senior Executive" means any individual who has authority to settle the Dispute for a party, and is not a representative of one of the parties on the Management Committee. Within thirty (30) days after the date of the receipt by each party to the Dispute of the Notice of Dispute (which notice shall request negotiations among Senior Executives), the Senior Executives representing the parties to the Dispute shall meet at a mutually acceptable time and place to exchange relevant information in an attempt to resolve the Dispute. If the Senior Executives fail to resolve the Dispute, then they shall elect whether to refer to binding expert determination under Section 15.4, or binding arbitration under Section 15.3. Absent a decision to refer to an expert, all unresolved Disputes shall be subject to binding arbitration.

**15.3 Arbitration**

- 15.3.1 Any Dispute not finally resolved by Senior Executive negotiations and which are not referred to binding expert determination under Section 15.4 shall be exclusively and definitively resolved through final and binding arbitration. The arbitration shall be conducted in accordance with the Rules of Arbitration of the International Chamber of Commerce ("ICC") (as then in effect).
- 15.3.2 The arbitration shall be conducted by three arbitrators, unless all parties to the Dispute agree to a sole arbitrator within thirty (30) Days after the filing of the arbitration.
- 15.3.3 If the arbitration is to be conducted by a sole arbitrator, then the arbitrator will be jointly selected by the parties to the Dispute. If the parties to the Dispute fail to agree on the arbitrator within thirty (30) Days after the filing of the arbitration, then the ICC shall appoint the arbitrator.
- 15.3.4 If the arbitration is to be conducted by three arbitrators, then each party to the Dispute shall appoint one arbitrator within thirty (30) Days of the filing of the arbitration, and the two arbitrators so appointed shall select the presiding arbitrator within thirty (30) Days after the latter of the two arbitrators has been appointed by the parties to the Dispute. If a party to the Dispute fails to appoint its party-appointed arbitrator or if the two party-appointed arbitrators cannot reach an agreement on the presiding arbitrator within the applicable time period, then the ICC shall appoint the remainder of the three arbitrators not yet appointed.

- 15.3.5 Unless otherwise agreed by all parties to the Dispute, the place of arbitration shall be Geneva, Switzerland. The arbitration proceedings shall be conducted in the English language and the arbitrator(s) shall be fluent in the English language.
- 15.3.6 When interpreting any Dispute arising under this Agreement, the arbitrators shall apply Applicable Law. For the avoidance of doubt, to the extent that the laws of Iraq as applied and administered for the time being in the Federal Region of Kurdistan may not be consistent with international law (as defined in Article 38 of the Statute of the International Court of Justice), then international law shall prevail.
- 15.3.7 The arbitral tribunal shall make its decision within sixty (60) days after completion of the parties' presentation to the tribunal, and it shall be a condition of the appointment of each arbitrator that it commit to make its decision within that time period. The sixty (60) day limit shall not apply to disputes that involve a claim by a party that this Agreement is terminated, expropriated or otherwise similarly fundamentally changed. The award of the arbitral tribunal shall be final and binding. Judgment on the award of the arbitral tribunal may be entered and enforced by any court of competent jurisdiction.
- 15.3.8 All arbitrators shall be and remain at all times wholly impartial, and, once appointed, no arbitrator shall have any ex parte communications with any of the parties to the Dispute concerning the arbitration or the underlying Dispute other than communications directly concerning the selection of the presiding arbitrator, where applicable.
- 15.3.9 The costs of the arbitration proceedings, including counsel's fees, shall be determined by the arbitral tribunal as part of its award.
- 15.3.10 The award shall include interest, as determined by the arbitral award, from the date of any default or other breach of this Agreement until the arbitral award is paid in full. Interest shall be awarded, subject to Applicable Law, at the one (1) month term for LIBOR plus five (5) percentage points.
- 15.3.11 The parties waive their rights to claim or recover, and the arbitral tribunal shall not award, any punitive, multiple, or other exemplary damages (whether statutory or common law) except to the extent such damages have been awarded to a third party and are subject to allocation between or among the parties to the Dispute.
- 15.3.12 To the extent permitted by law, any right to appeal or challenge any arbitral decision or award, or to oppose enforcement of any such decision or award before a court or any governmental authority, is hereby waived by the parties except with respect to the limited grounds for modification or non-enforcement provided by any applicable arbitration statute or treaty.
- 15.3.13 During any period in which a dispute has been referred to arbitration, performance of this Agreement by the parties shall nevertheless continue as though such dispute did not exist. Any time limits established in this Agreement for the termination of the Agreement in the event of breach shall be suspended while the dispute is being arbitrated.

#### 15.4 Expert Determination

For any decision or Dispute referred to an expert by the Senior Executives pursuant to Section 15.2, or for any other matters where the parties so agree, the parties hereby agree that such decision shall be conducted expeditiously by an expert selected unanimously by the parties to the Dispute. The expert is not an arbitrator of the Dispute and shall not be deemed to be acting in an arbitral capacity. The party desiring an expert determination shall give the other parties to the Dispute written notice of the request for such determination. If the parties to the Dispute are unable to agree upon an expert within ten (10) Days after receipt of the notice of request for an expert determination, then, upon the request of any of the parties to the Dispute, the International Centre for Expertise of the International Chamber of Commerce shall appoint such expert and shall administer such expert determination through the ICC's Rules for Expertise. The expert, once appointed, shall have no *ex parte* communications with any of the parties to the Dispute concerning the expert determination or the underlying Dispute. All parties agree to cooperate fully in the expeditious conduct of such expert determination and to provide the expert with access to all facilities, books, records, documents, information and personnel necessary to make a fully informed decision in an expeditious manner. Before issuing his final decision, the expert shall issue a draft report and allow the parties to the Dispute to comment on it. The expert shall endeavour to resolve the Dispute within thirty (30) Days (but no later than sixty (60) Days) after his appointment, taking into account the circumstances requiring an expeditious resolution of the matter in dispute. For each Dispute referred to an expert, the parties to the Dispute shall each submit to the expert its proposed outcome of the Dispute, and the expert shall select the most reasonable proposal of those submitted as his decision. The expert's decision shall be final and binding on the parties to the Dispute.

#### 15.5 Waiver of Sovereign Immunity

Any party that now or hereafter has a right to claim sovereign immunity for itself or any of its assets hereby waives any such immunity to the fullest extent permitted by the laws of any applicable jurisdiction. This waiver includes immunity from (i) any expert determination or arbitration proceeding commenced pursuant to this Agreement; (ii) any judicial, administrative or other proceedings to aid the expert determination or arbitration commenced pursuant to this Agreement; and (iii) 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, arbitration or any judicial or administrative proceedings commenced pursuant to this Agreement. Each party acknowledges that its rights and obligations hereunder are of a commercial and not a governmental nature.

### ARTICLE 16

#### FINANCIAL AND TECHNICAL DATA, RECORDS AND REPORTS

##### 16.1 Ownership

- 16.1.1 The Government shall have title to all technical data and information acquired in the carrying on, or as a result, of Petroleum Operations, provided that Contractor shall have the right to retain a copy of all data during the term of this Agreement, subject to ongoing obligations of confidentiality as expressed in this Agreement.



- 16.1.2 Section 16.1.1 includes all data and information, whether raw, derived, processed, interpreted or analysed (including cores, cuttings, samples, and all geological, geophysical, geochemical, drilling, well, production and engineering data and information) that Contractor collects and compiles. Contractor shall be entitled to retain 50% of all cores, cuttings and other physical samples acquired during Petroleum Operations, for the term of this Agreement. Contractor shall use diligence and care in accordance with Good Oil Field Practice so as not to cause damage to any physical samples in Contractor's possession.

## 16.2 Records, Storage, Retrieval and Submission

- 16.2.1 Contractor shall keep full, complete and accurate books, accounts and other records of Petroleum Operations and of the sale or other disposition of Petroleum, of the data and information mentioned in Section 16.1 and of all other financial, commercial, legal, operational, technical and other data and information acquired or generated for, or resulting, directly or indirectly, from, Petroleum Operations (including that relating to marketing and otherwise to the sale of Petroleum).
- 16.2.2 Contractor shall make the originals or copies of all such data, information and records available to the Government (or as it shall direct) at reasonable times at the Operator's offices in the Territory, and shall promptly deliver the same to the Government (or as it directs) as and when, and in such manner as, the Government directs.
- 16.2.3 Without prejudice to Section 16.2.2, Contractor shall store all such data and information as the Government, after consultation with Contractor, reasonably directs, and otherwise in accordance with Good Oil Field Practice, and provide the Government with the details of its data storage and retrieval system.
- 16.2.4 Contractor may retain copies of all such data and information and records delivered to the Government (or as it shall direct) for use in or in relation to Petroleum Operations in compliance with obligations under law, but not otherwise without the consent of the Government.
- 16.2.5 Except with the consent of the Government, or as required by law or the rules of a recognised stock exchange, or as otherwise provided in this Agreement, Contractor may not sell or disclose any such data, information and records.

## 16.3 Reports

Contractor shall provide the Government with such reports as are mentioned in Annex B and as the Government otherwise directs, including an annual report on Contractor's measures to protect the environment in accordance with Section 5.1.2.1.

## 16.4 Export of Data and Information

Subject to Applicable Law as applied in the Republic of Iraq, upon notice to the Government (but without need for specific consent from the Government or the Federal Government), Contractor shall be entitled to export to Contractor's head office outside of the Territory or to other designated offices any data, information or records which are required for analysis or for financial reporting. No other data, information and records shall be taken out of, or

transmitted from or stored outside, the Territory without the consent of the Government. Such consent shall not be withheld if resources for the processing, interpretation or analysis thereof are not available in the Territory, if the data, information and records are promptly returned to the Territory and accurate copies (or useable and representative samples) are retained in the Territory.

## 16.5 Use of Data and Information

- 16.5.1 The Government may make such use as it wishes of the data and information mentioned in this Article 16 for its internal use, or for the purposes of general statistical and other general reporting (publicly or otherwise) on its activities.
- 16.5.2 Except with the consent of the Government, Contractor may only use the data and information mentioned in Section 16.1 for its Petroleum Operations.

## 16.6 Confidentiality of Data and Information

- 16.6.1 For the purposes of this Section 16.6, "Confidential Information" includes:
- 16.6.1.1 the data, information and records referred to elsewhere in this Article 16;
  - 16.6.1.2 any information regarding Petroleum Operations; and
  - 16.6.1.3 any patents, discoveries, trade marks, cultural properties, tools, products, forms, books, programs, techniques, designs, research, plans, development activities, computer programs, cyphers, maintenance plans, list of names of employees and their positions, and financial statements which have the character of being private and confidential and are related to Petroleum Operations.
- 16.6.2 The Government shall not publicly disclose or make available, other than for the purpose of the resolution of disputes under this Agreement, any Confidential Information until the later of:
- 16.6.2.1 five (5) years after it was acquired by Contractor; and
  - 16.6.2.2 this Agreement ceasing to apply in respect of the point at or in respect of which it was acquired.
- 16.6.3 Contractor shall not (without the consent of the Government) disclose any Confidential Information to any governmental authority in the Federal Region of Kurdistan or the Republic of Iraq other than the Ministry of Natural Resources of the Government; and, subject thereto, except with the consent of the Government, Contractor shall not disclose any Confidential Information other than:
- 16.6.3.1 to its employees, agents, contractors and affiliates to the extent necessary for the proper and efficient carrying on of Petroleum Operations;
  - 16.6.3.2 as required by law including by court order;
  - 16.6.3.3 for the purpose of the resolution of disputes under this Agreement;

- 16.6.3.4 as required by a recognised stock exchange;
- 16.6.3.5 any data or information which at the time of disclosure is, through no wrongful act or omission of Contractor, a part of the public domain or which is independently developed or acquired by Contractor or its Affiliates;
- 16.6.3.6 to its and its Affiliates' officers, directors and employees, subject to Contractor taking customary precautions to ensure such data and information is kept confidential;
- 16.6.3.7 on a need to know basis to contractors, consultants, and advisors employed by Contractor or its Affiliates where disclosure of such data and information is reasonably necessary in connection with Petroleum Operations or otherwise pursuant to the legitimate exercise of the rights of Contractor;
- 16.6.3.8 to a bona fide prospective transferee from Contractor of all or a part of its interest in this Agreement (including a corporation with whom Contractor or its Affiliate is having discussions directed toward a merger, amalgamation, consolidation, the sale of a majority ownership interest in Contractor or Affiliate or similar transaction);
- 16.6.3.9 to its insurers, banks or other financial institutions, underwriters and investors and their advisors on a need to know basis in respect of the Contract Area and the Agreement;
- 16.6.3.10 to the extent such data and information must be disclosed, pursuant to any requirement of applicable laws, to a government or governmental department, ministry, board, commission, agency, tribunal, securities commission or stock exchange having jurisdiction;
- 16.6.3.11 in legal or arbitration proceedings involving the rights and obligations of Contractor hereunder and as against third parties;
- 16.6.3.12 of a general descriptive or general informational nature in respect of Petroleum Operations (including independent engineering reports, but excluding any reports commissioned by or prepared for Contractor) provided that such information shall not include any proprietary information or data relating to technology, marketing, trade secrets, competitive matters or other similar proprietary matters; or
- 16.6.3.13 with the consent of the Government, such consent not to be unreasonably withheld or delayed.

Contractor shall ensure that a Person mentioned in Section 16.6.3.1 maintains the data and information disclosed to it confidential in the terms of this Article 16.

- 16.6.4 The Government may release data without compensation to Contractor on portions of the Contract Area which have been relinquished by Contractor, except where Contractor has not recovered its Recoverable Costs related to the

acquisition of such data. Until Contractor has recovered its Recoverable Costs related to the data on relinquished lands, it may sell such data, and any amounts received for sale of data shall be credited to Recoverable Costs. The Government may release data without compensation to Contractor in respect of those lands that were removed from the Contract Area at the time of the Amending Agreement.

- 16.6.5 All negotiations, arbitration, and expert determinations relating to a Dispute (including a settlement resulting from negotiation, an arbitral award, documents exchanged or produced during an arbitration proceeding, and memorials, briefs or other documents prepared for the arbitration) are confidential and may not be disclosed by the parties, their employees, officers, directors, counsel, consultants, and expert witnesses, except to the extent necessary to enforce any arbitration award, to enforce other rights of a party, or as required by law; provided, however, that breach of this confidentiality provision shall not void any settlement, expert determination or award.
- 16.6.6 The Government warrants to and for the benefit of Contractor that under the laws of the Federal Region of Kurdistan and/or the Republic of Iraq, the Government is empowered to disclose Confidential Information to Contractor.

## 16.7 Trade Secrets

- 16.7.1 Notwithstanding Section 16.6, the Government shall not publicly disclose or make available, other than as required for the purpose of the resolution of disputes under this Agreement, any data or information submitted to it by Contractor, which:
- 16.7.1.1 is a trade secret of, or data and information the disclosure of which would, or could reasonably be expected to, adversely affect, Contractor in respect of its lawful business, commercial or financial affairs; and
- 16.7.1.2 was clearly marked as such when it was submitted to the Government.
- 16.7.2 Without prejudice to Section 16.7.1.1:
- 16.7.2.1 the Government may, at any time and from time to time, serve notice on Contractor requiring it to show cause, within the time specified for the purpose in the notice, why the data and information which it has marked pursuant to Section 16.7.1.2 should still be considered a trade secret or other information as mentioned in that Section; and
- 16.7.2.2 if Contractor does not show cause within that time, the data and information shall no longer be a trade secret or other such information for the purposes of this Section 16.7.
- 16.7.3 The Government shall not use the name or trade mark or commercial name belonging to Contractor or any Affiliate in any way, including making any announcements without prior written approval from Contractor, who may refuse to grant such approval at its discretion.

### 16.8 Public Announcement

If a party intends to make any public announcement, press release or other public statement in relation to this Agreement or the Petroleum Operations (a "Press Release") other than financial statements or other matters which a party is required to release in accordance with law, regulations or rules of any applicable stock exchange, the party shall use reasonable efforts to first give the other party at least forty-eight (48) hours notice to comment on such Press Release. The party desiring to make the Press Release shall give due consideration to any comments it receives from the other party. Nothing contained in this Section 16.8 shall require the party desiring to make the press Release to revise it to account for such comments or to refrain from making it after the other party have had the opportunity to comment as required by this Section 16.8. Each party shall be responsible to the other party for assuring that it shall have obtained appropriate authorisation for the issue of any Press Release.

### 16.9 Effect of Participation

If the Option to Participate is exercised in accordance with Article 19 and a Public Company or a third party assignee of the Government or a Public Company becomes a Contractor Party, the confidentiality provisions of the Joint Operating Agreement shall apply and override this Article 16.

## ARTICLE 17 AUDIT

### 17.1 Independent Audit

The Government has the right, at Contractor's cost, to an independent audit (starting, except in the case of manifest error or fraud, within twelve (12) months after the end of the Contract Year, and concluding within six (6) months of its commencement) of Contractor's books and accounts relating to this Agreement for any Contract Year. The Government may require only a single independent audit in respect of any Contract Year. Contractor shall forward a copy of the independent auditor's report to the Government and the Management Committee within sixty (60) days following the completion of the audit.

### 17.2 Government Audit

The Government may inspect and audit (by itself or as it directs), and at its own cost, Contractor's books and accounts relating to this Agreement for any Contract Year (starting within twelve (12) months after the end of the Year, and concluding within six (6) months of this start). The Government may only conduct a single audit in respect of any Contract Year. This Section 17.2 does not affect any audit rights arising under the provisions of Applicable Law.

### 17.3 Exceptions

- 17.3.1 All audit exceptions shall be raised by the Government within six (6) months after receipt of the independent auditor's report by the Government or completion of the audit by the Government (or as it directed), as the case may be, failing which Contractor's books and accounts shall be conclusively deemed correct except in the case of manifest error or fraud.

- 17.3.2 Contractor shall fully respond to an audit exception within sixty (60) days of its being raised in writing, failing which the exception shall be deemed accepted.
- 17.3.3 Adjustments required among the parties as a consequence of an audit shall be made promptly.

#### 17.4 Contractor to Assist

Contractor shall fully and expeditiously assist and cooperate with audits.

#### 17.5 Affiliates

The foregoing provisions of this Article 17 apply in respect of Affiliates of Contractor. Contractor shall use its best endeavours to ensure that its Affiliates comply with them (at Contractor's expense in regard to an audit as mentioned in Section 17.1).

### ARTICLE 18 INDEMNITY AND INSURANCE

#### 18.1 Indemnity

- 18.1.1 Contractor shall defend, indemnify and hold harmless the Government from all claims of whatsoever nature which are brought against the Government by any third party directly in respect of Petroleum Operations, and all costs, expenses and liabilities incurred by the Government and/or the Federal Government as a consequence thereof. The Government shall give Contractor prompt notice of any such claim and shall not settle it without the prior consent of Contractor.
- 18.1.2 The Government shall defend, indemnify and hold harmless Contractor from all claims of whatsoever nature which are brought against Contractor by any third party (including, without limitation, the Federal Government) directly in respect of any failure by the Government or the Federal Government to perform its or their obligations under this Agreement, and all costs, expenses and liabilities incurred by Contractor as a consequence thereof. Contractor shall give the Government prompt notice of any such claim and shall not settle it without the prior consent of the Government.

#### 18.2 Insurance

Contractor shall take out and maintain insurance in respect of its liabilities for Petroleum Operations in the amounts and types which are appropriate in accordance with Good Oil Field Practice; but this obligation applies only if such insurance is available at a cost which is not materially in excess of the insurance costs applicable for the international oil & gas industry. Contractor shall supply evidence of Contractor's insurance to the Government within 120 days following the Effective Date, and on each anniversary of the Effective Date during the term of this Agreement.

**ARTICLE 19**  
**GOVERNMENT PARTICIPATION**

**19.1 Option to Participate**

- 19.1.1 The Government shall have the option of participating in this Agreement, in respect of the entire Contract Area, as a Contractor Party, with an undivided interest in Petroleum Operations and all the other rights, duties, obligations and liabilities of Contractor under this Agreement in respect of the Contract Area, of up to an undivided twenty-five (25%) percent (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 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 a Commercial Discovery in the Contract Area as contemplated by Section 4.15.1 (which date of declaration is referred to herein as the "First Commercial Declaration Date"). If the Government does not notify 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.
- 19.1.2 If the Government exercises the Option to Participate in accordance with Section 19.1.1:
- 19.1.2.1 the effective date of such participation (the "Participation Effective Date") 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;
- 19.1.2.2 the Government shall participate as a non-operating Contractor Party under this Agreement from the Participation Effective Date, with all its rights, duties, obligations and liabilities under this Agreement, save as provided in and subject to the provisions of this Section 19.1;
- 19.1.2.3 the Government shall not be required to reimburse or otherwise compensate Contractor for any costs of any nature incurred by Contractor prior to the Participation Effective Date. The Government shall also not be required to fund or reimburse any Exploration Costs that Contractor may be required to incur after the Participation Effective Date in satisfaction of any remaining minimum work commitments that Contractor may have under Sections 4.1, 4.6 or 4.7. All such costs (including those incurred prior to the Participation Effective Date) shall be referred to as "Carried Costs", and all Carried Costs that are Recoverable Costs shall be referred to as "Recoverable Carried Costs".
- 19.1.2.4 As provided in Section 12.4, Recoverable Carried Costs shall be recoverable in priority to all other Recoverable Costs, excepting Operating Costs. The Government or other Person holding the Government Interest shall not be entitled to participate in the benefit of any Cost Recovery Oil or Cost Recovery Gas allocated to Contractor pursuant to Section 6.4 for recovery of Recoverable Carried Costs, the intention being that all such

Cost Recovery Oil and Cost Recovery Gas so allocated to Contractor shall be solely for the account and benefit of Contractor Parties other than the Government, and shall be shared among such other Contractor Parties pro rata on the basis of their respective participating interests;

- 19.1.2.5 if, pursuant to the terms of the Joint Operating Agreement, the Government or other Person holding the Government Interest participates in the development of the Commercial Discovery, it shall be liable to the other Contractor Parties to contribute its Government Interest share of all Recoverable Costs and other costs provided in the Joint Operating Agreement incurred on or after the Participation Effective Date, and shall be entitled to recover all such Recoverable Costs in accordance with Article 6, including the Recoverable Costs which the Government or such other Person has reimbursed pursuant to Section 19.1.2.6;
- 19.1.2.6 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 Contractor of its election, reimburse the other Contractor Parties for all Recoverable Costs and other costs under the Joint Operating Agreement for which it is liable pursuant to Section 19.1.2.5 and which have been incurred by such other Contractor Parties on or after the First Commercial Declaration Date but prior to and including the date of the notice pursuant to which it exercises its Option to Participate. From the date of such notice, the Government or other Person holding the Government Interest shall pay directly the Government Interest share of such Recoverable Costs and other costs under the Joint Operating Agreement; and
- 19.1.2.7 notwithstanding any provision of the Joint Operating Agreement, the provisions of Section 19.2 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 Parties) to Contractor for its obligations, duties and liabilities under this Agreement as a Contractor Party and the provisions of Section 19.1.7 shall apply.
- 19.1.3 Regardless of the time at which the Option to Participate is exercised, the Government or any Person holding the Government Interest shall not be liable for the Exploration Costs associated with the performance of the Exploration Wells described in Sections 4.1, 4.6 and 4.7.
- 19.1.4 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 established and regulated by the Government under the Kurdistan Petroleum Law (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 (5%) percent.
- 19.1.5 Subject to execution by such Public Company and the other parties to this Agreement of a Novation Agreement in the form of Annex E, the Public Company will become a non-operating party to this Agreement and the Joint Operating



Agreement as a Contractor Party, and be bound by the terms and conditions of this Agreement and the Joint Operating Agreement as such.

- 19.1.6 In the event of such an assignment to a Public Company, for the purposes of the proposed Article 39 of the Kurdistan Petroleum Law, as published on the Government's website in October 2006 (or any analogous Article in the Kurdistan Petroleum Law as actually enacted), the Government Interest so assigned shall deemed to be held by the Government and in accordance with the principle in Section 19.2 of this Agreement. 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 Parties) to Contractor for its obligations, duties and liabilities under this Agreement as a Contractor Party and the provisions of Section 19.1.7 shall apply.
- 19.1.7 Any failure by the Government or a Public Company or its assignee under Section 19.1.9 or both to perform any of its or their obligations or to satisfy any of its or their duties or liabilities under this Agreement as a Contractor Party shall not be considered as a default of the other Contractor Parties and shall in no case be invoked by the Government to terminate this Agreement.
- 19.1.8 The capacity of the Government or a Public Company or both as a Contractor Party, as it may arise pursuant to the provisions of this Agreement, shall in no event cancel or affect the rights of the other Contractor Parties to seek to settle a dispute or to refer such dispute to arbitration or expert determination in accordance with the provisions of Article 15.
- 19.1.9 The Government or a Public Company or both 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 Section 19.1.12 (and for the avoidance of doubt the provisions of Sections 21.1 and 21.2 shall not apply). The Government will ensure that any such third party has the financial ability to perform the obligations to be assumed by it under this Agreement. Any such third party shall execute an instrument, in form and substance similar to the Novation Agreement, confirming that, as to the interest assigned to it, such third party accepts and assumes all of the terms and conditions of this Agreement and the Joint Operating Agreement.

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 19, the provisions of Section 21.1 shall apply to any subsequent assignment of such interest.

- 19.1.10 If the Public Company or third party assignee of the Government Interest is in default of its obligations under the Joint Operating Agreement:
- 19.1.10.1 the Government shall be entitled to remedy any such default within thirty (30) days after notice to the Government by a non-defaulting party; and
- 19.1.10.2 before any other party to the Joint Operating Agreement is permitted to exercise a buy-out right or option of the Government Interest that is

triggered by the default, the Government shall have a prior right to exercise such buy-out right or option for a period of thirty (30) days after notice to the Government by a non-defaulting party,

and the Joint Operating Agreement will contain provisions confirming such rights.

- 19.1.11 If the Public Company or third party assignee of the Government Interest is not wholly or partially owned, directly or indirectly, by the Government, then such Public Company or third party assignee must provide assurance that its designation as Contractor Party in this Agreement has not involved any breach of the provisions of Article 1 of the 1999 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and the United States of America's *Foreign Corrupt Practices Act*, and the Government shall provide Contractor with full assurances of such compliance.
- 19.1.12 Upon exercise of the Option to Participate, the Government shall become a party to the Joint Operating Agreement, and it shall execute an instrument indicating its acceptance and assumption of the terms and conditions of the Joint Operating Agreement.
- 19.1.13 For the avoidance of doubt, there shall be no right of assignment in respect of the Option to Participate.

## 19.2 Several Obligations

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

## ARTICLE 20 FORCE MAJEURE

### 20.1 Force Majeure Relief

- 20.1.1 Subject to the further provisions of this Article 20, a party shall not be liable for any failure to perform an obligation under this Agreement to the extent such performance is prevented, hindered or delayed by events or circumstances which are beyond its reasonable control and the effects of which could not and cannot reasonably be avoided or overcome by it ("Force Majeure").
- 20.1.2 The following shall be considered to be Force Majeure:
- 20.1.2.1 occurrence of events of terrorism that reduce security to a level where Petroleum Operations cannot be conducted without undue risk to the life, health and property, or where services become unavailable owing to such lack of security; and
- 20.1.2.2 in the case of Contractor, the law, or any action or inaction of the Government including, without limitation, the Federal Government, or any government agency in the Federal Region of Kurdistan or the Republic of

Iraq (or of a political subdivision thereof) which substantially prevents or hinders Contractor's ability to conduct Petroleum Operations.

20.1.3 Notwithstanding Section 20.1.1, the following shall not be Force Majeure:

- 20.1.3.1 failure to pay money;
- 20.1.3.2 in the case of Contractor, the law, or any action or inaction of the government, of a place other than the Federal Region of Kurdistan or the Republic of Iraq (or of a political subdivision thereof); and
- 20.1.3.3 in the case of the Government, the law, or any action or inaction of the Government, or any governmental agency in the Federal Region of Kurdistan or the Republic of Iraq.

## 20.2 Procedure

A party claiming Force Majeure shall:

- 20.2.1 notify the other party as soon as reasonably practicable of the event or circumstance concerned, and of the extent to which performance of its obligations is prevented, hindered or delayed thereby;
- 20.2.2 keep the other party fully informed as to the actions taken, or to be taken, by it to overcome the effects thereof, and, from time to time, provide it with such information and permit it such access, as it may reasonably require for the purpose of assessing such effects and the actions taken or to be taken; and
- 20.2.3 resume performance of its obligations as soon as reasonably practicable after the event or circumstance no longer exists.

## 20.3 Consultation

The parties shall consult with each other and take all reasonable steps to minimise the losses of either party and to minimise any overall delay or prejudice to Petroleum Operations as a result of Force Majeure.

## 20.4 Third Parties

Where a party enters into an agreement in relation to this Agreement with a third party, a failure by the third party to perform an obligation under that agreement shall be Force Majeure affecting that party only if performance of that obligation was prevented, hindered or delayed by events or circumstances which (if the third party were party to this Agreement in the capacity of the party concerned) would (in accordance with the provisions of this Article 20) be Force Majeure affecting it.

## 20.5 Extension of Time

If Force Majeure materially prevents, hinders or delays Petroleum Operations, the time period for the performance of obligations by a party shall be extended by a period equal to the duration of the Force Majeure condition. If Force Majeure materially prevents, hinders or delays Petroleum Operations for more than three (3) consecutive months, the parties shall

discuss, in good faith, amendments regarding the term of, and the periods of time in which Petroleum Operations (including the duration of each period of the Exploration Phase) are to be carried out under, this Agreement.

## ARTICLE 21 RESTRICTIONS ON ASSIGNMENT

### 21.1 Assignment by Contractor

- 21.1.1 Except with the consent of the Government, which consent shall not be unreasonably withheld or delayed, or as permitted by this Section 21.1, no assignment or other dealing by Contractor in respect of this Agreement shall be of any force or effect.
- 21.1.2 Upon notice to the Government, Contractor shall be permitted to assign its rights under this Agreement to a wholly-owned subsidiary that has been incorporated for the purpose of holding this Agreement. Any such assignment shall not relieve Contractor from its obligations under this Agreement, without the written approval of the Government.
- 21.1.3 Contractor may assign all or part of its rights, obligations and interests arising from this Agreement to a third party provided that the third party:
- 21.1.3.1 has the technical and financial ability to perform the obligations to be assumed by it under this Agreement; and
  - 21.1.3.2 as to the interest assigned to it, accepts and assumes all of the terms and conditions of this Agreement.
- 21.1.4 Any such assignment shall be subject to the prior written consent of the Government, which consent shall not be unreasonably withheld or delayed. By way of clarification, and not in limitation of the foregoing provisions of this Section 21.1.3, the Government shall not be considered to be acting unreasonably in declining to consent to any such assignment if the assignment to such proposed assignee is deemed contrary to the Government's interests, as evidenced in writing to that effect signed by the representative of the Government.
- 21.1.5 Section 21.1.1 does not apply to an agreement for the sale of Crude Oil under which the price therefor is payable (or such Crude Oil is exchanged for other Petroleum) after title thereto has passed to Contractor.
- 21.1.6 Section 21.1.1 does not apply to any encumbrance granted by Contractor. For the purposes of the foregoing, encumbrance includes any mortgage, charge, pledge, lien, assignment by way of security, title retention, option, right to acquire, right of pre-emption, right of set off, counterclaim, trust arrangement, overriding royalty, net profits interest, or any other security, preferential right, equity or restriction, any agreement to give or to create any of the foregoing and any transaction which, in legal terms, is not a secured borrowing but which has an economic or financial effect similar to that of a secured borrowing.

## 21.2 Assignment by Government

- 21.2.1 Except with the consent of Contractor, which consent shall not be unreasonably withheld or delayed, or as permitted by this Section 21.2, the Government shall not assign any interest in this Agreement or the Contract Area.
- 21.2.2 Section 21.2.1 does not apply to an agreement for the sale of Crude Oil under which the price therefor is payable (or such Crude Oil is exchanged for other Petroleum) after title thereto has passed to the Government.

## ARTICLE 22 OTHER PROVISIONS

### 22.1 Notice of Default

Upon any breach or failure to perform any obligation of this Agreement by a party, the other party must give written notice of the breach or failure in writing and within thirty (30) days from the date that the party became aware of the occurrence of the breach or failure, together with a direction to remedy the breach or cause the obligation to be performed, otherwise the violating party shall bear legal responsibility for the breach or failure according to the provisions of this Agreement and Applicable Law.

### 22.2 Notices

All notices, demands, instructions, waivers, consents or other communications to be provided pursuant to this Agreement shall be in writing in English, shall be effective upon receipt, and shall be sent by receipted hand delivery or, by email (followed by delivery by reputable international air courier company with an establishment in Erbil in the Federal Region of Kurdistan), to the following addresses:

If to Contractor, to:                   WesternZagros Limited  
Suite 2400, 440 Second Avenue SW  
Calgary, Alberta  
Canada T2P 5E9

Email:                   westernzagros@westernoilsands.com

If to the Government, to:           His Excellency the Minister of Natural Resources  
Ministry of Natural Resources  
Kurdistan Regional Government  
Erbil, Kurdistan  
Federal Region of Kurdistan  
Republic of Iraq

Email:                   \_\_\_\_\_

A notice delivered by email (followed by air courier) shall, save for manifest error, be deemed to have been delivered upon its transmission by email.

The addresses and email addresses for notices given pursuant to this Agreement may be changed by means of a notice given to all parties at least fifteen Business Days prior to the effective date of such change.

### 22.3 Original EPSA

- 22.3.1 With effect from the Effective Date, the terms and conditions of the Original EPSA shall be superseded in all respects by the terms and conditions of this Agreement and shall cease to be binding on the parties thereto, all obligations and liabilities of any kind included in the Original EPSA, having been replaced by the terms and conditions of this Agreement.
- 22.3.2 Contractor hereby unconditionally and irrevocably releases and discharges the Government fully and completely of and from any and all actions, causes of actions, suits, charges, complaints, claims, counterclaims, liabilities, obligations, losses, damages, judgments, costs, interest and expenses (including, without limitation, attorneys, fees and costs on an attorney and his own client basis) and all other liabilities or demands of any nature whatsoever, whether known or unknown, at law, in equity, which Contractor or its successors or assigns ever had, now has, or hereafter may have against the Government, arising from or in any way connected or related to any claim that Contractor has rights to conduct Petroleum Operations outside of the Contract Area by virtue of any commitment made by the Government prior to the Effective Date.
- 22.3.3 The Government hereby unconditionally and irrevocably releases and discharges Contractor fully and completely of and from any and all actions, causes of actions, suits, charges, complaints, claims, counterclaims, liabilities, obligations, losses, damages, judgments, costs, interest and expenses (including, without limitation, attorneys, fees and costs on an attorney and his own client basis) and all other liabilities or demands of any nature whatsoever, whether known or unknown, at law, in equity, which Contractor or its successors or assigns ever had, now has, or hereafter may have against Contractor, arising from or in any way connected or related to the performance of the Original EPSA (collectively the "Government Claims"), provided however that the acts or conduct giving rise to any Government Claim exist at the date of execution of this Agreement.
- 22.3.4 Contractor has no liability for any environmental or reclamation obligations for Petroleum Operations conducted in respect of those lands that were removed from the Contract Area at the time of the Amending Agreement.

### 22.4 Language

This Agreement has been written in the English language. An unofficial translation of this Agreement in the Arabic language will be provided by Contractor to the Government within sixty (60) days of the date of signature of this Agreement. In case of a conflict between the provisions or interpretation of the English text of this Agreement and the Arabic translation, the English text shall prevail.

### 22.5 **Enurement and Third Party Rights**

This Agreement shall be binding upon and enure to the benefit of the parties and their respective successors and permitted assigns. Unless specifically provided in this Agreement (including in Section 20.4), the parties do not intend that any term of this Agreement be enforceable by any Person who is not a party to this Agreement.

### 22.6 **Amendments/Modification**

This Agreement shall not be amended or modified in any respect, except pursuant to a written agreement executed by the officials or representatives authorized by each party.

### 22.7 **OECD Convention**

The Government acknowledges that Contractor is legally obliged by legislation in its home country to comply with the 1999 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and the Canadian Corruption of Foreign Public Officials Act (Canada).

### 22.8 **Severability**

If any provision of this Agreement is held to be invalid, illegal or unenforceable, the invalidity, illegality or unenforceability will not affect any other provision of this Agreement and this Agreement will be construed as if the invalid, illegal or unenforceable provision had never been contained herein unless the deletion of the provision would result in such material change to cause the completion of the transactions herein to be unreasonable.

### 22.9 **Entire Agreement**

This Agreement, including the Annexes, together with documents to be delivered at the time of execution of this Agreement, constitute the entire agreement between the parties pertaining to the subject matter hereof and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties. There are no warranties, representations or other agreements between the parties in connection with the subject matter hereof except as specifically set forth in this Agreement and in any document delivered at the time of execution of this Agreement or contemplated and required pursuant to Section 2.2.

### 22.10 **Relationship of Parties**

This Agreement shall not be deemed or construed to authorize any party to act as an agent, servant or employee for any other party for any purpose whatsoever. The parties acknowledge that they do not have the right or authority or jurisdiction to enter into contracts or obligations on behalf of the other party.

22.11 Further Assurances

The parties shall execute, acknowledge and deliver such other instruments and take or refrain from taking such other action as may be reasonably required to more fully assure the performance of the provisions of this Agreement and otherwise assure the carrying out of the intent and purpose of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement in Erbil, the Federal Region of Kurdistan, and each party has delivered and received three fully executed copies.

KURDISTAN REGIONAL GOVERNMENT



BY: Dr. Ashti A. Hawrami  
Minister of Natural Resources  
Kurdistan Regional Government  
The Federal Region of Kurdistan

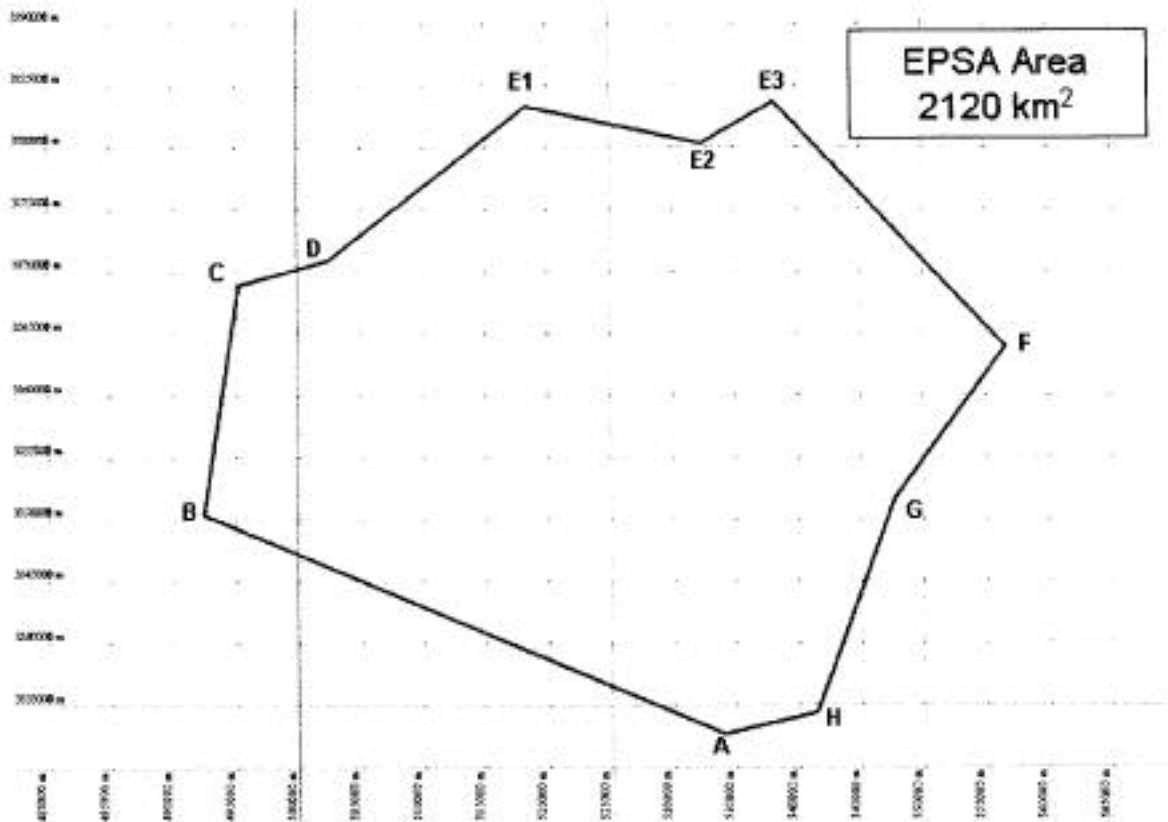
WESTERNZAGROS LIMITED

BY: M. S. Hatfield.  
Its Attorney, M. Simon Hatfield

J. Jay Park  
Witness: J. Jay Park



## Annex A: Contract Area



Boundary of Western  
Zagros EPSA  
Projection: UTM , Zone:  
38N , Datum: WGS84

Point	Easting	Northing	Point	Longitude	Latitude
A	534031.75	3832686.29	A	45.37130	34.63651
B	492441.35	3850381.01	B	44.91737	34.79561
C	495219.19	3868916.11	C	44.94763	34.96277
D	502353.68	3870875.46	D	45.02579	34.98045
E1	518326.91	3883273.04	E1	45.20106	35.09208
E2	532347.44	3880312.81	E2	45.36477	35.06504
E3	538210.27	3883689.15	E3	45.41922	35.09528
F	556544.53	3863905.79	F	45.61902	34.91603
G	547673.04	3851704.89	G	45.52121	34.80647
H	541352.78	3834401.17	H	45.45126	34.65070

**Annex B –**

**ACCOUNTING PROCEDURE**

**CLAUSE 1  
GENERAL PROVISIONS**

**1.1 Purpose and Definitions**

- 1.1.1 The purpose of this Annex B is to further define the manner in which the costs and expenses of Petroleum Operations will be recorded, Recoverable Costs will be determined, and Contractor's books and accounts will be prepared and maintained, and ancillary matters.
- 1.1.2 A reference to a Clause is to a clause of this Annex B unless the contrary is stated.
- 1.1.3 A reference to an Article or Section is to an article or section of the Agreement to which this Annex B is attached.

**1.2 Accounting Records**

Contractor shall maintain complete accounts, books and records (the "Accounting Records"), on an accrual basis, of all costs, expenses and revenues of, or relating to, Petroleum Operations, and the sale or other disposition of Petroleum, on an accurate basis and in accordance with generally accepted accounting principles and standards of the international petroleum industry.

**1.3 Language and Units of Account**

- 1.3.1 The International System of Units (metric units), barrels and standard cubic feet (scf) shall be employed for measurements and quantities under this Agreement.
- 1.3.2 The Accounting Records, and all reports to the Government, will be in English.
- 1.3.3 Contractor shall maintain its Accounting Records in US\$. Amounts received or paid in other currencies shall be converted into US\$ on the basis of the average of the buying and the selling exchange rates for the applicable currency published by Citibank NA and prevailing on the date on which such amounts were received or paid.
- 1.3.4 It is the intent of the parties that neither the Government nor Contractor should experience an exchange gain or loss at the expense of, or to the benefit of, the other. Therefore, exchange gains or losses will be credited or charged to the Accounting Records.

KS

→

**CLAUSE 2  
CLASSIFICATION AND ALLOCATION**

**2.1 Exploration Costs**

"Exploration Costs" are those costs, whether of a capital or operating nature, incurred after Memorandum of Understanding between Contractor and the Government dated November 24, 2004 which directly relate to Exploration and are incurred in respect of activities carried out substantially in accordance with an approved Exploration Work Program and Budget and in accordance with Good Oil Field Practice, but without prejudice to Section 4.12 of the Agreement, including costs of:

- 2.1.1 drilling wells, including water wells, and related abandonment and site remediation thereof;
- 2.1.2 surveys, including labour, materials and services (including desk studies and analysis of survey data) used in aerial, topographic, geological, geochemical, geophysical and seismic surveys, purchased survey and other geoscience data (including remote sensing), and core hole drilling;
- 2.1.3 permanent, auxiliary or temporary facilities, including camps, camp support costs, access roads and bridges and other related infrastructure;
- 2.1.4 workshops, power and water facilities, warehouses, site offices, access and communication facilities;
- 2.1.5 security personnel, equipment and services, including detection, removal and disposal of unexploded ordnance and all related environmental, health and safety costs;
- 2.1.6 floating craft, automotive equipment, furniture and office equipment;
- 2.1.7 work conducted pursuant to Section 4.12 of the Agreement in connection with Exploration activities;
- 2.1.8 the environmental baseline study referred to in Section 14.1 of the Agreement; and
- 2.1.9 if approved by the Government, employee housing, recreational, educational, health and meals facilities, and other similar costs necessary for Exploration.

**2.2 Appraisal Costs**

"Appraisal Costs" are those Exploration Costs that directly relate to Appraisal.

## 2.3 Development Costs

"Development Costs" are:

- 2.3.1 in respect of a Development Area, and before the start of Commercial Production from it, those costs, whether of a capital or operating nature, which directly relate to the Exploration, Appraisal or Development of it; and
- 2.3.2 in respect of a Development Area, and after the start of Commercial Production from it, those costs of a capital nature which directly relate to the Development of it (including conduct or acquisition of seismic surveys), or to the production of Petroleum from it;

and are incurred in respect of activities carried out substantially in accordance with an approved Work Program and Budget and in accordance with Good Oil Field Practice, or are incurred pursuant to Section 4.12 of the Agreement, including costs of:

- 2.3.3 workshops, power and water facilities, warehouses, site offices, access and communication facilities;
- 2.3.4 security personnel, equipment and services, including detection, removal and disposal of unexploded ordnance and all related environmental, health and safety costs;
- 2.3.5 production facilities, wellhead production tubing, sucker rods, surface pumps, flow lines, gathering equipment, storage facilities, all other equipment, treating plants and equipment, secondary recovery systems;
- 2.3.6 permanent, auxiliary or temporary facilities, including camps, camp support costs, access roads and bridges and other related infrastructure;
- 2.3.7 pipelines and other facilities for transporting Petroleum produced in the Contract Area to the Field Export Point;
- 2.3.8 pipelines and other facilities exclusively used for transporting Petroleum produced in the Contract Area beyond the Field Export Point;
- 2.3.9 pipelines and other facilities for transporting Petroleum produced in the Contract Area and other fields beyond the Field Export Point, provided that the costs of such pipelines and other facilities shall be equitably allocated on a facility usage basis between the Contract Area and the other fields;
- 2.3.10 movable assets and subsurface drilling and production tools, equipment and instruments, and miscellaneous equipment;
- 2.3.11 floating craft, automotive equipment, furniture and office equipment; and
- 2.3.12 if approved by the Government, employee and welfare housing, recreational, educational, health and meal facilities, and other similar costs necessary for the Development.

## 2.4 Operating Costs

"Operating Costs" are, in respect of a Development Area and after the start of Commercial Production from it, those costs of an operating nature which directly relate to the Development thereof, or to the production of Petroleum therefrom, and are incurred in respect of activities carried out substantially in accordance with an approved Development Work Program and Budget, and any costs incurred pursuant to Section 4.12 of the Agreement. Operating Costs shall also include:

- 2.4.1 the decommissioning cost reserve as described in Clause 3.15 of this Accounting Procedure;
- 2.4.2 pipeline tariffs, export terminal charges and charges for similar facilities, whether upstream or downstream of the Field Export Point; but where Contractor owns such pipelines and export terminals and similar downstream facilities, the capital and operating costs of such facilities shall be included in Development Costs and Operating Costs, respectively, under this Agreement; and
- 2.4.3 security personnel, equipment and services, including detection, removal and disposal of unexploded ordnance in the Contract Area or near the area of Petroleum Operations and required in order to permit Petroleum Operations to be conducted safely, in Contractor's opinion, and all related environmental, health and safety costs.

## 2.5 General and Administrative Costs

"General and Administrative Costs" are all main office, field office and general administrative expenditures incurred after signature of this Agreement related to Petroleum Operations, including supervisory, accounting and employee relations services, that cannot be directly charged under any other section of this Accounting Procedure, determined as the sum of the following.

- 2.5.1 *Exploration Overhead* - Contractor shall be entitled to an annual charge to Exploration Costs based on ten (10%) percent of the total of Exploration Costs, including Appraisal Costs, during each Contract Year or fraction thereof;
- 2.5.2 *Development Overhead* - Contractor shall be entitled to an annual charge to Development Costs based on ten (10%) percent of the total of Development Costs during each Contract Year or fraction thereof; and
- 2.5.3 *Operating Overhead* - Contractor shall be entitled to an annual charge to Operating Costs based on ten (10%) percent of the total of Operating Costs during each Contract Year or fraction thereof.

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

Contractor's costs must be charged as direct charges whenever possible. General and administrative costs compensate Contractor's Affiliates for costs which are properly allocable to

Petroleum Operations under the Agreement but which cannot, without unreasonable effort and/or release of confidential data proprietary to Contractor's Affiliates, be charged under any other section. General and administrative costs will be billed monthly. General and administrative costs are not subject to audit by Government. Contractor must budget for general and administrative costs.

All General and Administrative Costs shall be regularly allocated to Exploration Costs, Development Costs and Operating Costs in accordance with Clauses 2.5.1, 2.5.2 and 2.5.3 above, respectively.

## **2.6 Miscellaneous Receipts**

"Miscellaneous Receipts" are:

- 2.6.1 all monies received by Contractor, other than for the sale or other disposal of Petroleum from a Development Area, which are directly related to the conduct of Petroleum Operations, including:
  - 2.6.1.1 amounts received from the sale or other disposal of Petroleum from production testing activities undertaken in Exploration and Appraisal wells;
  - 2.6.1.2 amounts received for the disposal, loss, or destruction of property, the cost of which is a Recoverable Cost;
  - 2.6.1.3 amounts received by Contractor under an insurance policy, the premiums of which are Recoverable Costs, in respect of damage to or loss of property;
  - 2.6.1.4 amounts received as insurance (the premiums of which are Recoverable Costs), compensation or indemnity in respect of Petroleum lost or destroyed prior to the Field Export Point;
  - 2.6.1.5 amounts received from the hiring or leasing of property, the cost of which is a Recoverable Cost;
  - 2.6.1.6 amounts received from supplying information obtained from Petroleum Operations;
  - 2.6.1.7 amounts received as charges for the use of employee amenities, the costs of which are Recoverable Costs; and
  - 2.6.1.8 amounts received in respect of expenditures which are Recoverable Costs, by way of indemnity or compensation for the incurring of the expenditure, refund of the expenditure, or rebate, discount or commission in respect of the expenditure; and
- 2.6.2 the value of property, the cost of which is a Recoverable Cost, when that property ceases to be used in Petroleum Operations.

## 2.7 Ineligible Costs

"Ineligible Costs" are:

- 2.7.1 interest (or any payment in the nature of, in lieu of, or having the commercial effect of, interest) or other cost under, or in respect of, a Loan Facility, except for the financing costs referred to in Section 12.7;
- 2.7.2 currency hedging costs;
- 2.7.3 costs relating to formation of corporations or of any partnerships or joint venture arrangements, other than in respect of a unitisation;
- 2.7.4 payments of dividends or the cost of issuing shares;
- 2.7.5 repayments of equity or loan capital;
- 2.7.6 payments of private overriding royalties, net profits interests and the like;
- 2.7.7 depreciation and amortization;
- 2.7.8 Royalty;
- 2.7.9 costs incurred as a result of non-compliance by Contractor with Good Oil Field Practice, including costs incurred as a result of any negligent act or omission, or wilful misconduct, of Contractor, its agents or sub-contractors, including any amount paid in settlement of any claim alleging negligence or wilful misconduct, whether or not negligence or misconduct is admitted or whether such sum is stated to be paid on an ex-gratia or similar basis;
- 2.7.10 payment of compensation or damages under this Agreement, except to the extent such compensation or damages relate to an award or allocation made in favour of Contractor in the resolution of a Dispute;
- 2.7.11 costs relating to the settlement of disputes, which are not approved in advance by the Government, including all costs and expenses of arbitration or litigation proceedings under this Agreement;
- 2.7.12 decommissioning costs actually incurred which have been taken into account for the purposes of determining the decommissioning costs reserve;
- 2.7.13 decommissioning costs actually incurred which have not been taken into account for the purposes of determining the decommissioning costs reserve;
- 2.7.14 payments under Section 9.3 of this Agreement;
- 2.7.15 audit fees and accounting fees (excluding fees and expenses incurred for the conduct of audit and accounting services required by this Agreement) incurred pursuant to the auditing and accounting requirements of any law and all costs and expenses incurred in

connection with intra-group corporate reporting requirements (whether or not required by law);

- 2.7.16 except with the consent of the Government, costs, including donations, relating to public relations or enhancement of the party's corporate image and interests;
- 2.7.17 costs which are not adequately supported and documented;
- 2.7.18 except with the consent of the Government, costs of activities not included in the Work Program and Budget for the relevant year; provided that costs incurred as described in Sections 12.5 and 12.6 shall not be Ineligible Costs;
- 2.7.19 costs incurred before signature of this Agreement, except for those described in Sections 12.5 and 12.6; and
- 2.7.20 costs not falling within any of the above items which are stated elsewhere in this Agreement not to be recoverable, or costs incurred without the consent or approval of the Government where such is required.

## **2.8 Other Matters**

- 2.8.1 The methods mentioned in this Clause 2.8 will be used to calculate Recoverable Costs.
- 2.8.2 Inventory levels shall be in accordance with Good Oil Field Practice. The value of inventory items not used in Petroleum Operations, or sold, the cost of which has been recovered as an Operating Cost, shall be treated as Miscellaneous Receipts. The cost of an item purchased for inventory shall be a Recoverable Cost at such time as the item is incorporated in the inventory in the Federal Region of Kurdistan.
- 2.8.3 Where the cost of anything, or a receipt (or value) in respect of anything, relates only partially to the carrying out of Petroleum Operations, only that portion of the cost or the receipt (or value) which relates to the carrying out of Petroleum Operations will be a Recoverable Cost or assessed as a Miscellaneous Receipt. Where any cost or related receipt (or value) relates to more than one of Exploration Costs, Appraisal Costs, Development Costs and Operating Costs, or to more than one Development Area, the cost or related receipt (or value) will be apportioned in an equitable manner.

## **CLAUSE 3 COSTS, EXPENSES AND CREDITS**

Subject as otherwise provided in this Agreement, the following costs, charges and credits shall be included in the determination of Recoverable Costs.

### **3.1 Surface Rights**

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



### 3.2 Labour and Associated Labour Costs

- 3.2.1 Costs of Contractor's locally recruited employees based in the Territory. Such costs shall include the costs of employee benefits and state benefits for employees and levies imposed on Contractor as an employer, transportation and relocation costs within the Territory of the employee and such members of the employee's family (limited to spouse and dependent children) as required by law or customary practice therein. If such employees are also engaged in other activities, the cost of such employees shall be apportioned on a time sheet basis according to sound and generally acceptable accounting principles.
- 3.2.2 Costs of salaries and wages including bonuses of Contractor's employees and Secondees directly and necessarily engaged in the conduct of the Petroleum Operations, whether temporarily or permanently assigned, irrespective of the location of such employees, it being understood that in the case of those personnel only a portion of whose time is wholly dedicated to Petroleum Operations under the Agreement, only that pro-rata portion of applicable salaries, wages, and other costs as delineated in Clauses 3.2.3, 3.2.4, 3.2.5, 3.2.6 and 3.2.7 shall be charged and the basis of such pro-rata allocation shall be specified.
- 3.2.3 Contractor's costs regarding holiday, vacation, sickness and disability benefits and living and housing and other customary allowances applicable to the salaries and wages chargeable under Clause 3.2.2.
- 3.2.4 Expenses or contributions made pursuant to assessments or obligations imposed under Applicable Law which are applicable to Contractor's cost of salaries and wages chargeable under Clause 3.2.2.
- 3.2.5 Contractor's cost of established plans for employees' group life insurance, hospitalisation, pension, stock purchases, savings, bonus and other benefit plans of alike nature customarily granted to Contractor's employees, provided however that such costs are in accordance with generally accepted standards in the international petroleum industry, applicable to salaries and wages chargeable to Petroleum Operations under Clause 3.2.2.
- 3.2.6 Reasonable housing, transportation, travel and other support expenses of employees of Contractor, including those made for housing, travel, relocation, schooling and security of the expatriate employees and their families and personal effects, assigned to the Territory whose salaries and wages are chargeable to Petroleum Operations under Clause 3.2.2.

Actual transportation expenses of expatriate personnel transferred to Petroleum Operations from their country of origin shall be charged to the Petroleum Operations. Transportation expenses of personnel transferred from Petroleum Operations to a country other than the country of their origin shall not be charged to the Petroleum Operations. Transportation cost as used in this section shall mean the cost of freight and passenger service, meals, hotels, insurance and other expenditures related to vacation and transfer travel and authorised under Contractor's standard personnel policies. Contractor shall

ensure that all expenditures related to transportation costs are equitably allocated to the activities which have benefited from the personnel concerned.

- 3.2.7 Reasonable personal expenses of personnel whose salaries and wages are chargeable to Petroleum Operations under Clause 3.2.2 and for which expenses such personnel reimbursed under Contractor's standard personnel policies. In the event such expenses are not wholly attributable to Petroleum Operations, the Petroleum Operations shall be charged with only the applicable portion thereof, which shall be determined on an equitable basis.

### **3.3 Transportation and Employee Relocation Costs**

The cost of transportation of employees, equipment, materials and supplies other than as provided in Clause 3.2 necessary for the conduct of the Petroleum Operations along with other related costs, including import duties, customs fees, unloading charges, dock fees, and inland and ocean freight charges.

### **3.4 Charges for Services**

For purposes of this Clause 3.4, Affiliates which are not wholly owned by Contractor or Contractor's ultimate holding company shall be considered third parties.

#### *3.4.1 Third parties*

The actual costs of contract services, services of professional consultants, utilities, and other services necessary for the conduct of the Petroleum Operations performed by third parties other than an Affiliate of Contractor.

#### *3.4.2 Affiliates of Contractor*

- 3.4.2.1 Professional and Administrative Services Expenses: cost of professional and administrative services provided by any Affiliates of Contractor for the direct benefit of Petroleum Operations, including services provided by the production, exploration, legal, financial, insurance, accounting and computer services, divisions other than those covered by Clause 3.4.2.2 or Clause 3.6 or 3.8.2 which Contractor may use in lieu of having its own employees. Charges shall reflect the cost of providing their services and shall not include any element of profit and shall be no less favourable than similar charges for other operations carried on by Contractor and its Affiliates. The charge-out rate shall include all costs incidental to the employment of such personnel. Where the work is performed outside the home office base of such personnel, the daily rate shall be charged from the date such personnel leave the home office base where they usually work up to their return thereto, including days which are not working days in the location where the work is performed, excluding any holiday entitlements derived by such personnel from their employment at their home office base.

- 3.4.2.2 Scientific or Technical Personnel: cost of scientific or technical personnel services provided by any Affiliate of Contractor for the direct benefit of Petroleum Operations, which cost shall be charged on a cost of service basis and shall not include any element of profit. Unless the work to be done by such personnel is covered by an approved Work Program and Budget, Contractor shall not authorise work by such personnel.
- 3.4.2.3 Equipment and Facilities: use of equipment and facilities owned and furnished by Contractor's Affiliates, at rates commensurate with the cost of ownership and operation; provided, however, that such rates shall not exceed those currently prevailing for the supply of like equipment and facilities on comparable terms in the area where the Petroleum Operations are being conducted. The equipment and facilities referred to herein shall exclude major investment items such as (but not limited to) drilling rigs, producing platforms, oil treating facilities, oil and gas loading and transportation systems, storage and terminal facilities and other major facilities, rates for which shall be subject to separate agreement with the Government.

### **3.5 Communications**

Costs of acquiring, leasing, installing, operating, repairing and maintaining communication systems including radio and microwave facilities between the Contract Area, Contractor's base facility in the Territory and Contractor's head office in Iraq and in its corporate parent's home country.

### **3.6 Office, Storage and Miscellaneous Facilities**

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

### **3.7 Ecological and Environment**

- 3.7.1 Costs incurred in the Contract Area as a result of legislation for archaeological and geophysical surveys relating to identification and protection of cultural sites or resources.
- 3.7.2 Costs incurred in environmental or ecological surveys required by this Agreement or regulatory authorities.
- 3.7.3 Costs to provide or have available pollution containment and removal equipment.
- 3.7.4 Costs of actual control and cleanup of oil spills, and of such further responsibilities resulting therefrom as may be required by Applicable Law.
- 3.7.5 Costs of restoration of the operating environment.

### 3.8 Material Costs

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

- 3.8.1 Components of costs, arm's length transactions - except as otherwise provided in Clause 3.8.3, material purchased by Contractor in arm's length transactions in the open market for use in the Petroleum Operations shall be valued to include invoice price less trade and cash discounts, purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes customs duties, consular fees, excise taxes, other items chargeable against imported materials and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site. Where an Affiliate of Contractor has arranged the purchase, coordinated the forwarding and expediting effort, a fee equal to four (4) percent of the value of the materials may be added to the cost of the materials purchased.
- 3.8.2 Accounting - such material costs shall be charged to the Accounting Records and books in accordance generally accepted accounting principles.
- 3.8.3 Material purchased from or sold to Affiliates of Contractor or transferred from other activities of Contractor to or from Petroleum Operations shall be valued and charged or credited at the prices specified in Clauses 3.8.3.1, 3.8.3.2 and 3.8.3.3.
- 3.8.3.1 New material, including used new material moved from inventory (Condition "A"), shall be valued at the current international net price which shall not exceed the price prevailing in normal arm's length transactions in the open market.
- 3.8.3.2 Used material (Conditions "B", "C" and "D"):
- 3.8.3.2.1 Material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new material defined in Clause 3.8.3.1;
- 3.8.3.2.2 Material which cannot be classified as Condition "B", but which after reconditioning will be further serviceable for its original function, shall be classified as Condition "C" and priced at not more than fifty per cent (50%) of the current price of new material as defined in Clause 3.8.3.1; the cost of reconditioning shall be charged to the reconditioned material provided that the value of Condition "C" material plus the cost of reconditioning does not exceed the value of Condition "B" material;
- 3.8.3.2.3 Material which cannot be classified as Condition "B" or Condition "C" shall be classified as Condition "D" and priced at a value

commensurate with its use by Contractor. If material is not fit for use by Contractor it shall be disposed of as junk.

- 3.8.3.3 Material involving erection costs shall be charged at the applicable condition percentage of the current knocked-down price of new material as defined in Clause 3.8.3.1.
- 3.8.3.4 When the use of material is temporary and its service to the Petroleum Operations does not justify the reduction in price as provided for in Clause 3.8.3.2.2, such material shall be priced on a basis that will result in a net charge to the accounts under this Agreement consistent with the value of the service rendered.
- 3.8.3.5 Premium prices - whenever material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which Contractor has no control, Contractor may charge Petroleum Operations for the required material at Contractor's actual cost incurred in providing such material, in making it suitable for use, and in moving it to the Contract Area; provided notice in writing is furnished to the Government of the proposed charge prior to charging Petroleum Operations for such material and the Government shall have the right to challenge the transaction on audit.
- 3.8.3.6 Warranty of material furnished by Contractor - Contractor does not warrant the material furnished. In case of defective material, credit shall not be passed to Petroleum Operations until adjustment has been received by Contractor from the manufacturers of the material or their agents.

### **3.9 Rentals, Duties and Other Assessments**

All rentals, levies, charges, fees, contributions and other charges of every kind and nature levied by any Federal Region of Kurdistan or Republic of Iraq governmental authority in connection with the Petroleum Operations and paid directly by Contractor (save where the contrary is expressly provided in this Agreement).

### **3.10 Insurance and Losses**

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

### **3.11 Legal Expenses**

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

perfecting, retention and protection of the Contract Area, and in defending or prosecuting lawsuits involving the Contract Area or any third party claim arising out of the Petroleum Operations, or sums paid in respect of legal services necessary for the protection of the joint interest of the Government and Contractor shall be allowable. Such expenditures shall include, counsel's fees, court costs, costs of investigation, and procurement of evidence and amounts paid in settlement or satisfaction of any such litigation and claims. Where legal services are rendered in such matters by salaried or regularly retained lawyers of Contractor or an Affiliate of Contractor, such compensation shall be included instead under Clause 3.2 or 3.4.2 as applicable.

### **3.12 Claims**

Expenditures made in the settlement or satisfaction of any loss, claim, damage, judgement or other expense arising out of or relating to Petroleum Operations.

### **3.13 Training Costs**

All costs and expenses incurred by Contractor in the training of its employees engaged in Petroleum Operations, and such other training as is required by this Agreement.

### **3.14 General and Administrative Costs**

The costs described in Clause 2.5.

### **3.15 Decommissioning Costs**

Estimates of the monies required for the funding of the decommissioning of the Contract Area shall be charged as Recoverable Costs beginning in the Contract Year following the Contract Year in which Commercial Production first occurs. The amount charged in each Contract Year shall be calculated as follows:

- 3.15.1 The total expected decommissioning costs at the expected date of decommissioning shall first be calculated.
- 3.15.2 There shall be deducted from such total decommissioning costs the provisions for decommissioning costs made, and taken as Recoverable Costs, in all previous Contract Years together with interest on such Recoverable Costs calculated to the approved date of decommissioning at the actual or forecast LIBOR three (3) month rate (whichever is applicable).
- 3.15.3 The residual decommissioning costs, resulting from the calculations under Clauses 3.15.1 and 3.15.2 immediately above, shall then be discounted to the Contract Year in question at the forecast rate for three (3) month LIBOR for each Contract Year remaining until the Contract Year of Decommissioning.
- 3.15.4 The discounted total of residual decommissioning costs shall then be divided by the total number of Contract Years remaining prior to the Contract Year of decommissioning itself, including the Contract Year in question.

3.15.5 The resultant amount shall be the addition to the decommissioning costs reserve for the Contract Year in question.

It is the intention of this provision that the total accumulated provision allowed, including interest calculated to the Contract Year of decommissioning at the rate of three (3) month LIBOR, will equal the total decommissioning costs. If the amount in Clause 3.15.5 immediately above is a negative amount, then such amount shall be treated as a reduction of Recoverable Costs for the Contract Year in question.

### **3.16 Other Expenditures**

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

### **3.17 Terrorism Damage**

The parties agree that, where the field equipment is damaged or destroyed by an act of war or terrorism, and where there was not wilful misconduct by Contractor, the loss of Contractor will be indemnified by considering such loss as Recoverable Cost.

### **3.18 Duplication**

There shall be no duplication of charges and credits.

## **CLAUSE 4 INVENTORIES**

Inventories of property in use in Petroleum Operations shall be taken at reasonable intervals but at least once a year with respect to movable assets and once every three years with respect to immovable assets. When an assignment of rights under this Agreement takes place, Contractor may, at the request of the assignee, take a special inventory provided that the costs of such inventory are borne by the assignee.

## **CLAUSE 5 PRODUCTION STATEMENT**

### **5.1 Production Information**

From the start of production from the Contract Area, Contractor shall submit a monthly statement (the "Production Statement") to the Government showing the following information separately for each producing Development Area and in aggregate for the Contract Area:

- 5.1.1 the quantity of Crude Oil produced and sold or carried in inventory;
- 5.1.2 the quality characteristics of such Crude Oil produced and saved;
- 5.1.3 the quantity of Natural Gas produced and saved;

KS

51

- 5.1.4 the quality characteristics of such Natural Gas produced and saved;
- 5.1.5 the quantities of Crude Oil and Natural Gas used for the purposes of carrying on drilling and production operations and pumping to field storage;
- 5.1.6 the quantities of Crude Oil and Natural Gas unavoidably lost;
- 5.1.7 the quantities of Natural Gas flared and vented;
- 5.1.8 the size of Petroleum stocks held at the beginning of the month in question;
- 5.1.9 the size of Petroleum stocks held at the end of the month in question;
- 5.1.10 the quantities of Natural Gas reinjected into the Reservoirs; and
- 5.1.11 in respect of the Contract Area as a whole, the quantities of Petroleum transferred at the Field Export Point.

All quantities shown in this statement shall be expressed in both volumetric terms (barrels of Crude Oil and cubic meters of Natural Gas) and in weight (metric tonnes).

## **5.2 Submission of Production Statement**

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

## **CLAUSE 6 VALUE OF PRODUCTION AND PRICING STATEMENT**

### **6.1 Value of Production and Pricing Statement Information**

Contractor shall, for the purposes of Article 6 of the Agreement, prepare a "Value of Production and Pricing Statement" providing calculations of the value of Crude Oil and Natural Gas produced and saved during each Quarter. This Value of Production and Pricing Statement shall contain the following information:

- 6.1.1 the quantities and the price payable in respect of sales of Natural Gas and Crude Oil delivered to third parties during the Quarter in question; and
- 6.1.2 the quantities and price payable in respect of sales of Natural Gas and Crude Oil delivered during the Quarter in question, other than to third parties.

### **6.2 Submission of Value of Production and Pricing Statement**

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



**CLAUSE 7  
COST RECOVERY STATEMENT**

**7.1 Quarterly Statement**

Contractor shall prepare with respect to each Quarter a "Cost Recovery Statement" containing the following information:

- 7.1.1 Recoverable Costs carried forward from the previous Quarter;
- 7.1.2 Recoverable Costs for the Quarter in question;
- 7.1.3 Credits under the Agreement for the Quarter in question;
- 7.1.4 Total Recoverable Costs for the Quarter in question (Clauses 7.1.1 plus 7.1.2 less 7.1.3);
- 7.1.5 quantity and value of Contractor's share of Petroleum under Article 6 of the Agreement in the Quarter in question; and
- 7.1.6 amount of Recoverable Costs to be carried forward into the next Quarter (Clause 7.1.4 less Clause 7.1.5).

**7.2 Preparation and Submission of Cost Recovery Statements**

- 7.2.1 Provisional Cost Recovery Statements, containing estimated information where necessary, shall be submitted by Contractor on the last day of each Quarter.
- 7.2.2 Final Quarterly Cost Recovery Statements shall be submitted within thirty (30) days after the end of the Quarter in question.

**7.3 Annual Statement**

An Annual Cost Recovery Statement shall be submitted within ninety (90) days after the end of each Contract Year. The annual statement shall contain the categories of information listed in Section 12.1 for the Contract Year in question, separated into the Quarters of the Contract Year in question, and showing the cumulative positions at the end of the Contract Year in question.

**7.4 Annual Statement**

In calculating the recovery of Recoverable Costs, the following principles shall apply:

- 7.4.1 Costs shall be recovered in the following order:
  - 7.4.1.1 Operating Costs;
  - 7.4.1.2 General and Administrative Costs;
  - 7.4.1.3 Exploration Costs;

- 7.4.1.4 Appraisal Costs;
  - 7.4.1.5 Development Costs; and
  - 7.4.1.6 any other costs and expense not included in the above; and
- 7.4.2 Within each of the above categories, costs shall be recovered on a "first in, first out" basis.

**CLAUSE 8**  
**STATEMENTS OF EXPENDITURE AND RECEIPT**

**8.1 Quarterly Statement**

The Operator shall prepare with respect to each Quarter a Statement of Expenditure and Receipts. The statement will distinguish between Exploration Costs, Appraisal Costs, Development Costs and Operating Costs and will identify major items within these categories. The statement will show the following:

- 8.1.1 actual expenditures and receipts for the Quarter in question;
- 8.1.2 cumulative expenditure and receipts for the Contract Year in question;
- 8.1.3 latest forecast cumulative expenditures at the Contract Year end;
- 8.1.4 variations between budget forecast and latest forecast and explanations thereof.

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

**8.2 Annual Statement**

Contractor shall prepare a final end-of-year statement (the "Final Accounts Statement"). The Statement will contain information as provided in the production statement, Value of Production and Pricing Statement, Cost Recovery Statement and Statement of Expenditure and Receipts, but will be based on actual quantities of Petroleum produced and costs incurred. This Statement will be used to make any adjustments that are necessary to the payments made by Contractor under this Agreement. The Final Accounts Statement of each Contract Year shall be submitted to the Government within ninety (90) days of the end of such Contract Year. Contractor will assist in providing information so as to permit the Government to prepare reports on the results of activities and the financial status of the project at the end of each Calendar Year.

## Annex C

### Part A

#### SAMPLE TABLES AND EXAMPLES OF ROYALTY OIL, COST RECOVERY OIL, AND PROFIT OIL

In the following sample tables and examples of Royalty Oil, Cost Recovery Oil and Profit Oil calculations for a month, the following facts are assumed:

Factor	Value
Production rate of Crude Oil in the month	10,000 bbl/day
Crude Oil utilized in Petroleum Operations, re-injected, lost, flared or that cannot be used or sold ("Crude Oil Utilized") in the month	500 bbl/day
Weighted Average Value of Crude Oil at Field Export Point in the month	US\$50/bbl
Recoverable Costs incurred in the month and unrecovered costs from previous months ("Unrecovered Recoverable Costs"), CASE 1	US\$6,000,000
Recoverable Costs incurred in the month and unrecovered costs from previous months ("Unrecovered Recoverable Costs"), CASE 2	US\$3,000,000
Cumulative Revenues up to the end of the most recent Semester	US\$250,000,000
Cumulative Costs up to the end of the most recent Semester	US\$150,000,000

In order to demonstrate some of the details of the Cost Recovery Oil and Profit Oil calculations, two cases are assumed: Case One assumes that Unrecovered Recoverable Costs are US\$6,000,000, and Case Two assumes that Unrecovered Recoverable Costs are US\$3,000,000. For the purposes of calculating the Royalty, there is no difference between the two cases.

#### a) Royalty

Total Crude Oil production for the month (bbls)	Crude Oil Utilized for the month (bbls)	Available Crude Oil (bbls)	Royalty Rate	Royalty Oil (bbls)
300,000	15,000	285,000	10%	28,500

If the Government does not elect to take its share of Royalty in kind, then Contractor sells the Government's share of Royalty production. If the value of Crude Oil at the Field Export Point in that month, valued at the Field Export Point in accordance with Article 8 of the Agreement, and applying a weighted average value of the daily Crude Oil valuation in the month, is US\$50 per barrel, then Contractor will pay Royalty to the Government of US\$1,425,000 (28,500 bbl x \$50/bbl).

### b) Cost Recovery Oil

The maximum amount of Cost Recovery Oil in every month shall be the product of: (a) Net Available Crude Oil in that month, and (b) 45%.

If the amount of total Crude Oil production is 300,000 barrels, and Available Crude Oil is 285,000 barrels, the Net Available Crude Oil will be 280,000 barrels minus 28,500 barrels of Royalty Oil, or 256,500 barrels. Maximum Cost Recovery Oil in that month = 256,000 barrels x 45% = 115,425 barrels.

If the value of 115,425 barrels of Crude Oil, valued as above, does not exceed the Recoverable Costs in that month plus unrecovered Recoverable Costs from previous months, then the excess unrecovered Recoverable Costs from that month and previous months shall be carried forward for recovery in future months. This is the situation in Case 1.

If the value of 115,425 barrels of Crude Oil, valued at the Field Export Point in accordance with Article 8 of the Agreement, and applying a weighted average value of the daily Crude Oil valuation in the month, exceeds the Recoverable Costs in that month plus unrecovered Recoverable Costs from previous months, then the barrels of Cost Recovery Oil having a value equal to the excess of such Recoverable Costs will be added to Profit Oil in that month. This is the situation in Case 2.

Case	Net Available Crude Oil (bbls)	Cost Oil Limit	Maximum Cost Recovery Oil (bbls)	Value of Crude Oil at Field Export Point (US\$)	Unrecovered Recoverable Costs (US\$)	Recoverable Costs carried forward (US\$)	Excess Cost Recovery Oil (added to Profit Oil in the month)
1	256,500	45%	115,425	\$50	\$6MM	\$228,750	Nil
2	256,500	45%	115,425	\$50	\$3MM	Nil	55,425 bbl or \$2,771,250

### c) Profit Oil

Profit Oil is calculated in accordance with the table in Section 6.4.4. The R Factor corresponds to the respective Government and Contractor profit shares. Once the R Factor establishes the profit oil shares the respective percentages for the Government and Contractor are multiplied by available Profit Oil.

With a Cost Oil Limit of 45%, the minimum amount of Profit Oil in the month is Net Available Crude Oil x 55% = 256,500 bbls x 55% = 141,075 bbls. If there is no excess Cost Recovery Oil, then this will be the Profit Oil to be shared between the Government and Contractor for the month. This is the situation in Case 1.

If there is excess Cost Recovery Oil in the month, the amount of such excess is added to Profit Oil in the month. This is the situation in Case 2. Profit Oil to be shared between the Government and Contractor for the month in this case is 141,075 bbls + 55,425 bbls = 196,500 bbls.

The R Factor determines the sharing of Profit Oil in the month. With Cumulative Revenues of US\$250,000,000 over the life of the Agreement (to the end of the most recent Semester) and Cumulative Costs of US\$150,000,000 over the same period, the R Factor is  $\text{US\$250MM} \div \text{US\$150MM} = 1.6667$  (to five significant digits). The Profit Oil table in Section 6.4.4 generates a Profit Oil sharing of 77.667% to the Government, and 22.333% to the Contractor, when the R Factor is 1.6667.

Case	Cum. Revenues (US\$MM)	Cum. Costs (US\$MM)	R Factor	Gov't Share of Profit Oil (%)	Contractor Share of Profit Oil (%)	Profit Oil (US\$/bbls)	Gov't Share of Profit Oil (bbls, and \$ value)	Contractor Share of Profit Oil (bbls, and \$ value)
1	\$250	\$150	1.6667	77.667%	22.333%	141,075	109,568 or \$5,478,436	31,506 or \$1,575,313
2	\$250	\$150	1.6667	77.667	22.333	196,500	152,615 or \$7,630,782	43,885 or \$2,194,217

**Annex D**

**GOVERNMENT AUTHORISATION**

**[Office of HE The Prime Minister of the Federal Region of Kurdistan]**

**Dated .....2007**

To: **WesternZagros Limited**  
c/o Suite 2400, Ernst & Young Tower  
440 Second Avenue S.W.  
Calgary, Alberta  
Canada T2P 5E9

For the Attention of the Chief Executive Officer

Gentlemen:

**Exploration and Production Sharing Agreement dated 4th May 2006 between the KRG and WesternZagros Limited, as amended by the Amending Agreement dated 26 February 2007 (the "Agreement")**

On behalf of the Council of Ministers of the Kurdistan Regional Government (the "KRG"), it is my pleasure to confirm the following:

1. The KRG welcomes and appreciates WesternZagros Limited's investment in and commitment to the Federal Region of Kurdistan.
2. The Council of Ministers confirms and ratifies the execution of the Agreement by His Excellency Dr Ashti A. Hawrami, Minister of Natural Resources.
3. The KRG will take all appropriate measures to uphold the Agreement as a legal instrument throughout the Republic of Iraq and throughout the term of the Agreement.

Yours faithfully,

**Nechirvan Barzani**  
Prime Minister

**Annex E**

**FORM OF NOVATION AGREEMENT**

THIS NOVATION AGREEMENT is made the • day of •, 200•.

AMONG:

(1) KURDISTAN REGIONAL GOVERNMENT (the "Government") represented by the Minister of Natural Resources of the Government;

AND

(2) WESTERNZAGROS LIMITED ("Contractor"); *[include here any other Persons who are Contractor Parties at the time of the participation of the Public Company]*

AND

(3) [PUBLIC COMPANY] (the "Incoming Contractor Party") [whose registered office is at ];

Each of the Government, Contractor, and the Incoming Contractor Party being respectively a "Party" and collectively "Parties".

WHEREAS

(1) The Government and Contractor entered into an Exploration and Production Sharing Agreement dated 4 May 2006 in regard to an area in the Federal Region of Kurdistan known as the Kalar-Bawanoor Area (the "Original EPSA");

(2) Pursuant to an Amending Agreement dated 26 February 2007, the Government and Contractor agreed to revisions and amendments to the Original PSA which were embodied into a conformed Revised Production Sharing Agreement of even date with such Amending Agreement duly executed by the Government and Contractor (the "Revised EPSA");

(3) Where there is more than one Contractor Party to the Revised EPSA, they shall be bound by the Joint Operating Agreement as contemplated by Annex F (the "Joint Operating Agreement") of the Revised EPSA;

(3) The Revised EPSA provides for and contemplates, on terms and conditions set out therein, the designation by the Government of one or more additional parties to the Revised

EPSA to become a participant in the rights and obligations of Contractor thereunder (a "Participating Contractor Party" or "Participating Contractor Parties"); and

(4) The Government has designated the Incoming Contractor Party to be a Participating Contractor Party of the Revised EPSA.

NOW IT IS HEREBY AGREED as follows:-

1. DEFINITIONS

In this Novation Agreement (unless the context otherwise requires or where it is expressly stated to the contrary) terms and expressions defined in the Revised EPSA shall have the same meanings herein.

2. NOVATION

2.1 The Incoming Contractor Party confirms that it has read a copy of the Revised EPSA and the Joint Operating Agreement and that it undertakes to the Government and to Contractor with effect from the date hereof to adhere to and to be bound by the provisions of the Revised EPSA and the Joint Operating Agreement as they shall be applicable to a Participating Contractor Party and as if the Incoming Contractor Party were a party to the Revised EPSA and Joint Operating Agreement and named in the Revised EPSA and Joint Operating Agreement as a participant in Contractor's rights and obligations thereunder.

2.2 The Government and Contractor confirm their acceptance of the Incoming Contractor Party as a Participating Contractor Party and undertake to the Incoming Contractor Party with effect from the date hereof to adhere to and to be bound by each and all of the provisions of the Revised EPSA and Joint Operating Agreement as if the Incoming Contractor Party were a party to the Revised EPSA and Joint Operating Agreement and named in the Revised EPSA and Joint Operating Agreement as a participant in Contractor's rights and obligations thereunder.

3. NOTICES

For purposes of the notice provisions of the Revised EPSA and Joint Operating Agreement, the address of the Incoming Contractor Party shall be:-

[Incoming Contractor Party]:

Email:

Attention:

Revised EPSA

Kg

ST



4. GOVERNING LAW

The law applicable to this Novation Agreement shall be the Law of Iraq as applied and administered for the time being in the Federal Region of Kurdistan, to the extent consistent with international law, as defined in Article 38 of the Statute of the International Court of Justice.

IN WITNESS WHEREOF the Parties have caused their duly authorised representatives to sign this Agreement on the day and year first above written.

KS

27

## Annex F

### KEY TERMS OF JOINT OPERATING AGREEMENT

The Joint Operating Agreement will be the Association of International Petroleum Negotiators (AIPN) Model International Operating Agreement, 2002 version, with the following elections and options completed and revisions included. The remaining elective and optional provisions will be mutually agreed by the Parties, as well as any other revisions to the AIPN model as the Parties mutually agree.

- 1.4 Agreed Interest Rate- LIBOR plus *three*
- 4.10(b) removal of Operator by *two or more Non-Operators representing 65% of the Participating Interests*
- 4.10(d) potential removal of Operator on change of Control *deleted*
- 4.10(e) right of removal of Operator at any time based on vote *deleted*
- 5.9 Passmark vote: *2 or more Parties having at least 65% of the Participating Interests is required; failing approval of a proposal on that basis, then majority of the Participating Interests is required; failing approval of a proposal on that basis, Operator has casting vote*
- 7.5(b) *300% for G&G Data; 300% for exploration; 500% for appraisal*
- 8.4(d)(i), (ii) *Alternative 1 included, granting rights to each non-defaulting party; AND Alternative 2 included, granting rights to each non-defaulting party; 5% of value on expert determination*
- 8.4(e) *included; and will include a provision that the Government has the rights referred to in Section 19.1.10*
- 12.1(b) "Change of Control" excludes any transaction resulting in a change of Control that is effected on a public stock exchange, and any transaction that involves a distribution of shares of a Party (or a person who Controls a Party) to some or all its own direct or indirect shareholders
- 12.2(f) *Alternative 1, pre-emptive right on Transfer*
- 12.3(c) *Alternative 1, pre-emptive right on Change of Control*
- 12.2, 12.3 will include a statement that the provisions of Section 19.1 of the Agreement override any conflicting provisions of these Articles